

Report: Conn. RECs to bounce back

The Connecticut market for renewable power will recover from a sudden oversupply of generation that crashed prices last year, the state's electricity regulators said this week.

But the oversupply, blamed on a sudden influx of biomass-generated renewable energy certificates (RECs), will probably persist "for the next couple of years," the Connecticut Department of Public Utility Control (DPUC) said.

In time, the state's renewable portfolio standard (RPS) will ratchet up the percentage of electricity sales that must come from renewable sources, and REC prices will rise again, DPUC said.

Connecticut's RECs market plummeted in 2005 after the market suddenly became flush with renewable power. Connecticut's RPS has three classes of REC, and existing biomass facilities were once considered Class II generators. But a 2004 decision from DPUC gave existing biomass generators Class I status provided the plants retrofitted with pollution controls.

Connecticut RPS targets	
Year	Generation from Class I renewables*
2005	1.50%
2006	2.00%
2007	3.50%
2008	5.00%
2009	6.00%
2010	7.00%

*as a percentage of electricity consumed by end-use customers

Over the course of 2005, the price of Class I compliance RECs dived from around \$40/MWh to its current level of \$2.50/MWh as a glut of biomass RECs hit the Connecticut market. The sudden crash in Class I REC prices in Connecticut was enough to scare regulators in neighboring Massachusetts to back away from their own plan to bring existing biomass facilities into that state's RPS (AAD 11/4/05).

But DPUC's report for the 2004 RPS compliance year argues there is reason to hope the market will rebound. In a brief section of the report dealing with the 2005 price crash, DPUC officials suggest Class I Connecticut RECs could be trading in the \$10-\$25/MWh range in a few years. While the RPS requires 1.5 pct of electricity sales in Connecticut to come from renewable sources in the 2005 compliance year, this quota will progressively move up to 7 pct by 2010.

"Connecticut has one of the most aggressive RPS programs in the country," the DPUC report says. "The RPS requirements for Class I resources increases by 5.5 pct over the next six years and this should address some of the oversupply issues."

Despite last year's crash, renewable power developers are fielding calls from brokers on behalf of "true investors" who see a chance to buy up strips of forward-vintage Connecticut RECs at a good price, industry sources told *Argus*.

"I think it's fair to say there are signs of interest," said Pat Stanton, the renewable energy markets director at Massachusetts firm Conservation Services Group (CSG). The DPUC's forecast is "quite reasonable" given the size of Connecticut's RPS mandate is "growing quite aggressively," Stanton said.

The developer of a landfill gas project selling into the Connecticut market said he had been cold-called by a number of brokers seeking strips of forward-vintage Class I RECs at close to \$20/MWh. But prices in that range would be a considerable drop for generators multi-year strips a few years ago for closer to \$40/MWh, the developer said.

Some brokers are already assessing the 2006 vintage of Connecticut Class Is at around \$8/MWh, although the state's RPS only jumps to 2 pct this year.