

REC TRACKING SYSTEM DESIGN PRINCIPLES

The following design principles should help maximize the usefulness of REC tracking systems.¹

CORE FUNCTIONS

Tracking systems should be able to issue certificates, track changes in REC ownership, and retire RECs after they have been used to meet government mandates or retail sales. A tracking system should also be able to prevent double counting, double sale or double use, ensure the accuracy of basic information (e.g., fuel type, emissions profile) and verify the quantity of generation on which the certificates depend. The system should be easy to use, transparent, and flexible.

GENERATOR REGISTRATION

Generating units should be allowed to register with only one tracking system, and such generating units should be required to fully opt in, meaning that 100% of their output should be tracked. This will ensure that multiple certificates are not issued for a single MWh. A national generator registry could keep track of which accounting system a specific generating unit is registered with and thus prevent a generating unit from signing up with more than one accounting system.

¹ The Design Guide and these principles use the term “renewable energy certificates,” or RECs, without prejudice to the question of whether to issue and track certificates for all generation or only for renewable generation. This usage is not intended to suggest a bias on this question, which is best answered by state and regional policy needs and stakeholders.

PUBLIC ACCEPTANCE

Involving diverse stakeholders (market participants, non-governmental organizations and government) in the process for developing the tracking system is important to public acceptance. This will help ensure confidence in the system and increase the likelihood of its use. The development of a system without such cooperation could result in a system that does not meet the needs of all stakeholders or potential participants.

INSTITUTIONAL SUPPORT

State policy makers and private stakeholders should ensure that REC system development has adequate resources and institutional support to succeed. The institutional or administrative home for system operation should be independent of the market (to avoid conflicts of interest), credible to stakeholders, and experienced in handling large quantities of data. In addition, the institutional home of the RECs tracking system should have the ability to periodically review management and operational issues with stakeholders, and make adjustments to system design and operation to accommodate unforeseen issues or changes in the marketplace.

POLICY-NEUTRAL

REC tracking systems should be policy-neutral to the extent possible so that they can support a variety of public policies and voluntary market needs. Maintaining a

policy-neutral stance is also important to encourage neighboring states to participate in a regional system. Planners should not imbed policy decisions into the design of the tracking system in a way that limits the use of the tracking system for voluntary markets or other purposes. Sufficient information should be tracked so that regulators can make their own determination about REC use or eligibility for public programs.

GEOGRAPHIC SCOPE

Tracking systems should be broad in scope and, where feasible, include several states with mandatory and voluntary green markets to provide sufficient supply of and demand for RECs. Like all markets, REC markets need volume in terms of supply and demand to ensure liquidity and competition. Without an ample number of market participants, markets simply will not have enough activity to sustain interest and will cost more than it is worth to those who do participate.

IMPORT AND EXPORT

CAPABILITY

The REC tracking system should have the ability to track imports and exports of RECs between regions. This helps create market liquidity and helps prevent double counting of RECs that are sold across tracking system boundaries. Ensuring that cross-boundary sales are properly handled is critical to the underlying credibility of REC markets and to the value of RECs in different regional markets. Lack of clarity on these issues could retard investment and contracting for renewable generation. REC tracking systems should also seriously consider participation in the cooperative agreements and decision-making process of

the North American Association of Issuing Bodies, which encourages standardization and maximum compatibility of REC tracking systems.

DATA INTEGRITY AND SECURITY

Data integrity and security is fundamental to the creation of REC tracking systems. Information entered into the system (e.g., generation characteristics) should be verified and have a high level of accuracy. Similarly, there should be mechanisms in place to regularly update generator information that is variable, such as fuel types for biomass plants, and appropriate penalties for misrepresentation of information. The information contained in REC tracking systems should be secure from outside intrusion or tampering. The level of security should be at least as secure as the data systems used for energy markets and settlements. Public information should be transparent and easily accessible, while proprietary information should be secure from unauthorized access.

LOW TRANSACTION COSTS

REC tracking systems should minimize the cost of use to market participants. Low transaction costs are beneficial whether participation in the system is mandatory or voluntary. If the system is mandatory, low transaction costs help reduce the cost of compliance with the RPS or other requirements. In voluntary REC markets, high transaction costs will be a barrier to participation. Therefore, keeping costs low encourages parties to use the system (ultimately best for the credibility of REC markets) and ensures a steady volume of users paying into the operational costs of the system.

INDEPENDENCE FROM MARKETS

Adequate safeguards should be in place to ensure that the independence and credibility of the tracking function not be compromised. This is particularly important if tracking system administrators are asked to create trading opportunities as well as to track ownership of RECs. System administrators should not have a commercial interest in the market, otherwise their access to confidential information about market participants' positions would give them significant competitive advantage. The method of compensation should be carefully designed to avoid unintentional outcomes such as artificial churning.

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