##### June 14, 2021

**TO:** All Interested Parties

**FROM:** Elizabeth Mallett, NAESB Deputy Director

**RE: Renewable Energy Certificate (RECs) Update**

During the October 5th and 6th Wholesale Electric Quadrant (WEQ) and Retail Markets Quadrant (RMQ) Executive Committee meetings, two recommendations containing the NAESB Base Contract for Sale and Purchase of Renewable Energy Certificates (NAESB REC Base Contract) will be presented. Since the kick off meeting in December of 2019, the WEQ and RMQ Business Practices Subcommittees (BPS) have held 25 meetings to analyze common terms used in the voluntary REC market, draft the General Terms and Conditions, Transaction Confirmation, and Attestation Document sections of the contract.

As the efforts to develop the NAESB REC Base Contract continues, the two subcommittees, led by the WEQ BPS Chair, Dick Brooks of Reliability Energy Analytics and RMQ BPS Chair, Mary Do of Znalytics, are leveraging two existing NAESB work products as drafting templates to expedite the effort – the NAESB Base Contract for Sale and Purchase of Natural Gas and the technical implementation to facilitate the digital use of that contract. In April, the subcommittees solicited additional industry feedback from the industry on the draft NAESB REC Base Contract and received several informal comments. The chairs of the subcommittees have called three meetings in June to consider the informal comments received, with the next meeting taking place on June 21, 2021.

After the review of the informal comments, the subcommittees will continue to focus on a parking lot work paper containing clean up items and begin the technical implementation to support the contract, such as data dictionaries and datasets. Similar to the WGQ process for the development of the digital NAESB Base Contract for Sale and Purchase of Natural Gas and its technical implementation, while the drafting of the technical implementation is underway, additional modifications may be made to the contract. If approved by the subcommittees, the recommendations for the NAESB Base Contract for RECS and its technical implementation will be posted for a thirty-day formal comment period and subsequently considered by the WEQ and RMQ Executive Committees during its October meetings. As the subcommittees move into technical implementation during the upcoming meetings, all interested parties are welcome to participate.

To provide some context, in 2019, the Tennessee Valley Authority proposed that NAESB consider the development of a “smart contract” for RECS that could leverage distributed ledger technologies to capitalize on the efficiency and cybersecurity benefits that the technology provides. In response to this proposal, the RMQ and WEQ Executive Committees created the Distributed Ledger Technology (DLT) Task Forces to review the current industry REC processes and report back to the Executive Committees on whether DLT business practice standards are needed. The task forces, co-chaired by Roy True, Debbie McKeever, and Joshua Phillips, proposed that the RMQ and WEQ subcommittees develop a base contract and technical implementation business practices to address data standardization for RECs. The task force also noted that the standards development should focus solely on the voluntary market and have no impact on REC compliance instruments.

As you may know, a REC is a unique and trackable instrument that represents the right to claim megawatt hours of renewable energy delivered to the grid. The REC process can be categorized into two major groups, compliance and voluntary. REC compliance instruments are used for state Renewable Portfolio Standards programs and, in contrast, voluntary RECs are often used to verify corporate renewable consumption claims. The NAESB Base Contract for RECS will focus on transactions and manual tracking methods in the voluntary REC market, tracking RECs from creation, through transfer between entities, and to retirement.