##### October 19, 2020

**TO:** All Interested Parties

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

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

On October 21, 2020, the Wholesale Electric Quadrant (WEQ) Business Practices Subcommittee (BPS) and the Retail Markets Quadrant (RMQ) BPS – chaired by Dick Brooks of Reliability Energy Analytics and Mary Do of Znalytics – will hold a conference call to continue drafting a NAESB Master Agreement for Sale and Purchase of Renewable Energy Certificates (NAESB REC Master Agreement). The NAESB REC Master Agreement will facilitate transactions involving RECs in the voluntary market, as opposed to the REC compliance markets using state Renewable Portfolio Standards (RPS) programs. As the subcommittees work through the creation of the NAESB REC Master Agreement, the familiar NAESB Base Contract for Purchase and Sale of Natural Gas (NAESB Base Contract) is being leveraged as a drafting template.

The momentum to draft a NAESB REC contract for the voluntary market began in 2019 when Tennessee Valley Authority proposed that NAESB consider the development of a “smart contract” that could leverage distributed ledger technologies (DLT) to capitalize on the efficiency and cybersecurity benefits that the technology provides. In response, the RMQ and WEQ Executive Committees created the RMQ and WEQ Executive Committee DLT Task Forces to review the current industry REC processes in order to determine whether distributed ledger technology (DLT) business practice standards were needed. In June of 2019, the task forces – co-chaired by Roy True, Debbie McKeever, and Joshua Phillips – kicked-off their efforts with an informational conference call covering the use of distributed ledger technologies and the REC processes. Over the course of three subsequent joint conference calls, the task forces came to an agreement that, in order to leverage technologies within the voluntary REC process, a model contract and business practices to address data standardization would be beneficial. Once this consensus was reached, rather than focusing on a specific technology, such as distributed ledger technology, the task forces focused on identifying areas in the voluntary REC process and data sets that could benefit from standardization.

During their October meetings, the WEQ and RMQ Executive Committees reviewed the work of the task forces and provided direction to the WEQ and RMQ BPS to begin standards development. To kick-off these efforts within the subcommittees, a joint conference call of the RMQ and WEQ BPS was held on December 4, 2019. As part of that initial conference call, the participants held a review of the NAESB joint standards development process, listened to an overview of the voluntary REC process, and held discussion on the jointly assigned annual plan items. In subsequent meetings, the subcommittees began an analysis of common terms used in the voluntary REC market, moved to a focus on the cover letter, then began drafting the General Terms and Conditions for the sale and purchase of RECs. To date, the subcommittees have held ten joint meetings.

As a unique and trackable instrument, a REC represents the right to claim one thousand kilowatt hours of renewable energy that has been delivered to the grid. As mentioned above, the REC process can be categorized into two major groups, compliance and voluntary. REC compliance instruments are used for state RPS programs. In contrast, voluntary RECs are frequently used to verify corporate renewable consumption claims. The NAESB REC Master Agreement will focus on manual tracking methods used in the voluntary market, such as Contract Path Tracking which tracks RECs from creation, through the passing off to different entities, and retirement.