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Interest in future vintages grows in US voluntary REC market as future development is compromised

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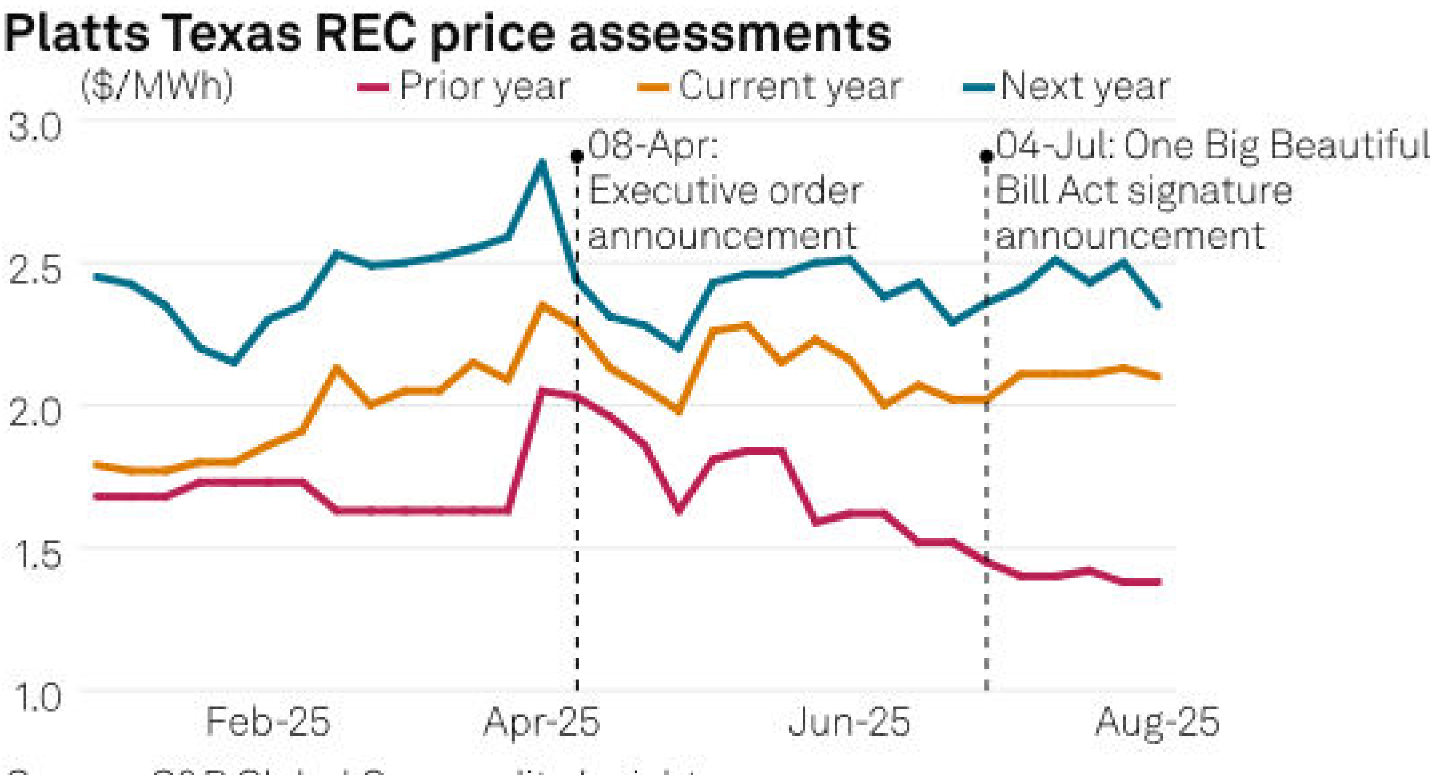
Higher interest in future REC vintages

Some renewable energy targets and strategies reevaluated

REC revenue could compensate phaseout of tax credit revenue

The unbundled renewable energy certificate (REC) market is increasingly shifting its focus toward future vintages. Since May, the price disparity between the Prior Year's Vintage assessment and the Current Year's Vintage for Texas non-solar RECs has widened, while the Next Year's Vintage shows signs of recovery. As a major generator of voluntary RECs in the US, Texas plays a key role in this market. Notably, with the rolling contract date set for April 3, the Current Year assessments now represent the 2025 vintage.



Source: S&P Global Commodity Insights

On April 8, US President Donald Trump signed an executive order targeting states' "illegitimate impediments", with market participants reacting with mixed opinions. Afterwards, the decrease in demand for voluntary renewable energy certificates kept Texas REC prices falling forthe following four weeks.

Trump mandated that the Treasury secretary must terminate the clean electricity production and investment credits for wind and solar projects within 45 days of the budget reconciliation legislation enacted on July 4. T he legislation allows wind and solar projects that start construction within 12 months to receive full tax credits, while other resources must be operational by the end of 2027 to qualify.

Some market participants anticipate that these policy changes will “hinder” new renewable energy development previously predicted for years beyond 2026. With some corporates having aggressive renewable energy objectives for years beyond 2030, REC sourcing could become more complicated, and some end-users are trying to secure their future demand beforehand by purchasing future vintages.

Some market participants believe that the recent executive orders will directly affect the development of new renewable capacity in the US.

Peggy Kellen, senior director of policy and market development at the CRS, a nonprofit that creates policy and market solutions to advance sustainable energy and the Green-e program creator, said that Trump's recent executive orders will most certainly delay clean energy projects. Eliminating the production and investment tax credits for new wind and solar will put a huge number of projects at risk.

"Directing the Department of the Interior to put renewable energy projects under greater scrutiny for permitting and approvals will also throw sand in the gears," Kellen said. "At a time when we need every kilowatt-hour we can squeeze out of the grid, putting roadblocks in the way of clean energy development is counterintuitive."

Whitner Chase, an investment associate at Seneca Environmental, a renewable energy development and investment company wholly owned by the Seneca Nation, told Platts that " the procurement of renewable energy is expected to be paused or delayed in the short term as the market undergoes some restructuring.

Chase emphasized that although renewable energy and sustainability strategies are being revised, "previously established targets will remain unchanged; these have always been mostly voluntary." He also noted that failing to meet these targets has not been a significant concern in the past.

There are mixed opinions on whether companies would need to adapt their renewable energy and sustainability strategies because of this new landscape.

"Companies that have met baseline goals are not increasing ambitions, and those that were considering carbon-free electricity have put purchases on hold." Scott Case, Zettawatts' founder, a market facilitator for Additionality RECs - fixed-price forward contracts to buy unbundled RECs from new projects still under development, told Platts.

"CODs with Vintages 2026 and 2027 are active as those projects have momentum and can leverage the investment tax credits before they sunset," Case said. "CODs 2028+ is where things get dicey."

A trader told Platts that there has been no change in corporate sustainability policies; "those who were buying before, keep buying."

According to Kellen, some companies with international operations or value chains may shift procurement strategies outside of the US to less restricted markets. While Others may pull back from goals altogether if targets will likely be too challenging to meet or if costs become prohibitive.

These potential readjustments include an interest in other technologies.

Case mentioned that "big players" are adding carbon-emitting generation to their mix and described this as "disappointing."

Kellen said that some companies are interested in understanding how to better account for the impacts of shifting to zero or low emissions resources, including existing large-scale hydropower and nuclear.

Mixed feelings on REC prices future

With the revenue stream from tax credits compromised, energy generators could seek higher REC prices to compensate, as some sources have told Platts.

"REC sales have traditionally been included in the cost/benefit balance for generators being financed," said Andrea Coon, director at the WREGIS, an independent, web-based tracking system for RECs. "We think this will continue."

Case believes that the REC price increase would not only be reflected in unbundled RECs, but "prices will increase for PPAs, VPPAs and Additionality RECs as the capital cost for projects goes up due to ITC/PTC sunsets and overall project deployment slows."

Chase agrees that REC prices could increase in the future, "but it would just be a drop in the bucket to fill the gap needed."

Chase said that the demand is not strong enough to drive and sustain remarkably higher prices.

"Even without the tax credits and subsidies, demand remains high, and renewable energy is often the most cost-effective and technologically available resource for new supply," Kellen said. "In the absence of tax credits, voluntary procurements will, and will need to, have a greater impact on investments in new renewable generation."

Some market participants mention that oversupply has been a constant on the voluntary CRS-listed/Green-e markets for years and that if renewable energy generators seek to sell RECs at a higher price, the strategy "would not have the desired outcome," a trader told Platts.

Platts, part of S&P Commodity Insights, closed the last Texas non-solar weekly assessments at $1.38/MWh, $2.10/MWh, $2.35/MWh for prior, current and next year vintage, respectively, on Aug. 7.