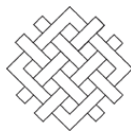


**SUMMARY OF REQUEST FOR INFORMATION (RFI)
FOR LONG-TERM RENEWABLE ENERGY CONTRACTS PROVIDING HEDGE
VALUE TO LARGE COMMERCIAL AND INDUSTRIAL CUSTOMERS**

ISSUED BY



**WORLD
RESOURCES
INSTITUTE**

NOVEMBER 26, 2008

This document summarizes a request for Information recently released by the World Resources Institute (the “Sponsor”) in its role as convener of the Green Power Market Development Group (GPMDG), the Green Power Group California Affiliates and the U.S. Climate Business Groups (USCBG) on behalf of participating corporations. Although the full RFI was initially submitted only to pre-screened suppliers with current confidentiality agreements in place, additional renewable power suppliers, generators and merchants should contact Robert Heilmayr (rheilmayr@wri.org) and Alex Perera (aperera@wri.org) to receive the full RFI.

The RFI seeks expressions of interest from potential energy suppliers to provide commercial and/or industrial customers with renewable power in Connecticut, Delaware, the District of Columbia, Illinois, Indiana, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Texas, Vermont or Virginia. The RFI is meant to generate information necessary to assess the feasibility and attractiveness of renewable power hedge transactions for commercial and industrial facilities located in competitive power markets throughout the United States. The results of the RFI may lead to either formal solicitations or negotiations for long-term contracts that are structured to provide buyers with a renewable energy price hedge.

Specifically, the Sponsor seeks to:

- Identify supply options for renewable-based hedge transactions;
- Obtain indicative pricing of renewable-based hedge product offerings;
- Understand price sensitivity to variations in volume, term commitments, and/or other key terms and conditions;
- Research renewable power hedge transactions as described in Appendix 2, to evaluate and document the effectiveness of a variety of renewable power hedge transaction structure variations; and
- Support renewable energy through contracts that provide current and new projects with long-term financing.

Although the full RFI was initially submitted only to pre-screened suppliers with current confidentiality agreements in place, additional renewable power suppliers, generators and merchants should contact Robert Heilmayr (rheilmayr@wri.org) and Alex Perera (aperera@wri.org) to receive the full RFI including RFI requirements and response submission instructions. Final responses are due by close of business on January 23, 2009. The Sponsor reserves the right to limit participation in a subsequent supplier solicitation to those responding to the full RFI.

Background - Renewable power as a hedge

A key advantage of most renewable power sources is that they are free of fuel costs, and have often been sold through fixed-price power sales contracts to utilities and competitive energy service providers. Either through these fixed-price energy contracts or financial swap equivalents, the buyer is able to reduce the risk of energy price volatility for the portion of his energy requirements covered by the purchase over the duration of the contract. While this “hedge” value can clearly be provided at the wholesale level, there is little experience translating this hedge to retail customers, especially in competitive power markets.

Large retail customers have indicated they are attracted to this hedge value for a combination of reasons. Customers exposed to energy price volatility may look to hedge that exposure, but find that few cost-effective alternative means of hedging are available beyond a few years. For terms exceeding five years, an asset-backed transaction linked to a renewable power plant may be easier to consummate than traditional energy hedges. Other customers may need to demonstrate a strong business case for paying renewable energy premiums. The potential for an effective hedge, in addition to long-term cost savings, may enable greater corporate adoption of renewable energy.

At the same time, given the lack of available long-term contracts with credit-worthy power purchasers, large credit-worthy retail purchasers may present an alternative to support the financing of new renewable energy projects.

WRI and its corporate partners have identified two contract structures for renewable energy hedge transactions:

- **Option 1: Fixed price sales of renewably generated electricity.** Under this alternative, the retail customer would hedge some portion of its electricity cost by either (a) buying fixed-price power from an electricity service provider (with the remainder of load supplied by the same supplier under short-term market oriented pricing), or (b) buying fixed-price power from a renewable generator, which would be assigned to an electricity service provider who would integrate this hedge purchase with its own residual short-term market oriented supply. This would represent a long term sale of unit output, bundled with the associated attributes (RECs), at a fixed price (e.g. 6¢ per kWh) or series of fixed annual prices per kWh. The purchase will likely represent a portion of the buyer’s total load, and may vary based on the generator’s actual production. Some partners would be open to contracts in which the power provider retains all RECs and other attributes (e.g., emission-related credits).
- **Option 2: Financial contract-for-differences (CFD).** Under this approach, the renewable power generator and the customer agree upon a strike price (e.g., \$60/MWh) and a reference market index (e.g., the hourly market clearing price for New York Zone H). If the market clearing price is less than the strike price at the time of production, the customer pays the power generator the difference between the two. Likewise, if the market clearing price is greater than the strike price, the power generator pays the difference to the customer. By combining the CFD payment with the revenue generated from the sale of electricity into the market and the sale of Renewable Energy Certificates (REC), a renewable power generator can create a fixed revenue stream sufficient to attract financing. For the customer, a CFD provides a hedge against volatile electricity pricing without having to switch electricity

providers.

As with physical power sales, environmental attributes could be included in the contract by bundling the CFD with RECs. For the renewable power supplier, this reduces transaction costs and increases the certainty of projected cash flows relative to the previous example. The transaction can be viewed as either, (i) a floating CFD payment plus a fixed REC payment, or (ii) a single floating REC payment that represents the difference between the reference market index price (e.g. hourly market clearing price for New York Zone H) and a strike price that incorporates the value of the REC. In the latter case, if the market clearing price exceeds the strike price, the value of the REC would be negative.

Additional detail on these contract structures can be found in a 2005 WRI paper evaluating next generation green power products.¹ A 2003 study funded by the New York State Energy Research and Development Authority (NYSERDA) gives further detail on experiences with and potential barriers to the expanded use of wind energy as an electricity price hedge for retail customers.²

¹ Aulisi, Andrew; Hanson, Craig. *Corporate Guide to Green Power Markets Installment 6: Developing “Next Generation” Green Power Products for Corporate Markets in North America*. World Resources Institute: Washington, DC, 2004. http://pdf.wri.org/gpmdg_corporate_6.pdf

² Sustainable Energy Advantage, *Using Wind Power to Hedge Volatile Electricity Prices for Commercial and Industrial Customers in New York*, Final Report – May 14, 2003 for NYSERDA. <http://www.nyserda.org/energyresources/WindHedgeFinalcomplete.pdf>