



Comments of The Bowersock Mills and Power Company  
Sarah Hill-Nelson  
SB 515 and HB 2711

My name is Sarah Hill-Nelson. I am an Owner/Operator of The Bowersock Mills and Power Company, which has been generating hydroelectric power in Kansas since 1874. I also work for the Bonneville Environmental Foundation in the Renewable Energy Certificate (or REC) Market. RECs are also commonly referred to as Green Tags.

As a representative of Bowersock, I speak today to reiterate our hydro station's long-standing efforts to encourage a comprehensive energy policy for the state of Kansas that encourages the development of renewable energy generation. Since my great, great grandfather J.D. Bowersock began generating renewable energy off the Kansas River in Lawrence in the late 1800s, Bowersock has continually contributed to the economy of Lawrence, providing clean power and economic development to the region. Today, Bowersock, like many other entities, has the opportunity to grow the economy of Kansas by investing in additional renewable energy. Bowersock is considering plans to expand our generation, potentially doubling our power production by adding additional turbines on the north side of the Kansas River. The energy policy we develop in Kansas today will impact these opportunities for generations to come. HB 2711 and SB 515 fail to recognize the economic value and long term importance of renewable energy to the Kansas economy, and the critical need for comprehensive policy and planning to prepare Kansas to capitalize on its natural resources.

Specifically, the section of the proposed legislation called the "carbon dioxide emission offset act," demonstrates little or no correlation with current national trends or current national renewable energy or carbon markets. On a national level, carbon offset markets are establishing guidelines that require scientifically-based, verifiable, additional, permanent, and enforceable reductions in greenhouse gas emissions, or increases in biological sequestration. The pieces of the legislation which are perhaps most out of step with national trends are found in Section 12, in which various carbon offsets appear to have been granted arbitrary values which have little correlation with their actual carbon impacts.

It important at this time to explain a bit about the national renewable energy markets, as they could (but not in the context of this bill) play an important role in the development of Kansas energy production.

In addition to key changes that the Federal Energy Regulatory Commission has made that have opened energy markets and allowed independent power producers to operate in a more competitive market, the most critical change that will allow Bowersock to expand (and likewise wind developers to establish new windfarms) is the existence of Renewable Energy Certificates or RECs. RECs are the environmental attributes of energy, which are

now traded separately from the energy itself.<sup>1</sup> For every 1,000 kWh that a renewable generator produces, the entity earns 1 REC. One of the primary goals of the REC market is to improve the return on renewable energy. This improves financial return and encourages investment in new renewable generation.

The REC market is real, and viable. There are essentially two different markets for RECs in the nation, the compliance market and the voluntary market. RECs sold in compliance markets are sold in order to satisfy state mandates, which usually take the form of a Renewable Portfolio Standard or RPS. RECs sold in voluntary markets are sold to businesses and individuals who choose to pay a premium for their electricity in order to support renewable energy. Because there is no RPS in Kansas, the voluntary market is more relevant to this discussion. In 2006, retail sales of renewable energy in voluntary purchase markets totaled 12 billion kWh, representing a capacity equivalent of 3,500 MW of renewable energy, including 3,100 MW from “new” renewable energy sources.<sup>2</sup>

For a renewable energy producer, the opportunity to sell RECs on the national market is significant. In the case of Bowersock, it will mean the difference between whether our proposed project will be financially viable or not. Currently, wholesale REC prices range between \$5.00 and \$7.00. The Bonneville Environmental Foundation works with wind projects all over the US, many of which have demonstrated that the entire profit out of the project has been derived from the REC sales. Utilities such as Westar now recognize the value of RECs, as Westar counted in the value of the sale of RECs from their proposed wind farms in their recent case before the KCC.

Nationally, the REC market is being standardized, with formal, regional REC tracking systems emerging annually.<sup>3</sup> One of the key aspects of these tracking systems is that a REC may only be sold once. The tracking systems monitor the entire chain of custody of a REC, from generation to retirement.

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<sup>1</sup> Renewable Energy Certificates (RECs) or Green Tags are market-based commodity designed to facilitate transactions between buyers and sellers of renewable energy, free from the constraints of the electricity grid. By unbundling the renewable characteristic from the actual electricity commodity, RECs allow renewable energy generators more flexibility in the distribution of their products, and therefore encourages further development of the renewable energy market. In states or regions that have an REC program, one REC represents the environmental attributes generally associated with one megawatt-hour (MWh) of electricity from renewable resources. <http://www.energybusinessreports.com/shop/item.asp?itemid=1460>

<sup>2</sup> Bird, Lori, Leila Dagher, and Blair Sweeney, “Green Power Marketing in the United States: A Status Report, National Renewable Energy Laboratory, December, 2007, p. 25.

<sup>3</sup> For example, the California Energy Commission and the Western Electricity Coordinating Council established the Western Renewable Energy Generation Information System (WREGIS) to issue, register, and track RECs for the territory covered by the Western Interconnection. Other similar regional tracking organizations include the PJM Generation Attribute Tracking System (GATS) and the New England Power Pool Generation Information System (NEPOOL GIS), and the newest tracking system, M-RETS, the tracking system for the Midwest Independent System Transmission Operator (MISO). Each of these organizations issues certificates with unique serial numbers that represent the attributes of the generation for each megawatt-hour produced by qualified generators.

The leading national REC certification entity is the Center for Resource Solutions (CRS) via their Green-e certification program. Any Green-e certified REC has undergone a chain of custody audit that ensures that the carbon offset value of the REC has only been claimed once. Both the Environmental Protection Agency and the Federal Trade Commission have weighed in on the nature of carbon offsets including the property rights transferred from seller to buyer through the sale of carbon offsets and RECs, and the importance of matching environmental claims with the true carbon value of the offset.

Given the importance in national markets of using a REC only once, it is difficult to foresee how House Bill 2711 would reconcile its carbon offset system with national standards which require the single use of a REC.

The proposed legislation not only doesn't correlate to national trends (and could potentially be considered a violation of EPA and FTC standards), but it would have very little positive economic impact for renewable energy generators in Kansas. Admittedly, although I am quite familiar with the national system of RECs, I am struggling to understand exactly how the proposed Kansas system would work. As a hydro generator considering building a new generating facility, Section 12.3 is of particular interest, because (if I understand correctly) it would grant Bowersock "an offset credit equal to three times the actual carbon dioxide tonnage avoided." According to the newest Green-e standards for greenhouse gas offsets, a REC from Kansas is worth approximately  $\frac{1}{3}$  ton of carbon. A ton of carbon then, would be worth two RECs. Bowersock could currently sell that on the national market for a minimum of \$10.00. It is hard to foresee a situation where any Kansas entity would buy Bowersock's carbon offset from us at \$10.00 when they could pay a fine of \$3.00 or the same thing, or achieve some other type of offset and only pay \$1.00.

To summarize, the proposed legislation appears to create a special carbon offset system for Kansas that has no correlation with national markets or actual carbon values. As the nation moves towards uniform policies on these issues, I would urge legislators to put Kansas in step with other states in the nation to prepare the state to take full advantage of the significant economic development opportunities available through the development of renewable energy. HB 2711 and SB 515 would undermine serious efforts to create a comprehensive state energy policy that will promote clean, renewable energy and the associated economic development it can achieve for Kansas.