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## National Capital Area Chapter

United States Association for  
Energy Economics

August 2003

<http://www.ncac-usaee.org/>

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# news

## Trading Masters on the Road To a Hydrogen Economy

### Our Next Luncheon at Library of Congress

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- WHEN:** Noon, Friday, September 19
- WHERE:** 6<sup>th</sup> Floor, Madison Building—Montpelier Dining Room  
Library of Congress (enter from Independence Avenue)  
1<sup>st</sup> Street & Independence Avenue, SE  
Washington, DC
- SPEAKER:** Richard N. Smith, Nuclear Energy Institute

The Bush administration has expressed serious interest in transitioning the nation away from an oil-based transportation sector to one focused on hydrogen and fuel cells. While the initiative has generated much debate in Washington, little attention has been paid to the central question of where the nation will acquire the massive amounts of hydrogen needed to replace gasoline in the economy.

Current plans call for the vast majority of hydrogen to be produced through the steam reforming of natural gas. But natural gas is a valuable commodity subject to intense price volatility. Moreover, natural gas is a fossil fuel with similar environmental drawbacks to gasoline. Can the nation afford to trade fossil fuel masters on its way to a hydrogen economy, or is there a more balanced and staged approach to hydrogen generation? The presentation will discuss the potential of using emission-free nuclear energy to produce emission-free hydrogen. This has significant environmental advantages and diversifies hydrogen production methods.

**Richard N. Smith** is director of policy analysis at the Nuclear Energy Institute (NEI). He is actively involved in NEI's strategic issues development, including NEI's annual planning activity and the industry's long range plan, Vision 2020. From 1990 to 1998, Mr. Smith was an independent research writer and consultant specializing in international politico-military affairs, with a concentration on nuclear issues. Before starting his own business, he worked for a number of government and private sector foreign policy think tanks.

*Join us on Friday, September 19 at 12:00 pm for networking, with the lunch-line forming promptly at 12:30 and the presentation beginning at 1 pm so we are done by 2 pm.*

**COST:** \$20.00 for members (\$5.00 for student members) and \$25.00 for non-members—guests are always welcome. Make checks payable to NCAC-USAE. **RSVP:** By COB Tuesday, September 16 to Leslie Coleman by phone (202/463-9780) or email ([lcoleman@nma.org](mailto:lcoleman@nma.org)). Cancellations after noon Wednesday will be billed.

## July 15 NCAC Reception for Dr. Michelle Michot Foss

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The NCAC was pleased that, in the middle of our summer hiatus from programs, over 50 members of NCAC and USAEE attended the July 15 impromptu reception for **Dr. Michelle Michot Foss** in downtown Washington. Dr. Foss is President of the International Association for Energy Economics (IAEE) and Executive Director of the Institute for Energy, Law and Enterprise at the University of Houston. Currently her institute is analyzing issues related to LNG import projects. Details of that project are available at [www.energy.uh.edu](http://www.energy.uh.edu).

Dr. Foss also shared details of the North American IAEE Conference, which will be held in Washington, D.C. next July. NCAC will play a major role in hosting the international energy economic community here in our city. Shirley Neff from our chapter is leading that effort and welcomes your input.

## Updated NCAC Directory

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NCAC Vice President Ron Planting recently distributed the 2002 NCAC directory to members via e-mail. This year the directory is available in an electronic form, which can be easily downloaded and printed out by the members themselves. We urge anyone who has not already submitted their 2003 memberships to do so quickly to be included in the 2003 directory, which will be distributed in September.

## Highlights of the May Lunch

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**SPEAKER:** Marc Chupka, *The Brattle Group*

### ***Renewable Energy Credits: Policy Design and Price Volatility***

Chupka said his ideas on this topic evolved as a result of trying to evaluate claims of renewable advocates regarding the desirability of increasing renewables in electricity supply. While well-intentioned, he found a flaw in the reasoning, which he believes can be easily remedied.

By way of background, he said thirteen states have some type of renewables requirement, and seven allow tradable renewable energy credits. Congress has also looked at requirements on a national level. A renewable portfolio standard (RPS) is a requirement for an electricity retailer to purchase a specific percentage of sales from renewable generation sources. As part of the implementation of such a program, a renewable energy credit (REC) is the renewable “attribute” of 1 MW/hr of electricity that can be unbundled from the electricity sale.

A market for trading in RECs allows retailers to buy RECs rather than construct the generation facilities themselves, allowing generation to take place where it may be more efficient. Thus, he says, a trading market can help facilitate a rational investment climate for renewables.

Chupka agrees with renewable advocates who claim that renewable energy would have a dampening effect on the volatility of the fuel cost component of electricity generation. But he diverges on the issue of going from there to create a simple RPS policy compelling a fixed percentage to guarantee a larger market share. He contends that such a policy works directly against the intended objective by increasing price volatility for RECs by the following means.

Some particular features of a market for RECs include that no one knows the exact size of the market in advance, since electricity demand can fluctuate from forecast levels and is not likely to be influenced by the price of RECs. Furthermore, suppliers (for example, wind or solar facilities) are unlikely to have the reason or ability to reduce or increase output based on short-term variation in prices received. This price inelasticity of supply and variable demand lead to price volatility for RECs.

Chupka said that this can be partly mitigated by long-term bilateral contracts between renewable generators and electricity retailers. Such long-term contracts make it easier for generators to obtain financing, and are often preferred by electricity retailers because they generally prefer stable cash flows.

Even so, large imbalances within compliance periods may still cause significant variation in cash flows and increase the price volatility of renewables, he said, undermining the role that renewables advocates see for them in reducing fuel price volatility.

This volatility can be greatly ameliorated by the addition of provisions for banking and borrowing across compliance periods, he said. While banking is not so controversial among renewables advocates, borrowing often is. But the benefit, according to Chupka, is that banking and borrowing creates a situation where supply and demand can balance in a longer-run context, providing steadier cash flows for both generators and retailers and making financing easier to obtain.

On the other hand, penalty prices and cost caps are only partly effective in containing price volatility, he maintains, and can have unintended effects on the market for RECs. Such policies do, however, help to shave off the extreme price spikes, and may be useful for containing costs.

Chupka concluded that REC markets are evolving, but the earliest designs have not been conducive to spot market trades. REC market designs, he says, need to reconcile the preference for long term contracts with the need to maintain a rational spot market.

## 2003 OFFICERS and COUNCIL MEMBERS

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# 2003 MEMBERSHIP RENEWAL/REGISTRATION FORM

## National Capital Area Chapter U.S. Association for Energy Economics

- Please check here for membership renewal.
- Please check here for new membership registration.
- Please check here for student membership registration.

Membership registration/renewal for the NCAC/USAEE is expected by the end of the preceding calendar year.

Please return your registration form and check to **Leslie Coleman**—NCAC/USAEE 2003 Treasurer at: **National Mining Association, 101 Constitution Ave., Suite 500 East, NW, Washington, DC 20001**. Phone: 202/463-9780. Email: [lcoleman@nma.org](mailto:lcoleman@nma.org).

Full membership dues for 2003 are \$20.00 (students \$10.00). Please make checks payable to NCAC/USAEE.

*Please print very clearly.*

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\* For DOE, please provide complete routing address.

\*\* Provide the **best e-mail address** to receive the newsletter.