

Moving Renewable Energy Beyond Green Tags

Customers in maturing green power markets point to a more active role in project development.

BY JESSICA MORRISON

If you thought that “branding” alone was driving large renewable power purchases by retailers, you’d be wrong.

Recent green power purchases by Safeway, Whole Foods and regional fast-food powerhouse Burgerville point to a larger business strategy that will eventually extend toward equity investments in renewable energy facilities, including community wind projects.

“Our long-term commitment to renewable energy is more about contributing to the health of our local economy and less about branding,” explains Jeff Harvey, chief operating officer for The Holland Inc., which recently purchased 100% wind energy for its 39 Burgerville fast food restaurants in the Pacific Northwest.

With the corporate tagline “fresh, local and sustainable,” Holland is working to corral support for renewables throughout its entire supply chain, soliciting support from dairies and cattle ranchers to onion growers in southeastern Washington. Not only is Holland buying green tags to offset all of its energy consumption, the firm is considering a partnership to purchase an equity interest in a new wind farm.

Holland is in discussions to de-

velop the first small-scale community wind project in Oregon – a 10-MW project on cattle ranching land in Morrow County.

“Wind is going to help our local cattle ranchers because the turbines can be placed on their land,” Harvey says. “Because all of our restaurants are located in the Pacific Northwest, and because we buy all local ingredients, our profitability depends on

also is considering wind energy investments for other divisions.

“We’re looking at the five- and 10-year outlook for grid-based energy and getting a feel for the economics of investing in renewable facilities,” says Doug Condon, who assists with energy operations for Safeway. “We are looking at a couple of specific projects that would generate wind power for our stores. In addi-

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the long-term profitability of our suppliers.”

Harvey isn’t the only one looking beyond green tags. Safeway recently purchased 87,000 MWh of renewable energy certificates to green its 250 gas stations across the country, its corporate headquarters in Pleasanton, Calif., and stores in San Francisco and Boulder, Colo. Not only is Safeway one of the top 10 largest renewable purchasers of green energy in the country, as is The Holland Inc., the grocery chain

tion to the green tags, we’ll get the power too.”

Benefits of investing in renewable energy facilities include more long-term control over energy supply, fuel diversification and healthy financial returns over time.

How tags launched an industry

Buying green tags – the environmental attribute of renewable generation – is still the bread-and-butter of retail participation in the nation. Many households and businesses in



The Shiloh wind project in Solano County, Calif., will have an output of 150 MW when it is completed later this year. Photo courtesy of PPM Energy.

the nation buy utility-branded renewable energy through their bills by paying a premium. Those who don't have access to utility programs, as well as those who don't wish to buy them from their utility, can purchase green tags through marketers such as the Bonneville Environmental Foundation (BEF).

Patrick Nye, BEF's director of sales, says the organization has carved a special niche in coming up with innovative ways of "greening" companies, events and other special requests, such as weddings and ski lifts. Holding up a CD case, Nye explained how a subpop recording artist, Kelley Stoltz, greened his new recording, "Below the Branches."

"Stoltz tracked all the energy used in the studio to record this CD and offset the amount through green tags," Nye says.

Additionally, a consulting firm, Quantec LLC, gave out BEF mini green tags in its holiday cards last year. Point-of-purchase minitags (which is a 10th of a tag or 100 kWh of green energy) are an emerging market for consumers who want to offset their travel or specific activities, and companies that want to demonstrate their sustainability commitments to employees, customers and shareholders.

"Today we're in a situation where consumers are becoming informed about the green tags option and a good deal of the market is finding us," Nye says.

From the very beginning, Nye says, BEF had to be innovative. Originally it was set up as an environmental endorsement for the Bonneville Power Administration, bestowing grants for renewable projects and watershed restoration. It worked to raise corporate donations to help fund these projects, but found little interest.

"Companies didn't want to donate to projects, but they were interested in buying renewable power. For example, EPA's Region 10 office wanted to buy green power for their offices, but the local utility didn't have a renewable energy option at the time. So, the concept was born – you have wind farms and buyers on either side, with a utility in the middle that didn't sell renewable energy. We were the first to commercially market green tags," Nye says.

Now, with or without state mandates, and in an environment devoid of federal direction, the green tag market has exploded in interesting new directions.

"In 2000, we were excited to have sold 600 tags – this past year it was 250,000," says Nye. "Every year we seem to double and more providers seem to enter the market."

Not surprisingly, BEF has seen growing sales among public and investor-owned utilities, and especially among those mandated to have a green option, but that lack their own renewable facilities.

Cities have also taken it upon themselves to green their energy

use. In Utah, the City of Moab became the first EPA Green Power Community in the nation by purchasing renewable power and encouraging its citizens to support the effort. This year, Corvallis, Ore., received the same designation.

The City of Portland Ore. also is using green tags to meet its sustainable goal of offsetting 100% of its energy usage with renewable energy. However, it too is looking to go beyond green tags to boost its renewable commitment.

David Tooze, senior energy specialist for Portland's Office of Sustainable Development, says the city is in negotiations with Semptra and PPM Energy for a longer-term contract that uses open access tariffs to bring renewable products to local meters.

"We want to invest in a new Oregon-based resource," says Tooze. "We intend to hit our 100% renewable mark well before our goal of 2010, but in doing so we want to support economic development in rural Oregon."

Competitors have sprung up to meet growing demand, including 3Phases, Green Mountain Energy, Renewable Choices and other marketers. Nye believes BEF will continue to thrive because of its nonprofit status, reinvestment into new projects and "Green-e" certification.

"Through its Green-e program, the Center for Resource Solutions certifies and tracks renewable electricity products that meet environmental and consumer protection

standards," he says. "We think Green-e is the minimum people should look for when buying tags because it looks at all the claims, and keeps everyone honest when basically we're selling an intangible product. That protects both customers and marketers to ensure that what's being promised is delivered."

BEF also worked with environmental advocacy nonprofit groups, such as the Renewable Northwest Project and the Natural Resources Defense Council, to come up with an environmental endorsement for projects that produce BEF's green tags.

"We'll evaluate a wind farm and ensure it doesn't interfere with migratory birds, because it's important to protect our reputation and that of our customers," Nye says.

BEF also is helping many companies achieve renewable offset targets well ahead of any possible governmental edict, including creating a program to help employees buy discounted tags to green their homes.

What lies ahead for marketers

The market for community wind is expected to grow rapidly, due to increases in available financing, corporate and community investments in wind farms, and funding support from the U.S. Department of Agriculture (USDA) and other entities. As evidence of this growing market, in 2003 the USDA provided \$7.4 million in grants for 35 community wind projects.

The U.S. Department of Energy's Wind Powering America program expects wind power to add \$60 billion in capital investment, providing \$1.2 billion in new income for farmers, Native Americans and rural landowners, and to create 80,000 permanent jobs by 2020.

On the larger wind farm deals, the utility gets the environmental attributes whereas with community wind, the partners will own the RECs. Perhaps one day soon, Holland, Safeway and others will have photos in the lobby of their very

own wind turbine, as would a proud parent.

The common theme that struck in conversations with marketers and developers was the fact that wind farms continue to be built despite a lack of federal wind policy and the continued uncertainty of the renewal of the wind energy production tax credit (PTC) – a critical factor in financing new wind power installations.

"Yes, wind development continues, but the pace is uneven and the cost is artificially high because of the uncertainty over the expiration of the PTC in 2007," says Chris Tay-

lor, director of project development for Horizon Wind Energy, a Houston-based wind power developer. "One cannot overstate the importance of not letting the PTC lapse. If we all knew the credit would continue, we could spread development out on a more rational scale so it's more affordable to everyone. Now, all companies are pushing very aggressive timelines."

This results in price hikes and delays that are due to turbine shortages because companies won't expand production without greater market certainty. There are only so many cranes and only so many experienced technical experts available at one time, explains Taylor, which artificially drives up costs and short-circuits rational investment in the production chain.

"It's the same as trying to find a contractor to remodel your kitchen in two weeks," Taylor says. "You might be able to get the work done, but you'll pay a premium for getting it done on short notice."

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Taylor says while the actual construction can occur in a short time

frame, it takes years to develop a site. "The wind farm sites I'm testing today will never get built upon before the PTC is due to expire."

Still, developers continue to build new wind projects because of current needs and state renewable portfolio standards that have created further demand for RECs. Additionally, renewables are being added to utility portfolios on the chance of future carbon restrictions. How renewables will be able to participate in the evolving emissions markets isn't clear yet – but it doesn't seem to be a level playing field for renewables, as emissions al-

lowances have traditionally been awarded to emitting resources. Having additional potential revenue streams from allowances awarded to renewables could also support further development of projects.

Ultimately, the choices confronting utilities and developers are made on an investment basis. What motivates their decision depends on whether they're adopting a short- or long-term view. Fossil fuel generation has inherent price uncertainty, as evidenced by recent natural gas price hikes. Investing in renewable projects requires a lot of capital outlay upfront, but its profitability doesn't depend upon future fuel costs.

Safeway's Doug Condon believes the renewable industry would benefit from deregulation.

"For us to truly move beyond tags and help drive generation, there needs to be retail choice to buy the physical energy," he says. "If we're limited to a regulated area, we can only participate through RECs. It's another avenue of investment that would open up for everyone."

Horizon's Chris Taylor believes

that a subsidy for wind would put it on equal footing with other fuels.

"Show me an energy source, and I'll show you a subsidy," he says. "If subsidies for fossil fuels were removed, and the true societal cost of fossil fuels and their emissions were charged, wind would be a least-cost option."

Renewable energy becoming the least-cost option against fossil fuels is a scenario that suits BEF's Patrick Nye just fine, even if it means wind no longer rates paying a premium or relies on a green tags market.

"In our view, we're here to help

transition to an energy system free of fossil fuels. So, ultimately we're working to put ourselves out of business," he says.

After 27 years as a former energy company executive, The Holland Inc.'s Jeff Harvey knows something about the business case for wind energy, and he brings that understanding to the restaurant business.

"This was a simple analysis for us," Harvey says. "We have 40 years of doing business in the Pacific Northwest. So, our decision to go with renewables was less about realizing a financial return in a cou-

ple of years than it was addressing the long-term economic vitality of this region." **SNP**

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