Presenting Sponsor Interview:
Building the Right Renewable Energy Strategy for Net Zero

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FAILLA: As complexities around renewable energy grow, NRG Energy has developed a two-fold procurement strategy for customers. Can you start by telling us about the first part, which focuses on environmental attributes?

KANDANKULAM: Sure. I see environmental attributes, especially RECs, as a gateway to more robust and committed investments in decarbonization. RECs basically indicate megawatt-hours of conventional power that have been replaced with renewables. Renewables tend to be specific to wind and solar, as opposed to hydropower. We're seeing some complexity in the market with low- or zero-carbon commitments versus carbon-free energy commitments including nuclear and other energy sources. As companies adopt these frameworks, they'll be looking for guidance from organizations like the Clean Energy Buyers Alliance and the SBTi as to what additional steps to take to achieve those goals.

We're seeing an uptick in REC prices because of increased demand and interest in SBTi. While the existing market has maintained liquidity and supply, we are seeing constraints because of supply shocks from new additional projects brought to market, whether that was an initial fear of tariffs or because of COVID. For a long time, we could see the lowest price for a Texas wind REC at around $1. We're seeing much higher prices and don't perceive these wind RECs decreasing back down to that rate anytime soon.

In terms of cost constraints, seeing how these types of attributes intersect with market complexity and various frameworks is exciting. Carbon offsets are a less mature market. Some are commodified like landfill gas, which is easily verified with plenty of capacity. Companies may also have specific narratives to address. For example, maybe you're an agricultural company that uses a lot of land and water so you might want to look at apple- or forestry-based offsets. However, those are much more expensive, so you also have to consider the permanence of those types of projects, especially if you invest at the project level. There were many forestry projects based in the Pacific Northwest and California that don't exist anymore. Those are some of the risks that we're trying to contend with.

FAILLA: What about working with customers to identify the best pathways to renewable procurement?

> **"Companies are diversifying at an increased rate. That growth is going to be steady in many places so it's important to keep looking forward."**
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> **Greg Kandankulam**
> **Director, Sustainability Advisory, NRG Energy**

KANDANKULAM: Our approach takes into account the various market mechanisms: retail versus wholesale, deregulated versus regulated and all of the different product flavors. Various regional, regulatory and economic systems come into play. The first pathway involves maximizing economic potential. You're looking at one or two projects. Companies like ours have determined some contract parameters for aspects such as virtual power purchase agreements where there's a locational marginal price and a contract for potentially making money or paying a premium for power at any given interval. Try to look at novel contracts in which a service provider like NRG can really minimize the downside risk based on locational price for a share of the upside.

Another pathway involves a diverse and balanced approach. If you're a company that has 4,000 stores in 40 states, you're dealing with regulatory regimes, talking about stacking opportunities that are within regulated monopolistic utilities that might have green tariffs and looking to diversify with generation close to the load site rather than aggregating it all into one project in one region. You're going to need a partner that really helps you deal with regional pricing. RECs are part of that constraint. In the Northeast, you have some of the most expensive assets in the country because of the availability of building new projects, versus what you might see in the South and Southwest. Being able to obtain that diverse portfolio requires many nuances and a great deal of wholesale or utility grid market experience.

The third pathway is looking at the most simplified method of attaining short-term goals. That's really where we see RECs as a gateway. I would never encourage a company to invest in RECs over the next 10 years as a solid strategy, but it is a good place to start. You can also take a regional approach if you're looking at building a REC portfolio for certain projects versus trying to look at something that's a little more commodified.

Finally, the fourth pathway is the forward view. Take a look at the complexity of building a future-proof, forward-looking portfolio with a project roadmap over the next decade. Part of that has to do with the appetite of the client and understanding their ability to do long-term transactions. It's very hard to do a PPA or even a simpler retail renewables project unless the energy provider takes on most of the PPA risk and provides you with all the benefits, whether that's RECs, location, naming rights, or actual projects. Without that component, we're looking at diversifying as well as bringing on projects at a regular interval, two to three years down the road, while future-proofing against potential mergers and acquisitions and capacity growth.