



Shedding Light on Solar Renewable Energy Credits (SRECs)



Solar Renewable Energy Credits (SRECs) are a specialized form of Renewable Energy Certificates (RECs) that allow organizations to track—and potentially profit from—the amount of clean, renewable energy produced by commercial solar power systems. SRECs exist in states that have specific mandates for generating solar energy. The more electricity produced, the more Solar Renewable Energy Credits issued. These credits can be bought and sold in an open market setting and are considered the currency of renewable energy.

Questions that help illuminate how and why SRECs work

- **If an SREC is a specialized form of an REC... then what's a REC?**

Renewable Energy Certificates (RECs) are issued for every Megawatt hour (MWh) produced by qualifying [renewable energy sources](#) (1MWh = 1 REC). RECs and SRECs also include the environmental and other non-power attributes of renewable energy production. The value of these attributes can be “bundled” or “unbundled” from the electricity sold. Electricity has a tangible value to consumers: the price of keeping the lights on. Electricity produced from renewable resources has additional, less tangible value in the form of reduced greenhouse gases and other benefits to society and the world. RECs help monetize these non-energy attributes.

- **How did SRECs come to be?**

RECs were created as a way to account for electricity generated from renewable energy projects. They become relevant, for example, in states that have regulations known as Renewable Portfolio Standards (RPS). These are state laws requiring utilities to certify that a specific percentage of the energy they deliver comes from renewable sources. RECs represent proof that the utility has either generated the renewable electricity independently or purchased the right to have the clean power generated by a separate green energy producer, which counts towards its renewable energy percentage. This system allows utilities to pair the

positive attributes of renewable energy with the electricity they already sell. SRECs are a special form of REC that specifies solar as the renewable energy source—satisfying some states' requirements that a specific percentage of delivered energy comes from solar sources.

- **How are SRECs sold?**

It is possible for SRECs to be traded directly between buyer and seller; however, this approach requires a more sophisticated understanding of markets and trading. Many SREC holders choose to sell their certificates to third-party marketers, brokers or asset managers who package and resell bundles of SRECs to utilities—allowing them to meet their RPS obligations.

- **What is the market for these credits?**

Mandatory RPS programs (see question 3) currently appear in most U.S. states and territories, with a number of states setting voluntary renewable energy standards or goals. SRECs (and RECs) provide a vehicle for satisfying these renewable energy obligations and goals, thus creating voluntary and compliance markets for these green certificates. Voluntary markets offer a way for businesses and individuals to support renewable energy to meet private or corporate social responsibility goals. Compliance markets are more structured and offer a vehicle for buyers to meet state-mandated obligations. Generally, compliance RECs/SRECs must originate within a specific geographic area to satisfy RPS mandates. Voluntary RECs/SRECs, however, can be sourced regionally or nationally. Compliance SREC markets are relatively limited, appearing in only a handful of states.

- **How much are SRECs worth?**

The value of SRECs is a function of several factors, including supply and demand, the vintage (the year the renewable energy was generated) and RPS compliance regulations. In states with high regulatory penalties for failing to meet RPS requirements, the price of SRECs can be higher because of the higher price cap created as a result. Conversely, if the penalty is less than the cost of the SRECs, there would be no financial incentive to pay a higher price. For obvious reasons, SRECs will be less valuable in states where no mandate exists. And in some areas, state-sponsored rebate programs make it more financially attractive to redeem SRECs rather than sell them. SREC value, and the affecting variables, will likely fluctuate over time. So, it's difficult to predict future SREC value.

- **What is exchanged when Solar Renewable Energy Credits are traded?**

A unique identification number is assigned to each SREC generated, which is then tracked electronically. SREC owners can register these solar "certificates" and trade them on the open market. Many SREC holders choose to sell their certificates to third-party aggregators (see question 4) who package bundles of SRECs to resell. A small fee is charged for the convenience, but going this route eliminates a lot of paperwork and avoids some market risk. Reputable solar equipment providers can help identify such SREC aggregators.