

Eleven recommendations for improving the Guarantees of Origin system under REDII

Brussels, 3 May 2016 | Already today, Guarantees of Origin (GOs) provide a valuable tool for assigning a specific attribute (e.g. green electricity) to energy sold to final consumers. An EU-wide, secure and reliable trading system has been put in place and is well accepted by the market. Europex members are actively contributing to the functioning of the GO market through different roles, such as organising standardised trading and providing registries. In its response to the recent RED II consultation, Europex has put forward several proposals on the further development of the GO market. Based on this, we would like to add a few concrete recommendations for possible future improvements:

- 1. Explicitly extend the scope of GOs to all production sources.** While GOs may already be issued for all production sources under the current legislation, their use remains mainly limited to renewable energy for the time being. The wide use of GOs for this single production type is proof of their success, but it should not remain the only area where GOs are widely applied. Feedback from the market suggests that there is also demand for certificates from other production sources, and some Member States, such as Austria and Sweden, are already issuing certificates for different production sources. Yet, this possibility remains underused and is not known by many market actors. Explicitly extending its scope would contribute to empowering consumers in choosing their electricity source(s). It would also help lessen the problem of residual mix calculations (i.e. the residual that is not disclosed through GOs).
- 2. Implement full disclosure.** The introduction of a mandatory issuance of GOs for all electricity production sources would significantly improve the transparency of the electricity market. A comprehensive system of full disclosure would simplify the disclosure of electricity to final consumers and would make it less prone to errors (e.g. reducing the residual mix to a minimum, in case of an EU-wide full disclosure). Some member states have already proven that this is feasible, and others should follow suit for the benefit of consumers in a more transparent GO and electricity market.

- 3. Empower consumers by offering a greater choice of transparent tariffs.** A liquid wholesale market for GOs is already in place. However, consumers are only able to make a choice of their production source(s) when they are offered the right tariffs to do so. Where, for instance, GO backed 'green tariffs' are made available, they have proven successful in the market. As an instrument to further strengthen the development of RES, it should be considered to oblige utilities to offer at least one green GO based tariff. This could in the future also be extended to other production sources. The benefit would be a further empowerment of the consumer and a significant increase of the overall transparency of tariffs. Such tariffs would – in a full disclosure system – be perfectly trustworthy.
- 4. Advance the standardisation of GOs.** The key to bringing liquidity to a market is standardisation. The standardisation of GOs has already improved, for instance through the introduction of exchange-traded products as well as an enhancement vis-à-vis the mutual acceptance of GOs between Member States. The criteria for accepting GOs should, however, be further developed and harmonised between the Member States to enable an unobstructed trading of GOs. Different national rules always lead to a market fragmentation at EU level.
- 5. Use GOs as the sole tool for disclosure.** Guarantees of Origin following the EECS standard should be further strengthened as the only method of disclosure. Other disclosure mechanisms have empirically proven to be less reliable. Their use should therefore be discouraged.
- 6. Regulate GOs and disclosure in one piece of legislation.** Guarantees of Origin and electricity disclosure are two sides of the same coin. They should ideally be combined in one piece of legislation. Maintaining two separate pieces of legislation increases the level of legal uncertainty and potentially harms the market.
- 7. Assign a formal role to the AIB.** Together with other stakeholders, the Association of Issuing Bodies (AIB) has contributed significantly to developing the GO market. It should be granted a more formal role for it to be able to enforce standards for GOs across all EU Member States. One example for this could be the status of ENTSO-E, the European Network of Transmission System Operators for Electricity.

- 8. Include the calculation of the residual mix in RED II.** As long as the residual mix still needs to be calculated, it should be done in a harmonised way with equal standards in all Member States. One way to achieve this would be to include concrete residual mix calculation standards in REDII. As already stated before, an EU-wide full disclosure system would reduce the current residual mix problem to a minimum.
- 9. Apply the same level of VAT fraud protection to GOs as there is for emission, power and gas markets.** Given that the set up of GO certificates is similar to emission allowances, there is a significant risk of VAT fraud in this market. Therefore, the reverse charge mechanism should be applied to GO transactions in all Member States in order to minimise this risk. Austria has already set this in place in its national VAT legislation under the given 2013 derogation to the EU VAT Directive. Other Member States should be encouraged to do the same.
- 10. Explore the possibility of using GOs for 2020 target auctions and/or for post-2020 targets.** Europex welcomes the Commission's idea of balancing the diverging levels of achievement in relation to the individual national RES targets for 2020 through auctions. In our opinion, the new system would be closely linked to the disclosure mechanism, as it would essentially be based on auctioning energy attributes. Using national statistics for national targets and GOs for disclosure "only" leaves the possibility of a de facto "green-washing" of GO-based tariffs. Therefore, the use of GOs in these auctions would significantly increase the transparency of the actual levels of achievement between the Member States. It would also facilitate the setup of the system itself. Appropriate legislative changes should be made in the upcoming RED review.
- 11. Consider the possibility of a mandatory application of the GO systems to heating/cooling.** The current RES directive already provides Member States with the option to extend the GO system to renewable heating and cooling. More precisely: "Member States may arrange for guarantees of origin to be issued in response to a request from producers of heating and cooling from renewable energy sources". Based on the experience from the electricity sector and given the fact that established infrastructure could be used for heating/cooling as well, the use of GOs for heating and cooling should be made mandatory. While Member States rarely pursue "optimal" instruments, even though they would make sense, GOs for RES-H/C would facilitate achieving targets linked to heating, particularly if they were used for national targets as well.

About:

Europex is a not-for-profit association of European energy exchanges with currently 26 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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