

AIB Press Release

AIB reacts to EU Commission proposals for disclosure and guarantees of origin in “Clean Energy for All Europeans” package

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The European Commission’s proposals in the package “Clean Energy for All Europeans” are ambitious and will contribute to a better integrated and more decarbonised European energy market. More specifically, the instrument of the Guarantee of Origin (GO) is consolidated and reinforced by extending the issuance of GOs to all renewable energy, and making GOs mandatory for disclosure purposes. The Association of Issuing Bodies welcomes these elements.

In particular, we appreciate the European Commission’s recognition that the GO is a valuable instrument for Europe’s electricity consumers. Thanks to the GO, companies and households can actively select a contract which guarantees that the electricity supplied to their home or business is from renewable sources.

The AIB – along with several other European and national organisations and companies – has been advocating for ‘full disclosure’, the mandatory use of GOs for disclosing all electricity, including from fossil and nuclear sources. While it is disappointing that issuance and use of fossil and nuclear GOs has been not made mandatory, we welcome the clarification that it is now legally supported and can be made mandatory if a Member State (MS) so wishes.

The clarification of the role of high-efficiency cogeneration (HEC) GOs is also welcomed, as is the addition of GOs for renewable gas.

Several elements in the proposals however raise concerns, in particular those concerning the introduction by the revised Renewable Energy Directive (RED II) of mandatory auctioning supported renewable energy imposing the use of the CEN standard and introducing new energy type of GOs without proper disclosure scheme.

Mandatory auctioning of GOs for supported production

The need for mandatory auctioning of GOs for supported production at this point in time is unclear. While for some MS this is a valid solution and proven to be feasible (Italy), it can have severe disadvantages for other MS, as explained later.. The AIB feels that auctioning should not be mandatory, but should instead be offered as a possibility to MS.

Furthermore, to avoid possible negative impacts of auctioning GOs, the following points need careful consideration by each MS before implementing auctions:

- GOs are not homogeneous. Unlike EUETS carbon credits, GOs and their attached value are very diverse, and depend on the technology, energy source, time period, capacity, location etc. It is therefore important to take this into account when auctioning GOs.

Auctioning GOs in large bundles with different characteristics altogether may be cost-efficient, but will yield lower income. It may place a flat price on GOs, regardless of type, thereby encouraging windfall profiteering by energy or non-energy companies (buying at a fixed price, and selling on high-quality GOs at a premium).

Auctioning GOs in small homogenous bundles would more appropriately reflect the value of the GO, but could increase administrative cost e.g. capacity bands or technology bands, etc.

- The cost of auctioning and the associated bureaucracy should be considered alongside the revenues derived from it.
- Auctioning may prevent suppliers (e.g. local renewable communities) from marketing locally-produced energy, hindering them to acquire the GOs they need. The growing customer demand for specific energy products (e.g. local power) should be protected: customers should be able to exercise choice. Hence this development will introduce complexities and is potentially detrimental to the market as it exists in some MS.
- The frequency of auctions should be thought through. GOs are being continuously issued and traded, which would require frequent auctioning and which could increase bureaucracy and costs.
- GO auctions should be structured in such a way as to minimise the opportunity for any market party to abuse its position.
- Most production devices receive support, so MS will have to auction the majority of the GOs issued if auctioning is mandatory.

In MS that currently issue GOs for supported electricity and where the revenue is received by the producer, the revenue for producers will reduce. This will prolong the life of support schemes and it will delay renewable energy achieving grid parity without support. If the revenue of renewable energy communities and small producers is impacted, their interests should be considered.

The impact on existing PPAs (power purchase agreements) and other commercial agreements (e.g. financing arrangements for renewable plant investments) should be taken into account. Not giving GOs directly to producers would prevent them from selling supported electricity with the related GOs, making many PPAs inoperable. Therefore, income from GOs sold under PPAs should be recovered in a different way than by auction.

There are alternative ways of resolving double-compensation. Rather than preventing producers of supported renewable energy from receiving GOs, the amount of financial support could be adjusted to reflect the income derived from GOs. This would require the selling price of GOs to be notified to an official body which would ascertain the average sale price (perhaps confirming the accuracy of price declarations by means of ad hoc inspection and imposition of penalties for improper declarations).

Finally, some MS feel that GOs should not be issued for supported renewable electricity, or at least such GOs should not be sold for reasons of cost equity, avoidance of double-counting, and avoidance of unnecessary administrative cost. They believe that supported renewable electricity should be allocated to those who have financed it via the national support schemes: the electricity consumers or taxpayers.

CEN standard

RED II imposes the application of the CEN standard for GOs by all MS. Although the AIB understands the requirement of a single standard, this also raises concerns in terms of the adequacy of the CEN/CENELEC processes for forming and agreeing fast-changing standards. The CEN standard was inspired by and, until today, closely reflects part of the EECS Rules developed by the AIB. However, the CEN standard merely sets out what should be achieved, not the way in which the GO system should be administered or enforced: the AIB has developed such an institutional framework (the EECS Rules). The two will therefore need mutual adaptation to coexist since, despite the CEN

standard having originally been extracted from the EECS Rules, the latter has evolved considerably since.

Furthermore, the CEN standard is for energy, not just electricity. Further development of the CEN standard must ensure that the requirements of other energy transportation media do not conflict with those of electricity.

Lastly, derogation from the CEN standard is only permitted in case of conflicting national legislation. However, other derogations will almost certainly be necessary or desirable to ensure the effective and cost-efficient functioning of the GO scheme. Examples are the impact of changed market behaviour, or new fuel types. It is not clear whether CEN/CENELEC can facilitate this degree of change, and how it will achieve this. Amending a CEN standard often takes 2-3 years, which will constrain the ability of competent bodies and MS to react to day-to-day occurrences, and possibly threaten system security.

The AIB therefore fears that binding MS to the CEN standard will decrease the flexibility of the GO system considerably, and will make it more difficult to respond to market developments and changes to legislation. This could add significant administrative burdens to MS and Issuing Bodies which do not seem appropriately outweighed by the possible benefits of making the CEN standard mandatory.

Biogas GOs

The proposal widens the scope of GOs to other energy transfer media. We would welcome clarification of how GOs for one energy medium should interact with GOs for another energy medium (e.g. biodigestion to produce biogas used in renewable electricity production): presumably they are cancelled under one scheme and re-issued under the other?

While AIB welcomes the extension of GOs to cover renewable gas, the concept of gas GOs should be aligned with electricity GOs such that where gas GOs are issued, there should be an obligation to cancel and use gas GOs for gas supply. Gas GOs should be harmonised across the EU.

AIB asks for clarity on whether book-and-claim or mass-balance chain of custody is preferred for gas GOs. While mass-balance chain of custody is sometimes used up to the point of injection into a grid, we feel that from that point onwards, book-and-claim allows physical energy markets to continue in their current, established and efficient form, unhindered by the need to differentiate what is in reality a homogenous product. This offers a more cost efficient solution and leads to more liquid markets. The purpose of gas GOs is also unclear: is there an obligation for renewable gas disclosure?

There must be separate GO accounting for electricity and gas. For example, gas GOs should only be used for disclosure for gas consumption, and should not be transferred into an electricity GO system. This ensures that inputs and outputs reconcile for each energy medium, and allows correct treatment of system inefficiencies and losses. However it remains unclear how this would work with joint fuel contracts? For instance, could a (non-renewable) natural gas contract be seen to ‘taint’ a renewable electricity supply?

Guarantees of Origin for heating and cooling

The purpose of heating and cooling GOs is unclear: are these intended for use in disclosure, and is there demand for them? Indeed, is there a potential international market for heating and cooling other than for plants close to borders between MS, and what are its characteristics and size?

Disclosure with GOS is now mandatory, but alternative tracking is still admissible

We are pleased to see that MS must now enforce suppliers' use of GOs to disclose the energy mix to their customers in support of marketing claims. The proposal recognises the need to prevent double-disclosure as well as double-counting and prohibit double-selling. Unfortunately, alternative forms of proof by consumers and particularly the corporate sector (e.g. voluntary certificates from outside of the EU) are still permitted.

Further, RED II does not prohibit the use of GOs outside of the EU. This is important, because the associated 'backflow' from outside of the EU may not comprise an identifiable mix of energies. These issues should be resolved if the energy mix is to be calculated correctly, by a simple statement that 'GOs are intended for use within Europe'.

RED II should also enable MS to refuse GOs from another MS where they have well-founded doubts about how GOs are being used in that MS, as the accuracy of the information on a GO is irrelevant if attributes can be double-counted. Further, it is unclear whether GOs should be recognised from third countries that do not directly import or export energy to the EU.

To protect consumers, RED II should explicitly prohibit the issuance and/or use of other forms of proof for disclosing the origin of the energy for which a GO has been issued. Furthermore, the use of voluntary certificates and bitcoins for RES electricity produced in Europe but consumed outside of Europe needs to be addressed. In these cases, there is no shortfall in GOs, as these do not figure in this sort of trade, but there is an accounting shortfall: the importing country and the exporting European country cannot both benefit from the RES electricity.

The practice of “ex-domain cancellation” (cancelling in one country for use in another country) should be prohibited. Currently this is used to replace exports of GOs from European countries to Australia, Asia, America and Africa, and has the disadvantage that unless there is a calculated and proven back-flow from that country, there is an accounting shortfall such that the number of GOs available for use within Europe is less than the amount of RES electricity that has been produced in Europe.

High efficiency cogeneration GOs

RED II treats RES and HEC GOs differently: whereas MS must use GOs to support all claims of RES or HEC, they are only required to issue *RES* GOs, so they do not *have* to issue HEC GOs.

The legal basis for proving the origin of HEC electricity is unclear, and should be specified. While the IEM Directive requires the origin of RES to be proved, it does not require such proof for HEC electricity. If a supplier chooses to market electricity as having HEC properties, then it should be required to substantiate such a claim through the cancellation of HEC GOs.

The proposed definition of the GO raises an issue with the treatment of HEC GOs for biomass. Ideally, both GOs should appear on the same electronic document, such that each produced MWh is associated with a single electronic document guaranteeing that it originates from renewable energy (source) and/or highly-efficient cogeneration (technology), as appropriate. Requiring separate electronic documents for RES GOs and HEC GOs introduces additional and unnecessary bureaucracy and costs and increases the risk of double-counting.

AIB would prefer 'guarantee of origin' to mean *an electronic document issued by a MS or its competent body with the sole function of proving to final customers that the energy originated from a specific energy source and/or technology type.*

Residual Mix and disclosure practices

The new definition of the Residual Energy Mix (REM) is welcomed, but the concept of the REM should be introduced into the IEM Directive where appropriate. Furthermore, the REM should be specified ‘per energy medium’ (i.e. electricity, gas, etc.) and the validity period of a GO should be uniform.

We welcome the proposal for a harmonised deadline for cancellation, as this enables accurate REM calculations in the absence of full disclosure. However, cancellation by 30 June instead of 31 March is inconsistent with RE-DISS best practice. This means that MS having implemented RE-DISS best practice will have to revise their procedures. If the cancellation date is by 30 June instead of 31 March, the Residual Mix calculation will be delayed by three months, as every MS will need to await all cancellations before they can complete their disclosure calculation. In MS that have implemented RE-DISS best practice this also means that the update of the information on the supplier bill will also be delayed by three months which is conflicting with the consumers need for up-to-date information.

Minimum capacity limit

MS can impose a minimum capacity limit for issuing GOs, but this risks each setting a different limit, and some setting the limit high in order to overcome the requirement to issue GOs. MS should be allowed to solve this in their own way while still conforming to the requirement to issue GOs. There are alternatives to a minimum capacity limit: for example, MS could simplify access to the GO system for smaller power plants.

Transmission losses

The AIB believes MS should be free to choose how to account for grid losses. Taking losses “fully” into account is sufficiently complex that it would be difficult to cost-justify. Besides grid losses, other system inefficiencies could also be accounted for, to provide a complete overview of energy consumed in each MS.

The AIB has several more detailed comments regarding the proposals in the Clean Energy for All Europeans Package, in its detailed considerations.

The Association of Issuing Bodies is the leading enabler of international energy certificate schemes. The AIB promotes the use of a standardised system, based on harmonised environment, structures and procedures in order to ensure the reliable operation of international energy certificate systems.

The AIB provides a well-tested standard for certificate trade - the **European Energy Certificate System (EECS)** - which is the basis for certificate schemes in 21 European countries and enables international trade. The knowledge of AIB is shared by available documents on internet and by contacting the organisation.

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