

Role of redemption Statements

Users Group meeting Vienna, 17 September 2008

WG UG 08/23

AIB-2008-MC01-03



1. Introduction

For a better understanding of what a redemption statement is and why it is needed, in paragraph 2 we give a description of the life cycle of a certificate and in paragraph 3 we give arguments why we need the principle of a redemption statement.

In the last paragraph some ideas are developed on how to proceed introducing tighter regulations for issuing redemption statements and how to use these.

2. Life cycle of a certificate

The life cycle of a certificate documenting the origin of electricity can be separated into three different categories:

- 1) **Issuing**, i.e. documentation of production.
- 2) **Tradable period**, i.e. period during which the rights to the production attributes can be transferred from one stakeholder to another.
- 3) **Redemption**, i.e. ending of a certificate's life cycle by allocation of production attributes to electricity consumption to document how the consumption is backed by specific production.

Issuing

Issuing is the process documenting that a specified volume of physical electricity is produced by renewable resources. **The Principles and Rules of Operation (PRO) of Members of the Association of Issuing Bodies for the European Energy Certification System** specifies in detail how a certificate should be issued to be in line with the PRO to give a reliable documentation of the origin of the produced electricity. A power plant has to be registered in a proper way and all information should be checked in detail. There are no possibilities to double issue certificates, and the certificate gives a detailed specification of the power plant and production date. To give evidence of the issuing to stakeholders that not have access to the electronic accounts operated by the various issuing bodies, the account holders can print a certificate issuing statement / issuing report documenting that a certificate is issued. The report includes all relevant information regarding the production and the issuing.

Trading

In the tradable period a certificate including all the production information contained in the certificate can be transferred from account to account and the PRO specifies how to do this. Account holders that want to document transfers of certificates from one account to another or persons that do not have access to the electronic register themselves can do so by printing a transfer report / transfer statement giving the relevant information printed on a paper.

Role of redemption Statements

Users Group meeting Vienna, 17 September 2008

WG UG 08/23

AIB-2008-MC01-03



Redemption

The certificate ends its life cycle when the production attributes it represents are allocated to some physical electricity consumption. When this allocation of attributes is done, then the certificate should be redeemed in the electronic register to block the possibilities for future transfers of the production attributes that now have been consumed.

3. Proof of redemption

To document the redemption for interested stakeholders without any direct access to the electronic register, the account holder can produce a printed redemption report, i.e. a redemption statement giving written details about the redemption of certificates carried out by the account holder. The redemption statement therefore is the printed account statement showing the information registered into the electronic system when the certificate is redeemed in the electronic system.

Why is a proof of redemption needed?

A printed redemption statement could be necessary for several different stakeholders that need evidence of the redemption transaction:

- Green labelling organisations or their auditors need documentation that electricity products with a green label really have been backed by a sufficient volume of eligible electricity production.
- Authorities responsible for checking fuel-mix disclosure statements or various green offerings will need documentation of redemption in a printed version if they do not have routines giving them access to the electronic register directly.
- Electricity suppliers that do not hold their own electronic certificate account, but instead out-source this job to an account holder, will need documentation of redemption of sufficient certificate volumes to back fuel-mix disclosure and/or green offerings sold to electricity consumers. The printed redemption statement will do this job.
- Electricity consumers buying electricity products including the origin as part of the product (or the consumers' auditors) could need to do some auditing to verify that they really receive what they pay for, for instance as a verification of statements given in CSR-reports or related to environmental policy.

For a more extensive overview we refer to the Background document explaining the Quality Standard of RECS International:

(http://www.recs.org/end_users/quality_standard/documents.asp)

Role of redemption Statements

Users Group meeting Vienna, 17 September 2008

WG UG 08/23

AIB-2008-MC01-03



Interference with statistics

In addition to the four points mentioned above we also have seen two reasons for the use of printed redemption statements for transactions between different domains:

- There have been and still are some domain certificate systems that are not compatible in the sense that a transfer of certificates from one domain to another domain is technically possible. The only possible way to transfer the rights to the production attributes is to redeem the issued certificate in favour of the foreign buyer in the issuing domain and send a redemption report to the buyer.
- Also the difference in fee structures in various domains has contributed to establish an economic barrier for transfer of certificates and has stimulated the use of redemption statements as a much more cost effective alternative.

4. Possible solutions

A problem that arises when Guarantees of Origin (GOs) are redeemed in one domain on behalf of a consumer in another domain is that statistics and everything statistics are used to (for example calculating residual mix in a domain or RES-E target counting) could be wrong if the redemption process is not developed to take care of cross-border redemption. AIB is asked to develop routines to handle the statistical problems.

To create a transparent and therefore more mature GO market it should be possible to transfer GOs to the IBs of all participating countries and there should be no economic barriers to do so. The use of printed redemption statements does not solve these two issues; it is merely a way to cope with the current market circumstances.

It is the aim of RECS International to raise awareness about these issues and to bring it to the attention of the AIB in order to avoid the use of printed redemption statements in a way that can harm the reliability of the GO.

There are different solutions that can solve the issues stated above without the transfer of printed redemption statements between different domains. One option would be that the IBs opened a redemption account, which would be available for free or at very low cost. The other would be that commercial organisations could offer services for redemption of certificates for consumers that do not own their own account for a certain service fee. Printed redemption statements (that are only valid within a certain domain and cannot be used for cross-border trade) can then be used to officially notify the customer of redemption.

The PRO today gives no detailed description of the information to be registered into the certificate system when a certificate is going through the redemption procedure, even if the redemption is as important as the issuing in the life cycle of the certificate. The lack of details for the redemption procedure is very different compared to the detailed information to be registered before a certificate can be issued.

Role of redemption Statements

Users Group meeting Vienna, 17 September 2008

WG UG 08/23

AIB-2008-MC01-03



The lack of requirements to register information of the consumption makes it possible to redeem a certificate without registering almost any information of the consumption and thereby in praxis turning the electronic certificate into a printed bearer certificate in the form of a redemption statement without any information of the consumer and the consumption. A bearer certificate could be seen much the same way as a bank note, i.e. the value belongs to the person holding it in his hand. We have no procedures to handle bearer certificates because the EECS-/RECS-systems were designed to be electronic systems only, and the possibility to convert an electronic certificate into a printed bearer certificate should be avoided.

The redemption procedure therefore needs a further development to avoid the problems a routine without any required information specifications can give. To avoid the possibilities of creating a bearer certificate the following information should be registered when redeeming in the electronic system and included in the printed redemption statement in addition to the information contained in the certificate itself:

- Text saying that green value is consumed and no longer is available for trading
- Name of consumer, i.e. final end-consumer or electricity supplier
- Address of consumer, i.e. location and country of electricity consumption
- Date of redemption
- Period of electricity production / issuance of certificate