

Interview with the two presidents of RECS-International and AIB

Interview with Claes Hedenstrom, President of RECS-International and Christof Timpe, President of the AIB

Could you explain the difference between the AIB and RECS-International ? And what purposes does each organisation serve ?

Claes Hedenstrom : RECS-International is an association for market actors and stakeholders that supports the idea to use standardised certificates for facilitating the trade of renewables in Europe. Our members are using certificates for different purposes and we strongly recommend using the products provided by AIB. RECS-International is also a lobbying organisation promoting the use of certificates for facilitating trade of the electricity production attributes separated from the trade of physical electricity. We see this as a means to create a pan-European market for renewables which is an ultimate goal, not only for RECS International but also for the whole EU-project.

Christof Timpe : AIB is a service provider. We are providing the services of energy certification and are making energy certificates tradable across Europe. RECS-International is a partner of the AIB and a key stakeholder for us. The AIB also takes into account the views of governments and of the European Commission regarding the Guarantee of Origin for renewable electricity and for combined heat and power. The AIB works as an intermediary between governmental organisations and market players.

CH : I would like to add that RECS-International encourages customers to request and suppliers to provide certificates when the attributes originating from the electricity production are traded. RECS-International also works with the European Commission and with governments encouraging them to implement directives and national regulation in a way that the trade can be carried out in a reliable way by using certificates. And finally we encourage the AIB to develop products for enabling a well functioning market, that is to say standardised certificates and standardised procedures for certification.

Why is it so important to use certificates?

CH : If we don't use certificates, we will come into confrontation with the electricity wholesale market. High liquidity is very important for a well-functioning wholesale market. The electricity exchanges also play an important role. Trading electricity attributes means they have to be tracked, and this has to be done with separate documents besides the exchanges. Otherwise traders are forced into bilateral electricity contracts reducing the liquidity on the exchanges.

CT : A system based on certificates provides the most reliable way to track energy attributes. Anything else would lead to double counting or to unnecessary constraints on the market. Certificate systems based on registries are the most flexible tool for the lowest cost to track energy attributes.

We are coming to the end of 2006, what is in your opinion this year's most important achievements of AIB and RECS International ?

CT : The AIB has entered in a quite close cooperation with the European Commission for Combined Heat and Power (CHP) Guarantees of Origin. This is a new quality of working together with the EC. They have recommended the use of the EECS standard to Member States for the implementation of national CHP Guarantees of Origin. At the same time, the AIB has implemented a new system of certification enabling electricity disclosure, which is not limited to renewables or CHP only, but deals with any kind of electricity. This is an important step forward.

CH : RECS-International has been quite successful in attracting new members. We have nowadays around 160 members. Also, these members use the system in a range that we had not expected : around 60 TWh are certified in a year. This is a joint success for RECS-International and AIB. Moreover, the number of countries actively supporting the use of the EECS GO, the electronic guarantee of origin, for disclosure purposes is increasing, as in the Netherlands, Austria, Denmark and Norway. And even more are under way.

What are your ambitions for your organisation for next year ?

CH : We would like to attract even more members and especially members on the consumer side. For instance municipalities should start to use certificates more extensively. We expect more volumes of certificates to be issued and used for disclosure purposes. In state owned companies, we will try to foster the idea of integrating the use of certificates in their rules and standards regarding public procurement for electricity.

As far as our lobbying activity towards the European Commission is concerned, we will compile a national country report on status of implementation of guarantee of origin and disclosure that will be sent to the EC as an input for the evaluation, that the EC is going to conduct next year regarding the state of implementation of the RES electricity directive.

CT : AIB will aim at extending its member basis by consolidating its activity with countries of former EU15 and reaching out to new member states. Currently there are 17 members in the AIB and I would like to see at least 20 members until the end of 2007. At the same time, we will focus on our "technical" work, aiming at a full implementation of CHP Guarantee of Origin with the European Commission and national authorities. In the second half of next year, I think we will start discussing again on the harmonisation of renewable Guarantees of Origin, which currently do not all have the same format, with the aim of avoiding double counting. To be clear, this does not mean harmonisation of support schemes. The AIB is neutral in political terms, but will lobby for the use of its reliable tool, the EECS standard.

How will the two organisations collaborate next year ?

CH : We have a cooperation agreement between RECS-International and the AIB. It will be reviewed next year, following the Stockholm Forum. This forum will be organised beginning of January on the initiative of RECS-International between RECS Core group and the AIB board to discuss strategic issues. Out of this may come an update of the cooperation agreement. We also have regular joint board meetings. And I would like more exchanges between RECS-International's and AIB's working groups.

CT : I fully support this. It is very important that cooperation is intensified. The working groups are one possibility. I think that up to now we also have devoted too little time to joint board meetings. And I am very grateful for the idea of the Stockholm Forum, which should lead us to concrete results. Also, we could look for a closer cooperation on a national level between issuing bodies and their market players to send messages to governments in the countries where framework conditions are not satisfactory.

Are there plans to add other types of certificates ?

CT : On the horizon for possible future certificates systems are biogas, heat from renewables and white certificates for energy savings. But this will probably not yet be a main topic for next year. The main focus will be on the consolidation of the existing systems. However, the AIB will be ready to respond if the Commission, governments or stakeholders express strong needs for new systems.

AIB news

Potential new Issuing Bodies

In addition to Flanders, the other regions of Belgium are now showing interest in joining the AIB: CWaPE, the energy regulator of Wallonia, is taking an active part in the ongoing development of internal regulation; while a representative of the Brussels regulator, IBGE, joined the Vienna general meeting in November.

Also present at the Vienna meeting were representatives of the Russian federal hydrogeneration company (HydroOGK) and the wholesale power market trading system administrator (RAO UES) who joined the meeting to share experiences of market design and to explore the potential membership of Russia.

The Maribor general meeting in September 2006 also introduced potential new members from the Croatian energy market operator (Hrote), the Bosnian and Herzegovinan energy regulator (FERK) and the Serbian energy regulator (REERS).

We look forward to meeting these and other new members at future meetings.

CHP guarantees of origin

Article 5 of the CHP Directive requires Member States to put in place a scheme for Guarantees of Origin of electricity from high-efficiency CHP (CHP-GO). These CHP-GO will be based on the reference values which have been formally approved by the Member States in June 2006, and are now likely to be published early in 2007, along with the official detailed guidelines for Annex II. Member States must administer the CHP-GO system themselves, or by means of bodies independent of generation and distribution within 6 months of the official adoption of these reference values. While schemes for CHP-GO are not necessarily linked to national support schemes for CHP, this is permissible. Legal general requirements for GOs are that they be reliable, accurate, transparent, fraud resistant and recognised by all Member States. Legal specific requirements for GOs are the declaration of: lower calorific value of the fuel source for the electricity; specification of the use of the combined heat production; quantification of the electricity in conformance with Annex II; and specification of Primary Energy Savings (PES) based on the reference values.

Considerations of the Commission to help Member States in the development of CHP-GO schemes: provide assurance that as many Member States as possible will soon have schemes which comply with the CHP Directive; avoid too much diversity in national CHP-GO schemes, to facilitate mutual recognition and exchangeability in the internal market; create GOs that can be used for support schemes; create GOs that stakeholders can really use; and support a European system which has critical mass. The Commission supports co-operation of the AIB in this matter for the following reasons:

- The AIB agrees that the Commission can check the legal requirements following on from the CHP Directive and comitology;
- The Commission can see many positive elements in the AIB system. The AIB is controlled by TSOs and/or energy regulators, and already half of the EU Member States are represented in AIB, and have substantial experience in trading GOs and certificates. The AIB EECS system is voluntary, but used and appreciated by the major commercial players, including utilities and industry, and is robust and cost effective. Critical mass has been achieved for use of CHP-GOs on a European scale, and the ready-to-use nature of the system supports fast implementation of CHP-GOs by Member States.

In the short term, the AIB and the Commission plan to consult with Member States and other stakeholders, concerning the fine-tuning of the AIB text, and to confirm which Member States might be interested in participation and whether any potential barriers still exist. The AIB formally adopted the text of the EECS chapter on 2nd July 2006. The AIB will continue to cooperate with the Commission in order to guarantee consistency with future CHP committee decisions, especially the calculation methodology. After this, it will be up to Member States and their designated competent bodies to join the AIB CHP-GO system.

In the longer term, there will be progress reports and data from Member States, input from stakeholders (AIB and industry) and evaluation by the Commission of the effects of the legislation. Possibly, there will also be further initiatives (harmonisation, action plans and proposals); and there is a possibility of stronger coherence and/or a wider range of other legal initiatives and trends, such as white certificates, CO2 savings calculations e.g. ETS and disclosure. The AIB will continue to cooperate with the Commission to guarantee consistency with future CHP committee decisions, wider legislation and technological developments.

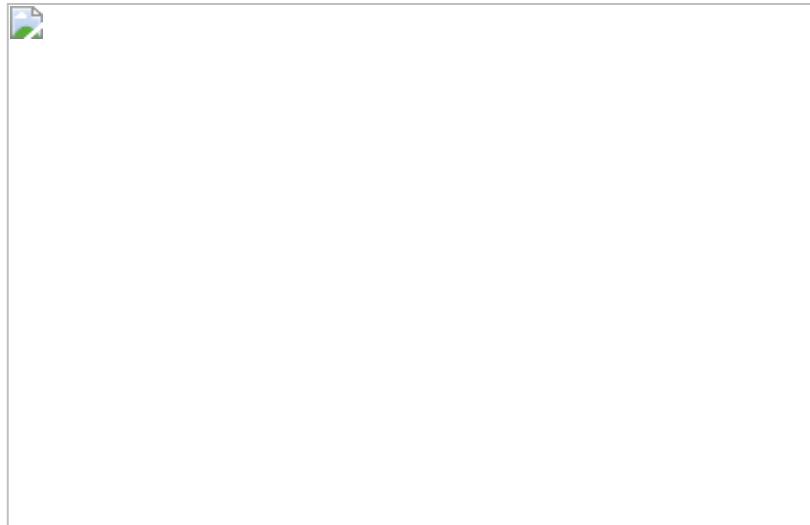
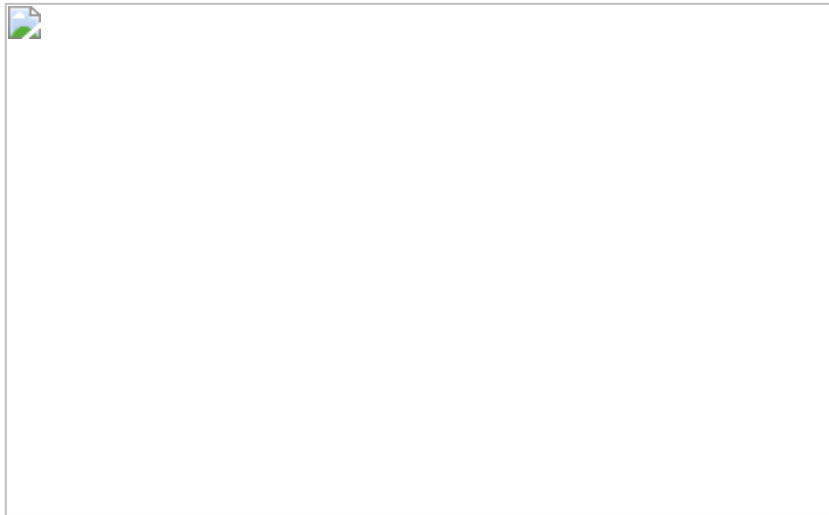
AIB statistics

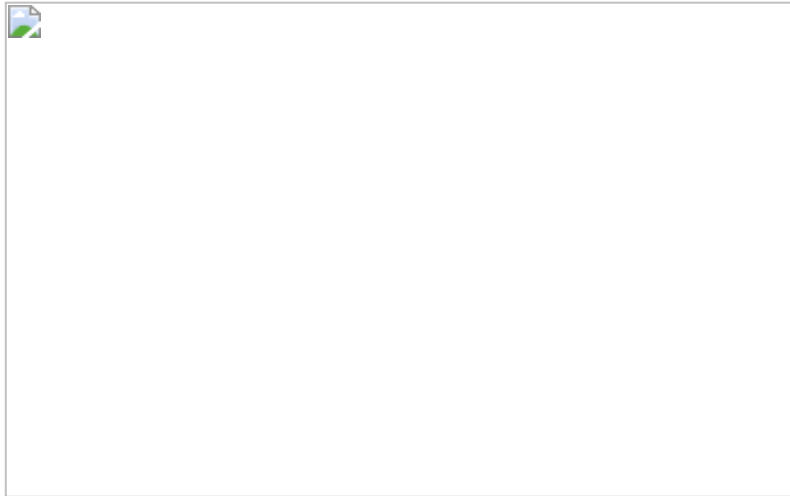
The major certificate issuing countries are now Norway and Sweden, then Finland and the Netherlands; with Sweden, Netherlands

and, to a lesser extent, Austria and Belgium are the major end users (redeemers). The largest exporters are Sweden, Norway and Finland; while Netherlands is the major importer, followed by Germany, Flanders and Austria.

Regarding technologies, hydro and industrial and commercial waste continue to increase at the expense of forestry; while activity relating to wind, municipal solid waste and agricultural waste has remained relatively static.

So far, 157 million certificates have been issued since 2001, of which 48 million certificates were issued and 28 million certificates redeemed in 2006. This means that it is likely that over 60 million certificates will be issued and 40 million redeemed for energy generated in 2006 (there is always a delay getting all of the data). The proportion of certificates that are redeemed has more than doubled from 35% in 2002, to over 70% this year.





News from AIB members

Norway: implementation of RES Directive

Norway implemented the RES Directive (2001/77/EC) the 1st of September 2006 after an approval by EFTA of implementation in Norway and Iceland.

The Energy Act and the relevant regulations are updated and the Energy Act appoints the Settlement Responsibility Party, which is Statnett SF, to issue Guaranties of Origin (GoO) on request.

The issuing of GoO has started for generation that take place from the 1st September according to AIB's EECS-RES standard.

The issuing is expected to increase due to requests from owners of large hydro to get GoOs.

How disclosure works in Germany

In Germany, electricity disclosure is regulated by the energy industry act and a recommendation from the electricity branch organisation (VDEW). Following these rules, each of the German utilities uses an internal accounting mechanism for determining its electricity disclosure company mix. This mechanism is based on four steps, which are executed after the end of a calendar year for the mix to be disclosed for that year: Firstly, the energy balance for products with green or other specific origin is accounted for, either based on EECS certificates or dedicated contracts. The second step is somewhat complex. All market participants determine the net balance of electricity trading with each of their counterparts over the year in question. The disclosure mix from net sellers is then allocated to the net buyers along this relationship, and for the volume of the net sale. From the messages from the different sellers, a net buyer can make up its disclosure mix. The tricky part is that many trading parties are net buyers and net sellers at a time, but relating to different counterparts. This is why the allocation is done in an iterative process, starting off with the largest producers. After two or three iterations with all market parties, the result is deemed to be close to the "true" solution. In a third step, a default mix is allocated to all electricity of unknown origin (this mainly relates to net purchases from the power exchange). Finally, all suppliers of final customers have to add the current share of electricity from the feed-in support system for electricity from renewable energy sources (in 2005, this accounted to 10,5% of each supplier's mix, and the value is expected to be roughly the same in 2006). These four steps make up the total company disclosure portfolio of each electricity retailer.

Following information from market participants, the iterative procedure covers the major part of the market. Although being complex, this ex-post calculation has some advantages: it is implementing a contract-based tracking system for electricity, which does not limit the liquidity on electricity markets. However, this in turn means, that trading parties can not be sure what disclosure attributes they will receive when they conclude electricity contracts. Both trading parties, buyer and seller, are kind of "flying blind", because the disclosure mix of the seller will depend on all his net purchases from other traders over the year, and nobody knows the exact mix beforehand. This means, if trading parties want to trade certain attributes, e.g. green or nuclear free, then they must use the procedures mentioned in the first step, based on EECS certificates or dedicated contracts. The recent acceptance of the German EECS Domain Protocol, which has been extended to disclosure certificates, might support a development in this direction. The good news is, however, that the main element of the German accounting system, the iterative process in step 2, results in disclosure information, which is reflecting the actual transactions in the electricity market without affecting this market. This produces disclosure information which makes much sense from the point of view of consumers, which might not understand, or trust in, the flexibilities which a full certificate system allows to market participants.

A major shortfall of the German system is that the default mix, which is allocated to electricity of unknown origin in the third step, is based on the UCTE system production statistics. This results in double counting of mainly renewable attributes, because a significant part of renewable generation in UCTE is already allocated on a bilateral basis, e.g. based on Guarantees of Origin, or EECS certificates. The AIB "International Residual Mix (IRM)" project, and related results from the E-TRACK project, have recently led to first steps by VDEW to correct the UCTE production statistics into a Residual Mix. However, there is still a long way to go to make this part of the scheme accurate. The results from the IRM project of AIB might further support this development.

Italy: white certificates mechanism

Outcomes of the first operational period (Jan 2005 - May 2006)

The Italian mechanism of exchangeable titles of energy efficiency is operating since 1 January 2005. Because it represents the first experience in the world and in the perspective that in the future, a unique efficiency certificates market might be introduced in Europe, AIB considers useful to inform its readers about the functioning and the major results of the system, as provided by the Italian regulator in the first report published last October.

Mechanism:

- National target of energy saving: shared by distributors on the basis of the total electricity/gas supplied the previous year (see table below) and if they have more than 100.000 customers (up to the 31.12.01)

Year	Electricity (tep)	Gas (tep)
2005	97.854	58.057

- Measures to be realised: direct actions of energy saving as shown by the ministerial decrees of 20.07.04 that get white certificates (issued by Market Operator), after the assessment of the Italian regulator (saving measures taken since 2001 are eligible)

- White certificates: the size is 1 tep saved and the validity is 5 years

- Kind of certificates: type 1 (for electricity saving), type 2 (for gas saving), type 3 (saving of other fossil fuels)

- Compliance with the objective: through the return of an amount of white certificates corresponding to the company target. An administrative sanction is foreseen in case of non compliance.

- Annual target: half of it has to be achieved through a reduction of electricity and gas consumption;

- Reduction of electricity and gas supply: costs can be recovered through a special distribution tariff component.

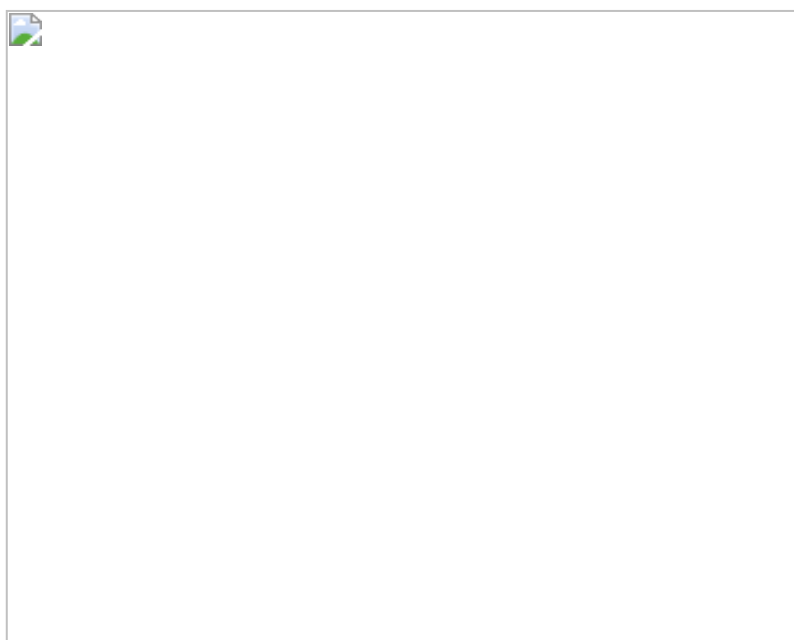
Results:

- 30 supply companies are subject to the saving obligation (10 from the electricity sector and 20 from the gas side);
- 577 ESCO (company for energetic services) were accredited to participate in the market to cover the supply side;
- all the supply companies, except three of them, complied with the obligation;
- energy saving certified (Jan - 31 May 2006) : 286.837 tep including both the electricity and the gas sector, (84% higher than the demand). In the table below the share of certificates issued for each kind of company:

Type of company	% of certificates issued relating to the total amount
Obligated distributors	32.9
Non obligated distributors	2.5
ESCO	64.6
total	100

- main energy saving actions taken (reported in the graph below) took place in the following sectors :

- private electrical sector (replacement of lamps and white goods)
- heating appliances (replacement of boilers)
- electricity production and distribution (installation of PV panels, CHP plants)
- efficiency in the field of public lighting (high efficiency lamps, automatic control of lighting level)
- different actions at industrial level;



- prices overview is represented in the table below. The outcome takes into account the effect of the start of the certificates market intervened only in March 2006, three month before the deadline for compliance. Therefore, for 2005 obligation, most of the certificates has been exchanged through bilateral contracts. Unfortunately for those there is no information about prices.



In general the assessment of the new mechanism is positive even though some further analysis is needed in order to improve the overall system in terms of enlargement of the quota of the companies obliged, the definition of actions assessment criteria, the regulatory impact (level of the tariffs to refund partially the cost held) and the calculation of the proper sanctions level.

Sweden: continuation of the quota system

The Government Bill Renewable electricity with green certificates (Government Bill 2005/06 :154) proposes the development, beginning next January, of the green certificates system that has been in place since 2003. In the new law approved by the Swedish Parliament, the objective of the certificate system is to increase renewable electricity production (all sectors) by 12 TWh between 2007 and 2016. Moreover, quota obligation shall be transferred from the user to the electricity supplier in a concern for simplification and cost reduction. And, in order to provide more visibility for investors, the system shall be prolonged until 2030. New plants entering the system no later than 2016 will be entitled to electricity certificates until 2030, when the allocation of certificates will cease.

Events

Brussels, 9th March 2007 European Conference on the future of certificate systems

A major European Conference on the future of energy-related certificate systems will be held in Brussels on 9 March 2007. This is the day after the next AIB General Meeting and RECS International Board meeting, which will also take place in Brussels and participants of these meetings are invited to stay one day longer for this conference. The conference will feature speakers from the Commission, several European governments, AIB and RECS International, European branch organisations and the project team. The event is organised by the E-TRACK project, which is investigating the feasibility of a joint European Tracking Standard for Electricity. Such a standard would be based on the current EECS standard and would be integrated more closely with policies like electricity disclosure, Guarantees of Origin and support schemes. Several AIB members are participating in the E-TRACK project, which is supported by the European Commission through the „Intelligent Energy-Europe“ programme. For more information see the project website (<http://www.e-track-project.org>).

For registration, please contact Ms. Effinger at Oeko-Institut (a.effinger@oeko.de).

Visit our website: <http://www.aib-net.org>

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