

– Position Paper –

RED II: the benefits of auctioning GOs for supported energy & why auctions will help improve the system

Brussels, 9 October 2017 | New rules for Guarantees of Origin (GOs) for energy produced under RES support schemes are one important novelty of the Commission's proposal for a recast of the Renewable Energy Directive¹, an integral part of the Clean Energy for All Europeans package.

The proposed amendment to Article 19 stipulates that no GOs shall be issued for energy receiving financial support from a support scheme, such as a feed-in tariff system. Instead, Member States shall issue such GOs and introduce them to the market through auctions. The revenues raised by the auction shall be used to offset the costs of renewable support.

Although the proposal has received some criticism and counter-proposals from various stakeholders, we support the amendment and believe that it helps to solve two major problems that currently exist:

1. National legislation in some EU Member States explicitly prohibits the issuing of GOs for energy from support schemes altogether. This creates a “hole” in the disclosure process, and the supported energy is accounted for through the residual mix, which is undermining the GO system as a whole.
2. EU State Aid rules are based on the assumption that support is determined by taking into account all sources of income. These should therefore also include revenues from GOs. However, forbidding the issuance of GOs altogether does not accurately reflect the actual state aid provided, as a potential source of revenue is being ignored. Auctioning GOs for supported energy will solve this issue in a transparent manner and lower the costs of support schemes.

Critics argue that such arrangements would impede a) consumer choice and b) the ability to support specific RES projects.

Regarding a) consumer choice: since these GOs would still be on the market, suppliers (or even consumers directly) would have the option to tailor specific products to their specific needs. Moreover, one of the main criticisms of the GO system as a whole, namely that it “green-washes” electricity supplies, would be even less true, since the path of supported GOs to the market would be more transparent and better traceable.

¹ [COM\(2016\) 767 final, Commission's proposal for a Directive on the promotion of the use of energy from renewable sources \(recast\)](#)

Concerning b) the support of specific RES projects: the critique would only be true, if such projects were already included in a support system – and this would be anyway in stark contrast to the underlying principles of the EU state aid rules.

The heterogeneous nature of GOs and the impact on the market would indeed be challenging when implementing such auction systems. Due to the fact that present standards already require a significant amount of origination data, various aggregation levels would be possible – from very general (e.g. just the source) to very detailed ones. This adds some complexity when setting up an appropriate auction model. However, this is a mainly technical issue and certainly not something that could not be handled or solved. Should the GOs that are currently not issued come to the market, they would certainly have an impact. However, withholding them from the market also has an impact.

As stated in previous position papers, including our Eleven Recommendations for improving the GO system under RED II², the whole set-up of the EU GO system would work best in a framework of full disclosure for all sources.

There certainly can be other options to solve the two problems mentioned above. For example, if support was to be allocated in a (competitive) tendering procedure, one could argue that there would be no over compensation in breach of EU State Aid rules. In this case, however, the producer's right to retain GOs should be explicitly stated in the tendering procedure. Another viable option would be to issue and automatically cancel GOs in the (national) market pro-rata to all suppliers. The "greenness" would be transferred to those that ultimately pay for it – the consumers. Yet, GOs would in this case be removed from the market and administratively allocated.

In conclusion, we believe that the suggested amendment to Article 19 in RED II has various merits, since it resolves two major problems linked to GOs for supported energy. It would work even better in a full disclosure context.

About

Europex is a not-for-profit association of European energy exchanges with 27 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.

Contact

Europex – Association of European Energy Exchanges

Address: Rue Archimède 44, 1000 Brussels, Belgium

Phone: +32 2 512 34 10

Website: www.europex.org

Email: secretariat@europex.org

Twitter: @Europex_energy

² Cf. [Eleven recommendations for improving the Guarantees of Origin system under RED II](#)