



– Position Paper –

“Clean Energy for All Europeans” package – more ambition needed for reviewing the Guarantees of Origin legislation

Brussels, 23 February 2016 | The recently published “Clean Energy for All Europeans” package proposes important amendments to the EU’s energy and climate legislation with significant changes in certain key areas. Europex has been analysing the Commission’s eight legislative files, and will release several position papers on issues directly relating to wholesale energy trading and environmental markets over the next few weeks.

This first paper will focus on the proposed changes to the Guarantess of Origin (GO) legislation in the context of the review of the Renewable Energy Directive (RED) with additional comments on the needed phase-out of support for Renewable Energy Sources (RES) as well as on the recast of the Energy Efficiency Directive (EED) and the lack of market-based principles therein.

We would like to highlight our position in the following seven points and also put forward a number of concrete suggestions for further improvements:

1. The Commission’s RED II proposal contains a number of positive changes to the existing GO legislation. This includes the obligation to use GOs for RES-marketed contracts, the clear(er) provisions for GOs for supported energy, the more comprehensive rules for the expiry of GOs, including the definition of the residual mix, as well as the widening of the scope of sources, now also including renewable heating and cooling. Despite these positive enhancements, we remain convinced that extending GOs to all, even to non-renewable sources (i.e. “full disclosure”) would be the preferable option as it would make the system more robust and trustworthy, particularly vis-à-vis the final consumers. Even though full disclosure is provided as an option for Member States, and some are already applying it, such as Austria, experience suggests that a broader implementation across all EU Member States is unlikely without a clear change in course provided by additional legislation. Moreover, Europex supports referencing GOs to the European Energy Certificate System (EECS) standard rather than the European Committee for Standardisation (CEN) standard. Unlike the latter, the first system has already proven useful and practical through an actual use throughout Europe in recent years.
2. As regards the proposal to enable GOs for supported renewable energy, we welcome the intention to allow for a well-functioning disclosure system and the full

realisation of the original intention of GOs, namely providing transparency. Importantly, for the implementation of any solution, the most cost-effective and most efficient mechanism(s) should be chosen.

3. The special “tradable certificates” mentioned as an alternative option in relation to heating and cooling in Article 23 of RED II should be kept in place, although the option to use GOs instead should also be introduced. While the use of GOs would allow for greater transparency and possible cost reductions, the option for Member States to make their own decisions in this regard should be kept unchanged.
4. A more critical observation is that the purpose of the Guarantees of Origin (GOs) system is kept unchanged in comparison to the status quo in the initial Renewable Energy Directive (RED I). The text stipulates that GOs have the “sole function of providing proof to a final customer that a given share or quantity of energy was produced from renewable sources”. We believe that it would be sensible to also allow for other uses, should the Member States wish to do so. This is particularly important as support systems will be increasingly opened up (see Article 5 – RED II) in the future. It should further be possible to use the instruments for support without the need of dedicated “tradable certificates” and without prejudice to the right of member states to use other forms of support - in line with the general principles set out in RED.
5. As regards the general direction of the Clean Energy Package and the new market design, we explicitly welcome the proposed new principles for RES support mechanisms. If applied correctly, they will help to avoid RES-based distortions to the overall energy market, ensure that RES producers respond to market signals and that they can maximise their revenue through the market and not through the support mechanism. Altogether, the new rules should aim at an optimal balance of supply and demand in the electricity system.
6. We further agree with the need to provide legal certainty and a high level of stability and continuity in relation to the financial and administrative set-up of RES support systems. This is important as the rights of existing projects must not be negatively impacted and existing and potential new investors should be given a stable mid- and long-term horizon. We would, however, also like to stress that this predictability needs to be complemented with a clear phase-out timeline for the support mechanisms. Moreover, respecting the rights of existing projects should be weighed against the social costs of keeping them in place. Any termination action that would only marginally impact existing projects but have a greater overall benefit for the market and the overall social welfare should be taken. One main principle for such a reassessment should be the interaction between the RES producer and the market.
7. Based on the experience with the EU ETS and best practices in a number of Member States, market-based principles should be encouraged to achieve the energy efficiency targets put forward in the review proposal for the Energy Efficiency Directive (EED). The current proposal is lacking this approach.

About

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

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