

**FOSTERING GO TRADING**  
*A POSSIBLE ROLE OF ORGANIZED MARKETS*

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## Introduction

The new Directive 2009/28/EC of 23 April 2009 on the promotion of the use of energy from renewable sources defines the content and purpose of guarantees of origin (GO) more in depth than the previous, now repealed, so called “RES-E” Directive from 2001. Most importantly, it clearly states the GO purpose, defines the minimum information content, keeps the obligation from the RES-E Directive to recognise GO from other Member States pending certain criteria, pays due attention to avoidance of double counting and also introduces at least some elements of standardization (e.g. 1 MWh standard size, 12-month time limit, electronic issue / transfer / cancellation, non-overlapping areas of responsibility for issuing bodies).

According to the Directive, GO have the sole function of proving to a final customer that a given share or quantity of energy was produced from renewable sources and do not by themselves confer a right to benefit from national support schemes or impact the obligations of Member States regarding the minimum share of renewables in final energy consumption.

Functioning markets need balanced supply-demand drivers as well as standardization and ease of trading. Currently, demand is driven by various national specifics and to a lesser extent by voluntary demand by consumers. Due to the eligibility of all renewables, irrespective of size and plant age, supply and demand are not balanced. The new Directive goes further regarding standardization, but does not provide with harmonized scheme and tools – as the EU ETS for carbon, for example -which are therefore provided by RECS International and the Association of Issuing Bodies (AIB), for example AIB’s European Energy Certificate System (EECS). An important improvement is the aforementioned “electronic” issuing, transferring and cancelling, which implies the use of registries. The Directive also still allows contract-based tracking for disclosure, which may cause problems regarding double counting and the calculation of the residual mix.

## The role of standardization

EUROPEX supports further standardization in the context of a stable standard, such as EECS, and the use of registries, ideally connected to a common hub. Moreover, it would be advisable to use the GO system for disclosure as the only option (not only as one of the options, as stated by the Directive), since the existence of the system itself is mandatory and using other tracking methods (all less reliable than a proper GO system) may, as already mentioned, cause problems in avoiding double counting and calculating the residual mix. Using the GO system to disclose even other, non-RES energy (“full disclosure”) would bring further transparency.

Contrary to EU ETS, non-homogeneity is an issue with GO trading, meaning GO from different types of plants of different age and installed capacity may have different values. Nevertheless, some “standard” types of GO that are mostly traded have emerged and these could be the starting point of more organized types of trading.

In spite of the sole “disclosure” function of GO, there is still potential for trade and proper markets to be established. Moreover, the Directive itself, in the preamble, states: “Member States should therefore be able to require electricity suppliers who disclose their energy mix to final customers in accordance with Article 3(6) of Directive 2003/54/EC, to include a minimum percentage of guarantees of origin from recently constructed installations producing energy from renewable sources, provided that such a requirement is in conformity with Community law”. EUROPEX believes GO could, in such a context, play a further role in promoting the use of renewables in the EU, while not interfering with existing national support schemes. For example, by setting a quota (minimum percentage), while standardized electronic GO systems are in place, trading would be facilitated. GO for energy receiving support from national support schemes could be excluded from this quota in order not to impact existing systems, while they still need to be issued in order to properly account for the renewable energy produced.

## Organized markets for GO

The introduction of organized markets can create the proper grounds for generating a safe environment where operators can trade, minimizing counterparty risks while rising liquidity and enhancing transparency through publications of price references.

Security is a first needed step to attract operators in the market and to enhance liquidity. With the view of enhancing confidence in the market, trading platforms usually develop a clearing systems in order to reassure operators in respect of the security of both payments and delivery of traded assets. To increase participation into organized markets, it is also important to restrict and standardize the number of listed products to gather interests on few instruments which would allow any interested market operator to easily find a counterparty. If the number of the operators participating at a market session is high enough, it is likely that prices will be efficient from an economic point of view, reflecting market fundamentals and giving then signals when the market appears not to be in equilibrium.

Access to the platforms by many market participants and publication of a price index ease price disclosure. So far, price disclosure has been a big issue, with all transactions concluded

bilaterally between counterparties or through brokers, who do not want to disclose prices that much. There are even situations in which the same product can have different prices depending on the buyer. Price transparency, needed in mature markets, is best created by market places with sufficient liquidity (30% of all trades over the market place) and a price index in that case can be seen as reliable and representative for the market as a whole.

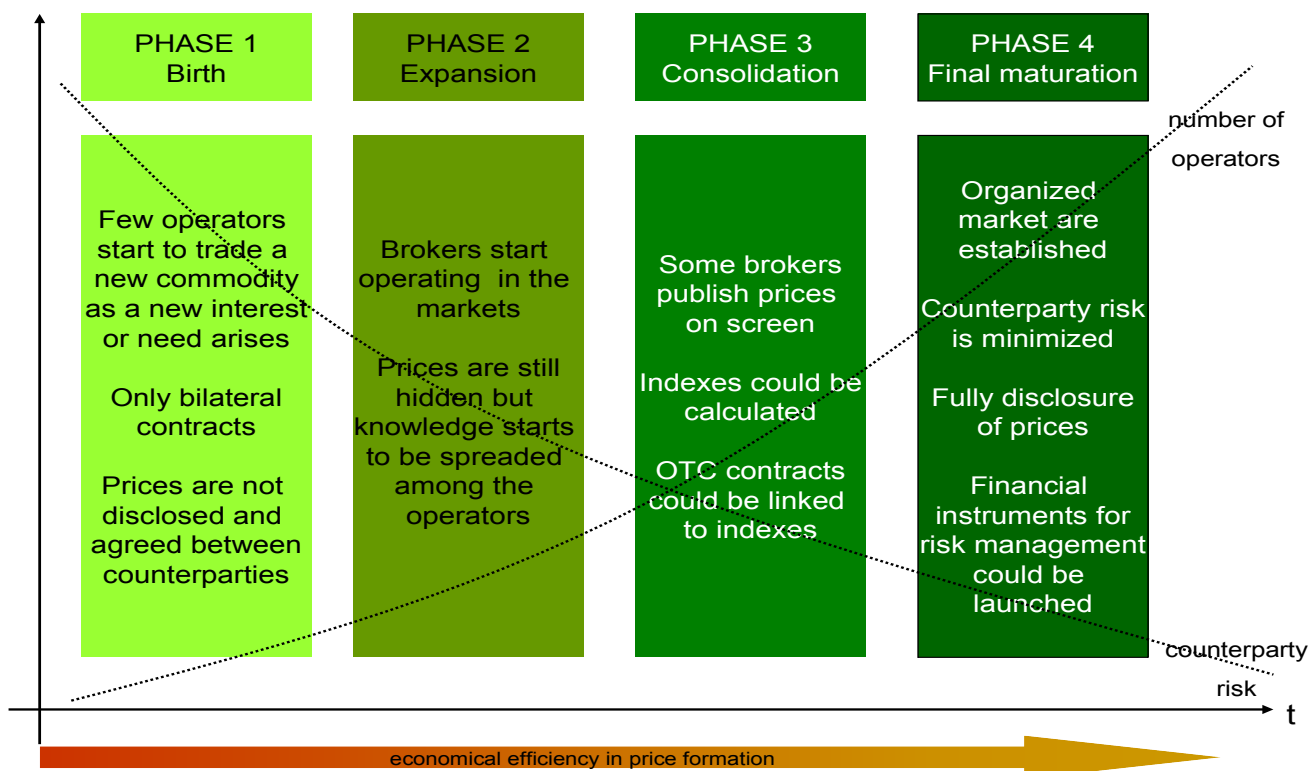
The more prices are known and efficient, the more market is transparent and operators consider the organized platforms good places where to buy and sell, increasing even more liquidity. Security could be also guaranteed connecting organized markets to AIB hub. Indeed, the AIB supports a transport mechanism that allows certificates to be transferred between registries in a safe and secure manner. This mechanism uses digital signatures to give assurance on the identity of the sender, and encryption to prevent eavesdropping. All such messages are sent through the Central Messaging Hub. The provision of the Hub means that traders can be confident that messages are structured properly, while giving registry operators a single clean interface.

EUROPEX believes liquid, safe and transparent GO organized spot markets could lead to a wider use of GO in Europe. Investments could benefit from such markets, giving reliable reference prices to this new commodity. Last but not least, social welfare might also improve by raising the macro economic efficiency when utilising renewables in EU.

Feed in schemes were and are widely used by various member states and undoubtedly stimulated the use of renewable within the EU to a large extend. Nevertheless the lack of harmonization in applying this type of incentive to invest in renewable technology lead to investments in projects which would have been more efficient when built in a different region within Europe. The maximisation of (European) social welfare with regards to the generation utilizing renewable sources would be achieved when the most efficient projects are built first. EUROPEX strongly believes that market based mechanisms are the most effective way to determine the respective merit order.

## The path toward mature markets for GO

The maturity process of such GO markets could be well represented by the following graph:



The GO-markets are not mature yet and are in transition from “Expansion” to “Consolidation”. To better achieve the purpose of seeing the GO markets in a final maturity phase, EUROPEX believes that a “stepwise” approach might be followed to launch organized markets.

### EUROPEX: who we are

EUROPEX is a not-for-profit association of European energy exchanges that represents the interests of the exchange based wholesale markets for electrical energy, gas and environmental markets with regard to developments of the European regulatory framework for wholesale energy trading and provides a discussion platform on a European level.

EUROPEX is governed by the present Regulation and by the 27 Jun 1921 Belgian Act on *Associations Sans But Lucratif*, (modified by the 30 June 2000 act, published in *le Moniteur Belge*). EUROPEX currently has 14 active members from European countries.

The activities of the association include:

- Promoting the role of energy exchanges as a way of increasing competition by creating price transparency and implementing the European single electricity and gas market;
- Supporting the liberalization of the different European electricity and gas systems;
- Dealing with the issue of international trading, with special emphasis on providing a market solution to the congestion problems;
- Maintaining a dialogue with the European Union authorities and with other European electricity, gas and environmental markets related entities;
- Increasing co-operation between European energy exchanges and to promote free trade;
- Collecting information, preparing reports and providing advice in matters related to the aforementioned objectives;
- Assessing the need for recommendations regarding market information dissemination and market rules especially related to market power abuse.