

– Position Paper –

## **RED II: Auctioning GOs for supported energy brings wider system benefits and ensures alignment with EU State Aid rules**

Brussels, 15 February 2018 | Guarantees of Origin (GOs) are valuable tools for tracking and documenting both renewable and conventional energy. Europex has already put forward several proposals for the further development of the GO market in the context of the review of the Renewable Energy Directive (RED II). Following the publication of the Council's General Approach<sup>1</sup> on RED II and the ITRE report adopted by the European Parliament<sup>2</sup>, there have been diverging stakeholder positions on how to ensure that renewable energy producers receiving financial support do not receive double compensation under the GO system (Article 19 of RED II).

In advance of the forthcoming trilogue negotiations, we argue that issuing GOs and transferring them to the market by auctioning ensures that all income sources are taken into account for the support scheme, as the revenues raised by the auction of GOs are used to offset the cost of renewable support. This is the solution most in line with EU State Aid principles. Auctioning also brings wider benefits to the GO system and provides further transparency to European consumers: because the GOs are issued, auctioning ensures disclosure of these supported renewable projects in the GO system, thereby ensuring that there is full transparency on all renewable energy sources.

### **Auctioning GOs for supported energy ensures alignment with EU State Aid rules**

EU State Aid rules are based on the assumption that all sources of revenue are taken into account when determining the level of the support. European Commission guidance for the design of renewables support schemes<sup>3</sup> explicitly recognises income from the sale of GOs as one such revenue source. In some Member States, national legislation prohibits the issuing of GOs for energy from support schemes altogether. This leads to a potential source of revenue being ignored.

GOs must therefore be issued to generate this additional value, while avoiding double compensation. Using revenue from the auctioning of GOs to offset the cost of support is fully in line with Commission guidance on inherently building market-based features into support schemes in order to minimise the

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<sup>1</sup> Text of 13 December 2017, referenced in the General Approach as agreed on 18 December 2017.

<sup>2</sup> European Parliament plenary vote, 17 January 2018.

<sup>3</sup> Staff Working Document (2013) 439 final, Accompanying the document C(2013) 7243 final 'Delivering the internal market in electricity and making the most of public intervention'.

costs of the scheme. The alternative of administratively taking into account the market value of the GO by adjusting the level of financial support would lead to additional administrative burden on the authorities and would require the calculation of an average sale price.

### **Auctioning provides for more complete and transparent disclosure of the origin of electricity**

A number of Member States do not allow the issuance of GOs for supported energy. In these cases, the supported renewable energy is accounted for in the residual mix, rather than in the GO system, leading to incomplete disclosure. Issuance of GOs for the energy produced from support schemes and auctioning them directly to the market fundamentally solves this problem and ensure there is no 'hole' in the disclosure process. The issuance of GOs for supported energy leads to more complete disclosure so that consumers receive clear, reliable and adequate evidence on the renewable origin.

Beyond renewable energy, the mandatory issuance of certificates for all production sources, known as 'full disclosure' would significantly improve the transparency of the electricity market, allowing consumers full insight into the origin and enabling them to make reliable comparisons between suppliers. The Netherlands is the latest country to acknowledge these benefits and announce its move to full certification<sup>4</sup>, meaning that all suppliers must substantiate the origin of all supplies of electricity, irrespective of the source.

### **Public Purchase Agreements (PPAs) create a serious risk of double compensation**

The adopted Parliament position as laid out in Article 19(2)3 para (c) suggests that implementing renewables power purchase agreements (PPAs) presumes no double compensation under the GO system. This is not the case. Issuing GOs and cancelling them in favour of the corporate PPA customer introduces a serious risk of double compensation, unless the renewable support is carefully designed through tender procedure or administrative measures to take into account the value of the related GOs. Not doing so would lead to a situation whereby final consumers bear the cost of the RES support, but the GO value is transferred to corporate customers.

We acknowledge that PPAs are options which might suit producers and corporate customers. However, many PPAs currently rely on GOs from specific RES plants which receive public subsidy. At the same time, there is currently little clarity on the extent to which a PPA has financed a linked RES plant, or whether the plant was viable because of the applied support scheme. It is vital that the design of the market ensures that the 'green' value of a GO from supported renewable energy accrues to the subsidy-paying final consumer, rather than the PPA-owning corporate customer. By transferring them to the market, auctioning GOs would ensure this is the case.

### **Auctioning ensures the additional value of the GO issued for supported energy goes to the consumer**

Using revenue from the auctioning of GOs to offset the cost of the support scheme is the most transparent and reliable solution to ensure that the additional value, the 'greenness' of a GO accrues to those who ultimately pay for it - the consumers. We acknowledge there are a number of alternative options under discussion to avoid double compensation. One option would be to issue the GO to the producer and cancel it immediately (pro-rata by supplier), thus removing GOs from the market in

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<sup>4</sup> Other countries which have implemented full disclosure include Austria and Switzerland.

favour of the consumer. A second option that has been put forward is to grant the financial support by way of a competitive tendering procedure. However, the procedure must explicitly exclude GOs ex-ante, making it clear that the producer keeps the GOs. This is certainly a valid option, but would break the link between public subsidy and the 'green' value of the project.

Auctioning fully ensures the market value of the GO is appropriately taken into account, because the GO is issued and has the additional advantage that it does not withhold from the market GOs issued to supported energy.

### **Auctioning can still accommodate specific products and benefits the market**

Critics argue that GOs are not a homogeneous commodity and that auctioning may hinder suppliers from marketing locally produced energy, which could reduce available options for consumers. However, more specific products could still be tailored to customer and market needs. We acknowledge the challenges related to choosing aggregation levels and frequency of the auctions, but these could certainly be solved when choosing the appropriate auction model.

There are further benefits to auctioning GOs. Price formation becomes more efficient and transparent as compared to bilateral trades and can facilitate the development of a liquid secondary market. Auctioning would also promote more standardisation of GO products which is key in order to bring more liquidity to a market. This in turn would further enhance mutual acceptance of GOs between Member States. As we call for in our paper '*Eleven recommendations for improving the Guarantees of Origin system under REDII*',<sup>5</sup> an overhaul of the GO system, including more harmonised rules, would allow full realisation of these benefits.

### **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.

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<sup>5</sup> <https://www.europex.org/position-papers/eleven-recommendations-for-improving-the-guarantees-of-origin-system-under-redii/>