



– Position paper –

Six recommendations for a scaled-up Guarantees of Origin (GO) scheme to support decarbonisation

Brussels, 24 September 2020 | Achieving climate neutrality by 2050 will require many fundamental changes. In the energy sector, a significant shift towards renewable energy is already under way and will need to be accelerated. Guarantees of Origin (GOs) are currently a valuable tool for documenting the ‘green’ characteristics of renewable electricity, providing consumers with the means to send a signal to the market about their consumption preferences for renewable energy. Transparency on the generation source of energy enables consumers to drive decarbonisation efforts. At the same time, consumer demand for reliably certified energy is growing.

RED II¹ has extended the scope of GOs to gas(es) as well as to heating and cooling. In this context, efforts to develop a robust and standardised GO scheme for renewable and low-carbon gases should be prioritised, including the ongoing revision of the EN16325 standard. Gas certificates require a commonly accepted taxonomy for the different types of gases, while the information on the certificates should build on existing GO and sustainability certificate requirements as laid out in RED II.² Updating the current GO framework and ensuring that standards are in place to support the RED II requirements are vital tasks.

However, the GO framework has significant further potential. A scaled-up GO scheme covering all production sources (i.e. both renewable *and non-renewable* electricity, gas, heating and cooling) would allow key energy sources to be reliably certified and provide the means for consumers to make choices based on the contribution that the energy sources and technologies make to decarbonisation. This in turn would help to incentivise the take-up of renewable energy and would contribute towards achieving renewable energy targets at least cost. The scaled-up scheme would be based on European-wide standards, ensuring that certificates can be transferred between Member States and traded on a European scale.

¹ Article 19 of Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources.

² Please see the *Europex response to the Commission consultation in preparation of an EU Strategy on Energy System Integration*, 4 June 2020 [[Link](#)] for further detail.

In the following, we set out six recommendations for an upgraded GO scheme with a strengthened framework and extended scope, based on European-wide standards.

- 1. Extend the scope to all production sources, both renewable and non-renewable**
- 2. Use GOs to disclose the source of all consumed electricity and gas - full disclosure**
- 3. Define GOs as the sole tool for disclosure in one single legal act**
- 4. Advance the standardisation and tradability of GOs**
- 5. Update GOs to support decarbonisation, including integration between sectors**
- 6. Ensure VAT fraud protection is applied to GOs**

1. Extend the scope of GOs to all electricity, gas, heating and cooling production sources, including to non-renewable sources, in all Member States

The scope of the current GO framework as established in RED II only applies to renewable production sources.³ Explicitly extending the scope of GOs to cover *all* energy production sources, including non-renewable, on a mandatory basis in all Member States would significantly improve the transparency of the market. Consumers across the EU would be able to choose their energy sources on the basis of the information provided by the supplier and according to its respective contribution to decarbonisation. Such a scope extension should be done by adapting the current legal framework and should build on existing standards to the extent possible i.e. the European Energy Certificate System (EECS). A commonly agreed taxonomy for the different types of gases – renewable, decarbonised, low carbon and natural gas – is a necessary first step to extending the scope of GOs to all gas production. Such a measure would also pave the way for using GOs as a systematic way to disclose the energy generation mix (see point 2).

In relation to support schemes, GOs should be issued for *all* renewable energy, irrespective of the support received. There are currently a number of options available to ensure that the market value of the GO is taken into account. Selling the GOs at auction and using the proceeds to offset the support costs is the most transparent option.

2. Use GOs to disclose the source of all consumed electricity and gas: full disclosure

Implementing full disclosure for GOs in all Member States would be beneficial and would significantly improve the transparency of the electricity and gas markets. Disclosure is the process whereby energy suppliers inform their customers about the origin and environmental impacts of the energy they provide. Suppliers are currently obliged to use GOs as the sole

³ Directive (EU) 2018/2001 (RED II) gives Member States the option of issuing GOs for energy from non-renewable sources and using these GOs for the purposes of disclosure.

mechanism for disclosure of the origin of renewable electricity.⁴ The generation mix of electricity that is not tracked via GOs or other tracking systems is determined via the international Residual Mix methodology.⁵ Using GOs as the required method to disclose the source of *all* consumed electricity and gas, regardless of the energy source or production technology would have significant benefits. This approach, known as ‘full disclosure’, would constitute a much more precise and reliable system to track and monitor power and gas generation and would improve the accuracy of national fuel mix calculations. In practice, the electricity or gas supplier would be able to provide a detailed table setting out the sources of the energy they provide. Full disclosure based on GOs would in effect act as an accounting system for the electricity and gas grids, providing transparency to the consumer and removing the perception of ‘greenwashing’.

A number of Member States have already successfully implemented full disclosure for electricity. Austria allows the issuing, transfer and cancellation of certificates from all types of electricity sources, including renewables, fossil and nuclear resources. Since 2015, suppliers have been obliged to provide sourcing certificates for each MWh that they have supplied. A similar obligation exists in Switzerland whereby suppliers must declare all electricity consumed by final customers by using GOs. In the Netherlands, a full disclosure system of GOs has been in place since January 2020. In all cases, there is no electricity of ‘unknown origin’ declared in the disclosure mix.

3. Define GOs as the sole tool for disclosure in one single legal act

Moving to a European-wide full disclosure system based on GOs would create a natural role for GOs as the primary tool for disclosure. Guarantees of Origin, following the European Energy Certificate System (EECS) standard, should be the *exclusive* tool used for disclosure. This should be mandated in the legislative framework. Otherwise, the continued existence of different methods and standards risk increasing the potential for inaccuracy and reduce the benefits of the system.

There are currently different disclosure provisions in different legal acts: GOs issued under Article 14(10) of Directive 2012/27/EU on energy efficiency⁶ may be used for the disclosure of electricity from high efficiency cogeneration. RED II includes obligations for the use of GOs to disclose renewable electricity, with certain exceptions. Finally, the Electricity Directive 2019/944⁷ includes minimum information requirements that must be provided to the final consumer, including the contribution of each energy source to the electricity supplied. In any

⁴ According to Article 19 RED II, suppliers must use GOs and no other mechanism is allowed for disclosing the energy from renewable sources.

⁵ The requirements to calculate and use Residual Mix have been introduced in RED II.

⁶ Amended by Directive (EU) 2018/2002.

⁷ Directive (EU) 2019/944 on common rules for the internal market for electricity and amending Directive 2012/27/EU (Text with EEA relevance).

revision of the legal framework, all of these obligations should ideally be combined in a single piece of legislation.

4. Advance the standardisation and tradability of GOs

The key to developing efficient, transparent and liquid markets for GOs in Europe is standardisation. The standardisation of GOs has already improved, for instance, through the enhanced mutual acceptance of GOs between Member States. While the EN16325 provides a standard for GOs, the European Energy Certificate System (EECS) also provides a wider institutional framework for organising the cooperation between Issuing Bodies and enabling cross-border transfer of GOs between registries. Ensuring full harmonisation of rules is vital to enable unhampered trading of GOs in efficient, transparent and liquid markets. These standards should be developed in close cooperation with the relevant issuing bodies and stakeholders with the overall objective to make GOs easily tradeable. Importantly, it must be ensured that common deadlines for cancellation and expiry are homogenously applied throughout Europe.

Together with other stakeholders, the Association of Issuing Bodies (AIB) has contributed significantly to developing the GO market. It should be granted a more formal role in order to enforce standards for GOs across all EU Member States. One example for this could be the status of ENTSO-E, the European Network of Transmission System Operators for Electricity.

5. Update GOs to support decarbonisation, including integration between sectors

While GOs can empower customers to make an active choice for contracts that provide electricity or gas from renewable sources, the incentive will be much stronger if the full carbon footprint of the energy source is included in the picture. We would support current considerations to include an (optional) information field on the GO stating the GHG emissions related to a given MWh of energy. EU-wide common methodologies to quantify the carbon footprint for all energy sources would avoid different jurisdictions implementing their own practices, creating the risk of double-counting of emissions.

To ensure GOs can support sector integration, the possibility to reflect conversion between different energy carriers through GOs should also be considered. In an integrated energy system, the primary source of an input may not always be evident. GOs can thus play a key role in providing transparency in the energy supply chain by passing the attributes of the converted energy source to the newly issued GOs. This could be achieved by cancelling GOs produced by the main original energy source and issuing new GOs for the new measured output energy carrier that contain proof of the origin of that unit of energy for disclosure.

6. Apply the same level of VAT fraud protection to GOs as there is for emission, power and gas markets

The domestic reverse charge mechanism (DRCM) is a vital tool to help prevent missing trader intra-community (MTIC) VAT fraud in highly liquid energy and emissions markets in Europe. Council Directive (EU) 2018/1695 actively extended earlier amendments to Article 199a of the VAT Directive, enabling Member States to apply the DRCM to specific transactions, including for electricity, gas and emission allowances. GOs, which are very similar in nature to European Union Allowances (EUAs), should be explicitly mentioned in the derogation of Article 199a which is currently not the case. Some Member States⁸ already apply the DRCM to GO transactions. However, this is based on a free interpretation of the derogation and the majority of Member States still does not apply the DRCM to GO transactions.

About

Europex is a not-for-profit association of European energy exchanges with 29 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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⁸ Austria, Czech Republic, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Romania and the UK have already specified in their national tax guidance that GOs indeed fall under the DRCM as stipulated in Article 199a of the VAT Directive.