

Shaping an effective renewable electricity market

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COVER STORY

The successes of the voluntary market creates new power



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Nowadays one could say that Guarantee of Origin (GO) certificate trading is starting a new phase in the liberalisation of the electricity market. With the introduction of the GOs electricity could be tracked from the producer to the consumer. This allowed consumers, for the first time, to have a choice in what electricity product they wanted to purchase. We take for granted that the consumer has this choice in electricity product nowadays, but was this the reason the electricity tracking system was created in the first place? What were the expectations from the people involved since the beginning? Read more about this in RECS International's first cover story, a tribute to 10 years of RECS.

New energy creating new power

10 years of experience with the market for standardised GO's has resulted in thousands of dedicated and involved individuals who fully understood the meaning, and the potential, of an electricity attribute trading system. All the people involved along the way have brought with their manpower and knowledge, each developing and changing the system in a direction they felt was best for themselves and their consumers. These little successes gave a constant rush of new energy and enabled fresh new ideas which constantly drove the GO market to the success it sees today.

The question remains however if the people who first developed an electricity tracking system knew what it could or would become. To answer this question we asked a few people who were on the ground floor of the GO market for an interview. Peter Niermeijer as one of the founders of RECS International, Phil Moody as the first person to set up an independent association for the issuing bodies and Claes Hedenström president of RECS International actively involved in the market since close to the beginning were all asked antiquing questions in the first ever RECS International cover story.



From left to right

Peter Niermeijer
Secretary General of
RECS International

Phil Moody
Secretary General of
Association Issuing Bodies
(AIB)

Claes Hedenström
President of RECS
International

Q1

Is this the system you imagined 10-years ago?

Did you think it would have these types of volumes and standardized connections Europe-wide?

Claes: At my first meeting, a bit more than 10-years ago in Stavanger, I had no clue what people were talking about; certificates and cancellations – who will believe in such pipe-dreams? Some years later and a lot of people are still attending the meetings, I started to believe there must be something to it!

Peter: To be honest – yes, but, not so much in terms of MWh's. I remember that the targets for the first year were far too low and that we exceeded them

within months. But the system is where I imagined it would be more in terms of the acceptance of tracking electricity. The first meetings leading to the birth of RECS International were in 1999. In those days liberalisation of the electricity market was just at the beginning stage and tracking was always seen as part of liberalisation of the electricity market. It was a way to differentiate your electricity product.

Phil: Actually, I'm pleasantly surprised. 10-years ago the concept of an pan-European system was no more than a pipe-dream, and to have it enshrined in EU legislation put the icing on the cake. There is still a long way to go, but I am beginning to think we might actually realize our dream: 100% coverage of all electricity across Europe.

Q2

Was it a battle with the issuing bodies to follow the 2001 Directive to promote GOs over RECS certificates?

Were you surprised when some surpassed the Directive and started issuing fossil GOs?

Peter: Actually there is still some confusion here. I think the AIB did a good job introducing the EECS certificates for energy. On the EECS certificate you can now read the status of the Issuing Body. If the issuing body is officially appointed according to the RES-Directive we call it EECS-GO and if the IB is appointed by market players we call it an EECS-RECS. The EECS certificate tells you what energy source, country, dates, etc and is very generic. It is up to the buyer to decide what kind of electricity he wants to purchase. This was always the intention of RECS from the very start. We have always considered a certificate system as an 'information system'.

Claes: I think the whole idea came when the commission decided to actually use the name Guarantee of Origin (GO), not specifically talking about renewables. The origin should be guaranteed and that could of course be from any source.

Phil: Yes, it was at first: markets are always resistant to change. However, the purpose of RECS certificates was always to prepare the way for something with a legal status, and in this they succeeded admirably.

Concerning fossil and nuclear GOs, I was always surprised that the scope was limited to renewables: fossil and nuclear electricity is much simpler to certify than renewables – and in particular co-firing with biomass – and addressing all electricity would have made the overall task of providing consumer transparency far more simple.

Q3

Was it the intention that the voluntary market was to be the leading market?

Was there some hope 10 years ago that targets would be better met via GOs by now?

Claes: The original proposal from the commission was to launch a green certificate scheme for the whole EU. I did not take part at that time but this was turned down and the GO was created to compensate. An interesting idea is what may have happened if a common green certificate would have been implemented. Maybe the attributes would have been a part of the green certificates as in the USA, a single GO system with function to track the origin and, if some criteria was fulfilled, also eligible for support.

Everything would have been easier to understand and most likely more cost-efficient.

Peter: Although it was not so clear to all people involved, you could say that some of us had a kind of US-solution in mind, meaning that a certificate can be used only once, either for the voluntary market or the compliance market. I remember quite well that we gave presentations explaining that the certificate could be used for the feed-in system: the certificate was then used to prove that the electricity was produced and needed to be handed over to the authorities when subsidies (feed-ins or premiums) were given. The Commission took this as a starting point for their proposals for the RES Directive in January 2008. Unfortunately the Council and parliament didn't understand the concept and interpreted it as anti feed-in, which it was not!

Q4

Did you expect by now for there to be more demand from the public and more understanding from the governments?

The prices of certificates are still quite low, it is a point of criticism on the market, did you expect something different by now?

Phil: Stimulating public demand is, and has always been, in the hands of the supply companies. What has surprised me is the time it has taken them to realise that differentiating their products according to energy source and technology strengthens their competitive edge: the speed of innovation has been amazing! This demonstrates the time it takes to educate both market parties and consumers.

For government, it is less surprising: governmental horizons are necessarily long term, and there will always be a natural reluctance to embrace such an

innovation wholeheartedly until it has been seen to work.

You say that the price of certificates is quite low: I would disagree. As market demand has increased, so the price has slowly reacted to a shortening market. This has been further impacted by the expiry of GOs required by Directive 2009/28/EC, further shortening the market. It will be most interesting to see prices over the next few years, although the current plight of the financial markets will not help, as consumer attention is now firmly focussed on value for money.

Claes: I am a little disappointed about the Commission but also most of the national governments in this respect. The EU is here for creating and protecting an internal market. A solid framework should be set up to foster an efficient market that customers can benefit from. The whole idea with electricity disclosure is about enhancing customer power, to make it possible to make a choice not only based on the price. Who within the

Commission (or ACER, national governments or regulators) is standing-up and supporting this idea? The support is very weak and I would say that thanks

to RECS International and AIB standardization that we have reached a tremendous level without that support.

Q5

Recently RECS International has focused more attention on the consumer of tracked electricity. After 10 years is this focused warranted?

Claes: I think it is a natural development and it is actually a bit funny that we did not realise the most obvious thing from the beginning. When you buy a product you have the right to know the price, the services that come along and the quality.

I remember when we started to talk about customers' rights it was a bit of a relief for me. It was so obvious that customers have the right to know the quality and/or the origin of their electricity. The problem now is that we have such a top-down approach regarding renewables, such as production support schemes that customers just have to pay for [taxes]. Many national governments do not respect the customers' rights to make choices. This is obvious through the implementing of GO-systems and disclosure in a non-customer friendly and unreliable manner.

Phil: It should always have been there, and this was a major failing of ours in the early days. That being said, there was deep suspicion of certificates as a viable enabler of environmental policy and consumer wishes, and overcoming this has taken time. But it is now absolutely mandatory that we address consumer satisfaction as a priority.

Peter: I have the feeling that we were always aware of consumer interest, but it took us a while to translate this into proper rules for cancellation. In the beginning we focussed too much on the 'issue' of a certificate as a 'right' of a producer or consumer. Nowadays the focus is more on cancellation of the certificate and the audit and verification of the cancellation process. The 'RECS Good Practice' was introduced in 2006 with the purpose to highlight the value and importance of the cancellation of the certificate. Until today we see that most of the countries still haven't implemented sufficient regulations in order to protect the consumer against false claims.

Q6

Ten years ago did you imagine that the GO would be used in the manner it is now?

Was there the idea then that this was really a tool for CSR and carbon accounting?

Peter: I did. I have always seen a certificate system as an information system. The key point is cancellation, who owns the certificate, who cancelled it and for what purpose. These are still the most important aspects of the certificate market.

Phil: Actually, yes, I did. It is just a surprise that it took so long to get to where we are now.

Q7

Where do you see this market in 10 years? Is full disclosure in the future? Or do you think it is more likely that the market volumes will contract do to automatic GO cancelations from national subsidies schemes?

Claes: We have an interesting discussion in EU at the moment. The commission has realised that the national support schemes are very expensive and in conflict with the development of an internal market. Within 10-years a number of subsidised plants will lose their support. The question is what is going to happen when the support is gone. The Commission may realise that one-way would be to request proper electricity disclosure systems across Europe bringing a value to all renewable plants that are much more market based than the rigid national support schemes. The key for the future is coordinated reliable electricity disclosure systems as the driver for the use of GOs, which I believe in.

Phil: I can see certificates being used for all forms of electricity, and carrying more information than they do now. The linkage between carbon and electricity has always been muddy, and it is high time we clarified it. To say that a consumer of renewable electricity has not, in doing so, reduced his or her carbon footprint is simply insane!

National subsidies for renewables cannot continue indefinitely: the targets set for EU member states are high enough and the taxpayer simply cannot afford to continue to support energy production in this way. The support for mature technologies is increasingly being reduced and such technologies must learn how to stand on their own two feet. Also, consumers are increasingly aware of environmental issues and wishing to select their preferred energy blends. In the long term, I see volumes increasing rather than reducing.

The use of certificates will also extend into other markets. This will include energy-related markets – gaseous, solid and liquid fuels, perhaps plus energy efficiency – and potentially non-energy products, where we wish to allow consumers to influence the behaviour of producers. This means strengthening relationships outside of Europe, and continued development of the system as a whole.

Peter: For the electricity market I see an international market for all sources driven by disclosure. Tracking of electricity will gain importance and suppliers will take their consumers more and more seriously. Consumers are increasingly interested in product differentiation because of the specific carbon emissions of energy sources.

I'm quite sure that the cooperation between member states (cooperation mechanisms) will be an additional driver for the certificate market. We see that some of the organisations who were always against certificate trading are now slowly moving towards our position and realising that the tracking of electricity with a certificate system is the best way to achieve cost-efficiency. Having said this, I don't think that we will ever reach the simple approach we can see in the US, where a certificate can only be used once. The situation in Europe is too diverse and it will take a while before everybody really understands the concept of certificate trading and that certificate trading boosts renewable energy production rather than slowing it down. My advice is to get used to the complex markets with guarantees of origins and a growing number of support certificates. Each will have their own market rules, welcome in Europe.



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