

## E-TRACK Project

### **Minutes 3<sup>rd</sup> Consultation workshop BENELUX countries, (Belgium, Netherlands, Luxembourg)**

ECN Office, Amsterdam, 23 November 2006, 10:30 - 15:30

#### **Attendants:**

Michael ten Donkelaar (MD)	ECN	E-track project partner	NL
Jaap Jansen (JJ)	ECN	E-track project partner	NL
Gineke van Dijk (GD)	CertiQ	TSO	NL
Sybren Hornstra (SH)	Ministry of Economic Affairs	Government	NL
Helma Kip (HK)	Essent	Energy supplier	NL
Anne Korthals Altes (AK)	Nuon	Energy supplier	NL
Michel Tellman (MT)	Eneco	Energy supplier	NL

At this third and final consultation workshop only Dutch stakeholders were present. This time stakeholders from Belgium and Luxembourg were not able to attend. The subjects discussed at the workshop were the following:

- Status of the project
- Revised tracking options
- Proposal for the tracking standard (technical and non-technical specifications)
- Cost assessment
- Project outlook
- Feedback

Michael ten Donkelaar shortly introduced the stage of the E-track project, the work packages already finished and the main subjects of this workshop.

#### **Revised tracking options**

MD presented the updated scenarios and mentioned that the scenario descriptions changed since the last workshop. Main change compared to the previous set of scenarios is that a “Scenario 0” for contract-based tracking was added. Main features of the scenarios are given below.

<i>Scenario</i>	<i>Features</i>
Scenario 0 “Contract based system”	<ul style="list-style-type: none"> <li>• Contract based (attributes not de-linked from contracts)</li> <li>• Explicit tracking when possible</li> <li>• GO not integrated in tracking</li> </ul>
Scenario A “Ex-post contract tracking”	<ul style="list-style-type: none"> <li>• Ex-post calculation procedure (based on electricity trading activities) → between explicit and implicit</li> <li>• GO not integrated in tracking</li> </ul>
Scenario B “Voluntary	<ul style="list-style-type: none"> <li>• Explicit tracking for RES-E &amp; HE-CHP by mandatory certification</li> </ul>

certificate system plus residual mix”	<ul style="list-style-type: none"> <li>• Implicit tracking for residual mix (regional)</li> <li>• GO fully integrated in tracking scheme</li> <li>• Redemption of certificates</li> </ul>
Scenario C “Ambitious certificate system”	<ul style="list-style-type: none"> <li>• Fully mandatory certificate system (explicit tracking for all sources)</li> <li>• Residual mix for specific purposes only</li> <li>• Single EU registry</li> <li>• Ambitious!</li> </ul>

Comments from the stakeholders with regards to the tracking options:

- Option 0 is not seen as a feasible option in the Netherlands. Linking all bilateral contracts to trade of attributes may lead to an illiquid market. Furthermore, this will entail an enormous amount of work for energy suppliers and also costly (need for tracking of each contract). The group was a bit surprised that this option was included at all. MD explained that this was included to gain a complete picture of all possible tracking options.
- Administrative costs for an independent agency are low (no certificates have to be issued), but almost all costs will have to be covered by the energy companies.
- Questions were raised about the flexibility of Option 0. It is at least not flexible for the energy suppliers.
- Option B is comparable to the system in place in the Netherlands at the moment. The Dutch stakeholders were not content with the idea of having a European Residual Mix because:
  - (I) National residual mix usually gives more accurate data (the larger the mix, the less accurate the data),
  - (II) European residual mix is not comparable with the Dutch one. Dutch power production is mostly based on gas and coal (including very little nuclear and no large hydro and no lignite at all).
  - (III) We should not be ahead of integration of E-markets
- Currently the national residual mix is used for grey electricity + average import mix

MD explained that market integration is one of the main arguments of having a European residual mix. Another options could be to choose a regional residual mix based on regional markets that are now being formed (e.g. NW-European market). The stakeholders could follow that argumentation, but emphasise that market integration has not developed that far yet to support a regional or European residual mix. According to them, a national residual mix still gives the most reliable information of a national electricity mix.

When introducing a harmonised certificate system (as proposed under scenario B), it will be necessary to harmonise all existing tracking systems in Europe<sup>1</sup>. Examples of different tracking systems are the UK ROCS (Renewable Obligation Certificates), but also tracking of RES in Germany in the framework of the Feed-in tariff system. This may be a long-time process because each system has some specific national features.

<sup>1</sup> If certificates are interchangeable and can be used in different tracking systems (=multi certificate), harmonization might not be necessary.

Further the need of a harmonised European redemption system was emphasised.

Option C is seen as too ambitious by the energy suppliers and also as a costly system. Especially indirect costs, the setting up of such a system, certification of all production etc. is demanding.

GD was asking, mainly to the energy suppliers/traders, whether the costs are really the main issue and are really that high as thought. → The energy suppliers do not yet have reasonable estimates about the direct costs of such a system. The general opinion is that the direct costs of setting up such a certificate system are limited (CertiQ could easily extend the currently used system to scenario C), but as the demand for tracking from consumers is limited, question is whether we should need to do it at all.

Energy suppliers fear, however, that the indirect costs of a tracking system are much higher. A full explicit certificate system could lead to different markets/products that drive up electricity prices (since all sources will get a price/value). Furthermore, such a system could lead to certain preferences by consumers for certain types of power production. In a fully explicit tracking system, energy suppliers will have to cover these specific preferences with supply. This may in the end lead to shifts of power production between plants. These shifts may come at significant costs as power plants require large investments and are planned to be in operation for decades.

As stated by one of the energy supply representatives: “With explicit tracking for all electricity, you create demand (for different types of electricity) that does not yet exist”. Consumers are not yet asking for different types of electricity, at least not more than two (green and grey).

### **Proposal for the tracking standard**

#### *Timeline for transfers and redemptions in determining the residual mix*

The timeline for determination for a residual mix should according to E-track be max. 9 months. The stakeholder group had no objections against this time schedule. We have to keep in mind however that some measuring data will be delivered in a later stage, but this only holds for a few percent of all data (e.g. corrections often needed for co-firing of biomass)<sup>2</sup>.

#### See p. 8 of E-track consultation paper:

The E-track proposal takes the **production** of renewable electricity into account. The Dutch disclosure system takes only GO's into account which have been **redeemed = consumed**. Production volume of renewable energy in year A does not correspond with consumption volume in year A, since GO's are valid for one year (and thus could have been produced in the year before). However, since the object of disclosure is to inform the consumer about the electricity consumed, this is a more accurate way of incorporating electricity attributes. Furthermore, this corresponds with the redemption method in the NL (we have to redeem GO after the month of consumption, i.e. throughout a specific year and not at the end of the year).

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<sup>2</sup> Statistical corrections have often to be made; this is something that cannot be prevented.

Renewable energy is **not** taken into account in the Residual mix. The Residual mix is based on production of conventional electricity for a specific year (i.e. production equals consumption).

For consumers it would be the best to have a low as possible lead-time, as with 9 months you deliver them relatively old information.

We should also keep in mind that certificates in the Netherlands have a validity of 1 year, meaning that holders of the certificates have the possibility to redeem them after twelve months. This means that the information could be available after a year only if the holder chooses to do so.

According to one of the suppliers market coupling between different countries (e.g. Netherlands with Belgium and France) makes determination of the residual mix more difficult. Currently the national mix at the APX is not obvious and it may be needed in the coming years to choose a larger region based on the markets that are coupled.

### **Costs**

MD presented the cost assessment carried out in work package 5.

#### *General comments:*

Main comment from stakeholders: the cost assessment only shows direct costs of tracking (which could be real), but does not mention any additional costs that do also play a role and potentially are much higher than system costs → changing consumer preferences for certain sources of electricity, meaning that producers would have to change their production portfolio + developing of new markets/products.

Another issue is that when consumers prefer a certain production technology and its demand exceeds supply then the price of this specific commodity will increase. Suppliers believe that consumers do not want to pay more for a certain electricity source.

#### *Specific comments to the cost assessment:*

- Certification of plants of small units is relatively expensive per kWh.
- Costs per company may therefore differ substantially → Higher costs for producers with only small-scale generation capacity and relatively low for the producers with large-scale power plants
- Choice for different electricity products may have further consequences (e.g. specific products may be preferred more or less)
- Costs in slide “WP5 - cost assessment procedure” seems far too detailed (e.g. range between 210,000 - 1,490,000)
- Slide “Additional costs for consumers” suggests relatively low costs for consumers. → Max. €0.25 per household consumer / year. Such a number suggests that tracking is actually very inexpensive. The European Commission would, based on this slide decide to just introduce tracking. The stakeholder group feels that this is a rough simplification of the actual costs and that indirect costs should be included, or at least, include a remark that these costs have not been taken into account.

**General feedback**

Certificates are not linked to contracts, which is difficult to explain for consumers. It is important to take the perception of consumers into account when introducing certificate based tracking. When the consumers' fuel mix information is different than the power plants located close by suggest, they may start asking questions and become suspicious of the value of the information (e.g. a consumer sees that most of his/her electricity is produced by renewables, but there is a coal power plants nearby). This could create distrust towards the system.

Double selling / double counting not solved when the fuel mix is not used for determining the (renewables) objective.

**Other issues:**

The Dutch Electricity Law will, apart from ex-post labelling of electricity, include a form of ex-ante labelling by January 1, 2007. Energy suppliers will have to present to consumers a choice between certain energy sources, from which this consumer can choose. There was a discussion within the group about the practical implementation of this requirement, which may be difficult with long-term contracts.

**Conclusions:**

- If a harmonized system should be introduced, then a minimum standard could be formulated based on explicit and implicit tracking. Therefore, the stakeholders prefer to use scenario B as it is comparable to the situation in the Netherlands by now.
- There were some minor comments to the cost determination. They generally agreed with the methodology.
- Main comment to the cost assessment was however related to the possible external costs that were not taken into account.
- The energy suppliers are hesitating to introduce a "full" certificate based tracking system as it potentially results in higher costs and electricity prices, while the consumer is hardly interested in a fuel mix label. As investments in power sources are made for years in advance, changing consumer preferences may seriously interfere with investment plans.

The stakeholders remain interested in further activities in the field of tracking, also in possible future projects (such as E-track II).

With regards to the subjects addressed in E-track II, the stakeholders view that consumer requirements are very important to look at. It is actually a subject that was, according to them, missing in this E-track project.

Energy suppliers have the experience from surveys (e.g. from the Dutch regulator DTe) that when they ask consumers whether they want to have additional information about energy sources, they usually answer yes, but at the same time suppliers state that consumers do not want to pay extra for it.