

Position Paper: Cogeneration certificates' system in Flanders

Contact: Marc Bailli (inDUfed) - +32 2 646 64 50 – marc.bailli@indufed.be

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Description

In 2005, a **system of cogeneration certificates** was introduced in Flanders. The aim of it is to stimulate economy of **primary energy** by means of qualitative cogeneration¹. The legal basis was set in the *Energiedecreet* of 8 May 2009² and the application rules were elaborated in the *Energiebesluit* of 19 November 2010³.

On the Flemish territory cogeneration certificates are granted to cogeneration plants for saving primary energy. The access holders to the grid (mostly suppliers or the owner of the site itself) are in turn candidate buyers for these certificates. They are indeed obliged to introduce certificates at the VREG for a certain percentage ("quota") of the electricity that they have supplied/taken off. If for a given year, they cannot introduce enough certificates, they will have to pay a fine per missing certificate. The certificates are freely tradable, with a price that is in principle fixed by the market. There is, however, a guaranteed minimum price fixed by decree, for certificates handed in to the grid operator.

Cogeneration plants that started up before 1/1/2013 are granted 1 cogeneration certificate per MWh primary energy saved. After 4 years, the number of granted cogeneration certificates becomes degressive. In 2012 the certificates' system was reformed. Since 1/1/2013 the number of granted cogeneration certificates depends on the yearly set banding factor for new plants or plants that have been fundamentally modified. The number of cogeneration certificates equals the banding factor multiplied by the primary energy saving (MWh). For each type and size of cogeneration plant, a banding factor is fixed on the basis of a minimum support calculation, t.i. the support needed to obtain a profitable project. The degressivity of the support after 4 years is thus cancelled. For cogeneration plants > 20 MWe, a project category is no longer foreseen and a project specific banding factor must be requested. The banding factors are calculated on a yearly basis by VEKA (*Vlaams Energie- & Klimaatagentschap*) and published on: <http://www.energiesparen.be/monitoring-en-evaluatie>. Each year, the maximum banding factor (Bmax) is published in a ministerial decree.

The distribution and transmission grid operators on the other hand, are obliged to guarantee a **minimum price** of € 31 per cogeneration certificate for all new cogeneration plants or cogeneration plants that have been fundamentally modified and for which a certificates' demand was introduced after 1/1/2013. Plants connected to the distribution grid that started up before 1/1/2012 are granted 27€ per cogeneration certificate and those that started up between 1/1/2012 and 1/1/2013 are granted 31€ per cogeneration certificate. Plants connected to the transmission grid that started up before 1/1/2013 are granted 18€ per cogeneration certificate for certificates granted since 1/1/2013.

Similarly to the green certificates' system, electricity suppliers and access holders to the grid are submitted to a **quota obligation** and have to introduce yearly, on 30th of April⁴, the number of cogeneration certificates at the VREG. Per missing certificate, they will have to pay a fine of € 38⁵.

¹ A cogeneration is an installation that produces power (electricity) and heat (cold) at the same time. An installation is called qualitative if the relative economy of primary energy is larger than 0% compared to a comparable split production of heat by means of a boiler and an electricity plant. For installations with an electric power higher or equal than 1 MW, the relative economy of primary energy should be at least 10%.

² *Decreet van 8 mei 2009 houdende algemene bepalingen betreffende het energiebeleid*, Belgian Bulletin 7/07/2009.

³ *Besluit van de Vlaamse Regering van 19 november 2010 houdende algemene bepalingen over het energiebeleid*, Belgian Bulletin 8/12/2010.

⁴ Art. 22 t.e.m. Art. 24 *Vlaams Decreet van 18 maart 2022 tot wijziging van het Energiedecreet van 8 mei 2009, BS 30 maart 2022, 25.808.*

⁵ Art 13.3.5 of the *Energiedecreet of 8 May 2009.*

Bio-cogeneration plants can moreover be granted cogeneration and green certificates for the net electricity produced, if the cogeneration certificates are insufficient to reach the minimum support. In the calculation of the green certificates, the cogeneration certificates already granted are taken into account.

As for the system of green certificates, the price of the certificates is in principle determined by supply and demand. Since the production year 2008 (submission 31/03/2009) however, each year more cogeneration certificates are systematically granted than required by the quota obligation. From price and volume figures that the VREG publishes⁶, it appears that the market price of a cogeneration certificate in September 2022 amounted to about 26 €/certificate. During the hand-in round of 2022, there were about almost 5 times more certificates available than needed to fulfil the quota obligation⁷. Due to this huge surplus of certificates in combination with the guaranteed minimum price, we cannot speak of a market functioning. The “market” model that represents the basis of the Flemish certificates’ systems is in the meantime to such an extent excavated by the accompanying regulation that there is no added value whatsoever for the consumer.

In order to tackle the surplus of cogeneration certificates, a certain number of measures were taken in 2012. On the demand side, an increase of the **quota obligation** was supposed to offer the best solution. A quota increase increases the number of certificates to be introduced at a next certificates’ round, but also leads to higher costs for the consumer, which constitutes a problem for internationally competitive enterprises. Hence the introduction, for industry, of an **exemption⁸ and, specifically for electro-intensive industry, of a ceiling of the certificate costs in line with state aid directives (EEAG)**, aimed to put a stop to the further weakening of their competitive position of industry in Flanders. On the side of the grid operators, a **banking⁹** system was introduced during a limited period of time which obliges the distribution grid operators to keep part of the certificates for a certain period, and only bring it into the market again if there is again a shortage on the certificates’ markets. The cogeneration certificates remain sooner or later available for the market, so that the surplus is not eliminated. On the supply side, a maximum banding factor (Bmax) was introduced. As already mentioned, the Bmax is fixed each year by ministerial decree. In case of high surpluses in the market, this Bmax can be lowered by the energy minister for new plants in order to reduce the surpluses.

Through the decree of 10/07/2020¹⁰ this Bmax was, except for cogeneration plants on biogas or biomass, further decreased to 0.95, 0.9 and 0.85 for projects starting respectively in 2021, 2022 and 2023. This same decree modified some parameters used to calculate the minimum support (amongst which the IRR) and cancels the granting of cogeneration certificates for cogeneration saving during those periods where the day-ahead prices on the Belgian spot market are negative during at least 6 consecutive hours. After the publication of the “Wijzigingsbesluit diverse bepalingen energie-efficiëntie en hernieuwbare energie”, definitely approved by the Flemish government on 08/07/2022, a halt is brought to the support for cogeneration on the basis of fossil fuels as from 2023 (Bf=0).¹¹ Furthermore, through the “verzameldecreet energie” which has been approved by the Flemish government on 09/09/2022 for the further treatment by Parliament, both a super cap arrangement and a quatum increase have been proposed.¹²

The costs for the system end up with the consumer via the electricity bill. The same criticism as for the green certificates’ system can be formulated: on the one hand, the financing of the quota obligation is passed through by means of a

⁶ <https://www.vreg.be/nl/energiemarkt-cijfers>

⁷ <https://www.energiesparen.be/sites/default/files/atoms/files/2022-deel3.pdf>

⁸ Art 7.1.11 §2/1 of the *Energiedecreet* of 08/05/2009

⁹ *Besluit van de Vlaamse Regering van 10 januari 2014 tot wijziging van het Energiebesluit van 19 november 2010, wat betreft de banking van groenestroomcertificaten en warmtekrachtcertificaten door de netbeheerders*, Belgian Bulletin 14/02/2014.

¹⁰ *Besluit van de Vlaamse regering van 10 juli 2020 tot wijziging van het Energiebesluit van 19 november 2010, wat betreft de ondersteuning van hernieuwbare energiebronnen en warmtekrachtkoppeling*, B.S. 21/08/2020.

¹¹ *Wijzigingsbesluit diverse bepalingen energie-efficiëntie en hernieuwbare energie* as approved definitely by the Flemish government on 08/07/2022.

¹² *Verzameldecreet energie* as approved principally by the Flemish government on 09/09/2022.

cogeneration levy. The quota obligation and therefore the artificial market of certificates is an unnecessary and cost increasing link in the passing through of the energy saving imposed by the authorities by means of cogeneration. Furthermore, the net costs of the buy-in obligation of the grid operators (minimum guarantee) by means of the grid tariffs is passed through to the consumer. The minimum guarantee ensures that the lowering of the certificates' price is not felt on the market by producers and has therefore no signal role whatsoever towards installing less additional capacity. As more certificates are introduced with the grid operator as a consequence of a lack of automatic lowering of the support in case of surpluses, the number of certificates (and net costs that go with it) increases for the grid operator. In order to pass through this surplus of the offer of green certificates, but also of cogeneration certificates, part of the energy fund was used to buy certificates for customers connected to the distribution grid as from 1/03/2016, and was since 2018 transposed to an energy levy.

Eliminating the cogeneration certificates' surpluses through a quota increase further jeopardizes competitiveness. The energy intensive industry needs a reliable and sustainable energy supply at competitive prices. Local production by means of cogeneration plants can most certainly play a role in a company's supply strategy. Policy must therefore provide an investment frame that encourages investments in cogeneration plants in a cost-efficient way, and where the total system cost, including certificates' costs, grid costs and back-up costs, becomes the lowest possible.

Febeliec therefore asks for:

- Support for energy savings through cogeneration where needed, in a legally certain and cost efficient way;
- No passing through of a further increase of the quota in order to protect competitiveness;
- To safeguard competitiveness of energy costs (including surcharges) through the energy norm.