

**Position Paper: The market of green certificates in Wallonia**

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**Market functioning**

The market for green certificates (GC) is a mechanism that was introduced by the Walloon government in order to promote the development of renewable electricity and electricity produced from quality cogeneration, both constituting “green electricity”. It must allow to reach the objectives, which are translated into obligations of quotas for the electricity suppliers (see link <https://energie.wallonie.be/fr/marche-des-certificats-verts.html?IDC=9822>).

Electricity suppliers and network operators must quarterly hand in a quota of GC to the SPW Energie (Walloon Public Service Energy) that is proportional to the quantity of electricity supplied during the quarter. These green certificates can either be obtained through green electricity production and hence the producer can be granted CVs during a period of 10 or 15 years, either be bought on the GC market. The cost linked to buying or producing these CVs is subject to a surcharge on the electricity bill.

With the rise of renewable energy at small scale, more and more energy producers appear on the market. These can either sell their CVs on the market (market price), either benefit from the guaranteed price mechanism – that is sell them to the network operator Elia who has a buying obligation at a guaranteed price of 65€. Elia then passes on the cost of re-buying in the local transport/distribution tariff.

**The GC quotas**

This quota expressed in percent represents the ratio between the number of green certificates to hand in and the number of electric MWh supplied to final customers located in the territory of the Walloon region. When the system was introduced in 2003, the quota of CV initially increased each year with 1% with for 2003 a quota set at 3%. In other words, 3% of the electricity supplied had to be covered by CV in 2003. This increase by 1% was maintained until 2009 but then, in view of resorbing the surplus of CVs and in order to avoid the collapse of the certificate’s value on the market and thus protect the investors, the quotas were revised upwards many times as from 2010.

The table below gives an overview of the quotas’ evolution (%) since 2010

Law texts that fix the quotas	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
AGW 4/2/2010	11,75*	13,5	15,75								
AGW 1/3/2012				19,4	23,1	26,7	30,4				37,9
AGW 3/6/2015						27,7	31,4				
AGW 26/11/2015							32,4	34,03	35,65	37,28	

\* Quotas into force since March 31, 2010

AGW = bylaw of the Walloon government

Law texts that fix the quotas	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
AGW 26/11/2015 modified by the AGW 11/04/2019	38,38	38,85	39,33	39,8	40,28	43,34	43,13	43,91	43,74	43,84	44,51

### **Exemption mechanism**

In the framework of the sector agreement ('*accord de branche*'), a degressive system of the quota per consumption block is foreseen for subscribing companies. Until the 30<sup>th</sup> June 2014, a first system had been put into place. This system foresaw 4 consumption brackets with a limit for a consumption starting at 5GWh/year) and a fixed quota of 2% for the consumption brackets higher than 100GWh. As from the 1<sup>st</sup> July 2014, in particular in the framework of the sector agreements ('*accords de branche*') of the 2<sup>nd</sup> generation (2013-2020), the mechanism was revised with new consumption brackets and new reduction levels. Moreover, the consumption limit of 5GWh per year was cancelled.

Currently, the degressivity granted on the nominal quota is the following:

- Yearly consumption bracket from 0 to 20 GWh: reduction by 25% from the nominal quota
- Yearly consumption bracket from 20 to 100 GWh: reduction by 50% from the nominal quota
- Yearly consumption bracket from 100 to 300 GWh: reduction by 85% from the nominal quota
- Yearly consumption bracket above 300 GWh: reduction by 90% from the nominal quota

The Walloon government also decided that the whole of exemptions be contained in a closed envelop that cannot exceed a volume equal to 22,5 per cent of the yearly quota of the current year.

### **Market failures**

These numerous modifications of the yearly quota show that the current system of certificates is not really submitted to a market mechanism because, each time that an objective has been reached or that there is a disequilibrium in the market, the quotas are adapted upwards.

The influx on the market by GCs mainly issued from residential solar panels has severely undermined the market. This surplus created a CV bubble which is currently in the hands of Elia given its obligation of buying in (Public Service Obligation or PSO). Subsequently, the tariff of this PSO exploded from 1,1889€/MWh on 1/1/2012, to 5,9445€/MWh on 1/10/2012 and 13,8159€/MWh on 1/1/2013.

To protect industry's competitiveness, this tariff was linked since 2013 to an exemption mechanism for companies with a yearly consumption >1GWh (see article 42bis of the Electricity decree) and with the condition that the operational costs (term 2, T2 = 2,5495€/MWh) were in charge of the beneficiaries. In final, the tariff remained high (4,24€/MWh for companies having subscribed a sector agreement or '*accord de branche*', which could get a quarterly reimbursement). Industrial consumers therefore had to continue to prepay the total amount of this surcharge.

In order to reestablish a balance in the market while preserving the consumer's electricity bill, the Walloon region has set up several interventions.

In 2015, Solar Chest, supported by Banque Degroof and legal firm NautaDutilh, succeeded in mobilizing 275 million EUR through a bond loan, which made it possible to buy about 4 million green certificates from Elia. The first purchases by Solar Chest of green certificates from Elia to be put in reserve were realized in July 1<sup>st</sup> 2015. Consequently, the CWaPE published the list of end consumers that could benefit from the partial exemption of the surcharge "*Certificats verts wallons*".

In 2017, a second intervention occurred. The Walloon government fixed the number of certificates corresponding to the temporization operation for 2017 at 2.792.596. With this new temporization mechanism, the *Agence wallonne de l'air et du climat (AWAC)* from now on buys each year volumes of certificates which it will keep at least until 2022. As from that date, the "temporized certificates" can be sold progressively through an auctioning system. At the end of each period of temporization (up to maximum 9 years), the local transport network operator (or LTNO, i.e. Elia) will have to buy, as a last resort, the certificates that could not be eliminated by the auctions.

In 2019, a "*mécanisme de mobilisation* », was approved this time by decree. However,, this mechanism has been abandoned given the complexity of its introduction. The current Walloon minister for Energy, Philippe Henry, suggested to extend the running temporization period until 2024 in order to eliminate the bubble in the medium term. This would imply that the first term will remain stable for this whole period, the second term will remain equal to zero, and a third term will all in all not be introduced.

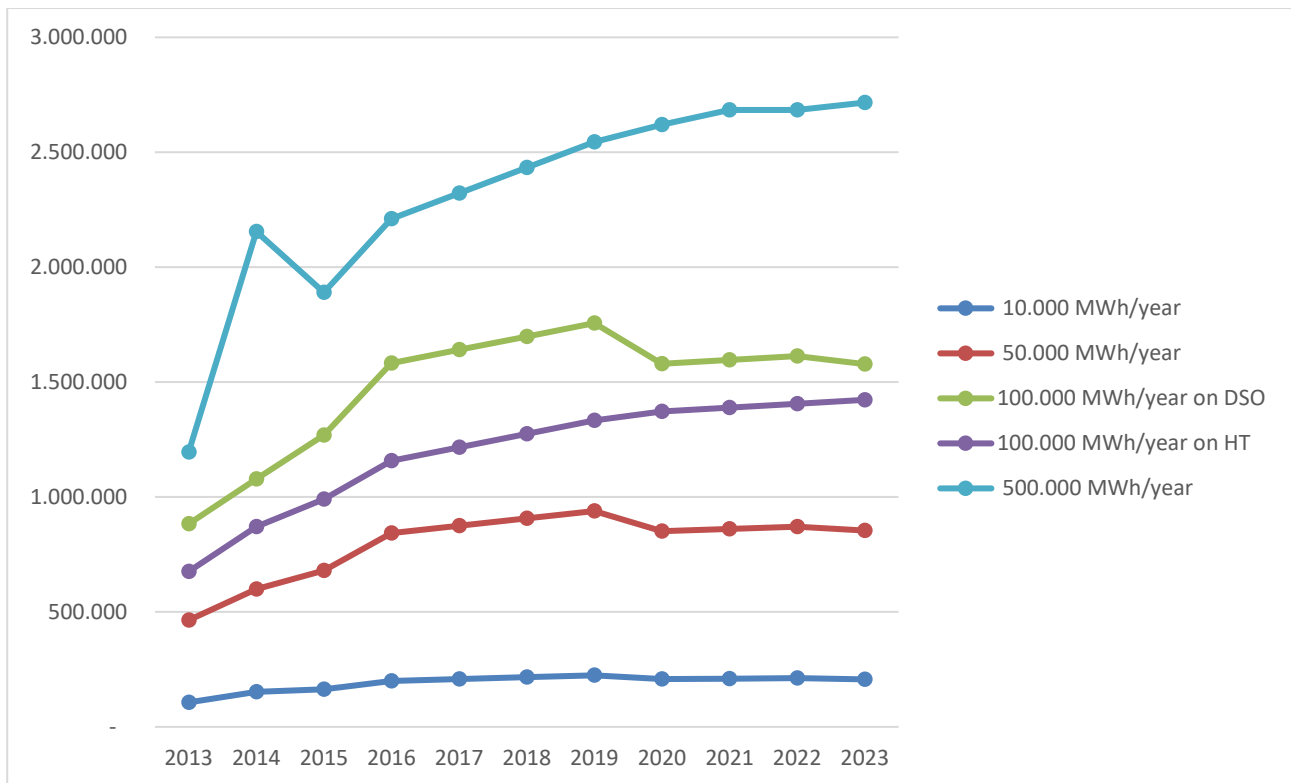
In line with paragraphs 6 and 7 of article 42 of the Electricity decree of April 12, 2001, Solar Chest started since September 2020 the organisation of auctioning green certificates it holds in the framework of the reserve mechanism.

In 2023, the first term of the surcharge diminishes to 10,3761€/MWh for the first time.

### **Cost of the system for the end consumers**

Febeliec supports the development of green electricity, but is nevertheless concerned about the impact of these ambitions on the competitiveness of the industry in Wallonia.

For example, for a company having subscribed a sector agreement, the cost of the system (cost CV & PSO Elia) is shown in the graph below for different consumptions since 2013.



We notice that despite the different mechanisms put into place, the total cost remains high.

Moreover, the European commission evaluated these systems with regard to the main state aid guidelines and it appears that the advantage called 'sector agreement' for the surcharge of the PSO Elia is not compliant for companies of the sectors that fall out of annex 3 or for non-electro intensive annex 5 companies and having joined this environmental convention after 1/07/2014. Due to this non-compliance, the companies concerned should reimburse the amount in excess received retroactively since 1/01/2019. Discussions between the Walloon government and the European commission on this issue are still ongoing. This situation is more than regrettable and can endanger these companies' competitiveness and trust in the system.

### **Objectives of Febeliec**

#### **Objective 1: to reach the objectives at a lower cost**

The granting system of certificates must avoid all excessive subsidies in favor of the various technologies which are applied. Moreover, the maneuvering margin between the price guaranteed and the market price must be reasonable. At the moment, each producer of green electricity receives a certain number of CV on the basis of the net electricity produced and in function of the percentage of CO<sub>2</sub> reduction. Furthermore, the number of GC is adapted in function of the energy performance, the capacity and the profitability of the plant.

**Objective 2: guarantee the competitiveness of the industry**

The total cost of the aid system to develop green electricity must not in the end jeopardize the competitiveness of industrial companies in Wallonia. It is important to manage by means of closed envelopes the number of certificates foreseen for industries in order to manage the global cost. Especially on the biomass market, such as wood, it is essential that the impact of the system and as a consequence the competitiveness of these industries be taken into account. The system of green certificates must absolutely respect the fundamental principles of efficient use of resources, and especially the priority of the valorization of the material versus the energetic valorization. The green certificates' system can thus not continue to subsidize the energetic valorization of recyclable resources.

Moreover, increasing the quotas of green certificates to be handed in must not be seen as a way to regularize the number of green certificates on the market, as this would have a direct impact on the amount of the bill of the consumers.

**Objective 3: maintain security of supply**

Objectives for green electricity and cogeneration of that level cannot be met by intermittent sources without guaranteeing their back-up and/or storage availability for the energy concerned. Therefore, it is preferable that a significant part of this electricity be produced by high quality cogeneration units on natural gas, which for the same electrical capacity, save more CO<sub>2</sub>, produce power with a higher reliability and require fewer subsidies.

**Objective 4: More transparency**

It is not acceptable that some suppliers who pay the market price for their green certificates, pass through a higher price or even a fine to their clients. While awaiting a more fundamental amendment of the system as suggested above, Febeliec asks that the cost linked to renewable energy be clearly mentioned on the bill. Moreover, this repercussion must be followed up and controlled by the regulator (the CWaPE) in order to make sure it is done correctly.