



Make 'green electricity' markets work for consumers and energy transition

At least 15 million European households are willing to actively support the transition towards a cleaner energy supply. They have already opted for a 'green electricity' tariff with a 100% renewable fuel mix. This demand could be leading to increased investment in additional renewable installations and, aside from national support schemes, be another way to boost renewable energy generation.

Consumers do not get what they think they pay for

Consumers have the right to know where the electricity comes from. After all, they pay for the bill. Suppliers use Guarantees of Origin (GOs) to disclose the renewable share of the fuel mix. GOs are a reliable cross-border tracking tool and are needed to formally back 'green' tariffs.

However, choosing a 'green' tariff based on GOs most often does not lead to any investments in renewable power plants, nor does consumers' choice necessarily channel a meaningful amount of money to renewable power plant operators. In addition, consumers unknowingly can continue to pay for nuclear power plants or fossil fuels, despite having opted for an electricity tariff with a 100% renewable fuel mix.

This is because beyond their formal tracking role, GOs can be traded independent of the electricity sold. Suppliers do not have to produce or purchase any kilowatt-hour from a renewable power plant and can use GOs to build a green façade for their marketing. So consumers hardly know that a GO backed fuel mix mostly has nothing to do with what they pay for.

Effects of distorted 'green electricity' markets

- > **Consumers are misled.** Their green choice remains mostly symbolic.
- > **Money for climate protection is wasted.** Suppliers can absorb consumers' willingness to pay more for a 'green' tariff but trade in GOs alone does not bring about new renewable power plants.
- > **Competition is flawed.** Suppliers who channel consumers' money to renewable power plants have difficulties making their products stand out from competitors' GO backed 'green' tariff offers where the environmental benefits are not substantiated.

Policy recommendations

1. Use Guarantees of Origin as a reliable tracking tool, but nothing more.

Future EU legislation should confirm the beneficial role of GOs for reliable cross-border tracking. At the same time, GOs should not be overcharged with any tasks beyond this function. EU law and recent decisions of the European Court of Justice¹ confirmed that GOs serve as nothing more than a tracking tool for fuel mix disclosure. Neither governments nor companies are allowed to use GOs for achieving compliance with binding targets.

2. Avoid market distortion caused by mandatory auctioning of GOs.

Future EU legislation should not mix up support schemes and GOs. Selling GOs currently only generates negligible revenues because of oversupply. The GO supply might even increase with the Commission's proposals.² In this regard, mandatory auctioning of GOs issued for renewable power plants that receive public support³ is contra-productive and problematic. While its financial effect is questionable, it also blurs the functional divide between national support schemes and GOs. The latter, however, cannot and should not substitute the first.

Good national practices should be allowed and encouraged by future EU rules for the use of GOs. In some countries, suppliers who run own capacities or purchase electricity from distinct renewable power plants can use their GOs to show to their customers which power plants they pay for. In this case mandatory auctioning would anonymise the origin and the installation that produced the electricity, compromising for instance energy community models and corporate power purchase agreements. Some national governments evenly distribute the share of supported renewable electricity to the fuel mix of all consumers who have to refinance this support through a levy.

Both practices allow consumers to understand how they financially support the energy transition. Mandatory auctioning would break the link between the power plant and the consumer.

3. Let consumers' choice support additional renewable power plants.

Fixing distorted 'green electricity' markets is a classical task of National Regulatory Authorities. They should establish minimum binding requirements for 'green' claims to be tied to measurable criteria regarding additional environmental benefits as also proposed by the European Parliament.⁴ Depending on the national markets, regulators could rely upon existing sustainability rankings or on independent quality labels.

Only this way can we achieve the initial purpose of 'green' offers:⁵ that consumer markets for 'green electricity' finally contribute to the construction of new installations.

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¹ European Court of Justice (ECJ): Joined cases C-204/12 to C-208/12 (Essent Belgium NV vs. VREG).

² COM(2016) 767, article 19(8).

³ COM(2016) 767, article 19(2).

⁴ European Parliament resolution of 23 June 2016 on the renewable energy progress report (2016/2041(INI)), P8_TA(2016)0292 (Lopez report), §58.

⁵ 2009/EC/28, recital 53, COM(2016) 767, recital 44.