

EFET reaction to latest developments on the future biomethane certificates scheme in France

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Following the workshop organized by the French Energy Ministry's Direction générale de l'énergie et du climat (DGEC) on 11 January, the European Federation of Energy Traders (EFET¹) remains concerned about a number of elements of the future biomethane production certificates scheme ("CPB") in France. We comment below both on the new draft decree circulated by DGEC on 5 January 2022, and on the main design of the scheme.

1. Establishment of the biomethane production certificates scheme

As explained in detail in our first reaction to the DGEC proposal on a CPB scheme², we consider that the uptake of technologies and energy carriers facilitating the decarbonisation of the energy system may be facilitated by temporary support mechanisms as long as they fulfil a number of conditions.

In particular, any new mechanism introduced to promote the production of biomethane in France should be designed in a way that respects the following conditions:

- i. it is technology neutral, in order to provide commonality of instruments designed to financially support all technologies contributing to decarbonisation – with a view to extend it to renewable electricity, renewable and low-carbon hydrogen, and possibly any other low-carbon energy carriers;
- ii. it is scalable at European level, i.e. compatible with existing support schemes in other Member States;

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

² See the EFET response to the French Energy Ministry consultation on a green certificates scheme for the promotion of biomethane, dated 2 March 2021 and available at: https://data.efet.org//Files/Documents/Downloads/EFET_DGEC%20biomethane%20support_02032021.pdf.

- iii. it is open to foreign participation so that it does not exclusively favour domestic biomethane production;
- iv. it does not have any distortive effect on the French gas market in term of competition and liquidity;
- v. it provides regulatory incentives to decrease the costs of biogas production (and other types of renewable and low-carbon energy carriers) in order to limit the financial impact on the French market.

We regret that after nine months of process, we have not seen progress on the first four conditions. Indeed, so far the scheme (i) remains technology specific as it is reserved for biomethane only, (ii) has limited potential of scalability considering it is designed in isolation of current discussions at EU level on guarantees of origin (GoOs), (iii) does not recognise biomethane produced outside of mainland France, and (iv) may have distortive effects on competition in the French gas market by placing the local market in renewable gases at a disadvantage compared to neighbouring countries. Moreover, it raises barriers to entry given the obligation to incorporate CPBs placed on local market participants (suppliers) and related to the procurement of CPBs.

In addition, the lack of definition of the overall target of the scheme so far does not enable a clear view on the fifth condition mentioned above, i.e. the capacity of the scheme to decrease the cost of biomethane production in France (see below).

2. Dimensioning of the scheme and level of obligation

While much of the discussion so far on the implementation of French biomethane production certificates scheme has focused on detailed aspects of functioning, we are still missing the broad picture of the dimensioning of the scheme. Giving a clear view to the market as to where the scheme is headed is vital to ensure visibility for investors in future biomethane production facilities. We also still struggle to understand how the general CPB target will be translated into individual incorporation obligations.

Hence, we urge DGEC to provide information rapidly on the following elements:

- What will be the targeted date of entry into force of the scheme (first delivery year)?
- What is the overall dimensioning of the scheme (number of certificates to be collectively redeemed), including a clear formula on how this dimensioning relates to the multi-annual energy planning (PPE) targets?

- What is the trajectory of this overall dimensioning for the five years following the first delivery year?
- How will the overall dimensioning of the scheme be broken down into individual targets for obliged parties? Will pro-rata – or any other method – be applied?
- How does the DGEC envision the coexistence of CPB and GoO schemes and whether they will be fungible?
- Under which conditions would the conversion between a certificate and a GoO be possible?

3. Obligated parties

While the draft decree circulated by DGEC on 5 January 2022 sketches a number of elements pertaining to the obliged parties, it leaves vast areas for interpretation. Giving a clear view as to the perimeter of individual obligations as well as exemptions thereof is also essential for financial planning on the side of the future obliged parties to the scheme.

Hence, we urge DGEC to define and/or clarify the following points in the upcoming decree:

- What is the perimeter of consumptions and/or sales that will be used to designate an obliged party (legal entity, trading portfolio, transmission network exit point)?
- Ensure that the rewording of article R. 446-115 in the decree clarifies whether the proposed levels for the applicability of the obligation is unmistakable for deductibles (“franchises”) or for exemptions, as DGEC pointed out during the workshop of 11 January 2022.
- Provide a justification as to why the level of the deductibles differ from similar schemes such as the French white certificates schemes, and in particular:
 - Why is the deductible set at the level of 400 GWh for the first year of application of the scheme?
 - Why does a gradual decrease of the deductible apply on a yearly basis?
 - Why is there no minimum level of deductible applicable as of the fifth year of application of the scheme?

- Clarify whether any specific market participant category is planned to be completely exempted from the scheme, as per the second paragraph of article L. 446-42.

4. Fungibility and tradability of CPBs

We welcome the clarification by DGEC during the workshop of 11 January 2022 that the biomethane production certificate schemes will be freely fungible and tradable, without discrimination. Allowing all market participants to take part and trade biomethane certificates – including those without production or consumption portfolios – will be key to provide more liquidity to this market.

To ensure that this openness is enshrined in legislation, we urge DGEC to explicitly specify in the decree that all market participants will be able to register and have access to biomethane certificates registry.

It is equally important for CPBs to determine their own price level through being traded and redeemed separately from gas as the underlying commodity. We welcome DGEC's intention to ensure that CPBs remain a tradable good, decoupled from the sale of gas in the wholesale market.

However, we would like to highlight that the value of these certificates outside France will likely be limited as long as they remain decoupled from the biomethane attributes trading in the rest of the EU.

5. Stakeholder involvement

While DGEC conducted an open public consultation in March 2021, the stakeholder involvement process since then has consisted in a series of invitation-only workshops with targeted disclosure of documents, including draft decrees. This has not facilitated the engagement with a wide diversity of market participants with open or future interests in the French gas markets.

To improve the inclusion of all in the design and implementation of the biomethane certificates scheme, we invite DGEC to conduct again a public consultation on the remaining grey zones of the scheme, which should include a tentative timeline for the adoption of the relevant pieces of legislation until the entry into force of the mechanism. Information on progress in the implementation of the scheme, workshops, draft legal texts and feedback on consultation responses should be made publicly available on the DGEC website.