

EFET reaction to the establishment of a common purchasing entity of biomethane certificates in France

The European Federation of Energy Traders (EFET¹) would like to provide our comments and indicate our concerns regarding the establishment of a common purchasing entity (the “Entity”) of biomethane production certificates (CPBs) in France by the end of the year.

Key messages

1. Market participants should not undertake a role to ensure availability of enough and easily accessible biomethane and underlying CPBs outside of a fully regulated framework. Regulation will prevent the emergence of potential competition concerns.
2. We welcome the inclusion of sustainability and GHG emissions saving information on CPBs, as well as their use for offsetting purposes. However, we struggle to see the value of these possibilities for a scheme which is not open to cross-border trading.
3. We are in favour of the voluntary character of the Entity provided that it is established on the basis of a fair trading system which does not put certain parties at a competitive advantage or disadvantage.

Detailed comments

Regulation of the entity amid lack of liquidity

We understand that the Entity aims to address the liquidity issue emerging at the early stages of biomethane production in France, by facilitating suppliers’ access to CPBs. We are in principle supportive of an Entity kick-starting the growth of a market in biomethane and its environmental attributes, prior to the establishment of a secondary market in which traders would be able to trade exchanged CPBs.

However, we stress that lack of liquidity usually signifies a weakness in the regulation. Moreover, it should not be worsened by the targeted regulatory framework. In particular, market participants should not undertake a role to ensure availability of enough and easily accessible biomethane and underlying CPBs outside of a fully regulated framework. The provision of a service of the sort by certain market participants to other market participants should be offered under strict conditions determined by CRE and be at least unbundled from any other activity of the companies affiliated to the entity offering the service.

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

Based on the workshop on access of suppliers to CPBs organised by CRE on 28 June, we realise that DGEC and CRE do not intend to work towards regulating a common platform, for example, along the lines of a TSO or DSO model. In a context of lack of liquidity, we see the value of intervention to promote trading, however not by leaving the establishment of the Entity to the initiative of market players. This activity should be regulated to avoid the emergence of potential competition concerns.

Compliance of the scheme with RED II

Our call for a regulated common structure is critical also given the obligation to produce biomethane in France, with a low probability that corresponding CPBs are eligible for exports as certificates which comply at least with the definition of guarantees of origin under article 19 (2) of Directive (EU) 2018/2001 (RED II). Considering that a CPB is valid for five years, as opposed to the year-long GoO with a standard size of 1MWh under RED II, we believe that matching of CPBs to GoOs issued by other national registries would not be possible.

Any barrier to exports of CPBs to other MS, and the consequent non-recognition of imports of biomethane from other MS into France, render the scheme incompatible with the ultimate objective under RED II (and its proposed revision) and the tabled Hydrogen and Decarbonised Gas Markets Package regarding a prospective common certification scheme that can operate across gases that are going to be conveyed in the same networks in the internal EU energy market. More fundamentally, a purely nationally oriented certification scheme would go against the fundamental tenets of the internal energy market, ultimately limiting the potential attractiveness of biomethane consumption in the EU.

We understand that, for a biomethane producing facility to be eligible to issue CPBs, the value of the biomethane produced will have to be certified through auditing in terms of its sustainability and greenhouse gas emissions saving requirements under article 29 of RED II. If these criteria are found not to be met, the operator of the biomethane plant will not be granted the right to issue CPBs and won't be able to derive the corresponding revenues. We are also aware that CPBs purchased by any market participant, either directly from a producer or through the Entity, can be used for offsetting purposes, if they are not part of the compliance obligation.

We thus welcome the possibility to include sustainability and greenhouse gas emissions saving information on CPBs, which seems to be in line with the operational design of the Union database under RED II regarding the transfer of data from a GoO onto a proof of sustainability certificate, corresponding to one of the voluntary certification schemes recognised by the EU Commission. However, we would regard this as a positive feature should exports be allowed and should the use of foreign equivalent certificates be permitted in France. We also welcome the possibility to count CPBs towards the EU Emissions

Trading System (ETS). However, we struggle to see the value of this provision, too, in the context of a scheme which is not open to cross-border trading via participation of supply and production from other countries, or, vice versa, via the compatibility of CPBs with certificates in other EU countries.

Creating a fair trading system

From a market perspective, we are in favour of the voluntary character of the Entity. However, we stress that this situation may lead to market participants massively attempting to acquire CPBs directly from producers to escape paying a fee to the Entity. In this sense, most suppliers will ultimately not be left with much choice but to purchase CPBs via the Entity.

Furthermore, in theory, if suppliers buy more CPBs than they have to in order to abide by their obligation, they are free to sell biomethane, but most probably in a context of limited offer. Therefore, there likely won't be higher volumes produced than the volumes that suppliers will have an obligation to buy, and this may in turn have an impact on the auctions for building new anaerobic digestion plants in France. The possibility to buy more CPBs only when production surpasses the targets is equally difficult to manage from a market perspective.

In fact, it is of utmost importance that the level of the CPB obligation is not set too high for the first years of the entry into force of the CPB scheme, as there should be some time left for the biomethane production plants to be properly functioning and both the primary and secondary CPB markets to kick-off. In parallel, the level of the penalty fee shall be alleviated and set at a value closed to the production costs to avoid overburdening gas suppliers, and, indirectly, end consumers, at least for the first years when the liquidity risks entailed by a lack of CPB available on the primary, and consequently on the secondary market, will be at the highest.

EFET would welcome the opportunity to discuss with DGEC and CRE how best to ensure the establishment of a fair trading system in biomethane and its environmental attributes, one that does not put certain parties at a competitive advantage or disadvantage.