

# EU TAXONOMY REGULATION CAN COMPLETELY CHANGE THE MARKET

The European market for green certificates is continuously developing and changing. Moving forward, we will keep you updated on what is happening on the very volatile market.



Lately, the market has been focused on the debate about the so-called EU Taxonomy Regulation, which regulates, which types of economical activities are to be considered sustainable and which are not. In the latest proposal to a change to the regulation, several new requirements have been specified, as to which types of electricity production can be defined as green. The new proposed changes would exclude units who receive public grantings from receiving certificates, something which could change the market as we know it completely. Such a change to the market would for instance mean, that Norwegian and Swedish hydro power will not be able to be classified as green in the future.

Wind and sun power sectors could be influenced by the changes as well, not only in the Nordic area but everywhere in Europe, where public funds flow to owners of windmills and solar power units to secure a stable high amount of production from these energy sources. The changes to the Regulation could lead to a removal of parts of wind and solar energy from the certificate market.

If the new proposal is approved, it could be a huge gamechanger for the certificate market in the Nordic area, as Norwegian hydro power, which most of the issued certificates in the area are based on, would no longer be able to received certificates. This could lead to rising prices on Danish, Swedish and Finnish wind certificates. Both the Norwegian and Swedish

governments have requested the EU to cancel the changes to the Taxonomy Regulation, which concerns Norway as well due to the country's trade agreements with the EU.

An important action in trying to provide more certificates is PPA agreements, where producer and consumer are matched either directly or through trading companies. The PPA's secure the cash flow by hedging parts of the production at a certain price and sale of the certificates that are associated with the production. Thereby, new green investments are secured and the consumers completely or partly have their consumption covered by new (additional) certificates.





The green transition has been a steadily increasing topic over the last years, on all levels in the society. The EU has passed one climate deal after another, and meanwhile, the member states of the union are imposing initiatives themselves, to make sure that they live up to the both their own ambitions and the 2015 Paris agreement.

One of the EU initiatives to try to strengthen the green transition is the decision that all power production from renewable energy sources must be certified. This decision was taken back in 2009, and basically, the system is, that every megawatt hour (MWh) of electricity produced in the EU from a unit with an official status as renewable power producer, has a certificate attached. A certificate, which the producer can sell to a consumer, who can use it to document to his stakeholders, that the electricity he uses is green.

**Competition parameter**

As green transition and sustainability are becoming increasingly more important topics across the societies and among consumers, it has also become a sort of competition parameter, a sort of moral compass, and often also a requirement for both private companies and public institutions to make sure, that the electricity consumption is provided by green energy sources. The green certificates, also known as GoO's (Guarantees of Origin) provide this opportunity, as they are evidence that the power comes from a green producer.

The process to have your electricity certified starts when a producer contracts the TSO in his country and requests to be approved for the official European certificate register. When the TSO has decided, that the producer lives up to the required demands, each month going forward, he will be assigned certificates corresponding with his

production. Certificates, that the producer can then sell to consumers. A certificate has to be used the same year as it is issued, and authorities are making sure that the certificates are being issued and annulled one to one. The value of the certificates depends highly on whether it comes from a sun power, a hydro power or a wind power unit, and how old this is. Newer units are in general more effective, and also represent the highest value. This also means that it becomes more attractive to build modern units in order to get certificates of a higher value.

**Big price fluctuations**

The sale of certificates to customers on this market takes place either directly between buyer and seller or – more commonly – through brokers. There is no trading hub for the market as we know it from the power market.

Like with the power price, the certificate price is very fluctuating, and the market in general is marked by a high degree of uncertainty. This is primarily because the green transition is a hot political topic, with new decisions both by the EU and in the different member states constantly changing the conditions on the market, impacting how valuable a certificate from a given unit might be. As with all markets dependent on political decisions, the rules of the game can change rapidly from one moment to the other.

Meanwhile, the supply of certificates can vary greatly, as it of course is very random, how windy it is, how much the sun shines and how much it rains, and how much electricity therefore can be produced from the power units based on this. 2018 was for instance a very dry and windless year, which led to a decreasing supply of certificates, while demand meanwhile remained unchanged. Naturally, this led to rising prices.

**WHAT IS A GREEN CERTIFICATE?**

- > It has been decided that all renewable energy (RE) in the EU is to be certified
- > The TSO's of the concerning countries decide, which RE units can be issued certificates
- > The owner of an RE unit is issued one certificate for each produced MWh of electricity
- > These certificates are sold to customers, who can document that their consumption comes from RE
- > Most certificates traded in the Nordic area comes from hydro or wind power
- > Certificates from newer RE units have a higher value than those from older units

**GREEN CONSUMPTION WITHOUT EXTRA COSTS**

Did you know that with a PPA agreement, your company actively adds new renewable energy to the society? At the same time, your electricity consumption is settled for 10 or 15 years at an attractive, fixed price.