

Statens energimyndighet
Fredrik Forsberg
Box 310
SE-631 04 Eskilstuna

Zürich, 28 February 2018

El-Certificate market: Recommendations for 'Kontrollstation 19' and a stop rule

Dear Mr Forsberg, Ladies and Gentlemen

First of all we want to thank you for the open consultation process concerning *Kontrollstation 2019*. ewz (Elektrizitätswerk der Stadt Zürich) is the municipal utility of the city of Zurich and the majority owner of Swedish wind farm Atlantic Sverige AB.

A sound and conclusive and stable set of regulation, including a coherent stop rule, is a prerequisite for the El-Certificate system to reach its goal and to sustain a functioning market in equilibrium until 2045. Hence, we place great importance on the process of defining an efficient and trusted stop rule as it has now been started by your agency.

ewz receives El-Certificates and operates its own trading desk for El-Certificates. Furthermore, ewz plans future investments in production capacities in Scandinavia. Therefore, ewz started collaborating with a mid-sized, municipality-owned Swedish utility. However, for significant investments ewz needs to make assumptions about the future economic impact of the El-Certificate market.

Therefore, a coherent stop rule and stable, detailed long-term market regulations are essential for the valuation of our current investments and the operation of our assets. Also, it is crucial for the valuation of and potential investment decisions for our future investment plans.

ewz recommends a volume based stop rule in combination with a structured application procedure that is managed by Energimyndigheten. Our recommendation for the application process is partly based on the application process for the Swiss subsidy scheme KEV (Kostendeckende Einspeisevergütung).

Thank you for considering our specific recommendations below. Please do not hesitate to contact us in the case of further questions or comments.

Best regards,



Cédric Aubert
Head of Energy Economics



Silvia Banfi
Head of Research

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1 Design of stop rule

1.1 Volume-based stop rule – recommended

An efficient stop rule would close the investment window for the EI-Certificate system as soon as the target of the EI-Certificate system is reached. In such case, no more production will be granted eligibility for EI-Certificates as soon as the goal (currently 46.4 TWh) is reached. A successful implementation of such a stop rule requires full transparency about investments and a structured process of permitting projects into the EI-Certificate system. The structured application procedure is necessary to ensure transparency in the market and to close the system in proximity to the goal.

▪ Application process

Projects have to apply for eligibility for the EI-Certificate system. Projects have to fulfill the following requirements in order to apply for EI-Certificate eligibility:

- All necessary permits in legal force
- A P50-production estimation by an eligible third-party auditor
- A grid connection agreement with responsible grid operator
- The planned start of production (date)

▪ Shortlisting

The projects get shortlisted for EI-Certificate eligibility according to the planned date to start operations (first priority) and the date of the application (second priority). Once a project is granted eligibility, the eligibility is guaranteed until the planned start of production (as stated in the application) and during a grace period exceeding the

planned start of production by e.g. six months. If a project is not online by that date, it loses its eligibility. Eligibility is then given to the next project in the waiting list (assuming that there will be a waiting list once the system is close to reaching its goal). This principle of shortlisting is partly based on the Swiss subsidy scheme KEV (Kostendeckende Einspeisevergütung)¹.

Project	Planned date of operation	Estimated yearly production [GWh]	EICert eligibility	Last day to start operation for EICert eligibility	Volume to reach goal after investment [GWh]
1	31.06.2024	110	yes	31.12.2024	250
2	31.10.2024	70	yes	30.04.2025	180
3	31.07.2025	190	yes	31.11.2025	-10
4	30.09.2025	80	Waiting list		-90
5	31.07.2016	30	Waiting list		-120

Example of shortlist

- Process owner

The described process would typically be managed by Energimyndigheten or an entity supervised by Energimyndigheten.

- Penalty

Once the EI-Certificate system is closed for new projects, the investment cost of the projects within the system will no longer play any role in price setting. Price setting in the EI-Certificate system will then be completely independent from earlier investment cost (sunk cost). The price will correspond to a risk-premium for not having enough certificates in years of scarcity. As a consequence, the price of EI-Certificates in a closed system will settle between zero and the penalty that has to be paid for a lack of certificates. Thus, a more concrete than the current definition of a penalty is necessary to produce price forecasts for EI-Certificates. Such a penalty would also set the maximum price consumers would have to pay for EI-Certificates.

1.2 Stop rule based on a date – not recommended

A stop rule based on a date is a functional and precise rule. However, such a stop rule bears the potential of significant over- or underachievement of the goal. This would imply long-term chronic surplus or shortage of EI-Certificates in the system, and in consequence, either a complete devaluation of EI-Certificates or extremely high prices. In the latter case, the supply will not be able to meet demand and the market can only be cleared by penalty payments. We suppose that neither of these scenarios meet the intention of the political will to facilitate 46.4 TWh of additional renewable power production through the EI-Certificate system. Following, we do not recommend a time-based stop rule.

¹ The legislative basis can be found in the decree on energy subsidization (Energieförderverordnung), Art. 23 and Anhang 1.3. Link: <https://www.admin.ch/opc/de/classified-compilation/20162947/index.html>

2 Awarding of EI-Certificates when the power price is zero or negative

No comments.

3 Adjustment of rules for awarding EI-Certificates after major refurbishments

No comments.

4 Market transparency

Market transparency is a major prerequisite for a correct implementation of a volume-based stop rule. Therefore, ewz suggests an application process for EI-Certificate eligibility by shortlisting potential projects. The shortlist is considered public information and should, thus, be made publicly available.