

EFET position on the design of the trading platform for biomethane certificates in France

The European Federation of Energy Traders (EFET¹) would like to submit our comments regarding the operational design of a common purchasing entity (the “Entity”) of biomethane production certificates (CPBs) in France. As a general remark, we note that the only reason for setting up this Entity is because, under the market design of the overall scheme, producers are not given the visibility they need in terms of future guaranteed revenues. In this context, and given that the pertinent legislative framework is not set to be reviewed or revised, we would also like to provide our proposals for the trading platform to effectively help gas suppliers meet the obligation for part of their supplies to be covered by French-produced biomethane, as stipulated by the Climate and Resilience Law.

Summary

Although use of the platform is not mandatory, we understand that alternatives for suppliers to access either the primary or secondary market will be quite marginal. Therefore, the platform will serve as the primary means for market participants to rely on signals in terms of contractualisation. In this respect, we envision a less complex mechanism designed based on shorter-term duration and a better indexed fixed price.

We point to the fact that, through the Entity, biomethane suppliers, as opposed to producers, will always bear price, volume, and credit risks. Therefore, suppliers will have to compensate producers based on a 15-year fixed price regardless of technology cost variations and will not be able to benefit in case of a higher gas price. On top of this, they will be required to commit to fixed volumes for 15 years regardless of the variation, over the year, of their market share or the decrease of the overall gas consumption. Therefore, in terms of support of biomethane production, the scheme shifts the weight that should be placed on the Government onto suppliers, without shielding the latter against associated risks.

Furthermore, the discussed risks are linked to a product that is not easily tradable, including across borders. Ensuring consistency of the mechanism with the EU regulatory framework under RED II/ III may help reduce volume and price risk.

To avoid market distortions in favour of local integrated players, our main design proposal involves an even split of associated risks across the whole value chain, since the obligation born on suppliers constitutes by itself a strong signal guarantying long-term steady demand

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 130 energy trading companies, active in over 27 European countries. For more information, visit our website at www.efet.org.

for biomethane. The Entity should leverage the fact that market participants will ultimately rely on this signal.

Detailed comments

1. Identified shortcomings of the platform design

1.1. Lack of cross-border tradability of CPBs

Under the Climate and Resilience law adopted last year, the requirement towards all suppliers of biomethane to end-users to manage their CBP obligation is based on a purely nationally oriented certification mechanism. Although we understand that amendments to the Law may currently not be possible, this should constitute at least a mid-term objective for DGEC and CRE. Fragmentation of national certification schemes for renewable and low-carbon gases risks ultimately limiting the potential attractiveness of biomethane consumption across the EU.

Unfortunately, we observe that the proliferation of national schemes not open to cross-border trading via participation of supply and production from other countries, or, vice versa, emerges as a damaging but growing trend. EU-wide fungibility of any form of certification instruments should ultimately be achieved, provided that minimum conditions are met – most notably, sustainability and GHG emission information under RED II.

Therefore, 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.

1.2. Uneven risk-sharing and duplication of the feed-in tariff scheme

The design of the Entity leads to mitigated price, volume, and credit risks for producers, while the Platform serves as provider of guarantees to financial institutions, duplicating the existing feed-in tariff scheme in a way which transposes all associated risks to individual suppliers.

As a result, French producers will end up benefiting from long-term supply contracts by selling their biomethane at a fixed price for 15 years. Conversely, suppliers are burdened with the compensation of producers (and CPB issuers) with the difference between the fixed price minus the gas market price. Therefore, suppliers are called to commit to fixed volumes for 15 years regardless of the variation, over the year, of their market share or the decrease

of the overall gas consumption. They are also obliged to contractualise based on a fixed price regardless of variations associated with technology costs. We fear that the proposed price indexation formula may not be relevant in such a long-term horizon.

We thus deem the exposure of CPB purchases to the market price as analogous to the current feed-in tariff scheme, under which buyers of biomethane must compensate producers based on a fixed price, thus ending up exposed to the variation between the feed-in tariff versus the market price. If the JV indeed aims at an indexation price like the feed-in tariff or the public tenders launched by the French state, this price will need to be better indexed, considering the evolution of the biomethane market fundamentals such as the technology costs.

2. Alternative design proposals

2.1. Reserve price based on European gas standards

For price and volume risks to be more evenly spread across the whole value chain, we propose the offer of CPBs to suppliers on a shorter-term basis, ensuring at least those volumes corresponding to the annual obligation.

The current design of the mechanism entails bidding for a fixed price regardless of the flexibility of volumes and poor visibility regarding the product the bid is placed for. Depending on the biomethane production technology, risks arise in terms of volumes injected into the gas grid owing to certain financial and physical arbitrage. We thus propose that the tendering process be based on a reserve price equal for all the participants for the year in which the obligation is to be met, according to European standards such as the capacity booking mechanisms. This is aimed at limiting the complexity of the bidding process to attract the maximum number of market participants.

2.2. Detachment of CPBs from physical contracts and aggregation

To ensure consistency with the regulated framework, the platform should negotiate with producers the detachment of CPBs from the underlying physical contracts sensitive to market price variations, as is already the case with the European white certificate schemes. It should also serve as an aggregator of prices and volumes for the yearly obligation for more even risk-sharing. This would better promote the trading of certificates, supporting the liquidity of the primary and secondary market. It would also help avoid market entry barriers, which would be detrimental to competition at wholesale and retail levels. The competition based on physical sourcing will thus be maintained, limiting distortions, while, at the same time, ensuring better visibility and security to gas suppliers already burdened by the CPB obligation.

We propose that deriving costs be socialized by system users, including producers and suppliers, via the fee remunerating the Entity, according to a transparent methodology. We acknowledge though that commitments from suppliers (e.g. term-related ones) will likely be necessary. This will also be the case with respect to financial guarantees, with respect to European market standards.

As a final comment, the design of the Entity allows market participants to ensure availability to other market participants of enough and easily accessible biomethane and underlying CPBs outside of a fully regulated framework. We stress that the provision of such a service 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. This activity should be regulated to avoid the emergence of potential competition concerns.