Energy efficiency certificate trading

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Session C - Technical design issues

Panel C1 - Framing the market

Facilitator : Marcella Pavan

Suggested terms of reference

A. Target setting

B. Who must buy? Who can sell?

C. Managing price risks

A.1 Target setting

- **Unit value:**

  dependent upon the primary policy aim(s):

  - global pollution, e.g. global warming ==> **CO_2E emissions reduction**
  - local pollution, e.g. TSP ==> **TSP emissions reductions**
  - security of supply (i.e. supply diversity, etc.) ==> **primary energy savings**
  - reliability of supply (electricity) ==> **kWh savings**
  - etc.

A.2 Target setting

- **Absolute *versus* relative target**
  - e.g. toe *versus* toe/indicator of economic activity (GDP, etc.)
- **Open or limited coverage**
  - e.g. illustrative list of measures *versus* focus on specific technologies, sectors, customer classes
- **Banded versus un-banded**
  - promotion of less mature technologies, pursuit of environmental or social objectives *versus* market segmentation
- **Time path and time horizon**
  - investors security; flexibility

A.3 Target setting

- **Raised on who? i.e. obliged actors:**
  - producers?
  - distributors?
  - retailers?
  - consumers? (traditional barriers to overcome, i.e. information)
- **Apportionment rules:**
  - e.g. number of customers served, volume of electricity distributed

B.1 Who must buy and who can sell

◆ Who must buy?

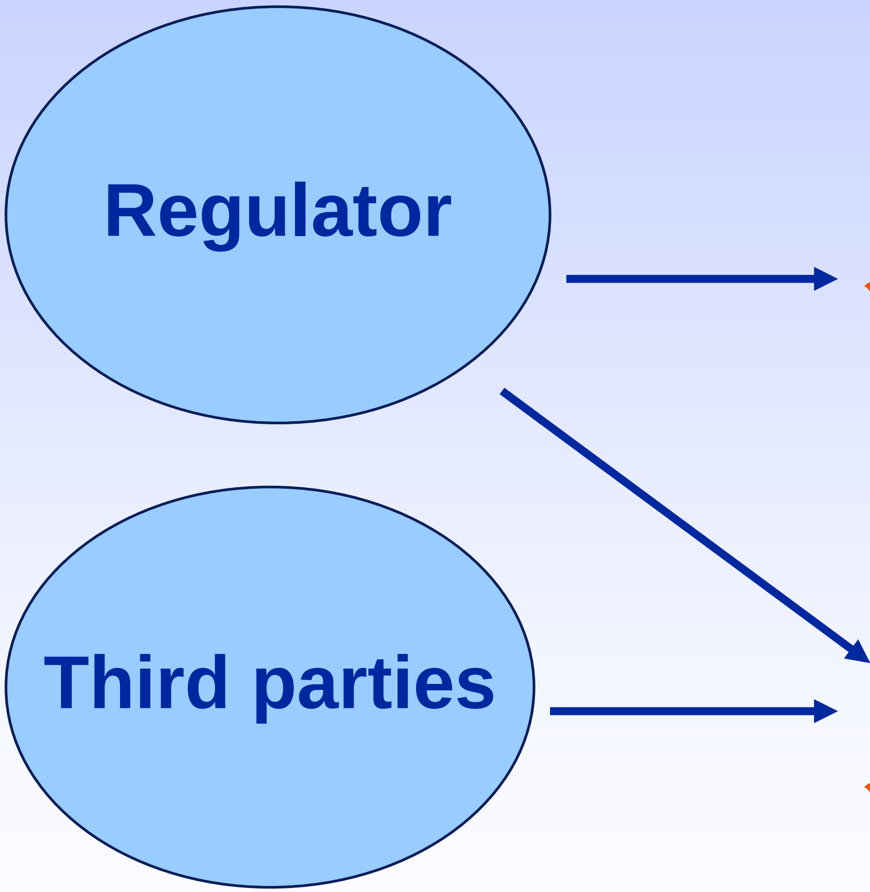
- obliged actors (e.g.: in Italy: distributors above the threshold)

◆ Who can sell/operate in the market?

- obliged actors;
- exempted actors (e.g. in Italy: distributors below the threshold)?
- energy services companies?
  - minimum requirements? official register?
- consumers?
  - all? only large ones?
- market intermediaries?

- **trade-off** between the need to guarantee market liquidity and the need to guarantee an effective, reliable and efficient management of the whole mechanism

C.1 Managing price risks



- ✓ Limit **overall costs** to society (direct and indirect)
- ✓ Limit **price volatility**

C.2 Managing price risks

- **Policy tools:**
  - **limit the overall cost to society:**
    - maximum price (TGCs: Austria)
    - buy-out price (UK TGCs)
    - pre-defined penalty for non-compliance (TGCs: Belgium, Denmark, Sweden)
    - safety valve (Kyoto)
  - **limit price volatility:**
    - long(er) compliance period
    - (limited) banking
    - (limited) borrowing
    - true-up period