

Annex XIV

MARKET MECHANISMS FOR WHITE CERTIFICATES TRADING

1. Introduction and definitions

1.1. Introductory remarks

Market-based policy instruments are increasingly being favoured in a wide range of energy and environment policy fields, due to their economic efficiency, benefits for competition, positive incentives for cost reduction and continuous improvement and ability to minimise and equalise costs of compliance with policy targets. They are particularly applicable where Countries have mandatory quantitative targets for the actors concerned that must be met in a verifiable way, inside national or extra-national obligation programmes, and within a fixed period.

Examples of this policy approach include:

- **White Certificates:** Energy Efficiency trading schemes – end-use energy efficiency programmes;
- **Black Certificates:** Carbon trading schemes - programmes for reducing CO₂ emissions;
- **Green Certificates:** Renewable Energy Commitment trading schemes – increased use of renewable energy sources in power generation.

The focus of the present Task will be on White Certificates, but it will consider the operation of WhC trading in an economic environment where Green and Black Certificate trading also occur.

1.2. Definitions

White Certificates

(this definition and other definitions related to the scope of work and activities for this Task will be further analysed during the coming work)

Certificates issued by a regulatory or other public Agency, against the **fulfilment of obligations on energy savings targets**. These targets are expressed in terms of an amount of energy that should be saved as a result of **energy efficiency programmes**, promoting and facilitating the provision of energy services and energy efficiency measures to all **end-use sectors** (including the domestic and commercial sectors, the public sector, and small and medium-sized enterprises).

Task Experts

The Task Experts are designated by each Participant. The Task Experts are expected to contribute their knowledge to the progress of the Task. Each Participant may nominate one or more Task Experts with different knowledge. One Task Expert should be designated as national co-ordinator.

2. Objective

This project (“Task”) aims to address:

- whether – and how – a scheme involving the issuing and the trading of White Certificates (WhC) provides an effective means of attaining targets of reduction of:

1. primary energy consumption (main concern)
 2. CO₂ emissions (secondarily)
- what is the most suitable format for such a scheme
 - what implementation problems are involved, at national and extra-national levels
 - how it can interact with other schemes.

3. Means

A list of key concerns to be considered in the Task, subdivided into “principle” and “practical” issues, is reported below.

3.1. Principle (Policy) issues

1. Specificity and effectiveness of a certificate trading mechanism to promote energy efficiency projects
2. Who are the obligation-bound actors
3. Who can buy and who can sell
4. Which sectors and which energy efficiency programmes should be targeted
5. How to create demand for WhC trading
6. Possible cost-recovery mechanisms
7. Competition issues
8. Interactions with other policy tools for the promotion of energy efficiency
9. Interactions with other trading schemes:
10. Prospects for an enlarged extra-national market for tradable certificates

3.2. Practical (Operational) issues

1. Criteria for design and development of projects for energy efficiency in end-use
2. Valuation issues
3. Monitoring mechanism and non-compliance regime
4. Trading mechanisms
5. Rebound effects

3.3. Approach

This Task will call for exchanges among Experts on subjects as diverse as tradable certificates theory, demand-side management policies in the residential, transport and tertiary sectors, or existing English, Italian and French schemes. It will be based on **regular events**, at approximately four months' intervals, made up of:

- one day open thematic discussion/workshop with national practitioners and national experts;
- one day restricted meeting of IEA-DSM Task experts.

Each workshop will explore a set of issues coming under one of the following main headings:

1. expectations
2. policy/principle issues
3. organisation/practical issues

4. interaction with other trading schemes and with other EE policies

The following day, a meeting restricted to the Task experts will be devoted to processing, discussing and synthesising the workshop results and preparing the next workshop. The table below outlines the planned events schedule.

Event	Workshop	Workshop subject	Task experts meeting subject	Month*
1	NO		<ul style="list-style-type: none"> – Kick-off – Task organisation – Preparation of following workshop 	1
2	YES	Gained experiences and expectations at national level	<ul style="list-style-type: none"> – Discussion on the past workshop – Preparation of following workshop 	5
3	YES	Policy/principle issues	<ul style="list-style-type: none"> – Discussion on the past workshop – Preparation of following workshop 	10
4	YES	Organisation / practical issues	<ul style="list-style-type: none"> – Discussion on the past workshop – Preparation of following workshop 	13
5	YES	Interaction with other schemes/EE policies	<ul style="list-style-type: none"> – Closing meeting – Discussion on the past workshop – Discussions on the organisation and structure Final Synthesis Report 	17

* Provisionally and assuming that the Task will officially start in Month “1”

No subdivision into subtasks is planned.

4. Information and Intellectual Property

Information and intellectual property are ruled by the provisions contained in the Article 9 of the “Implementing Agreement for co-operation on technologies and programmes for Demand-side management of International Energy Agency”. In principle, all the information arising during the open workshops are to be considered unrestricted; results of discussions during Experts meetings should be intended as confidential. Possible needs for exceptions and additions to these provisions arising within the development of the present Task will be submitted by the Operating Agent to the Executive Committee for decision.

5. Results

The content of the contributions and of the discussions relevant to each of events 2 to 5, described in paragraph 3.3, will be processed and synthesised in corresponding **Critical Synthesis (CS) Reports**

under the responsibility of the Operating Agent (OA). These reports will be discussed among the OA and the task experts. After approval, each of the four CS reports will become an official task deliverable.

A **Final Synthesis Report (FR)**, issued by the OA on completion of the Task's work, will contain a summary and a review of all the activities undertaken and experience gained during the progress of the Task.

Through these reports, the Task will produce a survey on issues such as:

- Effectiveness of a scheme involving the issuing and trading of White Certifications (WhC) to attain targets of reduction in primary energy consumption and CO₂ emissions (secondarily)
- the most suitable format for such a scheme
- problems involved in its implementation, at a national and extra-national levels
- possible interaction with the other schemes

In this context, benefits resulting from the Task can be expected for both the Countries who are applying the scheme (even though at a pioneering stage) and for the Countries planning to incorporate the scheme into their energy policies. Benefits will stem from enhanced understanding of:

- various alternative approaches that can be adopted for similar types of problem (policy, practical, etc.)
- experience that may already exist
- ways to deal with interaction/conflict/interchangeability among green/black/white Certificates, when this occurs.

The advantages of a wider and internationally harmonised use of White Certificates are many-sided:

- For regulatory Authorities, they can be an easily-verifiable way to track compliance with policy targets.
- For parties obliged to comply with targets, they offer a means to achieve compliance at least cost, and also offer the flexibility to comply either through 'in-house' action, by contracting with other parties for their supply, or simply by purchasing certificates in a third-party marketplace.
- For those able to create and sell certificates, they offer an additional revenue stream which is independent of their other business activities, thus offering hedging and risk-management benefits in addition to direct financial rewards.

6. Time schedule

This Annex will enter into force on 1st June 2004 and shall remain in force until 31st December 2005. Within the limits of the term of the Agreement, this Annex may be extended by two or more Participants, acting in the Executive Committee, and shall thereafter apply only to those Participants.

7. Responsibilities of the Operating Agent

In addition to the obligations enumerated in Article 5 of this Agreement, the Operating Agent shall:

- (a) Provide semi-annual reports to the Executive Committee on the progress and results of the work performed under the Programme of Work;
- (b) Provide to the Executive Committee within three months after completion of all work under the

- Task, a Final Management Report for its approval;
- (c) Organise five IEA-DSM task experts meetings, relying on the local assistance of the host-Country expert
 - (d) Propose and discuss with IEA-DSM task experts the organisation of four national workshops
 - (e) Organise the results of each of these events (IEA-DSM experts meeting + national workshop) into a Critical Synthesis Report, collecting and critically reviewing all the contributions and discussions
 - (f) Write and issue the Final Synthesis Report
 - (g) Perform internal and external actions for the dissemination the results

8. Responsibilities of the Task Experts

The Task Experts will:

- Comment on, and discuss with the Operating Agent, the content of four national workshops
- Organise and host one of four national workshop in their own Countries
- Host one of five IEA-DSM experts meeting in their own Countries
- Participate actively in all the organised national workshops and in IEA-DSM experts meetings. Attendance will be mandatory. A written/electronic version of the workshop/meeting presentations and a written version of the main contributions during the relevant discussions will be expected from all participants.
- Discuss the results of the workshops with the OA and assist him in setting up the Critical Synthesis Report of each of the four events (IEA-DSM task experts meeting + national workshop)
- Analyse and comment on the draft versions of Task Status Report, Final Management Report and Final Synthesis Report set up by the Operating Agent

9. Funding

Each Contracting Party will bear the costs of its own participation in the Task, including necessary travel costs. Each Contracting Party will also contribute the amount agreed upon by the Participants acting by unanimity, for financing the costs (90,000 Euro) for Operating Agent's time for accomplishing his obligations and for travels, printing and other expenses and contingencies. This contribution is based on an equal share among the participating Contracting Parties. Assuming the participation of five Contracting Parties, the contribution for the Operating Agent's costs for the scheduled time duration of the Task (see paragraph 6) will be 18,000 Euro per Contracting Party.

In case of further participants (up to a total of eight), the contribution for Contracting Party will be varied accordingly. In case of a number of participants greater than eight, the total and Contracting Party contributions will have to be re-discussed.

The above contribution should be paid through two settlements by the participant Contracting Party to CESI, the Company the OA belongs to:

- the former (9,000 Euro per Contracting Party) once the task is launched and upon receipt of the relevant invoice
- the latter, at the beginning of 2005 when the definite number of participants is confirmed, upon receipt of the invoice

10. Level of effort

Participation in this Task requires an effort of at least three person months per Contracting Party. Aside from providing the resources required for performing the work of the Task in which they are participating, all Participants are required to commit the resources necessary for activities which are specifically collaborative in nature and which would not be part of a national programme, for example: preparation for and participation in Task Meetings and workshops and contribution to the documentation and dissemination of the work

11. Operating Agent

CESI S.p.A, Italy, is designated as Operating Agent

12. Contracting Parties which are Participants

The contracting parties are the following:

- Le Ministère de l'Industrie, des Postes et Télécommunications et du Commerce Extérieur (France)
- CESI SpA (Italy)
- Enova SF (Norway)
- The Swedish National Energy Administration (STEM) (Sweden)
- The Department for Environment, Food & Rural Affairs (DEFRA) (United Kingdom)