

## **GME NEWSLETTER – Issue no. 183 now online**

Rome, 15 July 2024 – Issue no. 183 of the newsletter of *Gestore dei Mercati Energetici* (GME) is now downloadable (<https://gme.mercatoelettrico.org/en-us/Home/Newsletter>).

The new issue opens with an article by Gian Paolo Repetto from RIE (*Ricerche Industriali Energetiche*) about the state of the art and prospects of Guarantees of Origin (GOs).

Repetto states that *GOs are both spot and forward traded, mostly through bilateral transactions or on over-the-counter (OTC) platforms, although there have been attempts (e.g. by the French power exchange EPEX and the Hungarian HUPX) to set up centralised platforms for regulated trading of spot contracts in respect of already produced energy. However, as a whole, we can say there is not yet a real European GO market and that each country has its own distinctive features and specific legislation or regulations. In Italy, the market for the trading of GOs is organised by GME through appropriate platforms (called P-GO). For instance, Germany has rigorous rules on the issuing of GOs that limit their supply, whereas the Netherlands has environmental disclosure obligations that increase their demand. Countries, such as Norway and Iceland, with an abundant production of green energy, export their surplus GOs, thereby affecting market flows abroad. The different situations of and different approaches to GO markets in Europe emphasise that, in this sector, too, the path that the European Union has taken towards a unified future for green energy is long and complex. Until 2022, Italy was a net exporter of GOs, demonstrating that: i) the interest of consuming companies in this instrument was not yet mature; and ii) industrial demand was fully satisfied thanks to the GOs sold by GSE through monthly auctions. Conversely, in 2023, Italy became a net importer of GOs, confirming the growing interest of operators in this instrument, but also a deficit in national supply due to insufficient hydro power generation caused by the 2022 drought. The price of GOs is subject to strong volatility and its monitoring is not immediate, because there is no European exchange with standard products and published prices. Repetto points out that the majority of GOs always derive from the European hydro power generating mix. In particular, the GOs issued by hydro power plants (especially in Norway, Sweden, France, Austria, Switzerland, and Italy) accounted for 48% of the total GOs issued (renewable + nuclear) in 2022, 47% in 2023, and 43.0%*



*in the first quarter of 2024. The second technology is wind power generation with about 27%. However, this involves some critical issues for the system. Repetto stresses that the overwhelming majority of European hydro capacity is old, with initial investments that have been completely depreciated, and thus benefiting, through GOs, from an advantage. This advantage is not fully consistent with the objectives of the GO system, which should contribute to incremental renewable capacity from “new” sources (wind and solar photovoltaic). Repetto clarifies that, from the standpoint of price dynamics and key determinants, in the past two years, the prices of GOs experienced unprecedented fluctuations. Until 2018, they had never exceeded 1 €/MWh, given a situation of abundant supply and weak demand. In the second half of 2022, they rose to over 8 €/MWh as consequence of the energy crisis, which induced a higher demand for renewables, and of drought, which reduced hydro power generation. Nevertheless, at the beginning of 2024, prices have fallen again below 2 €/MWh. Among the causes of this decrease: increased supply, driven by the EU 2030 targets, with the accumulation of new renewable capacity in 2023; weather conditions, favouring an increase in hydro and wind power availability; and weak electricity demand. However, GOs might become increasingly important in the next few years, as they represent the main EU instrument to trace the origin of electricity and gas. In effect, their demand is growing as a result, among other things, of an increasing disclosure of emission standards by companies, whether self-imposed or requested by customers, or even by the financial sector. Indeed, the sustainability rating might become a pre-requisite for having access to credit and also (as it already happens) a merit criterion for awarding public procurement contracts. Moreover, with the move towards merchant-type systems of support for renewables, the model aimed at enhancing the renewable origin of energy might acquire an increasing importance, not only for green power but also for green gases. According to some estimations, the size of this market might reach 3.7 billion euro by 2030. Demand by corporate off-takers is particularly strong in Germany, France, and Italy, where they accounted together for 50% of total GO cancellations in Europe in 2023. Repetto concludes that the market remains featured by limits of liquidity, fragmentation, and legislative/regulatory and commercial uncertainties, which will make it uneasy for both renewable energy developers and off-takers to pursue their strategies in the coming years.*



This issue of the newsletter comes with the usual technical commentaries about European and national power exchanges and environmental markets, a section focused on the analysis of Italian gas market trends, and a section with insights into the trends of the main European commodity markets. As has become customary, it also reports the summary data for the electricity market for June 2024.

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Press Release