

Marketable Green Certificates: Financial Limitations, Technical Advancements, and Long-Term Contracts

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ABSTRACT- Tradable green credentials have lately been a widely used tool in OECD nations to promote renewable energy. Though it is too soon to offer a definite judgment on the effectiveness of this mechanism in boosting generating power and decreasing certificate costs, one opinion in the literature contends that TGCs need long agreements to be successful. This article adds to the conversation by examining how financial limitations and technical advancement may lead investors to have negative expectations about their ability to make a business selling green certifications. Obviously, these assumptions would discourage entrepreneurs from engaging in extra equipment to satisfy TGC quotas, causing the price of certificates traded in the market to remain high. Because most design characteristics of TGCs have little impact on this kind of expectation, long-term contracts are especially essential in evaluating the efficacy and cost-efficiency of these gadgets. TGCs should thus be scrutinized for characteristics that encourage obligated parties to give renewable generators long-term contracts.

KEYWORD- Design, Renewable, Renewable Electricity, Renewable Energy.

1. INTRODUCTION

TGCs, also called as sustainable trading quota (RTQs) or sustainable portfolios requirements (RPSs), have been a popular strategy in OECD countries for boosting the use of sustainable power[1]. Parallel to its use by policymakers (in Australia, Belgium, the United Kingdom, Italy, the Netherlands, Sweden, and many states in the United States), there has been a rise in scholarly interest in this policy tool. TGCs have been compared to various policy tools, including feed-in legislation. TGCs have also been explored in respect to the European Committee's Renewable Regulation has been rumored to be considering introducing TGCs to harmonize renewable energy support in member states[2]. The benefits and drawbacks of this policy tool have been extensively contested in the literature, as described in the following section. TGCs have been evaluated on a variety of criteria in certain cases, but most frequently, Investigators looked at the methods that were in use without having a particular evaluation methodology in view. Some writers have lately emphasized the significance of long-term contracts for the amount of extra capacity provided by TGCs and the price of certificates based on surveys of the schemes that have been implemented so far, particularly in a quantity of conditions in the United States[3]. Following a short examination of TGCs' long-term behavior, in which cost and quantity of certifications approach to optimum levels

determined by the marginal cost of the median facility in the marketplace, this article examines how TGCs may deviate from the equilibrium pattern in the near run[4]. In the distant future, renewable producers will be able to sell certifications at a cost equal to the agreement's penalty, while the supply of certificates is limited by plant availability. If this occurs, investors may be hesitant to add renewables production for concern of being beaten by later installation, placing certificate prices near the scheme's punishment rate[5]. It should also be emphasized that many TGC design elements will have no effect on renewable producers' capacity to sell their certificates in the future[6].

1.1 A Review of the Literature

TGCs have often been compared to another renewable policy, namely, feed-in legislation. Additionally, it will be compared to the features of comparable renewable energy programs. When the intermittent power supply curves is not understood with certainty, the former examines the proportion of the economic rent that may be using the 2 methods, gathered by renewables providers[7]. Researchers, on the additional hand, compare the effects of feed-in regulations and TGCs on the dangers that renewable energy turbines face. TGCs have also been brought up in reference to TGCs to the European Union's efforts to harmonize renewable energy policies. The European Council was adamant about it for TGCs to incorporate renewable energy subsidies across member states throughout the procedure that led to the creation of the Green Regulation [8].

It has been stated that TGCs established at the European level are better likely to work than ones implemented at the country stage since a larger marketplace is better likely to results in a better steady price of certification and eliminate the difficulty in selecting an adequate quota. In addition, the scale of a European TCG is anticipated to provide enough liquid in the marketplace for technically particular certificates. The primary benefit of enacting such a strategy is expected to be the improved cost-effectiveness of obtaining a certain quantity of renewable energy[9]. This is due to the disparity in renewable electricity marginal costs across Europe. TGCs, in principle, would encourage the spread of renewable energy in areas with the lowest generating costs. Obviously, the greater the disparity in marginal costs throughout Europe, The more certificates you can swap, the more money you'll save[10]. It has been argued, however, that focusing clean energy energy initiatives in a tiny number of places with the finest assets might increase local hostility and decrease govt

interest in clean energy because social financial and air reliability advantages will be restricted to a tiny number of geographical regions [11].

Additional branch of the TGC literature examines the benefits and drawbacks of this policy tool. Unnecessary to say, there are a wide range of viewpoints. According to the research, supporters of the idea think that TGCs can reach renewable power objectives at a lower social price and with fewer ongoing administrative overhead for the government. TGCs can also supply a continually expanding marketplace for sustainable power on a known set timetable if the network is correctly structured and no other variables interfere. TGCs also have the advantage of providing constant incentive for renewables providers to pursue cost savings, which can be intended to be passed on to customers. Renewables producers competing for business can result to technology breakthroughs and cheaper prices[12]. TGCs are also believed to be more price than other green power programmes, however this claim has lately being called into question, and competitor since they applied similarly to all retail power providers. Lastly, the bad connection between certificate quantities and price improves income stability; in additional words, credential worth variations may assist reduce overall financial risk[13].

However, one of the scheme's flaws has been pointed out: TGCs are complicated systems that can only work effectively if they are well constructed. Uncertainty regarding the pricing of the certificates has long been considered to raise investor risk and limit investment in renewable technology[14]. Small renewable producers are expected to encounter extra challenges in TGCs due to transaction costs and complexity, as well as the fact that they may find it difficult to absorb the system's inherent risks. TGCs have also been chastised for failing to provide fair When innovations at different stages of growth and with different pricing fight on the identical marketplace, it is called rivalry[15]. Wind power, in particular, is expected to capture the majority of the market, although biomass and minor hydro might be competitive in certain instances, and solar energy may play a minor role. TGCs are expected to provide unexpected gains for the company that did not have control over certification prices. when more than one technology is used to meet the quota. Furthermore, allowing current generation into the system will result in windfall profits for existing producers due to the high cost of certificates, which makes it difficult for new generators to enter the market. Lastly, especially for the identical technology, such as wind, there are variances in the accessibility of the resources for sustainable energy generation at coastal and inland locations. may result in windfall profits[16].

Another body of research has assessed the TGCs that have been released thus far based on a range of parameters. For illustration, academics evaluate TGCs based on efficacy, More than 15 criteria were used to create three organisations: marketplace effectiveness, renewables industry stability, price efficiency, stakeholder engagement, and equality. criteria for outcome, government development, and economic environment. Researchers also use the terms efficacy and cost effectiveness. The latter takes into account industry certainty, Efficiency, both static or dynamic, transactional and organizational capability, fairness, and market

conformity are all factors to consider, among other things. Although there are differing views on how TGCs work in the literature, it is reasonable to infer for the time being that the cost effectiveness and efficacy of TGCs cannot be determined. It should be noted that drawing conclusions on TGCs is difficult due to the variations in the schemes shown so far. TGCs may be well-designed or poorly-designed, according to the researchers[17].

Assessing TGCs as a whole may not be as beneficial as one would assume at first, since the policy's design is critical to the result. TGCs may be constructed as appealing instruments for independent power producers, notwithstanding their reputation. In reality, the design of TGCs has been extensively addressed in many contributions to the literature. For example, each researcher identifies over 20 design components. These aspects pertain to the system's structure, target selection, and application, as well as the system's eligibility, flexibility mechanisms, administrative duties, and connection with other rules. As a result of such meticulous attention to the design of TGCs, common flaws in the instruments that have been introduced so far have been identified, as described in a research.

Given the large number of contributions devoted to the debate of newly introduced TGCs, of which the contributions listed above are just a sample, it seems unnecessary to go into detail about the schemes that have already been implemented. For the debate that will follow, it is useful to briefly describe some of the features of a few different policies in order to set the stage for the discussion that follows. The difficulty of the Swedish TGCs to expand their manufacturing capacity is their most notable characteristic. In reality, the introduction of the certificates has resulted in an increase in the amount of energy generated by biomass-based combined heat and power (CHP), whereas the installation of wind power has resulted in a decrease in the amount of electricity generated by wind. Given the short timespan of the system, which was invented in 2003 and is set to lapse in 2010, the fact that rises in renewable electric power have been supplied by small investors to boost manufacturing from established capability instead of new investment in highly equity intensified new plants must not be shocking. While this is not always a disadvantage, the majority of the plants whose capacity is being expanded are established technologies, such as combined heat and power (CHP) and small hydroelectric. To put it another way, the scheme's contribution to the implementation of new technology is very restricted. In the case of the TGCs established in the United Kingdom, renewable capacity has risen significantly, but the government's goal of increasing renewable capacity by 50% by 2020 is unlikely to be reached given the present level of deployment. It has been argued that the British system has been designed on the assumption that an obligation would not be fulfilled; nevertheless, this would seem to be an unusual foundation for the introduction of TGCs. When the quota is not reached, the TGC behaves in the same way as feed-in laws that are set at the level of the penalty[18].

However, compared to feed-in regulations, TGCs provide a much greater degree of risk to the generators themselves. As previously stated, the presence of a danger may cause the spread of renewable energy to be slowed down. According to experts, in the case of the United Kingdom,

market confidence has been eroded as a result of the many evaluations of the scheme, as well as the potential effect that co-firing of biomass may have on the price of certificates. Due to the fact that the fines paid by non-compliant merchants are recycled back to those who submit a certificate, the system has gained an additional layer of complexity. Because of this process, as well as the fact that previous energy generation has fallen short of the goal, the price of the certificates has consistently been much higher than the penalty level. Unlike the TGCs in the United Kingdom, the Texas system, which was implemented in 1999, is expected to produce the additional capacity required by the quota, i.e., 2000 MW of new renewable power by 2009. The introduction of the plan, followed by the implementation of the implementing rules, turned Texas into one of the biggest renewable energy markets in the United States, despite the fact that the requirement did not begin until 2002[19].

By 2001, 915 MW of wind energy capacity had been installed, with a further 2650 MW having Grid access was requested. Strong political and regulatory commitment, effective enforcement, flexibility mechanisms, favourable transmission and siting laws, and the presence of the productions tax incentive (PTC), a government program that gives a benefit to corporations who build new green energy producing plants, are all factors that contribute to the scheme's success. Unfortunately, the Texas model has not been duplicated in all of the American states that have implemented TGCs. In the opinion of experts, just three states have met their declared objectives: Texas, Iowa, and Minnesota. There has been some success in the other eight states, namely Nevada, California, Wisconsin, Arizona, Massachusetts, New Jersey, and New Mexico, but there has also been some failure, and some success is anticipated in the other four states. Trans-Pacific Partnership (TPP) TGCs have little to no effect on renewable energy markets in the residual 3 conditions, namely Connecticut, Maine, and Pennsylvania.

2. DISCUSSION

Several writers have speculated on the importance of long-term agreements and renewables competitiveness energy producers in determining the success of TGCs in the United States. Even though TGCs are intended to encourage the development of liquid markets in which certificates can be traded in the same way as any additional product, There is already indication that this form of generator competition does not necessarily help the spread of renewables energy. Indeed, it has been challenged if commitment markets, which are mainly powered by short-term trading, are capable of effectively supporting new enterprise investment. RPS programs depending on like short-term trade seem to be more costly than various, more steady types of government support, according to the data thus far. On the other hand, one of the most significant achievements of the Texan TGCs has been the willingness of providers to sign long-term contracts for renewable energy, thus guaranteeing steady income for developers and access to low-cost backing. However, the growth of renewable energy has been delayed in Massachusetts, where only a few providers have been

prepared to engage into long-term contracts thus far. Clearly, The existence of long agreements affects the certification industry's volatility as well as the amount of pricing data available to players [20].

According to the findings of the researchers, these arguments are without foundation. In reality, the competition for long contracts among sustainable power providers is pushing downward the cost of certifications in the near run. There have been a number of long-term contracts put out to tender in order to choose the initiatives under which companies can get the renewable energy that TGCs need in a number of states in the United States. Doughty nationwide initiatives to boost renewable energy have been questioned in the past, however TGC bids seem to produce the power that was bargained for. Regardless, this is owing to the reality that suppliers arrange these bids. who will be penalized if they do not comply with the terms of the contract. According to researchers, The contract among Texas companies and renewables producers that won the auction contained stipulations that punished plants that refused to provide the promised power due to development delays or operating difficulties during the bidding. TGCs help to meet the growing by demanding that a specific quantity or % of total power usage come from sustainable resources, market for sustainable energy will rise. Depending on the circumstances, consumers, retailers, or electricity generators may be subject to this requirement. To confirm that the quotas has been reached and to enable for a cost-effective distribution of the obligation, certifications for a particular quantity of renewable power generated are necessary. Sustainable producers are given certifications for producing a certain quantity of sustainable power. Certifications may be bought and sold alone or in combination with renewable energy. To put it another way, sustainable electric utilities earn money from two sources: the selling of power and the selling of blue certifications(or green certificates).

The majority of TGCs that have been introduced thus far include a consequence, It, in addition to promoting policy compliance, ensures that the certificate's price is maximized. Sanctions may be in the form of a fixed amount for every MWh of sustainable energy for which certification are not submitted, or a % of the prior year's certification pricing if certifications are not presented. Certificates have a limited period of validity, This implies that they will becomes worthless and disqualified if they are never filed by a certain date after the power is produced. Certifications, on the opposite hand, may be borrowed, meaning means they could be utilized in duty periods earlier than the ones in when they were issued, or they can be acquired and presented to the regulatory before the power that the credentials relate to is generated by the producers [21].

3. CONCLUSION

When compared to most other studies in the literature, this study demonstrates that the price of green certificates may move in a manner that is significantly dissimilar types its steadiness level over extended periods of time. There will be inadequate capacity developed if the marketplace is controlled by negative assumptions about plants' capability

to recover their initial debts, which is a major assumptions in the research done in this work, and certificate would all be offered at or around the penalties threshold, as was the case in the past. Following the discussion above, it is fair to anticipate this level of performance given the financial limitations of the plants and the advancement in technology. To save the worth insincerely high, generators will restrict their capacity in this situation. The fact that renewable power plants owned by utilities have a competitive benefit over sovereign producers restricts the desire of the latter to join the market and compete with them. The ability to hold back capacity becomes much simpler in markets with a limited number of dominating competitors. Volume is being detained spinal, however, since each prospective generator is worried around the profitability of his or her facilities.

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