

Chair's reflection notes on ERCST' Article 6 workshop on June 24, 2020:

ITMOs exchange in integrated grids and Registries

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This note is meant as an aide-memoire and reflects issues and a logic that has captured the attention of the Chair of the meeting that took place on June 24, 2020. It is in no way meant as a summary, or an endorsement by the author, or the participants in the meeting, of any of the issues or views captured in this note.

ERCST's Article 6 meeting on *ITMOs exchange in integrated grids and Registries* took place on June 24, 2020. Below, some take-aways from the discussion are outlined.

ITMOs exchange in integrated grids

- When considering the transfer of renewable energy and ITMOs on integrated grids, it is important to consider where the emission reduction is generated and the effect on the inventories of the host and buying parties. Particularly, the metric of the ITMOs being exchanged and the metrics of the NDCs of the participating parties are key aspects with different implications on how to account for the exchange.
- However, the decision on how to share/allocate ITMOs is laid out in a private agreement between the entities involved in the electricity exchange and does not necessarily imply that the national Parties will hold ITMOs as a result of the transaction.
- This topic is tied with the issue of authorization under Article 6.3.
- In some business models, as in the case of Férou, investors are not rewarded with ITMOs. Instead, the reward comes in the form of a lower electricity price for the parties involved, while the ITMOs accrue to the managing company. In this case, it will be necessary to agree on whether it will be seen as desirable/realistic that under Article 6 one (private) company would hold emissions reductions since the countries involved will have to make corresponding adjustments and essentially incur a liability.

Registries

This is based on presentations made as the discussion was postponed to the next session.

- The infrastructure and technological requirements for the design of a registry should not drive the finalisation of the text and the obligations imposed on Parties. To the contrary, the technological design will follow the requirements of the Parties.
- An important consideration for registry systems and tracking units with private ownership rights is how to manage legal and ownership risk. This is a domestic law issue with implications for ownership of ITMOs when these are held in different accounts.

- It is also important for emissions reductions units that are traded by the private sector to assess their legal risk. To achieve this, as was the case in the Kyoto Protocol's ITL, a control function discussion could be part of the Article 6 discussion on registries and databases.
- The A6.2 registry is focused on recording and tracking, and interaction with other Article 6 infrastructure, while the A6.4 registry is focused on accounts - ownership of units.
- One issue that needs further consideration is how to track transactions between the A6.2 and A 6.4 registries.
- The Article 6.2 registry will provide the system for reporting and support the review of the technical aspects of Article 6. As such, there is a need to ensure consistency between the A6.2 registry, the Article 6 database and the CARP based on the interaction between these infrastructures.
- It will also be necessary to agree on what is reported through registries, whether this be tracking the net flows of ITMOs transferred and acquired from each transaction, or if ITMOs should be assigned a serial number like a CER.
- Because registries perform a number of complex functions and are also complex to administer, it will be necessary to choose whether this is what is needed for Article 6.2 or if the focus should be on the more tracking-related aspects, which can be an interpretation of the text.
- Considerations on how to design a registry will include what tier of information and aggregation of data will be used (e.g. party- vs market-level data), the difference between data and evidence (will Parties be required to provide evidence of the cancellation of ITMOs?), which summary data will be adjusted, and others.