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Wien Energie GmbH's response to the European Commission's consultation on structural options to strengthen the EU Emissions Trading System

Contact information:

Wien Energie GmbH

Public Affairs Department

Gabriele Maderbacher

Thomas-Klestil-Platz 14

1030 Wien

Tel: +43 (1) 4004 31600

gabriele.maderbacher@wienenergie.at

www.wienenergie.at

Wien Energie GmbH has a long-standing tradition in the environmentally friendly provision of energy. It is for this reason that we welcome the ambitious efforts of the European Union to increase the share of renewable sources of energy and energy efficiency in order to reduce emissions such as CO₂.

This objective is being pursued in practice by our company through the so-called **Vienna Model**. The Vienna Model is based on an intelligent combination of electricity and heat production by means of cogeneration, thermal waste recycling for the provision of district heating, the expansion of renewables as well as extensive advisory services relating to optimal energy solutions and an improvement in energy efficiency. Moreover, we have set ourselves the target of meeting 50 percent of our energy production requirements from renewables by 2030.

With regard to the current debate on emissions trading

The European Commission proposed structural changes to the ETS system, presented in the report “The state of the European carbon market in 2012”. This report puts forward six options, all of which require an ordinary legislative procedure and are therefore subject to the approval of the European Parliament and the Council.

We have considered these options in the context of the challenging commercial environment relevant to highly efficient gas-fired CHP plants. Given the current market situation, characterised by high costs for primary energy sources and declining electricity prices, there is a clear need for additional incentives in order for it to be able to operate such plants in a commercially viable manner. Ultimately, commercial viability will determine the utilisation of CHP technology.

Emissions trading in the context of European energy and competition policy

Price increases as a result of the proposed changes in the emissions trading system (ETS), would further exacerbate the adverse commercial situation faced by gas-fired CHP plants. The main reason for this development is the fact that there would no longer be free allocations of certificates for electricity produced by CHP plants in the third trading period. The foreseen changes could lead to unforeseen price volatility and distortions of the market.

Furthermore, the proposed measures would not ensure that gas-fired CHP plants would be used more frequently instead of firing coal or lignite. In this context the costs of fuel are also a relevant factors in addition to the price of certificates.

The increase in the price of emissions certificates is often put forward as an argument in favour of higher investment levels in low carbon technologies. Power plant operators which have already invested heavily in efficient technologies cannot undertake high-risk investments in an uncertain risk environment.

Furthermore, a deterioration of the commercial viability of CHP plants would be contradictory to the EU’s objective of expanding the use of CHP. As stated in the Energy Efficiency Directive, cogeneration, as well as district heating and district cooling, represent key technologies to increase energy efficiency. These technologies should be promoted by the measures proposed in the directive, in order to exploit their untapped potential.

With regard to the proposed changes to the ETS

A stable and functional emissions trading system is desirable for all market participants covered by the system. In order to ensure planning and investment security, as well as security of supply, the duration of the third trading period was intentionally set over a long timeframe (2013 – 2020).

The unforeseen effects of the proposed structural changes on planning and investment security, on growth and on employment in Europe need to be evaluated critically. The situation is further complicated by the uncertainty concerning economic development in the coming years.

All of the options for structural change presented in the report are far reaching changes to the directive agreed upon as recently as 2008 and undermine the legal certainty and predictability of the system.

Before major structural changes are made, there needs to be an in-depth analysis of the impact on the entire emissions market. The options presented in the report provide an overview of possible measures, but do not analyse the subject sufficiently. The proposed options could be implemented in various forms and to various extents, which would have a significant influence on their respective impacts.

Besides this, we are concerned about further cost burdens on highly efficient CHP plants which would further reduce their use rather than promoting them, as is the intention of the EU.

Structural measures

The increase of the EU's reduction target to 30 percent in 2020 as presented in **Option A** can be achieved by a variety of means, such as Option B and Option C. These would however have different impacts. The report fails to clarify the implementation aspects.

The proposal of increasing the emissions reduction target by means of retiring some Phase 3 allowances (set-aside – **Option B**) is a direct regulatory intervention which is contradictory to the underlying principle of a market-based system.

The earlier revision of the annual linear reduction factor (**Option C**) is an even more significant intervention than the so-called set-aside option, since this would also impact on the allocation of free certificates.

The measures proposed in Option B and C are aimed exclusively at the ETS sector. In comparison with an increase in the CO₂ reduction target (Option A), this is definitely more unfavourable given that Option A, according to the report, also intends to extend the scope of the target increase beyond the ETS sector.

In principle we welcome the extension of the scope of the EU ETS to other sectors (**Option D**) since this would lead to equal treatment of different, partially competing, sectors. However, the associated impacts would depend on the specific implementation and the sectors to be integrated, and are therefore extremely uncertain. In the event of no change in the allocation of certificates, the increase in the scope could lead to major and unforeseen price increases.

A further restriction on access to international credits associated with ecologically questionable projects (**Option E**) would be the continuation of the limits already in place (no HFC-23 or N₂O, etc.). In the event of such measures being implemented, however, these should be announced sufficiently far in advance. There should also be no disadvantages with regards to previously purchased certificates. As in the case of all the proposed measures, market players require sufficient time in order to prepare for changes. Extensive exclusions would, however, possibly lead to the abovementioned cost burdens which we oppose.

The introduction of a carbon price floor or a price management mechanism (**Option F**) is the most dramatic intervention of all of the proposed measures and brings into question the entire system of emissions trading. We reject this proposal on the grounds of the severity of the intervention in a market-oriented system and the impacts thereof which cannot currently be estimated.

Summary

As set out above, it is not currently possible to reach **any well-founded decision** on the basis of the reports published by the European Commission and due to the **vagueness of the measures** proposed.

It is to be feared that the structural measures presented would lead to additional cost burdens placed on highly efficient CHP facilities and subsequently further reduce their use. This is contrary to the energy and climate policy objective of promoting CHP.

Consequently, **Wien Energie GmbH cannot support the structural measures proposed in their current form**. However, we do support the immediate initiation of constructive and open debate on the structure of the emissions trading system after 2020.

Given the challenging economic situation currently faced by the companies affected and also customers, the following requirements must be taken into account in the course of the future decision-making process:

- *Contradictions between European competition policy and the targets defined in the areas of climate and energy policy should be resolved.*
- *Market players must have sufficient time in order to prepare for changes.*
- *Final decisions relating to changes in the emissions trading system must be taken in a balanced manner, weighing up climate policy, social and economic aspects.*
- *Any interventions in the existing system decided upon must be transparent and take into account the positions of all market players in the course of an ordinary legislative procedure.*
- *In-depth analyses are necessary of the impact on the entire emissions trading market and European society.*
- *An efficient and functional market requires legal certainty and predictability.*