

Subject Consultation response
To Directorate-General Climate Action
From DONG Energy
Regarding Consultation on review of the auction time profile of the EU Emissions Trading Scheme

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DONG Energy hereby submits its views on review of the auction time profile of the EU ETS as stated in the annexes of the Energy Efficiency Directive and as subsequently proposed by the European Commission in July 2012.

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General remarks

DONG Energy sees an urgent need to address the growing surplus of emissions allowances in the EU ETS and welcomes the Commission's proposal to back-load the third trading phase of the EU ETS by withholding allowances from auctioning in 2013-2015 and reinserting them towards the end of the period. DONG Energy is nevertheless surprised to see that the Commission has not presented a more ambitious proposal with regards to both the number of allowances to be back-loaded and with regards to the scope of this review. DONG Energy believes that a much more fundamental structural revision of the EU ETS is needed than the constrained proposal presented by the Commission. As such, DONG Energy would like to have seen the proposal in conjunction with the expected Carbon Market Report and discussions about a structural revision of the EU ETS.

Our ref. TRILK

Review of the auctioning profile

DONG Energy is deeply concerned that the EU ETS is not functioning as originally foreseen at the time of negotiation of the revised ETS in 2008. At that point in time, the carbon price was in the vicinity of €20-25 per ton CO₂, with an expectation to rise to around €30 towards 2020. Generous rules for free allocation in the current trading period, use of international credits, and not least the economic crisis have meant that an excessive surplus of around 1.4 billion allowances will have accumulated by the end of this year.

DONG Energy finds it worth commemorating that the purpose of the revised EU ETS is dual. It should serve to ensure an absolute reduction in greenhouse gas emissions, but it should also serve to create the right incentives for forward looking low carbon investment decisions by reinforcing a long-term carbon price signal. This was explicitly stated in the impact assessment accompanying the revised directive, but seems to have been forgotten today where such a long-term carbon price signal does not exist. Thus, in order for the energy industry to keep faith in the ETS as a vehicle for low carbon investments, political action is highly needed.

DONG Energy welcomes the proposed review of the auctioning profile of the EU ETS as it will contribute to restoring confidence in the EU ETS, and as it will send a signal to the market that the EU is firmly committed to a well-functioning,

market-based emissions reduction scheme and long-term EU decarbonisation by 2050. That being said, mere back-loading will have a negligible impact on the financial viability of low carbon investments as well as fuel switching in the electricity sector. DONG Energy would therefore rather support a proposal with potential to create real impetus behind the EU ETS.

Choosing the right number of allowances

The Commission has suggested three numerical options for back-loading the third phase of the EU ETS, choosing either 400 million, 900 million, or 1.2 billion allowances to be removed in the years 2013-2015 (most in 2013, less in 2015) with reintroduction to the market in the latter part of the trading period. DONG Energy recognises the suggested back-loading pattern as a critical oversupply has now accumulated, and as we hope to see later and more ambitious plan to cancel the provisionally back-loaded allowances. However, considering that the current oversupply will be in the magnitude of 1.4 billion allowances even before the start of ETS phase III, and considering that the surplus will continue to grow in 2013 and 2014, the range proposed by the Commission is far too low to restore scarcity in the market.

Amending the EU ETS

Recalling the previous amendment to the auctioning regulation enabling the early auctioning of phase III allowances, DONG Energy finds it peculiar that the Commission has also presented a proposal for a decision amending the ETS directive. Sufficient legal clarity already exists as to whether the back-loading proposal is proposed in accordance with article 10(4) of the revised EU ETS directive.

Amendments to the EU ETS should rather address the need for structural changes both prior to 2020 and post 2020. First of all, such a revision should include the cancellation of back-loaded allowances, as the carbon market will otherwise be over-supplied well into the 2020's. Secondly, the linear reduction factor must be amended and aligned with (as a minimum) the 80% decarbonisation objective of the EU by 2050, as the current linear factor will only result in 70% reductions by 2050. Thirdly, DONG Energy would like to see the Commission come forward with more structural solutions to the EU ETS imbalances and consider supply-side measures such as a mechanism for more permanent flexible adjustments to economic cycles.

Best regards,

DONG Energy