

16 October 2012

**VEOLIA / DALKIA comments on the draft for a future amendment of the
Commission Regulation (EU) No 1031/2010 (Auctioning Regulation)**

Dalkia, as part of the Veolia Environnement group, is providing energy services such as industrial energy efficiency, heating & cooling networks, global building energy management, biomass and energy conversion efficiency such as combined heat and power in 20 EU Member States (40 countries worldwide).

In 2011, Dalkia emitted 12.6 million tons CO2 equivalent.

On 25 July, the EC Commission published a draft proposal of Regulation aiming at stabilising the price of CO2 allowances that sunk from 17 euros in 2011, to 7 euros mid 2012 by “backloading” a certain amount of allowances (3 possible scenarios could be considered, with amounts varying from 400 million to 1,2 billion of allowances).

Veolia/Dalkia understand that the proposed measure, if accepted by the European Parliament and Member States, would be only a first step in order to allow the Commission to propose structural solutions that are still unknown at this moment.

To that extent, we highlight that **on the short term, backloading without any further measure will not have any valuable effect on the ETS**. Moreover, it might have a perverse impact: instead of being a first step towards stabilisation, there are risks linked to the lack of visibility and lack of legal certainty related to the backloaded allowances (will they or not be set aside?). That could strengthen the erratic movements affecting CO2 prices, which is contrary to the Commission’s purpose.

As long as structural measures are indeed necessary to restore effectiveness of the EU ETS, the need for visibility is key for investment planning.

The goal that must be achieved by a revision of EU ETS auctioning system is a signal on the price that clearly drives investments for more energy efficiency and renewable energies, with a regulation that is able to prevent excessive volatility. In order to stimulate energy efficiency and renewable energy in heat/heating sector, **it is crucial to tackle the issue of distortion of competition between District Heating networks and other heating systems (collective or individual), producing “diffuse” CO2 emissions, not subject to ETS**. A reflexion aiming at bridging the gap between the 2 systems, currently leading to a real “domestic carbon leakage” has to take place on how diffuse CO2 emissions can fall under EU ETS.

Veolia/Dalkia requests consequently that all possible new rules or solutions should be examined for this purpose, for example any **mechanism that would allow all primary energy consumption used for heat/heating purposes to be equally subject to EU ETS, through an obligation on energy suppliers to non-ETS sector**.