



Document officer: KIM
Secretary: ILA
Case no.: s2012-727
Document no.: d2012-12915-

Directorate-General Climate Action - Units A.4 and B.1

15-10-2012

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Consultation on review of the auction time profile for the EU Emissions - DEA's input, Commission Regulation (EU) No 1031/2010 (Auctioning Regulation).

Dear DG Climate Action,

The Danish Energy Association (DEA) is a commercial and professional organisation for Danish energy companies. The DEA takes care of its member companies' interests and thus works to improve conditions and competition among these companies in order to ensure development, growth and well-being in Denmark. It consists of the following members: Electricity grid companies (69 companies and 99% of DSO network); Electricity trading companies (27 companies and 90% of total retail); Electricity production companies (14 companies and 60% of total generation); Danish Electric Vehicle Alliance (54 companies – all major players); Danish Intelligent Energy Association (107 companies - all major players).

The DEA strongly supports the proposal of from the European Commission (Commission) for a temporary intervention in the EU ETS by amending the auctioning profile of phase III.

Furthermore, the DEA strongly supports the backloading of the biggest option proposed by the Commission - 1.2 bn. allowances. We however urge the Commission to postpone the auctioning to as late as possible and not before 2018, due to the huge surplus of allowances.

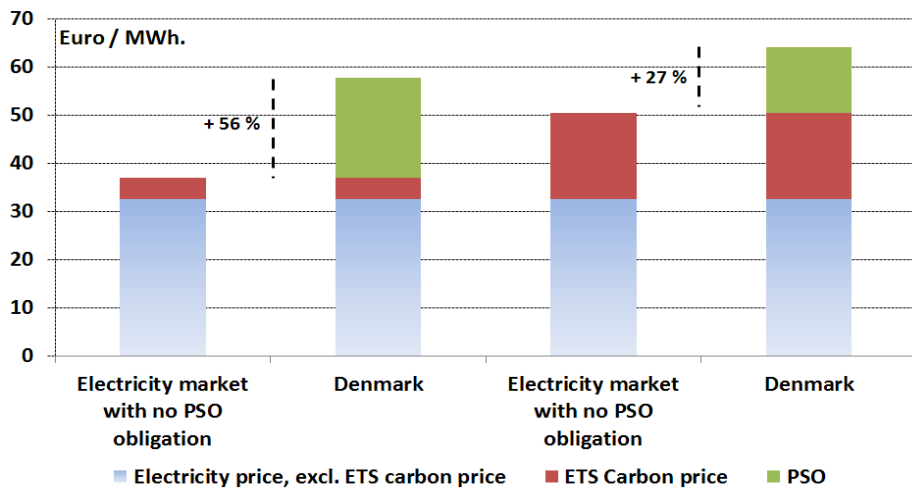
The DEA furthermore supports backloading of a larger amount of allowances than proposed by the Commission and notes the call a set aside of 1.4 bn. allowances, which was agreed in the ENVI committee in the European Parliament in the opinion on the Energy Efficiency Directive.

General comments about the ETS in connection to the future EU energy policy

1. In general the DEA Supports the ETS as a mean to ensure a level playing field in a de-carbonised smart energy system. RES deployment financed by ETS reduces the distortionary effect on intra EU competition.
2. The DEA sees a strong ETS as a precondition for a well-functioning internal energy market. The Internal Energy market is an illusion as long as national subsidies and not the EU wide carbon price drives all new investments in power generation. There is therefore a need for making the ETS fit for investors in low carbon technologies. This necessitates i) a short term fix by supporting a strong ETS through a structural reform starting with the backloading in ETS III (2013-2020) ii) Long term certainty by making ETS phase IV (2020-2030) in line with 2050 targets of 80-95% GHG reduction.
3. The DEA supports a structural reform of the ETS to make it a long term functioning instrument and concrete proposals would have to be assessed thoroughly. Options include among others, an increase of the linear reduction factor, which is currently 1,74% and a sectorial divided ETS.
4. The carbon price gives an important investment price signal for development of renewable energy sources and energy efficiency solutions. It is particularly important with a strong carbon price signal due to the following:
 - a. Europe's power stations are aging and facing a replacement or life extension. Life time of power plants: 25-50 years. 900 TWh need to be replaced before 2020 across the EU. If European decision makers do not create clarity over the medium-term and long term target during in the near future, the necessary investment framework for large scale and long term green investments will not be in place and the EU risks a lock in to carbon intensive technologies.
 - b. To do nothing is not an option. It is just choosing an extension of a fossil fired energy system and continuing Europe's extreme energy independence. Therefore a cost effective strategy is crucial where we focus on common EU measures instead of national regulation. The model of national subsidy schemes is not a long term solution.
 - c. An increase in renewable energy and other low carbon energy sources can also be seen as an insurance premium against the insecure future of volatile energy prices.
5. A stronger ETS will also decrease distortionary effect of RES subsidies on intra-EU competitiveness. Thus an increase in the carbon price will lower the PSO costs nationally.
 - a. Several EU Member States, including Denmark, finance the RES deployment through PSO costs as a tariff on end-users. Because the PSO costs are decreasing when the electricity price increase, the PSO tariff will decrease when the electricity price increase.
 - b. Restricting the number of ETS allowances will increase the carbon price, which again will lead to an increased electricity price. The increased price will be (part-

- ly) countered by a decrease in the PSO-tariff for end-users in those Member States and thereby lowering the RES subsidies.
- This rebound effect will not be present in Member States without an end-user financed PSO-scheme. In those Member States the increased carbon price will be fully passed on to the electricity price.
 - Restricting the number of EU allowances will thereby serve to decrease the distortionary effect from the PSO-tariff on intra-EU competitiveness – especially for SME's with no national rebate on PSO-tariffs.
 - The effect of ETS carbon price on spot prices and secondary effect on PSO-tariffs can be illustrated in figure 1. The figure shows the effect on end-user electricity prices (including PSO, excluding other taxes) from increasing the carbon price from 7,5 euro/ton to 30 euro/ton. The price spread will decrease from 56 % to 27 % as a result of the increased carbon price.

Figure 1



We look forward to engage in the future debate on the development of the EU ETS on the short and long term. Please do not hesitate to contact us if you have any questions the above.

Yours Sincerely,

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¹ Methodology: The electricity price, including the ETS quota price, used for the analysis, is the simple average electricity price on the Denmark West and Denmark East power market in the period 1st of January to 30th September 2012. The carbon price effect on the electricity prices is based on an assumed average of 600 g CO₂/kWh on the margin*.

The electricity price elasticity on the PSO-tariff ($(\Delta PSO - tariff) / (\Delta Electricity price)$) is assumed to 0,52 based on communication with Lennart Dahlquist from Energinet.DK.

The PSO-tariff used for reference is 20,7 euro / MWh, calculated as the simple average of the Danish PSO-tariff in the first 3 quarters of 2012.