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The Commission has invited all interested parties to submit their input to help the Commission preparing a proposal to amend the legislative framework of emissions trading. In this context the Danish Energy Association would like to express its position. The Danish Energy Association is an organisation for Danish energy companies. It is managed and financed by its member companies, mainly the electricity companies.

First of all it must be emphasised that the EU ETS should lead to substantial emission reductions and at the same time support the dynamics of the internal market for energy and ensure equal terms of competition between companies in different Member States. It is important to stress that the reduction burden must be shared between all economic sectors - both the trading and the non-trading sectors. Otherwise fulfilling the EU 2020 and 2050 targets will be extremely costly.

Given that the Member States differ substantially with regard to economic resources, production system, and potential for carbon reduction, the design of a harmonised allocation system is linked to the burden-sharing approach where some Member States accept a higher burden of emission reduction than others.

The key challenge is to **keep equal terms of competition given different burdens**. This can be solved using harmonised allocation rules to the energy sector and an EU wide benchmark in combination with auctioning.

A fully harmonised and unified way to allocate allowances could be by benchmarking with a focus on promoting technologies, which reduce greenhouse gas emissions. The design and size of the benchmarking factor must be set according to the EU level caps for the CO₂ emissions reductions. At the same time the Member States should have an obligation to allocate the allowances equivalent to the benchmarking factor. In this way a harmonisation of the allocation will ensure that similar installations are treated equal throughout the EU. To ensure proper investments in new installations, new and existing installations should use the same benchmarking factor.



While the harmonised benchmarking model will determine the amount of allowances that should be allocated to the national energy producers, the individual national caps will be determined by the burden-sharing agreement. Member States that accept a higher burden of emission reduction will receive relatively fewer allowances compared to their actual emissions and vice versa. The difference between the total national cap and the harmonised allocation to the energy sector determines the amount of allowances that the Member States may have to auction.

The burden-sharing is thus transformed into a mechanism where Member States with higher obligations under the burden-sharing regime will have less revenue from the allowances to auctioning than Member States with a lower CO₂ reduction burden. This will replace the principles in the present allocation plan where it is the energy producers in different countries that have different burdens.

The Member States need to be restricted in the use of the revenues from the allowances. For example the revenues can be used to accelerate investments in low-carbon portfolio of generation. The revenues cannot be distributed indirectly as production support to the trading sector as this will give unequal competition.

Such a system will ensure both fair market conditions and a possibility of financial compensation for those Member States that will experience extra costs when adjusting their economies to a liberalised energy market and a less CO₂ incentive production. The benchmark approach is easily used in the energy sector because it is a fairly uniform product. The system can easily be adapted to an EU-wide energy sector cap. The approach will result in a high level of transparency and reduce the potential for anti competitive effects of the ETS.

The EU also has a binding target for renewables to cover 20% of the EU total energy consumption by the year 2020. This could advocate to give renewables the same economically basis as fossil fuel. A way of doing this is to give renewables subsidy equivalent to the benchmarking factor.

Besides harmonisation of the allocation method another key-word is **predictability**. In order to send the right signals to investments in new and low carbon technologies there needs to be created certainty. The methodology of determining the sector cap and its allocation should be at least similar to the target period. In the context of the Energy Package this means knowing how the -30%/-20% target in 2020 will be interpreted. The benchmarking factor needs to be set in this context. Otherwise operators in the electricity markets will not have a reliable basis on which to predict long-term carbon tendencies.

A separate concern as to certainty and predictability is the introduction of **Carbon Capture and Storage (CCS)**. Investments in this new technology will play an important and necessary role in achieving CO₂ reductions in power generation. The treatment of CCS within ETS is vital to attract investments in these plants. In this relation the ETS guidelines should provide a clear and positive signal.

Furthermore, it is vital that the companies have a **full and flexible access to the credits** generated by the Kyoto mechanisms Joint Implementation (JI) and Clean Development



Mechanism (CDM). There should not be any quantitative restrictions on the use of such credits which could undermine the cost-efficiencies of the ETS. In particular this is important when the targets become even tighter. This, of course, requires a well-functioning system for documentation and verification of the emissions reductions.

Finally the conditions for **linkage of the ETS** to other emissions markets have to be known. Markets participants must have confidence that the linked schemes are sufficiently transparent and supported by a clear long-term framework with an appropriate compliance regime.

We hope that our comments above will be helpful to the Commission in your reviewing process on the ETS.

Yours sincerely,
Dansk Energi

A handwritten signature in black ink that reads "Lars Aagaard".

Lars Aagaard
Deputy General Director