

Directorate-General Climate Action

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Consultation response on structural options to strengthen the EU Emissions Trading System

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Thank you for the opportunity to submit comments on the structural options presented in the report "The state of the European carbon market in 2012".

Our ref. JEDPE

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General remarks

The decarbonisation transition of Europe's energy system is already underway and DONG Energy is fully committed to delivering on the EU's 2050 objective of 80-95% GHG emissions reduction. DONG Energy's strategy of moving from 85% fossil fuel and 15% renewables in 2006 to 85% renewable and 15% fossil fuel by 2040 is well underway supported by the 20/20/20 targets. These targets have to some extent provided companies and investors with crucial guidance in the short run. As a result EU's energy sector is today contributing to a greener Europe while creating growth and employment.

However - as stated in the EU Low Carbon Economy Roadmap 2050 – current policies will not allow the EU to meet its 2050 objectives. This is largely due to the significant policy gap between 2020 and 2050 including an absent carbon price signal.

Next step in the process is for the Commission to present an ambitious post 2020 policy framework that provides for much needed long-term guidance to investors in order to support low-cost and low carbon competitive energy in Europe underpinning innovative industrial recovery, economic and sustainable growth and job creation.

It is expected that approximately €325 billion of additional investment alone in renewable energy sources will be required before the end of the decade. Consequently, a policy framework that provides long-term guidance to energy companies and investors is fundamental in reaching the EU's 2050 objective of 80-95% GHG emissions reduction in a cost-effective manner.

Gas is the least CO₂ emitting fossil fuel, and its flexibility complements the introduction of more renewable energy into the system well. However, market conditions are far from favourable for gas compared to coal. A much higher

carbon price than the market provides is required for gas to displace old inefficient coal-fired power plants in the merit order.

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As stated in the report "The state of the European carbon market in 2012" the ETS is suffering from a surplus of allowances and credits compared to emissions, a situation that is expected to carry on and renders the intended and required market signals ineffective. As a consequence the ETS is far from driving investments as intended. Accordingly, DONG Energy welcomes the carbon report as a very first step toward improving the ETS that we see as the most important and efficient instrument to reach the 2050 objectives.

Structural options to strengthen the EU ETS

DONG Energy sees the EU ETS as the main policy instrument to ensure the green transition of Europe's power sector and a well-functioning system is a pre-condition for this to take place.

Back-loading

There is an urgent need to address the growing surplus of emissions allowances in the EU ETS and the Commission's proposal to back-load the third trading phase of the EU ETS by postponing allowances from auctioning in 2013-2015 to 2019-2020, will provide a first important political signal to the European energy sector. However, back-loading will have little effect without structural changes.

Structural options

DONG Energy views structural changes to the EU ETS as a prerequisite for the continued journey towards 2050 and welcomes the Commission's proposed options as stated in the report "The state of the European carbon market in 2012".

All the proposed options have the potential to ensure that the ETS delivers on its intended purpose, albeit in varying degrees, serving to ensure an absolute reduction in greenhouse gas emissions, and to create the right incentives for forward looking low carbon investment decisions by reinforcing a long-term carbon price signal, as explicitly stated in the impact assessment accompanying the revised directive.

However, it is difficult to comment on the proposed structural options in isolation, as reform of the ETS is very specific. However, a revision of the ETS annual linear reduction factor during phase 3 (option c) appears to be the most efficient way to achieve the main objectives of the ETS. Furthermore, discretionary price management mechanisms (option f) have the potential to provide investors with much needed certainty regarding long-term investor conditions, which is of utmost importance in guiding the major investments that the power sector is compelled to make.

The Commission is encouraged to develop a firm timetable for the process and to further analyse the potential and expected impact of its proposed structural options to determine how best to deliver an ETS that:

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- provides guidance now to the major investments that the power sector is compelled to make
- create the right incentives and drive low carbon investment decisions in the short and long-run
- is resilient to significant fluctuations in demand and provides stability and security for investors
- emerges as the main instrument in driving the green transition of Europe's power sector towards 2050

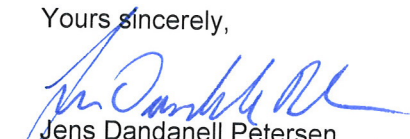
Concluding remarks

Though DONG Energy welcomes the carbon report as a very first step toward improving the ETS and providing guidance to companies and investors post-2020 we would like to emphasize the need for linking this process with other relevant processes with the aim of providing a clear and consolidated post 2020 framework.

Further, the EU ETS must emerge as the main instrument driving the transition of Europe's power sector and further analysis is needed to determine and ensure that the relevant options can deliver the required results.

Keeping the urgency of these issues in mind, a bold time schedule that will result in an ETS that fulfil its intended purpose, explicitly linked to a post-2020 framework, by 2014 is highly encouraged.

Yours sincerely,



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