Consultation on a draft for a future amendment of the Commission Regulation (EU) No 1031/2010 (Auctioning Regulation)
Response of CEZ Group

CEZ Group belongs among major power generators in the Central and Southeastern Europe producing 65 TWh annually and operating 15.000 MW. More than half of its production comes from fossil fuels. Therefore low carbon regulation – both at the European and also national level – represents one of the key factors influencing its business and development.

The European-wide ETS system was introduced as a market-based approach to curb carbon emissions in the most cost efficient way. The system shall provide for a fossil fuel generator, like CEZ Group, that the undertaken investments into low carbon technologies pay back via savings on highly priced CO2. Stemming from this basic assumption, CEZ Group has decided on and undertaken a number of investments amounting nearly 100 billion of CZK. However, the expected revenues have not been, due to the unbearably low price of CO2, materialised. Actually, all the investments now seem to be more of opportunity cost nature and any savings, driven purely by the economic decline, are virtual. Thus timely and appropriate measures need to be taken otherwise the very nature of the system, mainly its cost and environmental efficiency and thus the legitimacy of the approach shall be challenged. In the light of the above mentioned CEZ Group welcomes and appreciates the opportunity to contribute to the opinion pool stemming from the consultation.

CEZ GROUP is of the view, that:

- For the reasons correctly mentioned in the Staff Working Document, there is an urgent need to take a timely and decisive action. The action must be real – the ongoing rhetorical exercises only increase the magnitude of the problem.
- We understand that for sake of political acceptance, a two-step action is necessary. First ad-hoc backloading followed by a systemic, long term-measure.
- As for the backloading, none of the proposed options serves its purpose as none provides a sufficient remedy for the expected over-supply of allowances in the system. It means that a very basic condition of the functioning of a cap-and-trade mechanism, excess of demand over supply, is not fulfilled.
- The excess indicated by the Commission shall be more than 2000 Mt by 2020. However, the option with the largest degree of backloading mentioned in the Staff Working Document covers temporarily only 1200 Mt.
- Therefore we urgently call upon the Commission to come with a proposal higher than the option with the largest degree of backloading indicated in the Staff Working Document.
- As for a systemic solution, we strongly believe that it will represent a fundamental ETS reform, aiming for a well-functioning allowance market in the long run, securing investments to reach zero emissions in power sector by 2050 and preventing carbon leakage for trade exposed industries.
- Finally, we require the Commission to come up with a well-balanced and timely proposal on a short-term measure and to release the report on carbon market development including a longer-term, systemic measure as soon as possible.