

EnBW Opinion on the Consultation of the European Commission on the Review of the Auction Time Profile for the EU Emissions Trading System (ETS)

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1 Key Points

- EnBW is actively engaged in the systematic transformation of the energy system towards sustainable, efficient, low carbon generation and invests heavily in the development of renewable energies, energy efficiency, the modernisation of the conventional power plant fleet and grid and storage development.
- EnBW therefore welcomes an ambitious climate protection policy, both on a national as well as on a European and international level. In order to achieve the climate protection goals – including decarbonisation of the energy sector by 2050 – a robust framework is called for.
- The EU ETS is the central instrument of European climate policy and needs to be strengthened in order to set incentives for investments that will ensure the achievement of long-term climate goals (2050).
- The significant excess supply of certificates has resulted in a lowered appeal of low carbon generation, impeding any steering effect exerted by the EU ETS. EnBW therefore sees an urgent need for action in order to reinforce this desired effect of the ETS.
- EnBW welcomes the proposal of the European Commission to bring about a temporary and significant reduction of certificates ("back-loading") by effecting a change in the auction schedule within the framework of the Auctioning Regulation to restore the steering effect of the EU ETS as soon as possible. A quantity reduction should therefore be oriented towards the upper limit of proposed quantities.
- In order for this steering effect to endure, EnBW deems it crucial that the EU climate goal for 2020 is raised to 30 per cent, and that an EU climate goal for 2030 is set as soon as possible that is consistent with the long-term target of 2050.

2 Notes on the Draft Proposal to Amend the Auctioning Regulation

a) Urgent need for action

EnBW fully shares the Commission's analysis of the working document underlying the consultation:

- While the quantity steering effect of the EU ETS is successful, the stimulation of investments cannot unfold due to current low CO₂ certificate prices, and especially those of the third trading period that will remain low. CO₂ prices at this low level have no major impact on investment decisions; instead, they are ruled out by other effects such as fuel prices.
- This price decline is primarily due to oversupply caused by the economic crisis.
- The current price is supported by expectations from corrective policy measures. If they are not realised to a sufficient degree, then a further decline in prices is expected.

Against this background, EnBW sees an urgent need for action for the intended steering effect to unfold.

b) Approval to amend the auctioning schedule

As described above, we support the European Commission in their concern to reduce the quantity of supply of CO₂ certificates.

(1) Basic approach

Since long-term measures demand time-consuming decision-making processes and with the oversupply of certificates most apparently manifesting at the beginning of the third trading period, EnBW deems a combined approach as required. They therefore support the Commission's approach to revise the auctioning schedule within the framework of amending the Auctioning Regulation and to effect a delay of the quantities to be auctioned.

We would like to emphasise that a reliable regulatory framework must be ensured for market participants. Regular and unpredictable interventions entail the risk that the EU ETS might fall victim to various influences. A predictable, objective regulatory framework is essential for necessary and reliable price signals. Therefore, we believe that changes to the regulatory framework are tolerable only in extreme cases. As a short-term measure, we believe this is the case for the one-time adjustment of supply quantities for reasons described above. In their proposal, the Commission therefore rightfully refer to the existence of an exceptional circumstance.

(2) Proposal for a reduction of quantities

EnBW advocates a quantity reduction of at least 1.2 billion certificates. In light of all uncertainties, we assume that the certificate price will not significantly exceed the average level of the second trading period.

c) Support for a tightening of targets

However, only a permanent reduction of the excess supply of certificates will lead to the price increase required to restore the investment control effect of the EU ETS. Therefore, the proposed "back-loading" measure must necessarily be supplemented with a long-term and permanent measure.

This is why EnBW supports raising the EU climate target for 2020 to 30 per cent. In addition, EnBW advocates ambitious medium to long-term targets that represent a cost efficient reduction and are in line with the provisions of the 2050 goal. EnBW therefore suggests the establishment of a binding goal for 2030.

A corresponding target for 2030 alone will, in our opinion, not be able to support prices in the short run. In addition, an adjustment of targets for 2020 allows for an improved transition between trading periods. Altogether, a correction of the target with a corresponding update would allow a permanent correction of oversupply.

3 Note on the Proposal for a Decision to Clarify the Emissions Trading Directive

A modification of the Auctioning Regulation is only to be supported if it is legally robust. In this respect, the amendment within the framework of the Emissions Trading Directive is welcome. EnBW considers an exceptional circumstance as defined in the recitals to be an essential condition.