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CONSULTATION ON THE REVIEW OF THE AUCTION TIME PROFILE FOR THE EU EMISSIONS TRADING SYSTEM

The Commission has invited comments on the draft for a future amendment of Commission Regulation (EU) No 1031/2010 (Auctioning Regulation), which provides for an auction time profile “back-loading” in the EU Emissions Trading Scheme (EU ETS).

Statkraft considers the EU ETS as the main policy instrument to stimulate reductions in greenhouse gas emissions in the EU-EEA area. We think that a cap and trade system is the best tool for cost efficient emission reductions. However, due to overlapping policy instruments and the ongoing economic crisis and subsequent lower economic activity, the current cap, which was set on the basis of historical emissions and emission forecasts, results in a huge oversupply of allowances and low EUA prices. While the EU ETS delivers on current emission targets, it fails in providing short term signals for fuel choices in daily operation of power plants as well as in providing long term signals for investments in new low carbon capacity. The latter is of special importance as investments into electricity generation have long lead times and assets long life times. Investment decisions made today will define the generation mix of 2020 and far beyond, towards a time where the power sector is supposed to be free of emissions.

Therefore, Statkraft sees a clear need for a structural reform of the EU ETS, aiming at a well-functioning market for emission allowances in the long run. Such a reform should be coherent with other policy instruments, such as the directives on renewable energy and energy efficiency. Targets and instruments need to be defined and implemented in coherence, considering and avoiding possible negative cross effects. The reform should aim at defining long term emission reduction targets and at securing long term investments in technologies and capacities that contribute to reach the 2050 target.

At the same time, we acknowledge the challenges in conducting the required structural reform of the EU ETS and the need for more time to thoroughly evaluate various measures. Therefore, as a first measure, we would prefer to solve the current crisis of the EU ETS by cancelling allowances. Given the fact that this would require an amendment of the directive, which could be difficult in the current situation, we think that the backloading of allowances can give a positive signal to the carbon market. It would indicate that the EU is committed to a strong emission trading scheme to drive emission reductions. Further, in

addition to relieving the pressure of the EUA surplus, the backloading would also give the Commission more time to evaluate, propose and implement long term structural changes. We think that it is of utmost importance to reinsure confidence in the carbon market and the ETS as policy instrument now in order to prevent a full price collapse. By tightening the liquidity in the market, the backloading could contribute to stimulate this trust.

As a conclusion, Statkraft supports the proposal on backloading. With regard to volumes and timing of backloading, Statkraft is of the opinion that as much of the auctioned volumes as possible should be reduced in 2013 and 2014 and be backloaded as late as possible, and not in one single year. We also strongly recommend that the backloading is combined with a commitment to start work on a structural reform of the EU ETS.

Yours sincerely,
for Statkraft AS



Asbjørn Grundt
Executive Vice President