European Federation of Local Energy Companies
Confédération Européenne des Entreprises Locales d'Energie

CEDEC

Brussels, 27 February 2013

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CEDEC contribution to Public consultation

## Options for structural measures for the European Emission Trading System

CEDEC, the European Federation of Local Energy Companies, with a view to a current estimated oversupply of ca. two billion European Union Allowances (EUA) in the European Emission Trading System (ETS)[1], has continuously supported the proposal for a backloading of 900 million EUAs, brought forward by the European Commission in 2012. However, while CEDEC considers the backloading a good short-term measure, it is insufficient to reach a stable carbon price at a level that encourages investments in high-efficiency and low-emission technologies.

Given the considerably larger oversupply of currently ca. 2 billion EUAs, the backloading of 900 million certificates might –if at all- only have a temporary price effect. Due to the rather short period until their foreseen re-introduction into the market, the impact on the price of allowances might be negligible if not none at all.

For this reason, CEDEC believes that further structural measures are necessary to restore the ETS' effectiveness and credibility in the long-term. The ETS is indispensable for strong and stable price signals in order to direct investments permanently towards sustainable and safe low carbon technologies in Europe. In the following, CEDEC will give its view on the options proposed by the European Commission in its carbon market report.

On a different note, CEDEC would like to stress however, that an updated modeling is necessary in order to project a clear picture of a future development within the ETS. The current modeling does not include the impact of the prevailing economic crises in Europe which has led to fewer emissions as well as the impacts of other EU policy measures, e.g. the recently adopted Energy Efficiency Directive. Therefore, CEDEC suggests a new model with an impact assessment of all proposed structural measures.

Concurrently, CEDEC would like express its position that in order to achieve long-term stability and credibility of the ETS and to underline the EU's energy and climate ambitions, legally binding targets for GHG emission reduction in 2030 should be set.

This target should be incorporated in an integrated framework with legally binding targets for renewable energy and energy efficiency in a comprehensive energy and climate package to be proposed as soon as possible in order to create security for investments in renewable energy, energy efficiency technologies and services and smart energy infrastructure.

[1] European Commission, Staff Working Document (2012)234 final

**Increasing the emission reduction target in 2020**

In light of the recently started third trading period of the ETS; CEDEC recommends an increase of the emission target for greenhouse gases to at least 25% compared to 2005 level by 2020. This measure would entail a combined effort by the industrial sectors covered by the ETS and the non-ETS sectors. As an implementation mechanism within the sectors covered by the ETS, CEDEC suggests a single permanent set-aside of the necessary allowances. This measure would have an immediate effect on the number of certificates on the market and therefore have an immediate impact on the price.

The move to a 25-30% domestic emission reduction would entail several benefits. Not only would it help to achieve the EU's 2050 decarbonisation agenda and achieve the envisaged goal of limiting the global temperature increase to about 2° Celsius. It would encourage a fuel switch from coal to gas and drive investments in renewable energy technologies, which allow for the exploitation of domestic resources, and decrease the dependency on energy imports and costs for imported fuel costs.

Additionally, the mostly decentralised generation of energy from renewable energy (often owned or facilitated by local energy companies), is expected to create at least 417.000 domestic jobs until 2020[2].

**Permanent retirement of EUAs in phase 3**

Due to the missing political support for a more ambitious goal for the EU's greenhouse gas emissions reductions, CEDEC endorses a permanent retirement of EUAs close to the current oversupply to mitigate the currently low carbon price. A cancellation of EUAs could be implemented rather easily and swiftly. This would have an immediate effect on the number of allowances on the market and hence the price. Investor security in low-carbon technologies and a fuel shift from coal to gas, especially in combination with ambitious targets for 2030 would be restored rapidly and sustainably.

**Early revision of the annual linear reduction factor**

CEDEC does not endorse an early revision of the annual linear factor of 1.74% p.a. as this measure would have an impact only on the ETS sectors. In contrast to an augmentation of the GHG reduction target it would therefore not imply an effort-sharing with industries in direct competition. While for instance high-efficiency cogeneration plants are covered by the ETS sector and therefore buy GHG allowances on the market, traditional heating systems are not covered by the ETS and hence enjoy a competitive advantage.

**Limit access to international credits**

It is indisputable that without the largely under-estimated influx of international credits the current surplus of EUAs would be substantially lower. For this reason, CEDEC suggests to largely limit the access to international credits, mainly to ensure investor security about the domestic investments in sustainable low-carbon technologies.

[2] European Commission: http://ec.europa.eu/europe2020/pdf/themes/13_energy_and_ghg.pdf

**Extension of the scope of the EU ETS to other sectors**

Generally, the extension of the scope of the ETS to other sectors appears sensible; as ideally all European GHG emissions should be covered by the ETS and thereby a level playing field could be achieved between technologies. For instance, equal conditions for traditional heating systems and cogeneration plants could be achieved by including the former in the ETS. However a careful evaluation of potential sectors needs to be made as new complexity would be added to the system aggravated through large opposition by stakeholders that is to be expected. Therefore, the measure seems inadequate to restore the credibility and effectiveness of the ETS in the short-term.

**Discretionary Price Management Mechanisms**

With regard to price management mechanisms, such as a carbon floor price and a price management reserve, CEDEC does not support such measures, as these would effectively change the current quantity-based market character of the ETS.

**CEDEC background information**

CEDEC represents the interests of local and regional energy companies.

CEDEC represents ca. 1500 companies with a total turnover of 100 billion Euros, serving 75 million electricity and gas customers & connections, with more than 250.000 employees. These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid & metering operators and energy (services) suppliers. Through their high investments, they make a significant contribution to local and regional economic development.