

IBERDROLA'S RESPONSE TO THE EC PUBLIC CONSULTATION ON THE REVIEW OF THE TIME PROFILE OF THE EU ETS AUCTIONS

16th of October 2012

0. Introduction

In July, the European Commission (EC) presented a proposal to change the time profile of the auctions contemplated in the European Emission Trading Scheme (EU ETS) and invited all interested parties to give their opinion on its proposal.

The EC also announced the presentation, at the end of year, of structural measures to reform the operation of the EU ETS.

This note contains IBERDROLA's response to this consultation.

1. Key messages.

IBERDROLA supports the overall objective that the increase in the average temperature must not exceed 2° C, as well as the Community's objective of reducing GHG emissions by 80-95% by 2050. We are firmly committed to the achievement of both objectives.

We also consider that the EU ETS is the best tool to achieve both objectives in an effective and efficient manner, even though we are aware that, at the present time and mainly due to the economic recession, the EU ETS is not giving price signals high enough to incentivise investments in low-carbon technologies.

However, we have serious doubts that the EC's proposal to modify the time profile of the auctions ("backloading") during the period 2013-2020, would be the most effective way to encourage such investments. This measure will most likely be viewed as a short-term intervention in the market that will represent a precedent and will generate uncertainty for the agents that operate in this market and, in this way, reduce the long-term regulatory stability required by these investments.

From our point of view, a stable regulatory framework for the EU ETS, both during the 2013-2020 period and in the post-2020 one, is the best way to promote the necessary investments. In addition, we believe that it would be desirable for the announced structural measures for the post-2020 period to be submitted and discussed as soon as possible in order to ensure compliance with the objectives of the EU about climate change in the long term (2050).

2. The problems of backloading.

The proposal presented by the EC establishes a mechanism that would delay the auctioning of emission allowances from the earliest stages of the EU ETS 2013-2020 to the end of that period. Its objective is to raise the price of the allowances in the early stages in order to encourage investments in low emission technologies in the short term.

However, in the opinion of IBERDROLA, this measure implies an intervention in the market that will worsen, even more, the uncertainties associated with the current economic situation and that will, ultimately, increase instability and reduce investments.

In addition, we consider that the consequences of this intervention are unpredictable. GHG emissions are influenced not only by investments in energy infrastructure and energy efficiency measures, but also by the financial and economic situation both in Europe and globally. Therefore, it is unclear whether the withdrawal of a specific number of allowances would lead to a sufficient increase in the price of CO₂ to encourage additional investments in low emission technologies.

In conclusion, an intervention such as that proposed does not guarantee in any way that the desired objective will be achieved. It may instead lead to an increase in regulatory uncertainty and, ultimately, to additional interventions without guaranteeing sufficient increases in CO₂ prices and as a consequence low carbon investments.

3. Stable framework at long-term for the EU ETS in the post-2020 period.

The energy sector is characterized by large investments that are recovered over long timeframes, so it requires, probably more than other sectors, a stable framework which provides confidence to investors.

IBERDROLA considers that the best way to promote investment in low carbon infrastructures is to leave the existing framework for the EU ETS in the period 2012-2020 unchanged and to develop, as soon as possible, the framework for the post-2020 period.

We also consider that the first priority should then be for the EC to present its announced proposal for structural reforms. In our opinion, this proposal should include, among other things, binding targets for GHG reduction in 2030 which are consistent with those foreseen for 2050, and extending the EU ETS to other sectors, to the extent it is technically/economically possible.

Once debated and adopted, the new framework would set objectives and provide long term signals on the need to reduce emissions. This would provide a sufficient guarantee to take investment decisions in low carbon technologies. In addition, such long term signals would also have a positive influence in the prices for CO₂ in the 2013-2020 period.

4. More coordination between energy policies.

Finally, IBERDROLA considers it is necessary to have a greater coordination across EU energy policies which have a direct influence on CO₂ emissions, especially those aimed at the promotion of renewables and energy efficiency.

Up to now, the decisions and objectives on these policies have been taken in an independent way, without taking their interactions into account. This could lead to an inefficient enforcement and achievement of the individual targets in each one of these policies.