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ELECTRICITY FOR EUROPE

EURELECTRIC comments on the European Commission discussion paper on volumes of allowances needed to be auctioned prior to 2013

The Union of the Electricity Industry - EURELECTRIC wishes to state its view on the DG CLIMA Discussion paper "Assessment of any allowances to be auctioned prior to 2013 pursuant article 10(1) of the Auctioning Regulation".

Relevant factors for fixing early auction volumes

EURELECTRIC believes that the list of factors reported in the discussion paper are pertinent and of high importance in determining early auctioning volumes.
Nevertheless, several key factors have not been addressed:

- **Failure to deliver the Registry and Common Auction Platform on time.**
  Meeting deadlines in implementing EU ETS provisions has always been quite challenging. Moreover, setting up an adequate IT infrastructure is likely to present further challenges. The recent breaches in registries' security have particularly showed the need to ensure that all necessary actions are fully tested and properly implemented before trading occurs.
- **Certainty on the timetable for the release of allowances**.
  The Commission (and the EIB) should set out the timetable and volumes for early auctioning and the release of the NER 300 allowances as soon as possible.

In particular, given the recent challenges registries have experienced in terms of security of the IT infrastructure, **we call on the European Commission to communicate, as rapidly as possible**

- a detailed roadmap leading to effective, fully-functioning registry and common auctioning platform;
- a clear calendar for early auctioning.

Other important elements to be taken into consideration are the need for:

- member states to provide greater clarity on their plans for managing surpluses from new entrants reserves in Phase II (2008-2012);
- a coordinated timetable to ensure that the NER300, early Phase III, and Phase II NER surpluses come to market in an orderly fashion.

Defining adequate early auction volumes

The Commission discussion paper identifies 100 to 300 million the range of allowances to be auctioned prior to 2013, on top of NER 300 allowances. We would tend to agree with this estimate.

The next question is which number should be chosen. Taking into consideration the latest debate on the topic, including voices advocating for no early auctioning at all, we would like to elaborate on the following three issues:

1. The need for early auctioning

Some stakeholders have advocated that there is no need for early auctioning, given the changed hedging strategy of electricity companies. While recognising that changes have occurred, this does not mean that electricity companies in 2012 will not hedge their 2013 position. The following graphic would probably help in better understanding the reason for this:

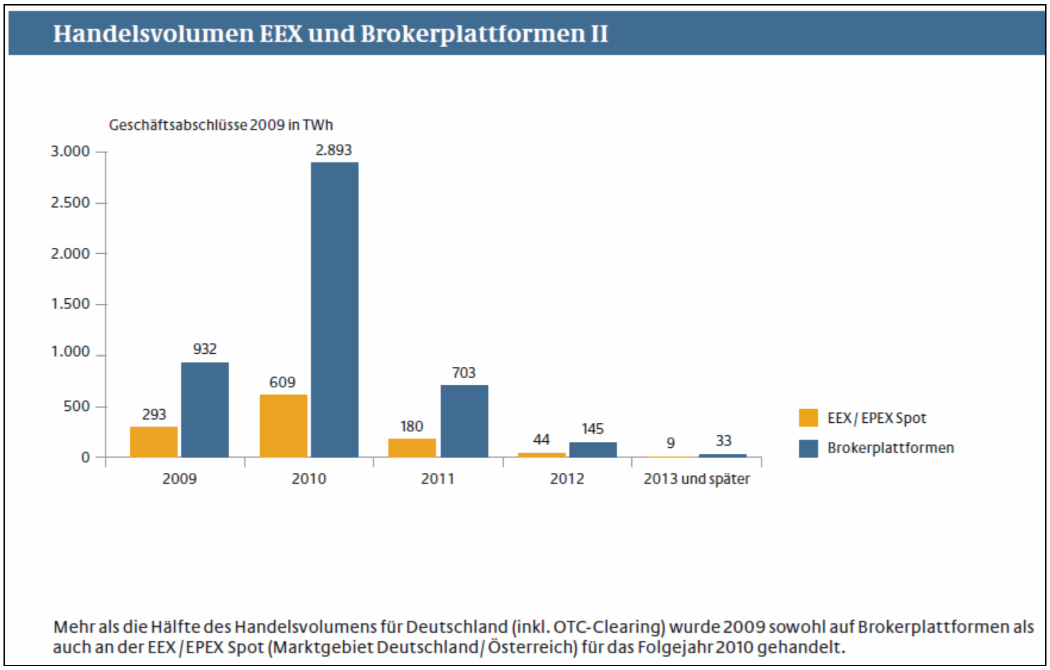

Figure 1 Source: Bundesnetzagentur - the German regulator. The graph shows spot and total amount of traded volumes in the German and Austrian market.

As can be seen, most of the trading in year 1 (2009) is either for that year or for the subsequent year. Thus in 2012 buying for 2013 will occur and access to early auctioning will therefore be needed.

Moreover, we would also stress that some advance auctioning remains essential as a "proof of concept" and to keep the process on track. Some early auctions will be required to reassure the market that the Commission can deliver an operational registry and auction platforms in time for Phase III.

In summary: early auctioning is needed to ensure a smooth transition to the third trading period.

2. The risk of “over-supplying” the market

Some stakeholders fear that early auctioning would depress the carbon market. We do not share this view:

- “Early volumes” are not “additional volumes”: they will be reduced from 2013 and 2014 total allowances. Market operators are aware of this and it would be reflected in their strategies;
- Early volumes need not come to the market at once. If properly managed, by introducing small volumes equally spread throughout the year, major shocks in the market will not occur.

3. The risk of “under-supplying” the market

If there is a gap between the second and third trading period, there is a severe risk of price spikes in the carbon market. While recognising that the risk of a "supply shortfall" and the attendant need for forward sales and/or significant early spot volumes has receded significantly, this risk should not be ruled out entirely. This is especially relevant if the expected volumes do not come to the market in the expected timing and quantities.

For these reasons, taking also into consideration the many uncertainties in the market, we call on the Commission to have as top priority the need to avoid any risk of under-supply of allowances in the market.