



- Consultation response -

Europex response to the Commission consultation on the strategy for long-term EU greenhouse gas emissions reductions

Brussels, 9 October 2018 | Europex, the Association of European Energy Exchanges, welcomes the opportunity to participate in the present forward-looking consultation. In our response, we would like to underline the importance of stable and predictable energy and climate policies in the mid-century perspective. The development of a strategy for long-term EU greenhouse gas emissions reduction is an important step in this process and should provide guidance for short- and mid-term action.

The fight against climate change, the energy transition and the need for cost-efficient decarbonisation brings unprecedented challenges which the entire energy sector and society at large have to address. Being at the heart of the market, energy exchanges and market operators are already witnessing and helping to shape this energy revolution. We believe that the long-term regulatory framework should keep focusing on reducing emissions, keeping costs low and maintaining a high level of security of supply. At the same time, it should encourage innovation and change and support new opportunities stemming from these fundamental developments.

Fostering the development of efficient, liquid and transparent energy markets will be vital in order to meet these objectives and drive the energy transition. By doing so, the EU will also maintain and develop its global leadership on energy and climate policies, as the successful integration of energy and emissions markets inspires beyond Europe.

Efficient energy and emissions markets enable cost-efficient decarbonisation

Efficient energy and emissions markets are a vital enabler for cost- and resource-efficient decarbonisation. They are increasingly important for the management of risk, the development and integration of renewable energy sources and new products, like flexibility, and provide the necessary long-term investment signals. In the power sector for example, links between the wholesale market and local energy communities will increase opportunities for 'prosumers', also empowering them, while strengthening the overall energy resiliency and

security of supply of the energy system. In the gas sector, clear price signals will help to foster important developments, including the advancement and integration of renewable gas, the extended use of gas in other sectors, such as transport, and the development and modernisation of the necessary infrastructure.

A cross-sectoral and entire energy system wide approach (including electricity and gas both conventional and renewable) is necessary to achieve the goal of cost-efficient decarbonisation. There is room for advanced sector coupling covering multiple aspects, including regulation, market design, digitalisation and innovation, and all this will be most efficiently achieved through a market-based process. While the focus should first be on closer coordination between the electricity and gas sectors, other sectors or activities – such as electro-mobility or heating and cooling – may also benefit from closer integration where there is a business case to do so.

Further market integration should remain a priority, as there is clear evidence of the welfare benefits of an increasingly integrated and interconnected European energy market. Pan-European and regional integration initiatives such as market coupling and cross-border balancing result in lower energy prices for consumers and bring considerable benefits in terms of security of supply, as well as the ability to deliver energy where it is needed, against a backdrop of a steadily increasing renewable share in the energy mix. Adequate investment in transmission capacity and a timely extension of grids must also be a priority in order to enable further integration and efficient decarbonisation.

The EU ETS must remain the EU's primary instrument in the fight against climate change

As the world's biggest carbon market, the EU Emissions Trading Scheme (EU ETS) plays a key role in cutting greenhouse gas emissions in the most cost-effective manner. The flexibility provided by the trading of emission allowances is necessary for efficient decarbonisation. At the same time, a strong EU ETS promotes investment and innovation in low carbon technologies. The EU ETS must remain the EU's primary instrument in the fight against climate change in the mid-century perspective and should continue its role as an important driver for the energy transition.

Climate and energy policies should be mutually reinforcing, and coherence should be ensured in particular between the EU ETS and energy policies which can also incentivise emissions reductions (renewables, energy efficiency etc.). As a general principle, the overall EU ETS cap on the number of emission allowances (reduced through an annual linear reduction factor) should be set such that it reflects both climate and energy policy developments and incentivises emissions reductions in addition to what can be achieved by the adopted energy policies.

Applying auctioning instead of free allocation increases the efficiency and transparency of the market and the system as a whole. The Phase IV reforms, which will apply from 2021 to 2030, aim to further increase the predictability, cost-efficiency and non-discriminatory nature of auctions as well as simultaneous and transparent access to all information for market participants. Beyond this timeframe, auctioning should remain the default method of allocating allowances to further strengthen the market.

Moreover, it is important to avoid the fragmentation of the EU emissions market through diverging national energy and climate policies. As these policies are deeply integrated at European level, any structural reform should only be done at this level.

Energy exchanges will continue to actively engage with European policy-makers and other stakeholders to contribute to the development of efficient energy and emissions markets as key enablers of a successful energy transition.

About

Europex is a not-for-profit association of European energy exchanges with 26 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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