COGEN Europe's submission to the consultation on structural options to strengthen the EU Emissions Trading System[1]

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COGEN Europe has long been a strong supporter of policies aimed at using energy in a more efficient way. Cogeneration (CHP) is a technique for the simultaneous production of both heat and electricity from a single plant which results in significant savings to the economy of primary energy and consequential reductions of GHG emissions. However the apparent paradox for policy makers is that replacing a boiler with a CHP of the same heat output will result in higher energy use and consequential emissions at the site but lower energy and emissions in the economy. Furthermore such cogeneration plants adsorb more capital and are more challenging to operate than a conventional boiler.

Since the 2008 economic and financial crisis the cogeneration sector has been experiencing a setback in many countries due an increasingly fragile policy support for this technique.

CHP and the EU ETS

The combined production of heat and power has been singled out in the EU ETS Directive as a key technology principle in delivering industrial greenhouse gas emissions reduction in a cost-effective manner, however the promotional impact of EU ETS on promoting this low carbon solution has been very limited if at all. This failure of the EU ETS lies mainly the absence of a mechanism that compensates operators of CHP units for their additional costs of EUAs to provide benefits which accrue at societal level.

The cogeneration sector welcomes the discussion on a reform of the EU ETS Directive as a powerful opportunity to produce the best architecture to encourage the operation and development of CHP installations.

[1] Directive 2003/87/EC

Comments to the six policy options suggested in COM(2012) 652 and possible way forward:

COGEN Europe would like to stress that a comprehensive and coherent political debate on the 2030 energy and climate objectives must inform this current discussion on reform of the EU ETS. A proper engagement of European and national stakeholders is required and the process for agreeing the forthcoming framework should build on the technical-economic potential and contribution of all sectors in the economy. From such a transparent and inclusive process the best options for reforming the EU ETS Directive will emerge in a more natural and consensual way.

With regard to the six policy options featured in the European Carbon Market Report:

- COGEN Europe disagrees with policy options a) and b), aiming at increasing the EU reduction target to 30% in 2020 and retiring a number of allowances in phase 3 respectively, as they are neither realistically feasible nor conducive to maintaining business confidence with regard to the handling of ETS;
- Concerning option c), our sector recognizes that an early revision of the annual linear reduction factor -to be applied as from the 4th phase- could accommodate some of the concerns related to the long term future of the EU ETS, and therefore recommends further work on it;
- Building on the discriminatory situation faced by the lower range of the CHP units, our sector advises the European Commission to further investigate option d);
- Concerning option e), the cogeneration sector is not opposed to a limitation of the use of international credits but is concerned that this may be seen by least developed countries as the EU turning its back on their opportunities for clean development;
- COGEN Europe is also of the view that the EU ETS must continue to be a market based mechanism and we are therefore opposed to policy option f).

In addition, we also would like to highlight that any reform of the EU ETS Directive should lead to a better match between European Union Allowances (EUAs) issued and the economic cycle (especially manufacturing). Such a linking mechanism should be transparent and predictable and continue to be consistent with declining free allocation.

Furthermore, COGEN Europe believes that certain sectors are better placed than others to bear a higher burden of the EU long term decarbonisation objectives.

The cogeneration sector strongly insists that the European Commission works on alternatives that provide higher and less volatile carbon price. Achieving such a goal would provide the necessary stable long term market signals for industries and investors alike.

COGEN Europe suggests that at least the following requests are examined by COM to extract the maximum GHG reductions by developing and operating CHP:

- The 3rd phase of the scheme introduces profound changes in the way the heat generated by CHP is treated and COGEN Europe believes the European Commission should review existing practice and investigate the possibility that the declining free allocation of EUAs go to CHP operators rather that heat users;
- For the smallest CHP plants covered by EU-ETS, i.e. below 30-35MW thermal input, the final end-user of heat has the alternative to opt for a conventional boiler with a rated input below 20 MW therefore allowing emissions from such heat to escape from the EU-ETS. This European legislative situation creates a clear market distortion and demands that a differentiated treatment of the lower range of the CHP market be put in place to address the distortion. The European Commission should consider raising the threshold for CHP plants to make them equivalent to heat from a boiler at 20 MW capacity;
- Our sector firmly believes that rather than penalizing cogenerated heat, the EU ETS shall account and reward the superior efficiency of a CHP plant. This could for instance be done by linking the EUAs allocation method to established primary energy savings calculation (as in the Energy Efficiency Directive 2012/27/EU) and/or to national electricity conversion factor. Such a change would offer more EUAs - attached to the heat output- to CHP units, than to boiler only installations.

Conclusions:

In support of the EU energy and climate objectives COGEN Europe stresses that whenever policy options are devised, the impact on CHPs installations shall be carefully looked at, and in particular potential for lowering risks and uncertainties to an acceptable level for investors & operators.

COGEN Europe will continue to engage with the European institutions on possible policy options to reform the EU ETS and reiterates its support for a greater use of low carbon solutions across the European economy. In particular, our sector calls on the European Commission to investigate how a revised Emission Trading System can encourage greater emission reductions in the economy by compensating CHP installations for their increased costs for making savings that accrue to society as a whole.

The cogeneration sector strongly believes that GHG, renewable energy sources and energy efficiency policies should be mutually reinforcing and is therefore concerned that single track policy approaches would be less cost effective and more risky for investors and society.