TAURON
POLSKA ENERGIA

Katowice, dn. 01.10.2012 r.

European Commission

Sygnatura : ZRF/KF/15/2012

Dotyczy: Consultation on review of the auction time profile for the EU Emissions Trading System

Dear Sirs,

In response to the public consultations on review of the auction time profile for the EU Emissions Trading System as a second largest power company in Poland we would like to express our worries connected with the adoption of the back-loading proposal.

First of all, we would like to draw your attention to the main assumptions of ETS system that were set in the very beginning of its creation. As stated in the Preamble (5) of the Directive 2003/87/EC: "*This Directive aims to contribute to fulfilling the commitments of the European Community and its Member States more effectively, through an efficient European market in greenhouse gas emission allowances, with the least possible diminution of economic development and employment*", whereas higher CO2 prices influence the electricity prices for industry and households what has a negative impact on MS economies. In Member States with a dominant share of fossil fuels in power generation fuel structure even a double-digit rise in energy prices by 2020 may be expected. In result lower economic development will cause the collective redundancies what leads to the unemployment growth. The deterioration of the EU's competitiveness by increasing the costs of electricity and in consequence – other goods during the times of economic crisis seems to be a risky idea.

Secondly, according to the Preamble (7) „*Community provisions relating to allocation of allowances by the Member States are necessary to contribute to preserving the integrity of the internal market and to avoid distortions of competition*" while due to the fact that some technologies have already been in favorable position the competition in the market may be seriously distorted. Moreover, reducing the number of allowances in the auctioning system will ultimately discourage to invest in clean-coal technologies, putting the conventional power in a dramatic position in the market. At this point we must remember that currently there are no available alternatives, and the carbon capture and storage (CCS) technology will not be commercially available until 2020.

Furthermore, during the negotiations of the Climate Package the Commission was strongly opposed to any attempts that would introduce the price caps. The main argument was that it is an anti-market mechanism whereas at the moment it seems that Commission has changed its point of view trying to interfere in the price levels (price rise) what will undermine the fundamental rule of the ETS System, namely the cost-effectiveness of CO2 emission reduction.

It is also important to remind that one of the main pillars of EU energy policy (in addition to competitiveness and sustainable development) is to ensure security of supply while reducing of the emissions cap threatens the functioning of the existing fossil-fired units, thereby jeopardizing the security of energy supply in some Members States. Furthermore, in order to ensure the energy supply for industry and citizens there is a need to keep a back-up power for constantly growing number of intermittent RES sources. Fossil-fired power plants have proved to be the most reliable ones, however higher process within ETS make their operation more expensive.

The effects of CO2 allowances price rise will be also felt very strongly by the European energy-intensive industry. It will therefore be an another "blow" to the energy-intensive sectors, i.e. iron, aluminum and steel sectors or pulp and paper industry. As a result, despite the fact that they were excluded from the obligation to purchase emission allowances up to the level of best available technology (sectors endangered by "carbon leakage"), they will be forced to spend much more to purchase energy – this will result in a drastic drop in their already weakened competitiveness.

Finally, changing the "rules of the game" while it is ongoing, introduces a lack of transparency and predictability for investors in the functioning of the entire EU market. The stability of the long-term legislation is a key factor in investment decisions in the power sector. Since the EU administration is considering intervention in the ETS at this stage of action, there is no assurance that in the near future it will not change the rules for other sectors in the least expected moment. Especially in times of economic crisis, the EU cannot afford to lose its credibility in the eyes of foreign business partners, as well as to lose competitiveness of its economy.

To sum up, hereby, we express our strong opposition to the back-loading of allowances within the EU ETS. As proved above, it will have a strong impact on the Polish power sector due to higher energy costs and less predictable investment environment. At the same time, we hope that our above-mentioned arguments will be taken into account during debate on back-loading.

Yours faithfully,

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