

Position Paper of the  
Association of Austrian Electricity Industry

## **European Commission's legislative proposal to revise the EU Emissions Trading Scheme (ETS) Directive**

## 1. General

The Austrian electricity industry supports cutting CO<sub>2</sub> emissions by 40 % from 1990 levels. In the electricity sector – with its investments often reaching a planning horizon of several decades – a predictable and sustainable long-term framework is essential. This is particularly true in times of change - as we are currently experiencing in terms of decarbonisation and transition towards an energy system relying on renewable energy sources.

The implementation of a target for greenhouse gas (GHG) emission reductions must not result in the transfer of production to other countries of highly-efficient, energy-intensive industry, or have negative effects on employment and growth. The strong position of Austria and Europe as a business location for global investors must be preserved. This calls for non-discriminatory treatment of economic sectors, individual targets for particular sectors, such as energy and industry, must be rejected.

Furthermore, recent and future developments (e.g. COP 21, effort sharing decision) should be taken into consideration.

If the CO<sub>2</sub> target is the overriding objective of European energy policy, with the ETS as its cornerstone, the system should send price signals that reward investment in and the use of low-emission technologies. In order to create a stable environment that promotes commercial activity in the long term, price formation in the ETS must be based on CO<sub>2</sub> market mechanisms, not on price fixing.

The EU ETS should remain a market based system. This is a requirement for all sectors building on a long lasting predictable legal and political framework (therefore avoidance of unforeseen short term political interventions). The EU ETS should deliver adequate price signals, in order to ensure investments in low carbon technologies and contribute to the global decarbonisation objectives.

The proposed reduction factor of 2.2 (linear reduction factor) is therefore welcomed, as it creates predictable framework for investors and market participants.

The Market Stability Reserve (MSR) is a complimentary instrument to ensure the effectiveness of the EU ETS.

The contribution of the MSR to the effectiveness of the ETS should be reviewed regularly without jeopardizing long term investments. Furthermore, in order to reduce the allowance surplus, it is necessary to avoid the creation of additional funds which re-introduce allowances back into the market, as this would counteract the objective of the increased linear reduction factor and the MSR.

## **2. Clear Rule for Carbon Leakage to safeguard Europe's competitiveness**

The industrial sector is an important customer for the energy sector and its competitiveness should be safeguarded. Those installations which can demonstrate post-2020 that they are concerned by carbon leakage should be protected as long as there is no international carbon agreement. In any case, the future carbon leakage provisions must reflect the progress being made in the international climate change negotiations with respect to the competitive situation of the affected industry sectors in the liberalized markets.

Benchmarks should be revised by the European Commission with respect to the legal and economic situation of the sector concerned to keep the administrative burden as low as possible and to provide a predictable framework for all participants in the carbon market. Too many flexible mechanisms that adjust the amount of free allowances annually would result in an extensive and unjustified administrative burden. Therefore we ask for the allocation based on real production in general at the beginning of the next trading period, because most investments have a long amortization period.

To avoid carbon leakage stronger efforts to find an international agreement on carbon emissions reduction are needed in the future.

## **3. Benchmarks should be based on technical and economic developments**

The proposal aims to introduce a system which revises the benchmarks every 5 years and reduces them by 0.5% - 1.5% every year. This could lead to a 15 to 20 percent emission reduction (depending on the sector) for the period 2021-2030. In order to avoid an arbitrary stringency, the reduction of the benchmark should be based on technical and economic developments.

## **4. Free allocation of certificates for heat production from electricity generation**

The partial free allocation of certificates for heat production from electricity generation (CHP) has to be maintained and should under no circumstances be reduced. Otherwise the already existing competitive disadvantage of heating systems within the ETS regime will be further reinforced compared to systems outside the ETS.

The Commission proposal suggests in Art. 10a (2) an adjustment of the benchmark values for free allocation to certain industry sectors by up to 1.5%, which would also concern the heat production in high efficiency cogeneration installations. The determination of the benchmark reduction will be based on a collection of data on i.e. production activity, transfers of heat and gases, emissions electricity production at sub-installation level every five years, starting in 2018. The collection of this data, which is foreseen in Art. 11(1) new second subparagraph, is very time-intensive and in some cases impossible.

In our view the benchmark for heat generated by CHP installations should be excluded from the automatic adjustment. Instead, it should be set according to the efficiency gains in the production of heat from modern gas-fired boilers, if this adjustment is not included in the regulation.

If – as suggested – the benchmark is set according to modern gas fired boilers the above mentioned data collection is not necessary for heat generated by CHP-plants. Therefore heat should be excluded from the monitoring and reporting according to the foreseen Art. 11 (1), new second subparagraph. Simultaneously, the current exemption of the cross-sectoral correlation factors 10a (5) for production of heating in high efficiency cogeneration should be maintained.

#### **5. Flexible design of the New Entrants reserve (NER 400) is welcomed**

The flexible design of the NER 400 is welcomed, in particular that as of 2021 unallocated allowances from the current and new trading period and 250 million allowances from the market stability reserve are earmarked for new ETS installations and growth in the industry sector.

#### **6. The innovation fund should be open to all sectors and also be technology neutral**

Since the energy sector's share of emissions is nearly 75%, the majority of funding should be made available to this sector. In the industry sector overlapping support through the innovation fund and free allocations due to carbon leakage provisions has to be avoided.

Small and innovative projects should be sufficiently funded. We suggest reducing the entrance burden on required technological sites.

Priority should be given to research projects that have the biggest potential for cost-efficient carbon reduction and that carry the potential for market viability in the medium term while reserving also a reasonable share of the funds to radical innovations and projects covering the whole innovation chain. Furthermore, we strongly suggest that the allocation should be transparent.

#### **7. Modernisation Fund should support the goals of the Internal Energy Market**

In general, a one-stop-shop principle would be necessary to provide simple and non-bureaucratic processes, especially for smaller projects within the Modernisation Fund.

A complex funding system is inefficient and bears high administrative costs, hence simple structures are preferable for investors.

Regarding the projects, grid infrastructure projects should be preferred, as they have a high potential for energy efficiency and also support the goals of the Internal Energy Market.

Projects that could possibly distort the market should be ineligible under the Modernisation Fund.

To improve the selection of projects, concrete criteria [e.g. cost-per-unit performance, clean energy produced, energy saved, etc.] should be introduced, as long as they don't create significant barriers for R&D projects.

Multiple support for one project must be avoided (e.g. modernisation fund and free allocations). Market distortions as experienced with renewable support must be prevented; therefore streamlining and harmonisation are important.

### **8. EU-wide harmonization of the handling of indirect carbon costs**

The use of revenues generated from the auctioning of allowances should be defined in the Commission's proposal and in addition for possible compensation of energy intensive industries with carbon leakage.

Furthermore, an EU-wide harmonization of the handling of indirect carbon costs is needed. Compensation for electricity costs due to higher CO<sub>2</sub> prices for energy intensive industries should be standardized to reduce non-transparent bureaucratic burdens for market participants. Administrative additional costs should be kept at an absolute minimum.

The costs for the compensation should, under no circumstances, lead to further cost increases for entities already covered under the ETS.

### **9. General evaluation**

The EU ETS is a technology-neutral, market based policy tool. In addition it holds the unique potential to be extended and connected with other regional Emission Trading schemes (e.g. China and California), which could contribute to the establishment of a global climate agreement. In order for the ETS to perform as a policy driver for low-carbon investment, we believe the ETS has to generate a carbon price which can help to invest in low-carbon technology.

Coherence between the three targets set for 2030 must be ensured. If set up in a correct manner the three targets could contribute to a cost effective attainment of the set energy and climate goals. Lessons from the implementation of the 2020 framework should be learned in order to cost efficiently achieve the targets set for 2030.

An example for inconsistency between the ETS and another relevant EU legislation is the Energy Efficiency Directive. While this directive strongly advocates the roll out and operation

of efficient installations (e.g. CHP), the current market conditions do in most cases not allow investment in these technologies.

The European Commission should do its utmost to convince the EU's main international trading partners to make equivalent efforts to price CO<sub>2</sub> in order to reduce greenhouse gas emissions. We believe that the main goal of the negotiations should be to reach a legally robust agreement which will include all major economies. All sectors of the economy must contribute.

For the ETS itself a long-lasting and predictable legal framework is necessary. The proposed changes for the 4<sup>th</sup> trading have to meet the requirements of stable conditions for all market participants.

**To receive more detailed information, please contact**

DI Tobias Rieder, MSc  
Generation

Österreichs E-Wirtschaft  
Brahmsplatz 3, A-1040 Wien  
Tel.: +43 1 50198 226  
E-Mail: [t.rieder@oesterreichsenergie.at](mailto:t.rieder@oesterreichsenergie.at)  
[www.oesterreichsenergie.at](http://www.oesterreichsenergie.at)