EU ETS Reform – EURELECTRIC Statement on the Impact of Overlapping Policies on the EU ETS

A EURELECTRIC statement

March 2017

EURELECTRIC is the voice of the electricity industry in Europe.

We speak for more than 3,500 companies in power generation, distribution, and supply.

We Stand For:

***Carbon-neutral electricity** by 2050*

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

***Competitive** electricity for our customers*

We support well-functioning, distortion-free **energy and carbon markets as** the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

***Continent-wide** electricity through a coherent European approach*

Europe's energy and climate challenges can only be solved by **European – or even global – policies,** not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment to** ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

EURELECTRIC. Electricity for Europe.

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This Statement on the Impact of Overlapping Policies on the EU ETS is being published in support of EURELECTRIC's Position Paper on Recommendations to Strengthen the EU ETS, of November 2016

Introduction

With the recent publication of the Clean Energy Package, European policymakers are currently considering the coherence and potential negative interactions of the various targets and instruments under the EU's 2030 Climate & Energy Framework. This discussion is taking place while negotiations on reforming the EU Emission Trading Scheme (EU ETS) are not yet concluded. In this context, EURELECTRIC reiterates its call to ensure consistency between different policies and measures, which is in line with the spirit of developing a well-functioning and effective Energy Union.

EURELECTRIC supports a strong EU ETS as the cornerstone instrument of the EU's climate and energy policy. We support the EU ETS as a key driver for market-based investments in low-carbon electricity generation. In our view, this is the best way to underpin the provision of affordable, reliable and sustainable electricity supply to support the EU economy. A well-functioning EU ETS system would facilitate market-based investments in low-carbon electricity generation and would avoid the need for other more costly policy interventions to finance the energy transition. **Strengthening the EU ETS is a no-regret option.**

A combination of short-term and long-term measures is needed to ensure the achievement of the meaningful carbon price signal that which can drive cost-effective greenhouse gas emission reductions in the EU, in line with its Paris Agreement commitments. Such measures should include increasing the Linear Reduction Factor (LRF) in Phase IV of the ETS to at least 2.4%; combined with increasing the intake rate of the Market Stability Reserve (MSR) to 24% per year from 2019 until at least 2023, as well as future-proofing the MSR by lowering the applicable thresholds (e.g. to 300-600 million EUAs across Phase IV). These measures should be complemented by provisions that mitigate an increase in the ETS allowance price and associated additional compliance costs for the electricity sector in Member States with low GDP/capita levels facing a higher burden of the increased ambition as a result of the proposed measures. The list of Member States eligible for these compensation mechanisms should also better reflect the actual economic situation of the Member States.

The additional measures proposed by the European Commission in the Clean Energy Package, if not addressed properly, may have a negative impact on the functioning of the ETS. **EURELECTRIC would therefore like to draw policymakers' attention to the need to not only strengthen the ETS, but also to protect the ETS system, while also fully acknowledging the benefits that a strengthened ETS will have on the achievement of other EU policy targets.**

The impact of overlapping policies on the EU ETS

EURELECTRIC has taken note of the European Commission's proposal for a revision of the Energy Efficiency Directive which includes a binding EU-wide target of 30% for energy efficiency in 2030. Based on the Impact Assessment that accompanied the legislative proposal, EURELECTRIC is not convinced of the economic or environmental advantages of an increased energy efficiency target.

While the electricity sector is decarbonising under an ever decreasing ETS-cap, the sectors with enormous potential for energy efficiency improvements with real impact on climate, energy security and competitiveness lie outside of the ETS (such as buildings and transport). Achieving deep decarbonisation and efficiency through electrification provides a powerful pathway for these sectors.

In this context, we stress that related policy instruments, such as a well-functioning EU ETS, must not be negatively affected by such an increased target.

The increased energy efficiency target[1], together with the effect of continued renewables support in the period post-2020, as well as other additional climate related measures in the ETS-sectors, will have a potentially significant effect on the supply/demand balance of ETS allowances. If not appropriately addressed this may lead to distortions in the European carbon market. EURELECTRIC is particularly concerned with the interactions between energy efficiency and other energy and climate related targets and instruments, which must be highlighted in this context.

EURELECTRIC is also concerned by the Commission's Impact Assessment on the revised Energy Efficiency Directive which estimates that 2030 price levels of ETS allowances under the increased ambition scenario would be significantly lower compared to a 27% target. Subjecting the ETS to such dramatic changes could discourage investments in low carbon solutions and infrastructure across the ETS sectors.

Moreover, the Commission's Impact Assessment also highlights that the imbalance between supply and demand in the EU ETS caused by ambitious energy efficiency policies might not be sufficiently counteracted by the Market Stability Reserve. Ignoring this would, on the one hand, severely undermine the ETS reform's objective of enhancing predictability and stability of the system, while further negatively affecting the confidence of market players in the carbon market. **This approach would also increase the risk of introduction of additional measures at the national level, which would further weaken the EU instrument.**

We believe that the particular timing of the current political agenda allows, and obliges, policymakers to take a holistic approach in considering all the targets and measures in the EU's climate and energy framework for 2030. This is also especially crucial in the context of developing a coherent and effective Energy Union project. We believe that policymakers must address the issue of policy overlap from several angles concurrently: the reform of the EU ETS; the Effort Sharing Regulation; the energy efficiency target levels; as well as the discussion on whether or not to continue allowing support schemes for renewables.

[1] Compared to what was agreed in the European Council conclusions of October 2014.

We stress that this window of opportunity must not be missed as a consequence of consideration of each of the policy instruments individually (a 'silo' approach). **Adopting a holistic approach becomes all the more urgent in view of the advanced stage of discussions on the EU ETS reform proposal.**

The European electricity sector therefore reiterates its call for proper recognition and management of the impact of European policies and implementing instruments on the overall economic efficiency and environmental effectiveness of the EU ETS.

Addressing the impact of policy overlap on the EU ETS

EURELECTRIC proposes the following three measures to immediately address the impact of policy overlap on the EU ETS:

1. **Ensure that the EU ETS is well-equipped to adapt to future changes in demand resulting from policy overlap.** Strengthen the MSR's design parameters by increasing the intake rate of the MSR to 24% per year from 2019 until at least 2023, as well as future-proofing the MSR by lowering the applicable thresholds (e.g. to 300-600 million EUAs across Phase IV);

2. **The revised ETS Directive must include provisions for an agreed methodology to assess, in a transparent manner, the impact of other policies and measures on the EU ETS.** This must be complemented by a methodology to minimise the impact and appropriately recalibrate the supply side in order to overcome the structural impact of additional national and EU measures.

3. **An improved governance process which clarifies and provides foresight of the impacts of the additional policy measures must be developed,** allowing for full dialogue between Member States and the Commission. The main objective of the Energy Union Governance Regulation should be to ensure the cost-effective implementation and achievement of the 2030 headline targets by avoiding overlaps, exploiting synergies and facilitating the achievement of the internal energy market. This is essential to ensure the protection of a cost-effective and market-based approach to decarbonise the European power sector and the European economy.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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