Revision of the EU Emissions Trading System (EU ETS) in ENVI Committee

Eurelectric Amendment Recommendations

May 2022

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

WG Climate Change & Decarbonisation

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Eurelectric is pleased with the overall direction of the EU ETS discussion in the Environment Committee so far.

Eurelectric support the European Commission overall ambitions for the EU ETS

Eurelectric continues to support the Commission proposal calling for an **Increased linear reduction factor (LRF)** to 4.2% in combination with a **one-off reduction** of 117 million allowances by 1 January 2024. It is only logical that the LRF is revised in line with the revised 2030 climate target, suggesting a significantly higher LRF is needed than today. Early action before the mid-20s is key for investor predictability and cost efficiency purposes.

Eurelectric is pleased with the EP decision to have a Maintained Market Stability Reserve (MSR) intake rate of 24%. This is crucial in order to keep a strong potential for tackling new EU ETS market imbalances that might occur in the future.

Going forward in the ENVI committee, Eurelectric support the following key amendments:

Key Amendments supported

a. Innovation Fund increase and authorise use of CCfDs

i. Envi Draft Compromise amendment 12[1]

Justification

We support an Increased Innovation Fund and introduction of Carbon Contracts for Difference in its scope. Both are highly needed for reaching the new 2030 climate targets for industries and the power sector.

b. Lowered Market Stability Reserve Thresholds

i. Amendment 1547[2]

ii. Amendment 1548[3]

Justification

Eurelectric believes that this buffer zone will actually weaken the effectiveness of the MSR (ceteris paribus) and therefore proposes to lower both the MSR buffer zone's upper level (1,096 million) and the upper threshold for hedging (833 million). The European Commission suggests it is maintaining the existing upper threshold for hedging at 833 million as lowering it would lead to market uncertainty. Eurelectric does not share this assessment and actually thinks that lowering it would improve the effectiveness of the MSR.

1 for EPP, S&D, RE, Greens, ID, ECR, The Left

2 Proposed by: Jytte Guteland, Mohammed Chahim, Milan Brglez, Petar Vitanov, Tiemo Wölken (633-989 million allowances)

3 Proposed by: Emma Wiesner, Claudia Gamon, Jan Huitema (700-1000 million allowances)

c. Inclusion of Hydrogen in Products Benchmark changes

i. Amendment 1659[4] and 1660[5]

Justification

For **hydrogen**, the product benchmark refers to steam reforming of hydrocarbon feedstock, but the production of hydrogen through electrolysis is not described. Once an installation for example switches to hydrogen based on electrolysis using renewable or low-carbon electricity, it would fall out of the scope of the EU ETS Directive and therefore no longer be eligible for free allowances. Additionally, the lowering of daily production capacity to 10 tonnes per day is necessary to effectively contribute to the deployment of innovative technologies and not rule out state-of-the-art electrolyzers.

d. Use of national carbon revenues

i. Amendment 263[6]

Justification

We welcome directing all auctioning revenues to climate-related activities to empower member states to finance the energy transition. Because auction revenues should be available for financing the energy transition, priority should be given to this instead of the integral EU budget as own resources.

Key Amendments to be rejected

a. Proposal to reduce the Modernisation fund from 2.5% -> to 1.25% and exclusion of Natural Gas and Nuclear projects

i. Amendment 74[7]

ii. Envi Draft Compromise amendment 10[8]

Justification

To address the distributional and social effects of the transition, we welcomed the original proposal for auctioning an additional 2.5 % of the cap to financially support the energy transition of the Member States with GDP per capita below 65 % of the EU average in 2016-2018, through the Modernisation Fund. Eurelectric does believe that the additional 2.5% should be calculated for the entire period of 2021-2030 (just like the increased LRF) instead of 2024-2030.

Eurelectric believes that gas-based projects could be financed under the Modernisation Fund, provided that:

- They are carried out as part of a credible decarbonization plan in accordance with the new 2030 climate targets as well as the EU's net-zero GHG emission target of 2050.

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4 Proposed by: EPP
5 Proposed by: EPP
6 Proposed by: Alexander Bernhuber
7 Proposed by: Rapporteur Peter Liese
8 Proposed by: EPP, S&D, RE, Greens, ID, ECR, The Left

- They are able to be upgraded for new decarbonization technologies (e.g. hydrogen) in the future.
- Electrification is technically or commercially not available at a reasonable cost.

Technologic neutrality is a cornerstone for effective placement of funds. As such, Nuclear power plays a crucial role in the European energy system and should not be excluded.

b. Proposal to delete ETS 2 for road transport and buildings

i. Amendment 1685[9]

Justification

Creation of stand-alone ETS for road transport and buildings. Eurelectric agrees that other sectors should be subject to carbon pricing with a dedicated GHG reduction target in order to share the weight of the increased 2030 climate target in a cost-efficient way. This should not lead to an automatic merging with the existing EU ETS, until the stand-alone ETS has proven to work well, and it does not negatively impact the integrity and functioning of the existing ETS. Furthermore, we call for policy coherence between different instruments in the fit-for-55 package to ensure a straightforward implementation whilst the "polluter pays" principle remains respected. This also means that double CO_2 pricing of EU ETS installations should be avoided.

c. Proposal for regulated entities to not pass on more than 50% of the costs related to the surrender of allowances for fuels released for consumption

i. Envi Draft Compromise amendment 3

Justification

Although the ETS2 should go hand in hand with flanking measures to mitigate the social impact on vulnerable households Eurelectric disagree with the fact that this would come at cost of the fuel suppliers, which may destabilize supply chains, and slow down the transition since fuel suppliers will have lesser capital available for transition investments. In addition, the proposed cap on cost pass on deviates from the "polluter pays principle" which should be the main driver to change habits and mobility patterns.

d. Proposal to exclude financial actors in the EU ETS

i. AM 1303, 1304, 1353[10]

Justification

The ETS market consists of a wide variety of participants – each of which has a critical role in the efficient functioning of the market and reaching Europe's decarbonisation targets. Financial actors play a crucial role in providing liquidity to the market, improving market resilience, and ensuring that market incentives work in practice.

9 Proposed by Jytte Guteland, Mohammed Chahim, Milan Brglez, César Luena, Marcos Ros Sempere, Estrella Durá Ferrandis, Javi López, Cyrus Engerer, Nicolás González Casares, Lina Gálvez Muñoz, Marek Paweł Balt, Petar Vitanov, Tiemo Wölken, Nacho Sánchez Amor, Nikos Androulakis
10 Proposal from EPP, S&D, ECR

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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