EC proposal to amend the EU Emissions Trading System (ETS) Directive

EDF Energy Response

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The ETS is the main European instrument to fight against climate change and it has progressively been improved to reduce emissions and to deliver a CO2 price that drives investment in low carbon technologies. Several improvements have already been made (i.e. **the Market Stability Reserve**), **with EDF's full and continued support**.

After this first step, additional measures are needed in order to ensure that the ETS is effective in stimulating investment in de-carbonised generation in the long run and becomes the central piece of EU climate policies.

The European Commission has recently adopted, as a part of this iterative process of improvement, **its proposal to amend the ETS directive to enhance cost effective emission reductions and low carbon investments on July 15th.**

Following the European Council's commitment of October 2014 to reduce the overall GHG emissions of the Union by at least 40% below 1990 levels by 2030 with the ETS delivering a reduction of 43 % (below 2005 levels), **the proposal translates the 43 % reduction target into a cap declining by 2.2 % annually from 2021 onwards (instead of the current 1, 74 %) which is a key point for the electricity sector** (and corresponds to 556 million tons of CO2 emission reduction).

The proposal provides also rules addressing the carbon leakage risk after 2020 and the free allowances allocation dedicated to the modernisation of the energy sector in the countries where it is mostly needed and, finally, creates new funds to help the transition to a low carbon economy.

EDF Energy welcomes the changes introduced by the Commission proposal as they are broadly in line with its expectations. EDF Energy has supported structural reform of the EU ETS including the annual linear reduction factor of 2.2%. EDF Energy strongly recommends a quick formal adoption of these provisions as rapid action is needed to tackle climate change, including urgent investment decisions that need to be taken in the electricity sector for the future.

Although the electricity sector is not at the forefront concerning post 2020 free allocation or compensation of indirect costs, **EDF Energy believes setting clear and objective legislative rules encouraging CO2 emission reductions in a continuous and cost effective manner (as the Commission does) is of highest importance.**

With reference to carbon leakage, while waiting for an international agreement which makes carbon leakage measures unnecessary, EDF Energy supports the appropriate protection of companies exposed to outside Europe competition, using high energy-efficient technologies. However, EDF Energy has concerns in relation with the Commission's proposal to use 250 million allowances from the Phase 3 reserve, as this would relax the carbon constraint and undermine the effective functioning of the ETS. EDF Energy strongly recommends the use of the existing set of instruments

already in place up to 2020, which could be extended beyond that date and amended if needed, instead of the use of the reserve. When it comes to compensation of indirect costs of the same sectors, EDF Energy supports pan-European rules, rather than leaving the question to MS.

In addition to the current proposals, **EDF Energy recommends the introduction of an additional and ambitious long term vision going beyond the current 2030 objective and up to 2050**. This will provide confidence and clarity for the required long term investments in low carbon technology.

Finally, one crucial part of the ETS story hasn't been addressed yet and needs to be: the interference of diverse policies. The efficiency benefits of the ETS will only be realised in full if decisions on low carbon investments are driven solely by the carbon price. The least cost solutions for low carbon will then be taken up first, resulting in the most cost-effective route to decarbonisation. A depressed carbon price due to other instruments reduces the total investment in low carbon options, because the lower market price is insufficient to drive options that would be viable at the true market price. Consequently, EU climate and energy policy must be considered in a holistic manner so that any parallel targets and support schemes (including energy efficiency and renewable) prevent negative impacts on the carbon price in the longer term.