



– Consultation response –

Europex response to Commission consultation paper for the EU climate ambition for 2030 and for the design of certain climate and energy policies of the European Green Deal

Brussels, 11 June 2020 | Europex, the Association of European Energy Exchanges, welcomes the opportunity to take part in the present consultation.

The European Green Deal must be a central pillar of the EU's recovery efforts in the aftermath of the COVID-19 pandemic and in response to the looming climate and environmental crisis. Against the background of the intended 2030 Climate Target Plan and its subsequent legislative implementation, the opportunity should now be taken to put in place a coherent EU-wide policy framework to deliver the raised emissions reduction ambition at the least cost.

With this in mind, it is important to note that efficient, transparent and reliable energy and environmental markets provide the necessary price signals to reduce greenhouse gas emissions cost-effectively while fostering innovation and change along the energy system value chain.

In this context, we would like to highlight the importance of coordinated action to reduce greenhouse gas emissions across all sectors of human activity in Europe and worldwide. In order to reach the envisaged new 2030 EU climate targets, there needs to be a holistic and comprehensive policy framework at EU level that incentivises carbon abatement in a market-based and technology-neutral manner.

Building on these principles, we would like to emphasise five main aspects in response to the consultation:

- 1) The EU ETS must remain the EU's primary instrument to reduce emissions
- 2) Energy and environmental markets are the cornerstones of decarbonisation at least cost
- 3) Market price signals drive energy system integration
- 4) Extension of the Guarantees of Origin scheme to reliably certify the origin of energy
- 5) A global role for the EU ETS

Please see our more detailed response below:

1. The EU ETS must remain the EU's primary instrument to reduce emissions, providing consistent carbon pricing across sectors

A solid cap-and-trade mechanism in the form of a strong EU Emissions Trading System (EU ETS) must be the principle mechanism to drive investment choices and enable large-scale decarbonisation.

Since its launch in 2005, the EU ETS has efficiently delivered on reducing emissions and meeting the set targets. However, for sectors outside the EU ETS the picture is more mixed with overall lower reduction levels in addition to significant differences between Member States. More coherence between ETS and non-ETS policies and a closer alignment in the definition and implementation of the future targets are needed. This is both important to strengthen the EU's internal market as well as Europe's credibility in global climate diplomacy.

Importantly, in the context of the current COVID-19 pandemic and the expected recovery phase, there is a risk of increasingly diverging national policies. The fragmentation of the EU emissions market through differing national energy and climate policies would render the common system more inefficient and ultimately more costly. Against this background, Europex strongly supports all efforts for coordination, and, where deemed beneficial, the integration of national policy initiatives into the wider EU framework.

Europex and its members are committed to contributing to the upcoming market design discussion in the context of the expected changes to the relevant EU ETS legislation as part of the 2030 Climate Target Plan implementation and the wider European Green Deal process. In order for the EU ETS to be a key driver for the progressive transition towards climate neutrality, it is crucial to maintain and further develop a market design that ensures an efficient, transparent and liquid emissions market with strong price signals.

2. Energy and environmental markets are the cornerstones of decarbonisation at least cost

An increase in decarbonisation efforts will require significant additional investments in clean generation, storage, technology, infrastructure, transmission and distribution grids and further digitalisation. A well-functioning EU internal energy market alongside efficient, transparent and reliable environmental markets are needed to ensure such investments are made in a cost-efficient manner.

More concretely, energy and environmental markets will help to achieve the set targets by:

- Providing strong and transparent price signals that incentivise investments in the most cost-efficient technologies and their deployment in the most effective locations across the Union;
- Allowing for more ambitious emissions reduction targets through transparent carbon pricing and a robust cap-and-trade mechanism;
- Fostering the integration of renewable energy sources (RES) into the wholesale energy market by maintaining coupled spot and intraday electricity markets as well as liquid forward markets, thus enhancing consumer and socio-economic welfare;
- Ensuring fair and non-discriminatory access to the grid through fair and open competition, encouraging the entrance of new companies and solutions, as well as stimulating the deployment of new technologies and services into the market; and
- Enabling decentralised energy generation and unlocking flexibility to allow more active pro-/consumers to benefit from links to fully-integrated and liquid energy wholesale markets.

3. Market price signals drive energy system integration

Energy system integration has a significant potential in fostering and facilitating decarbonisation efforts. Europex supports a vision of an integrated energy system in which the various energy carriers or forms of energy (electricity, gas, liquids, heat, cold etc.) can be linked with each other as well as with the end-use sectors (buildings, mobility, industry, agriculture) in order to optimise the energy system as a whole and produce, transport and consume energy in the most sustainable and cost-efficient way possible.

Strong and transparent price signals will facilitate investments in different system integration technologies and solutions which will be key to decarbonise various sectors of the economy. The central carbon price provided by the EU ETS should be the backbone of decarbonisation efforts in Europe. While there are and will be other greenhouse gas reduction policies, the EU ETS must remain the linking element for decarbonisation across sectors.

In this context, it is important to avoid an emissions price floor as this hampers the free and undistorted price formation of the emissions market and falls short of rewarding decarbonisation efforts according to the actual emissions reduction. Hence, such a minimum price would be contrary to the general EU ETS design and the cap and trade principle. In addition, any significant oversupply of certificates should be handled through the existing Market Stability Reserve (MSR) rather than the introduction of a floor price.

4. Extension of the Guarantees of Origin scheme to reliably certify the origin of energy

Guarantees of Origins (GOs) are a valuable tool for documenting the green characteristics of renewable energy, providing the consumer with information about its source and with the means to send a signal to the market about their renewable consumption preferences. While GOs are already well established for electricity, the revised Renewable Energy Directive (RED II) extends the scope of GOs to renewable gas as well as to heating and cooling.

A scaled-up GO framework covering both electricity and gas, and reflecting the contribution of various renewable technologies to decarbonisation, would help to incentivise the take-up of the most efficient technologies and contribute towards achieving emissions reduction targets at least cost. This becomes increasingly relevant in the context of energy system integration and technology neutral renewable targets. To ensure GOs can fully support decarbonisation, an overhaul of the GO framework should include the following:

- **Explicitly extend the scope of GOs to all electricity, gas, heat and cold production sources.** Issuing GOs for both renewable and *non-renewable* energy would empower the consumer in choosing their energy sources. Mandatory issuance of GOs for all production sources (full disclosure), would also significantly improve the transparency of the individual markets.
- **Regulate GOs and disclosure in one piece of legislation.** GOs and electricity disclosure are two sides of the same coin and should ideally be combined in one piece of legislation to increase coherence and legal clarity.
- **Institutionalise the issuing body at EU level** to enforce standards for GOs and increase standardisation across the Member States.
- **Ensure GO markets benefit from the same VAT fraud protection as for emission allowance, electricity and gas transactions,** by explicitly applying the domestic reverse charge mechanism (DRCM) to GOs in national tax legislation.

Efforts to develop a robust GO system for renewable gas should also be prioritised. While the different gases (both renewable and natural gas) should continue to be traded on the wholesale market based on their energy value, an EU-wide certificate framework should reflect the differing climate value of the various gases. The development of GOs for renewable gas should follow the following principles:

- **A commonly accepted taxonomy for the different types of gases,** including ‘renewable’, ‘decarbonised’, ‘low-carbon’ and fossil gas(es), needs to be developed, thereby reflecting their contribution to decarbonisation.
- **The information on the gas certificates should build on existing GO and sustainability certificate requirements** as laid out in RED II. An interplay with the ETS in terms of the

recognition of the certificates with respect to emissions reduction obligations should also be explored.

- **Standardisation and cross-border transferability are prerequisites to allow gas certificates to be easily tradable in an EU-wide market.** Standards should be developed in close cooperation with the relevant issuing bodies and stakeholders with the overall objective to make GOs easily tradeable.

5. A global role for the EU ETS

Europe should actively support the roll-out of effective carbon pricing systems in line with Article 6 of the Paris Agreement and foster the establishment and linking of new emissions trading systems around the world. The EU ETS can serve as a benchmark and basis to move to a global emissions market.

A first step towards this larger goal will be to (re-)integrate the United Kingdom in the EU ETS following the current transition period. Should a direct participation of the UK in the EU ETS not be possible, the second best option would be the establishment of a UK emissions trading system that is as closely as possible aligned with the EU ETS in order to link the two individual systems going forward. Once the linking of the two systems is established, this would help to ensure a market-based price for carbon emissions in the UK and to maintain the liquidity benefits from the EU ETS for both sides. Indeed, the deep level of liquidity provided by the high number of active market participants constitutes one of the key benefits of the EU ETS since its creation. Even when the carbon price and volatility were much lower, the level of liquidity in the market held up very well and market participants were able to efficiently manage their risks on a continuous basis.

About

Europex is a not-for-profit association of European energy exchanges with 29 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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