

## Inception impact assessment

### Amendment of the EU ETS (Directive 2003/87/EC)

#### Feedback from Eletticità Futura

26th November 2020

#### General comments

Eletticità Futura welcomes a revision aimed at strengthening the EU ETS, in line with the enhanced climate targets. This effort requires a coordinated strategy, where carbon pricing evolves in synergy with other policy instruments.

In the next 10 years, the GHG emissions of the power sector are expected to decrease, supporting a parallel strengthening of the LRF. This measure would make the market more efficient and stable, thus limiting the price volatility and optimizing the current shock management tools, such as MSR. The latter should be reviewed with a focus on the alignment of the upper and lower thresholds with lower cap, the need of increased intake rates and the compatibility of cancellation thresholds with an increased LRF.

Requirements on emission data should be cleared; a more frequent communication of the emission data (currently communicated once per year) could provide an almost real time view of the system functioning and of the main market indicators.

#### Transport and building sectors

The selection of ETS target sectors should be based on cost-efficiency criteria, considering technology trends, CO2 market and framework conditions such as current policy measures.

The Road Transport sector may be covered by a dedicated ETS in the medium-long term.

The Building sector may also be one of the targets. Currently the EU ETS covers upstream generation, including district heating, while environmental externalities produced by end-use systems, such as boilers, are not considered. This aspect generates evident market distortions. In order to stimulate the adoption of efficient H&C systems, with potential positive effects on end-use electrification and district heating adoption, we welcome the possibility to reform the EU ETS by extending its scope to the building sector. Nevertheless, until this extension will create a level playing field, the DH sector will still need free allocations.

By contrary, extending the scheme to waste treatment plants with heat recovery systems would hinder potential damages. In fact, if waste disposal in landfills is at the lower step of the waste management hierarchy, WTE represents a convenient technology for non-recyclable waste and energy recovery is a plus.

#### Policy options

Preventing relocation of energy intensive activities requires a special attention to carbon leakage risks. To this purpose, it should be cleared if CBAM represents an effective policy option or just a deterrent to persuade EU and extra-EU countries to go ahead with decarbonization strategies. In our opinion, CBAM should be limited to carbon-intensive sectors (e.g. chemicals, cement, steel and power). In order to avoid distributional effects in the short-term, CBAM implementation should come along with a progressive removal of free allocation.

Given the impacts of the revision on the economic systems, we suggest to devolve an increasing share of the auction revenues to the realization of RES capacity and related infrastructures (network expansion, green gas solutions, efficient district heating), the production of renewable fuels (such as hydrogen and biomethane) and the development of the electric mobility. The ETS innovation fund should support high potential and leading-edge technology such as green hydrogen. Regarding sustainable hydrogen, we believe in a demand-driven market uptake where market-based tools, such as a dedicated demand-side scheme, could cover specific hard-to-abate sectors.