

Towards an allocation methodology for the EU ETS based on benchmarking

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This presentation reflects the views of the consultants and not necessarily the position of the European Commission

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Content

- Background and scope of study contract for the EC
- Envisioned timeline
- Results of 2008 study and relation to the current study
- Key issues and indicative solutions
- Final remarks

This is a presentation on work in progress. Opinions presented here can change in the further course of the project

Background and scope

- 2008: Study on **principles** that could be applied for a benchmark based allocation methodology based on Commission proposal for a revised directive (23 January 2008). Report published in February 2009
- 2009: Assist Commission in:
 - Design of allocation rules for free allocation for all relevant activities
 - Assessment of (additional) data requirements

Results of 2008 study in a nutshell

- Quite some experience with benchmarking, but no system that can directly be used
- Proposal for 11 allocation principles for benchmarking (e.g. no technology or fuel specific benchmarks, no corrections for plant size etc.)
- Principles successfully applied to the example product groups lime, glass, pulp and paper, iron and steel

Background and scope 2009 study

Envisioned result by September 2009:

First blueprint of a Community wide harmonized methodology (including estimates for benchmark values) for the (partial) free allocation of emission allowances under the ETS post 2012 and description of data requirements to apply the methodology

Timeline and stakeholder involvement

- Contacts with relevant sector organizations at European level for individually specified sectors
- List of issues to be discussed will be distributed to stakeholders in these contacts
- First draft with key methodological choices: May / June 2009
- One review round: -> comments on key choices either taken into account or mentioned in a separate box in the report
- September: deadline of submission of final reports to European Commission
- Process after September ...

Some key issues

1. Which sectors to benchmark and how many product groups to distinguish
2. Fall-back options
3. Average of the 10% most efficient installations
4. Cross-boundary heat flows

Other issues (which activity data, substitutability between electricity and fuels, new entrant rules and benchmarking, ...)

1. Which sectors to benchmark and how many product groups to distinguish

Our interpretation of article 10a (1): where feasible, benchmarks should be calculated for the products of installations

Approach:

- Focus on product benchmarks for key activities in the EU ETS included via a definition of their products
- For the more heterogeneous group of “combustion of fuel” installations: other approaches; product benchmarks might be considered later on

1. Which sectors to benchmark and how many product groups to distinguish

Following criteria are used to determine the number of products to distinguish

- Difference in emission intensity (grouping of products with similar emission intensities)
- Share of a product in emissions of a sector
- Share of a product in the total EU ETS emissions
- Number of installations

2. Fall-back approaches when product benchmarks are not feasible

1. For sectors where no product benchmarks are developed
2. For products for which no product benchmark is developed within “benchmarking sectors”

Two main options:

- Benchmark for the heat product of the combustion installation (steam, hot water, hot oil) (*factor)
- Grandfathering (* factor)

2. Fall-back approaches when product benchmarks are not feasible

Activity	Product based benchmarks	Combustion process benchmark	Grandfathering
Combustion of fuels	Possible	Default option (combustion emissions)	Default option (non fossil fuel related process emissions)
Other activities	Default option	Fall back (combustion emissions)	Fall back (non fossil fuel related process emissions)

2. Fall-back approaches when product benchmarks are not feasible

Key remaining issues:

- Heat benchmark sector specific ?
- Factors needed to bring the methodology in line with “benchmarked” products: required and if yes, which factors ?

3. Average of the 10% most efficient

1. CITL alone not enough for the development of benchmark curves
2. No regulatory framework foreseen
3. Status of data collection differs widely between sectors
4. Confidentiality (when to share which data) is an issue

As a result – benchmarks (developed in our study, but also the adopted ones) will be based on a mix of sources

3. Average of the 10% most efficient

- 10% most efficient interpreted as 10 % most GHG efficient
- 2007 – 2008 data for installations in the Community
- Methodology should be fully transparent
- Basis for benchmark should be complete curve – corrections for outliers / smoothing, if required, should be harmonized across sectors

4. Cross-boundary heat flows

1. Benchmark based on the product consuming the heat
2. Sometimes this heat is produced by another installation

Key rule: outsourced or in-house heat production should result in equal amount of total allowances for the same heat

Solution: amount of allowances based on consumers – allowance to producers: two detailed options worked out based on case studies

Final remarks

- Key products covering many emissions can be benchmarked – the challenge is in designing a fair and transparent approach for smaller sectors and product groups
- The timeframe is very tight
- Industry puts a significant effort in this exercise
- ... for the EU ETS and beyond: let's hope this also results in data that is collected and will be used globally (e.g. sectoral approaches)

Thank you

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