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## **EU ETS Electricity CO<sub>2</sub> Emissions Factor – correct methodology needed**

Dear Director-General,

IFIEC represents the energy intensive manufacturing industries in Europe that depend on access to internationally competitive energy supplies to remain in business, which are exposed to international competition and therefore at risk of carbon leakage. The methodology for calculating the EU ETS electricity CO<sub>2</sub> emissions factor, and the adequacy or otherwise of compensation for the indirect impacts on industrial power prices is therefore a matter of critical importance to our members.

We are writing to you about our concern that the methodology most recently proposed by DG Competition is neither transparent nor relevant and would lead to a distortion of competition within Europe.

### **Metrics should reflect the extent of electricity market coupling**

The best metric for measuring price homogeneity is the covariance between markets, not the absolute price difference between them, as practiced in 2012 and currently proposed again by DG Competition.

Further investments in transmission capacity will alleviate structural price differences and further improve market coupling (covariance). Nevertheless, neighbouring national markets will not have equal prices 100% of the time until the transmission capacity between them is no longer a limiting factor and all bottlenecks are removed – something that is not currently economically viable as it would require excessive investments in transmission capacity. The existing geographical areas as identified in 2012 should therefore be maintained in phase IV.

### **Each coupled market needs its own emission factor**

Consequently, a CO<sub>2</sub> emission factor should be set individually for each geographical area in which electricity markets are coupled. For the next ETS period 2021-2030, it should be at least the same regions as in current legislation, taking into account that the New Market Design spurs market integration in the coming years.

**IFIEC Europe**

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We trust that DG Competition will take these concerns seriously and ensure they are adequately addressed in a revised and technically and legally robust methodology for establishing CO<sub>2</sub> Emissions Factors, recognising that adequate compensation is vital for ensuring European energy intensive industries remain internationally competitive.

We await your response with interest. In the meantime, should you or your colleagues have any queries about our concerns or wish to discuss them with us, please do not hesitate to get in touch.

Yours sincerely,

A handwritten signature in black ink, reading "Steinar Solheim". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Steinar Solheim

President, IFIEC Europe

A copy of this letter goes to DG GROW