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PRESS RELEASE
Brussels, 13 November 2002

Emissions Trading: Proposed EU System could block development of cogeneration

The proposed European Emissions Trading Scheme for Greenhouse Gases[1] – notably CO_2 – could create serious barriers for the development of cogeneration during the scheme's pilot phase between 2005-08.

The increased use of cogeneration (also known as Combined Heat and Power, CHP) is amongst the most important opportunities to massively decrease CO_2 emissions in Europe. Yet, during its pilot phase the Emissions Trading Scheme could possibly make investors into new CHP plants pay a "penalty" of hundreds of thousands up to several millions of Euros per year, despite the CO_2 savings which their installations achieve. This would suppress the wider use of cogeneration in Europe and directly run counter to the objective of decreasing CO_2 emissions to combat climate change.

This risk is highlighted in a position paper published today by COGEN Europe, the European association for the promotion of cogeneration. The paper gives a brief introduction on the proposed Emissions Trading Scheme. It then assesses the principal problems that the scheme is likely to give to CHP. Two examples have been calculated to illustrate the negative financial consequences that operators of new CHP plants might face under the Scheme's provisions. This paradoxical and counterproductive effect is mainly the result of the free allocation of so-called "emission allowances" to CO_2 emitting installations based on historical records ("grandfathering") during the 2005-08 pilot phase. Based on this assessment the paper suggests a number of solutions and complementary mechanisms to prevent disadvantages for CHP and to make the Emissions Trading Scheme reward CO_2 savings from CHP already during the 2005-08 period. Finally, the paper proposes how policymakers and regulators at European and national levels could integrate these into their respective policies and legislation.

The solution favoured by COGEN Europe would be the development of a coherent methodology to determine the CO_2 emissions that a particular CHP installation avoids. This saving should be taken into account when plant operators would need to submit a sufficient number of allowances to cover CO_2 emissions from their site. Such a system would allow operators to submit less allowances and give them a financial incentive to invest into new CHP or upgrade their existing CHP plants. The necessary methodology could possibly be developed together with the creation of a European-wide approach to

[1] Proposal for a framework Directive for greenhouse gas emissions trading within the European Community. COM (2001)581

For further information, please contact Dr Simon Minett or Peter Löffler
Tel: +32 2 772 8290, Fax: +32 2 772 5044, Email: simon.minett@cogen.org or peter.loeffler@cogen.org

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determine primary energy savings from CHP under the planned European CHP Directive[2].

To provide operators with free emissions allowances on the basis of their installations' useful heat and/or power output could be an alternative way of making the Emissions Trading Scheme better reflect CO_2 savings from CHP. Yet, this method would only partly capture differences in CO_2 emissions due to the use of different fuels.

Treating new CHP capacity merely as so-called "new entrant" and providing it with free allowances would only insufficiently reflect its real environmental benefits.

Finally, there is a need to prevent Emissions Trading from creating competitive disadvantages for heat from CHP district heating schemes. Exempting their heat output from the need to hold allowances would be a suitable mechanism to ensure fair conditions for these installations.

COGEN Europe urges EU institutions and national governments to integrate the complementary mechanism suggested in its position paper into the design and implementation of the planned Emissions Trading Scheme to make sure CHP will be encouraged and not obstructed.

For more information:

COGEN Europe's Position Paper "EU Emissions Trading and Combined Heat and Power. Complementary mechanisms are necessary to prevent negative consequences for cogeneration" is available on http://www.cogen.org/publications/position_papers.htm

CHP, Combined Heat and Power, or cogeneration is the simultaneous production of heat and electricity. This proven technology produces around 10% of Europe's electricity and heat requirements and has a significant growth potential, which will lead to an improved environment and greater economic competitiveness. It is a highly efficient energy solution that delivers substantial reductions in greenhouse gases and other pollutants and is the single largest solution to meeting the Kyoto Protocol on climate change for Europe.

COGEN Europe is Europe's umbrella organisation representing the interests of the cogeneration industry, users of the technology and promoting its benefits in the EU and the wider Europe. The association is backed by the key players in the industry including gas and electricity companies, ESCOs, equipment suppliers, consultancies, national promotion organisations, financial and other service companies.

[2] Proposal for a Directive of the European Parliament and of the Council on the promotion of cogeneration based on a useful heat demand in the internal energy market COM(2002) 415 final (pdf, 204 Kb)

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Tel: +32 2 772 8290, Fax: +32 2 772 5044, Email: simon.minett@cogen.org or peter.loeffler@cogen.org