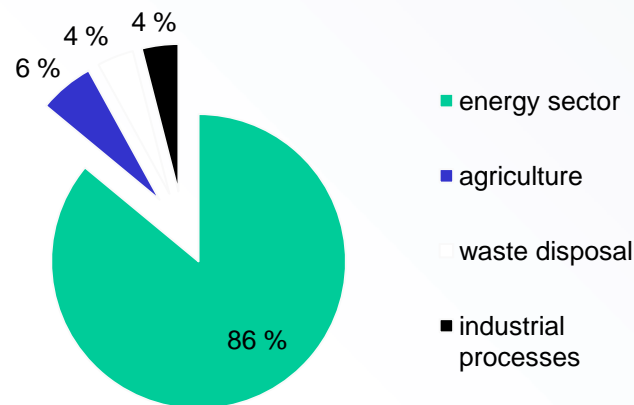
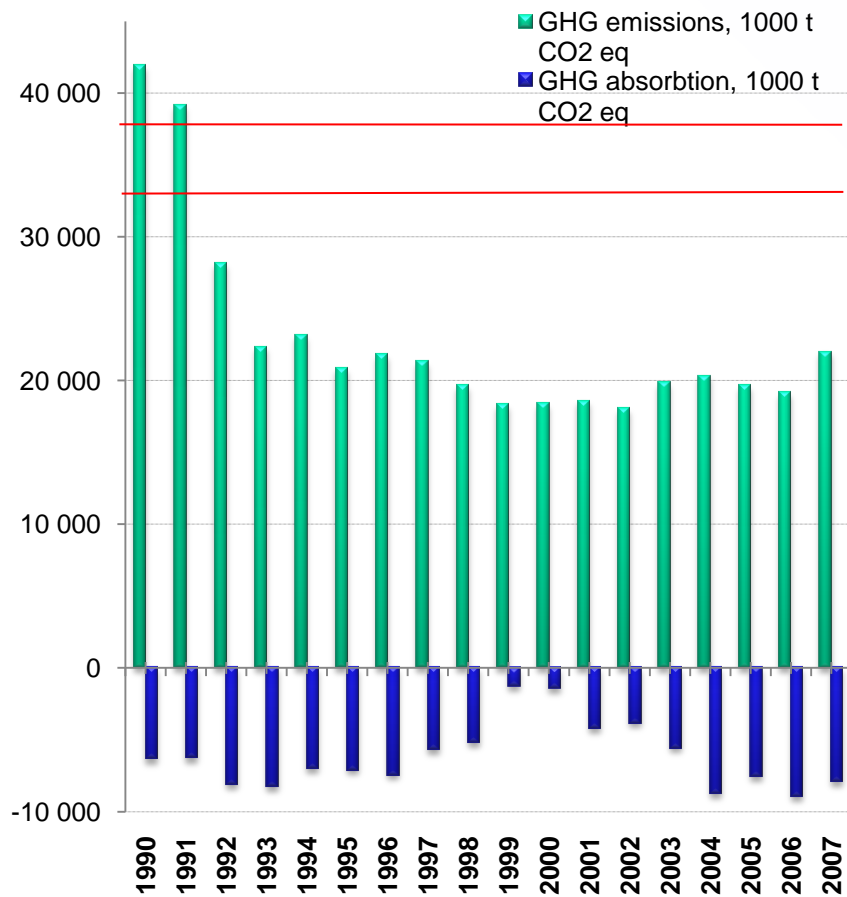


EU GHG emission trading system: effects on Estonian electricity sector



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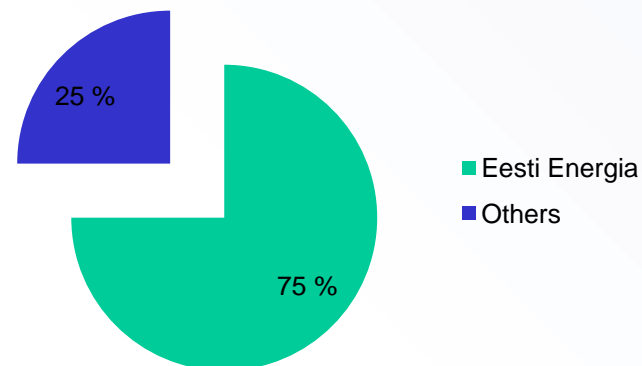
GHG emissions in Estonia



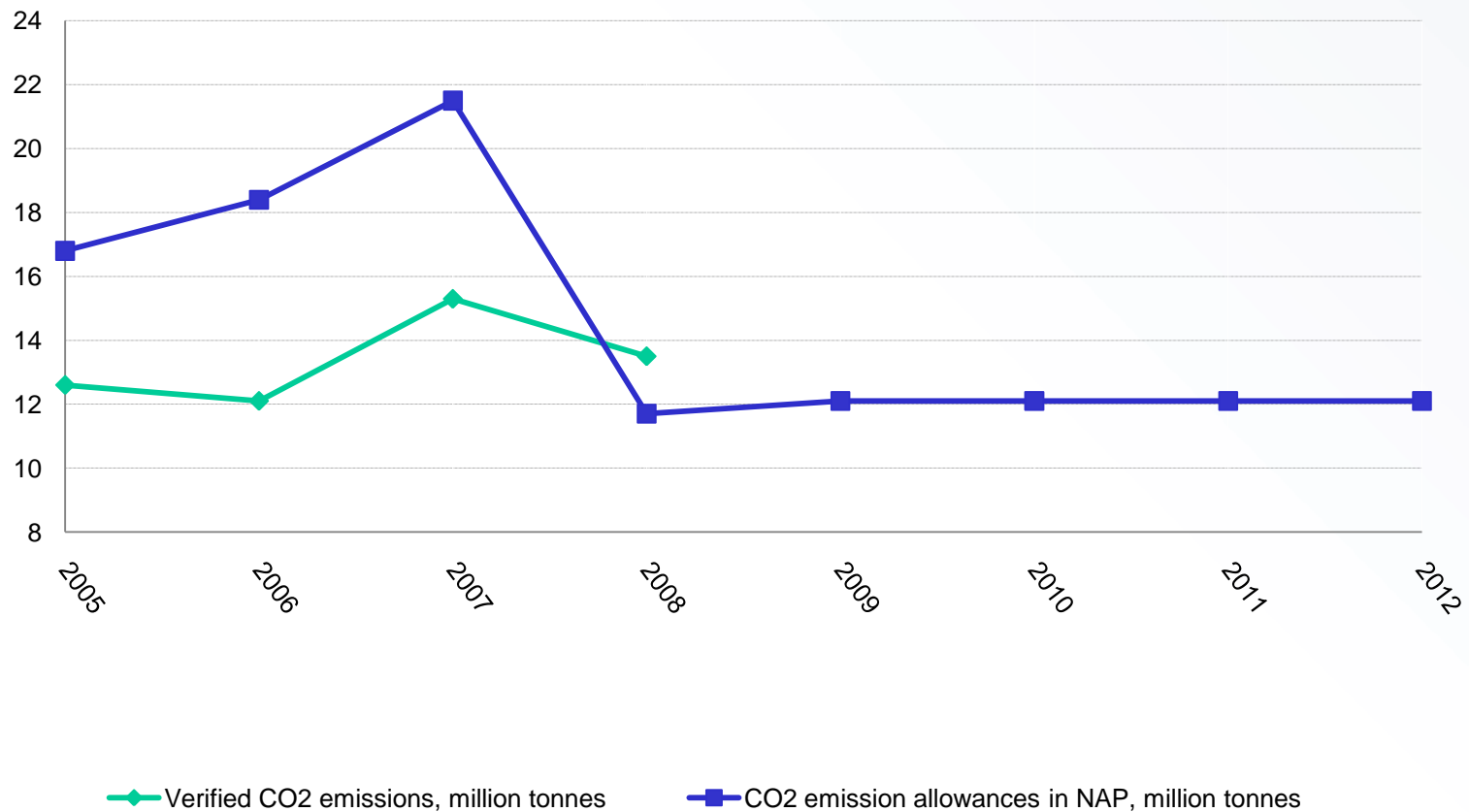
EU ETS impacts Estonia's energy production

- Majority of industrial enterprises included into EU ETS (50 installations accounting for 64% of total GHG emissions);
- Electricity production is the cause of $\frac{3}{4}$ of emissions
- Competitiveness of carbon-intensive electricity production will be affected by 2 developments:
 - Full liberalisation of EU electricity market from 2013;
 - Auctioning of EU trading allowances from 2013.
- European Commission's allowance allocation practice forces for further GHG reduction despite big emission cuts as compared to 1990.

Division of trading allowances in NAP



Allocation of emission allowances as approved by the European Commission



Audit scope and criteria

- Has the state used the EU's Emissions Trading Scheme as a measure for reduction of emissions?
- Criteria:
 - The state has proceeded from the goal of reduction of carbon intensity while deciding the national emission ceiling.
 - The principles of preparation of national allocation plan direct companies towards emission reductions.

Methodology for supporting findings about NAP-s

- Requirements of EU Emissions Trading directive compared to:
 - protocols of the working-committee responsible for compiling the NAP;
 - NAPs (2005-2007 and 2008-2012) and explanatory memorandums of the NAP (version sent to the EC with the draft of the NAP)
- Comparison of the allocated allowances with the actual verified emissions (for each company within the trading system);
- Analysis of EC decision not to approve the draft of Estonia's NAP 2008-2012 and the letters exchanged between EC and MoE after that.
- Analysis of court materials: Estonia vs European Commission (Judgment of the European Court of First Instance case T-263/07 *appeal is pending*)

Methodology for identifying investments of the participants in the trading system

- Questionnaire to the companies participating in the trading system :
 - If and how did companies participate in the process of drafting the NAP?
 - Did the companies sell allowances in the 1st trading period?
 - How did they use the money obtained from the sales of allowances?
 - How does the EU emission trading scheme affect companies' actions?
- Analysis of annual reports of Eesti Energia – information on the sales of allowances, dividend profits and how they were used.

Main audit findings: drafting the National Allocation Plan (NAP) and use of trading benefits

- EU Emissions Trading has not brought about reduction in GHG emissions due to the following:
 - The MoE drafted the two national allocation plans based on economic interests of companies and failed to take into account the need to reduce GHG emissions;
 - The money obtained from the sales of allowances was not used for investments into environmental technologies:
 - During the 2005-2007 trading period the state energy monopoly sold allowances for approximately 128 mln euros. The government decided to use these revenues for general state budget purposes.

Lessons learnt

- Difficult to come up with suggestions regarding the trading system, because the system will change from 2013 onward and rules are still unclear. As regards NAPs, findings were clearly only *ex post*,
- European Commission did not use the correct data when it decided to cut the number of allowances for the 2008-2012 period. By doing that, it interfered inadmissibly into Estonia's energy policy.

The influence of emission trading on electricity production in the future

- Because the energy monopoly's 2005-2007 trading revenues were not invested into reducing emissions, Eesti Energia now has to find other sources for their necessary investments:
 - Direct subsidies from state budget as well as partial privatization of energy monopoly have been considered.
 - Pending request to the European Commission for the approval of state aid scheme, where aid is afforded depending on the price of EUAs.
- The auctioning of allowances in the trading period starting from 2013 will most probably raise the electricity price for the consumers considerably.
- In order to remain competitive in the future, Eesti Energia has started to explore possibilities for building a nuclear power plant.

Thank you!

Full report in English is available at:

www.riigikontroll.ee

www.environmental-auditing.org