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From:	General Secretariat of the Council
To:	Delegations
Subject:	EU ETS hedging mechanism to address high energy prices – Information from the Greek delegation

Delegations will find in the Annex an information note from the Greek delegation on the above subject, to be dealt with under "Any other business" at the Council (Environment) meeting on 6 October 2021.

EU ETS hedging mechanism to address high energy prices

- Information from the Greek delegation -

Surging natural gas prices in Europe, driven by rising demand and tight supply, are pushing up electricity prices. Energy bills are skyrocketing as wholesale price increases pass through to European consumers.

Although natural gas only supplies around a fifth of Europe's electricity, higher gas prices are placing disproportionate upward pressure on electricity prices. Gas-fired power plants have become price-setting units because of higher electricity demand (given the economic recovery and lower renewable energy production due to hot weather and low wind speeds during the summer), a global surge in coal prices and the unprecedented rally in the EU carbon price.

At the same time, energy poverty across Europe is a major issue: the share of citizens reporting that they could not afford to keep their home adequately warm is high in many EU countries including Bulgaria (30.1 %), Lithuania (26.7 %), Cyprus (21.0 %), Portugal (18.9 %), Greece (17.9 %) and Italy (11.1 %). Therefore, the high increase in energy prices will inevitably have socio-economic implications. In particular, the additional energy cost to be incurred by consumers in the 27 Member States is likely to reach EUR 100 billion during the winter period 2021-2022.

A possible way to address the increasing cost to be borne by EU citizens could be a temporary hedging mechanism related to the EU ETS allowances trading funded by the EU.

This transitional hedging fund would source revenues from the EU ETS allowances scheme, possibly through exceptional additional auctioning of allowances or advance payment of expected future EU ETS revenues. A rough estimate of the amount needed for winter 2021-2022 is around EUR 5-8 billion. The allocations to the Member States would be calculated on a pro-rata basis taking into consideration heating and electricity consumption, and GDP per capita.

The Regulation for this fund would ensure that use of the hedging fund mechanism is limited strictly to exceptional price volatility situations. Furthermore, it would be reasonable to include claw-back provisions ensuring recovery of the fund based on a longer-run, smoothly applied consumer levy.

Auctioning additional allowances – there could be auctions of additional allowances that would under normal conditions be made available in the coming years. This way**,** companies would be able to buy up enough carbon credits to fully hedge their exposure to the carbon price. This would require legislative intervention and amendment of the relevant legal basis governing allowances auctioning.