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The Czech Energy Association (CEA) submit its comments on the draft COMMISSION IMPLEMENTING REGULATION (EU) determining revised benchmark values for free allocation of emission allowances for the period from 2026 to 2030 pursuant to Article 10a(2) of Directive 2003/87/EC of the European Parliament and of the Council (hereinafter "Regulation").

1. **General comment on the Commission's approach in relation to the competitiveness of EU industry**

The CEA generally opposes the proposed increase in reduction targets for the allocation of free emission allowances to industry and the energy sector. The proposal further undermines the EU's already insufficient competitiveness relative to other countries and continents by increasing the cost of emission allowances. It does not seem right to us to strive on the one hand to support the competitiveness of EU industry and on the other hand to propose the maximum possible reduction of values according to legislation in a number of sectors and benchmarks.
The proposed significant reduction of the heat benchmark (by around 50%) raises serious concerns for the competitiveness of energy-intensive industry. This benchmark covers a significant part of industrial installations and directly affects the level of free emission allowances and thus the costs of companies. Such a significant reduction in the reference values, which does not reflect the real technological possibilities, may lead to an increased risk of emission leakage outside the EU and a reduction in industrial production in Europe.

2. **Exclusion of installations with 95% emissions stemming from sustainable biomass in 2021 and 2022**

The draft Regulation sets in Annex, Part 3 Heat and fuel benchmarks the values for heat benchmark for the period 2026-2030 on the 31,2 EUA/TJ and value for the Average value of the 10 % most efficient installations in 2021 and 2022 on the 7,4 tCO2 equivalents/TJ. The Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union (hereinafter "EU ETS directive") requires in Article 10a paragraph 2 that harmonised rules on monitoring, reporting and verification of production-related greenhouse gas emissions with a view to determining the ex-ante benchmarks should be respected. The revised rules for monitoring and reporting in Commission Implementing Regulation (EU) 2020/2085 amending and correcting Implementing Regulation (EU) 2018/2066 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC (hereinafter "MRR") require from 1st January 2022 to prove the sustainability criteria of the biomass used for the production of energy in order to be considered as carbon neutral according to the rules set by the Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources (hereinafter "RED Directive"). The installation with more than 95% emissions stemming from sustainable biomass should then be excluded from the EU ETS1. The draft Regulation however does not provide any information if the list of installations considered for setting the benchmark value for heat production for the period 2026-2030 includes also installations with more than 95% emission stemming from sustainable biomass. These installations should not form benchmark value for 2026-2030 period and the calculations of both average 10% most efficient installations and the benchmark values for heat need to be reconsidered and recalculated.

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3. **Consultation with relevant stakeholders and procedural delay**

The EU ETS directive requires in Article 10a paragraph 2 the consultation of the relevant stakeholders in defining the principles for setting ex-ante benchmarks in individual sectors and subsectors. The list of installations considered for benchmark calculation (10% most efficient installations) should be also discussed during these stakeholder consultations considering for example new monitoring and reporting requirements in MRR described in previous point etc. It has to be noted that the proper consultation of the relevant stakeholders during the drafting phase unfortunately did not take place. This runs against the better regulation principle and inclusive approach and should be avoided in the future. CEA also cannot ignore that the EC is coming up with this proposal with a significant delay. The period for which these values are supposed to apply has long since begun. Industry needs stability and predictability at a time when it should be planning investments.

4. **Methodology vs. Heat Market Reality and Sample Representativeness (Top 10%).**

The current benchmark methodology calculates the benchmark value from the average of the 10% most efficient installations. A specific feature of the heat market is the significant (up to orders of magnitude) differences in heat supply between facilities. Therefore, it would be appropriate for the Commission to demonstrate that the selected facilities forming the benchmark value participate in the heat market by a relevant percentage (ideally at least 10% of heat supply). However, if this is not the case and the list of facilities includes small facilities that together do not even account for 10% of supply, it would be appropriate to reconsider the procedure. It would be more objective to set the benchmark based on at least 10% share of total heat supplies so that the benchmark result truly represents of the heat market reality.

Czech Energy Association would also like to submit following comments to the draft Regulation with focus on heat from industrial heating plants:

- **Limited availability of real technological alternatives**

Alternative solutions such as:

- biomass,
- heat pumps,
- electrification of the heat production process,

are associated with very high investment costs and significant operational and system challenges.

Biomass: The use of biomass requires costly plant conversions and does not eliminate CO_2 emissions. Another limitation is the availability of biomass in regions where there is not enough for all customers.
Heat pumps: A typical application is hot water production. Industrial heating plants produce and supply high-temperature process steam, for which heat pumps are not suitable.
Electrification: General electrification of heat production processes requires a significant expansion of the transmission infrastructure, ensuring the availability of low-emission electricity 24 hours a day.

These conditions are not yet met, which limits the possibilities for technological transformation of many plants.

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- **Methodological limitations of the benchmark**

The current design of the benchmarks does not fully reflect the real efficiency of the plants, mainly due to the assumptions made about electrification, which cannot be achieved in the short or medium term. As a result, the benchmark is tightened mathematically, not based on real technological progress.

- **Specifics of industrial heating plants (cogeneration)**

Industrial heating plants are a highly efficient part of the energy system, ensuring the simultaneous production of heat and electricity with high overall efficiency. Replacing heat with electricity-based production would increase the demand for external electricity, create additional load on the electricity system, and lead to a deterioration in system efficiency.

The current form of the benchmark leads to the unwanted effect of "punishing" the most efficient cogeneration facilities. In addition, the proposed changes may limit the motivation to develop cogeneration.

Free allocation continues to be a vital tool for mitigating carbon leakage while the industry undergoes its transition. Czech Energy Association urge the Commission to ensure that the final benchmark values are realistic, proportionate, and based on actual technological and economic reality, thereby supporting a strong and competitive European industry.

In the current challenging economic environment marked by persistently high energy prices, significant competitive pressure from third countries and ongoing decarbonisation efforts, we strongly believe that the most appropriate approach is to maintain the current benchmark levels without further tightening. In this context, the Czech Energy Association fully supports the position submitted by representatives of the Czech government.

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