The EU ETS 2.0
Leveraging on MSR

Simone Mori
Executive Vice President

EU Energy Forum

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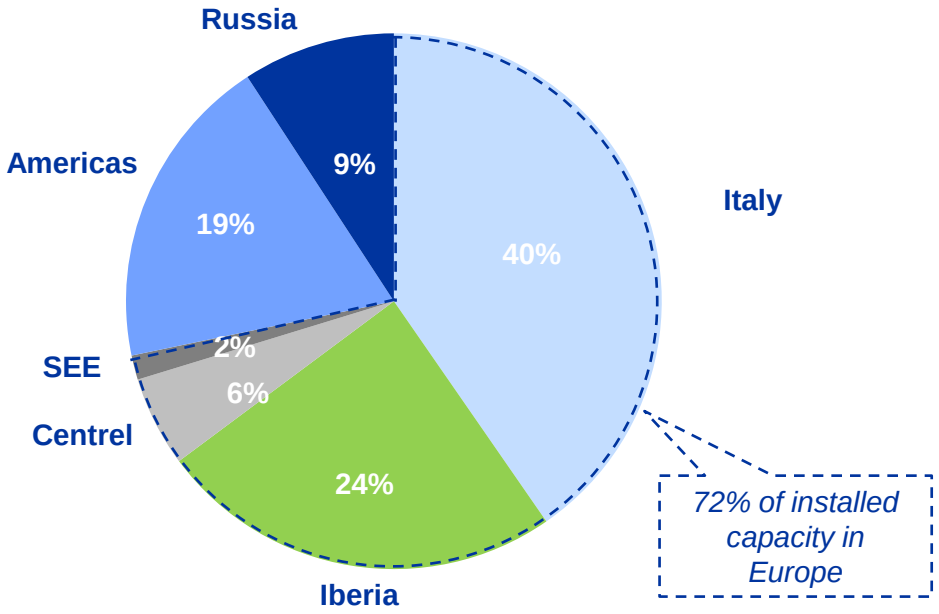
A global and diversified operator

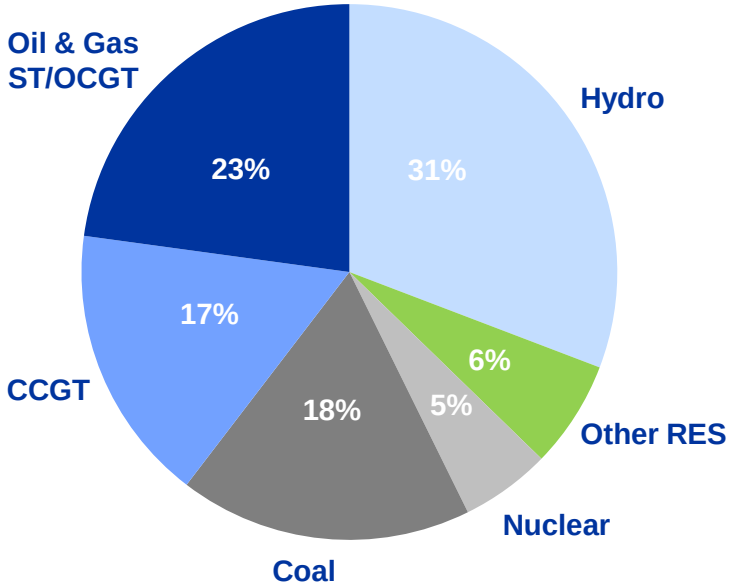
Enel installed capacity by region

Total installed capacity 2013
98.9 GW



Enel installed capacity by technology

Total installed capacity 2013
98.9 GW



Note: Centrel includes Slovakia; SEE includes Romania, France, Bulgaria, Belgium, Greece

Why we like the EU ETS

Flexibility and transparency make it the instrument of choice

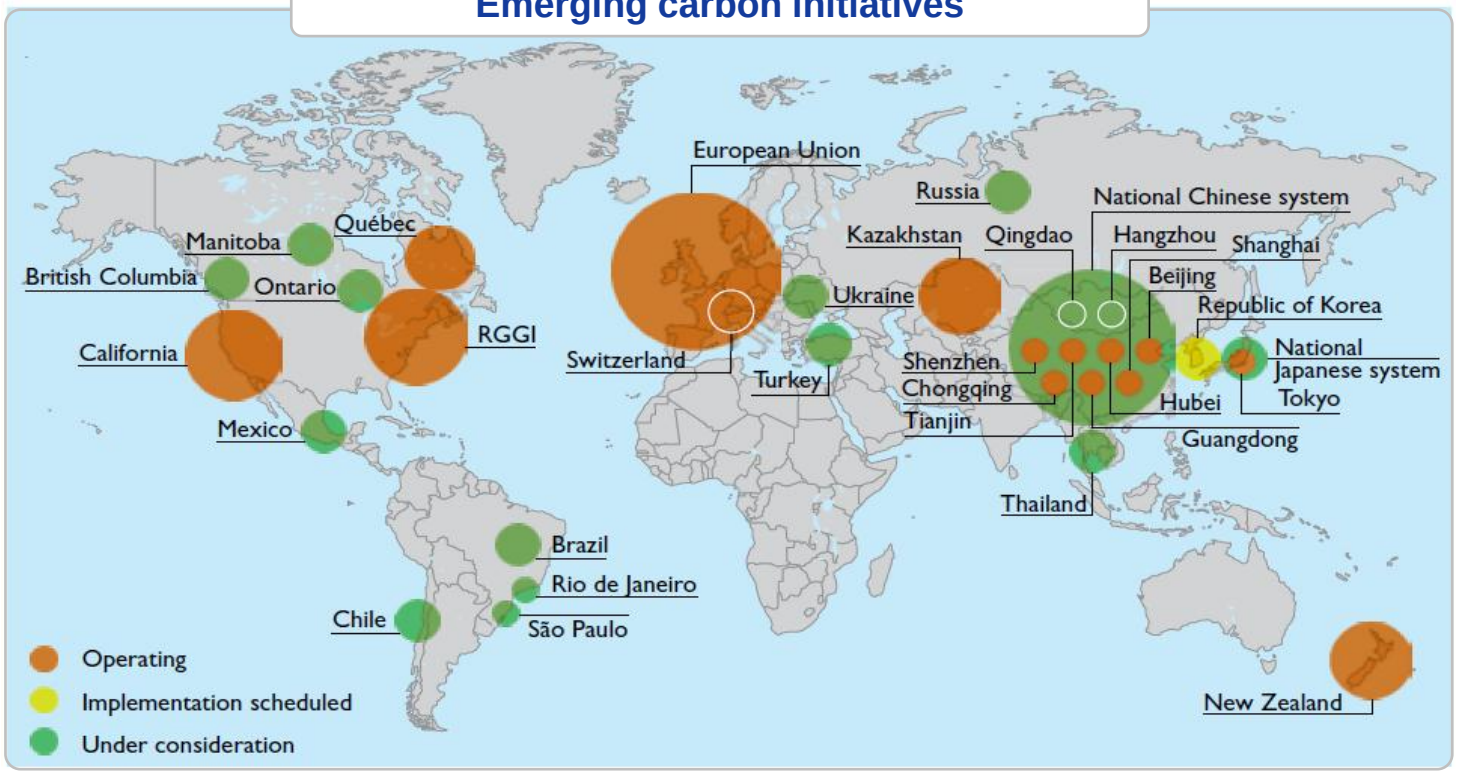
Vis-à-vis its *Command & Control alternatives, the EU ETS provides:*

- **Environmental Transparency –** There is a cap, the number is clear
- **Technological Flexibility –** The flexibility to choose how
- **Temporal Flexibility –** The flexibility to choose when
- **Environmental Efficiency –** A clear value minimizing costs vis-à-vis its alternatives per environmental benefit
- **Harmonization –** It ensures a level playing field

ETS is leading climate policy worldwide

Major players have gone or are going ETS

Emerging carbon initiatives

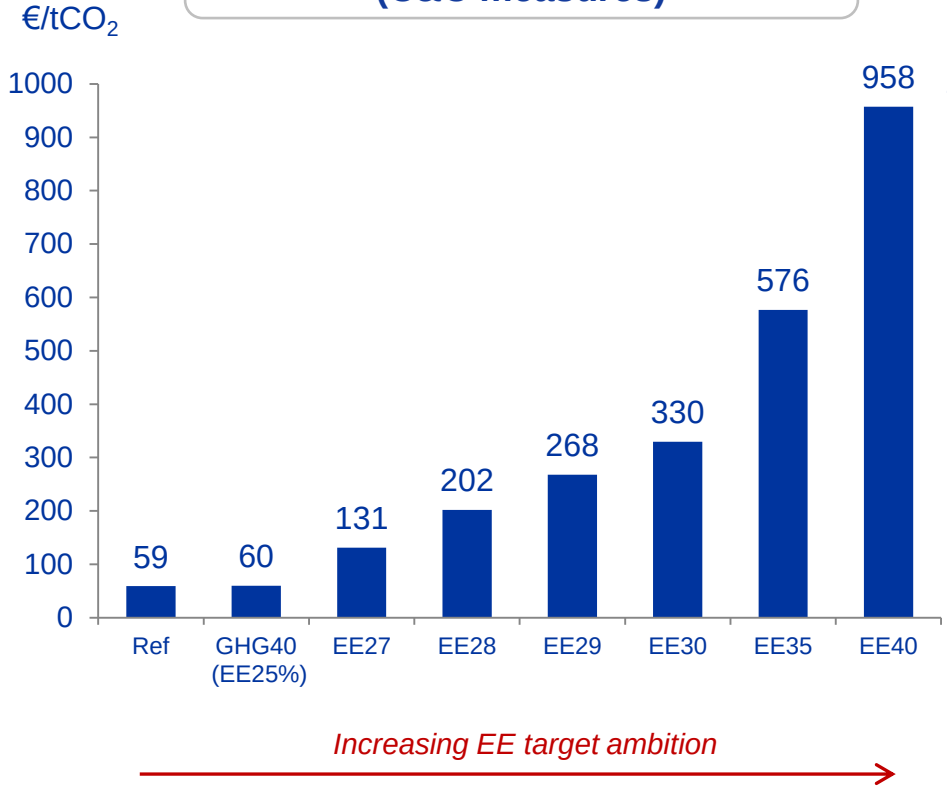


Source: State and Trends of Carbon Pricing, WB, 2014

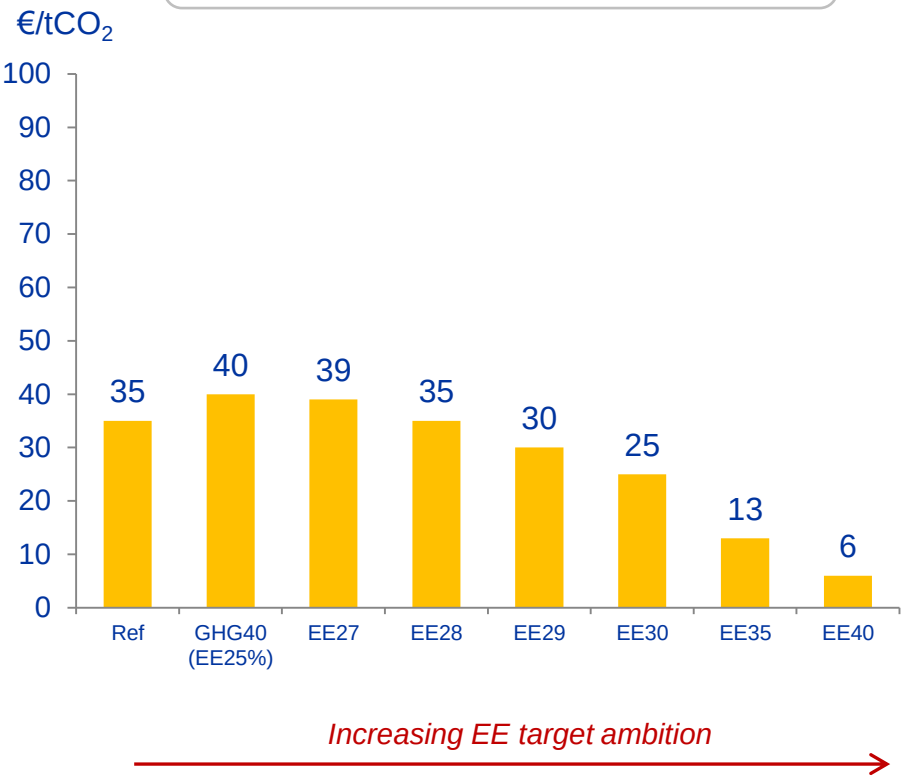
Economic efficiency at risk

Competing C&C* instruments will lead to higher costs

EE Marginal abatement cost (C&C measures)



ETS Marginal abatement cost



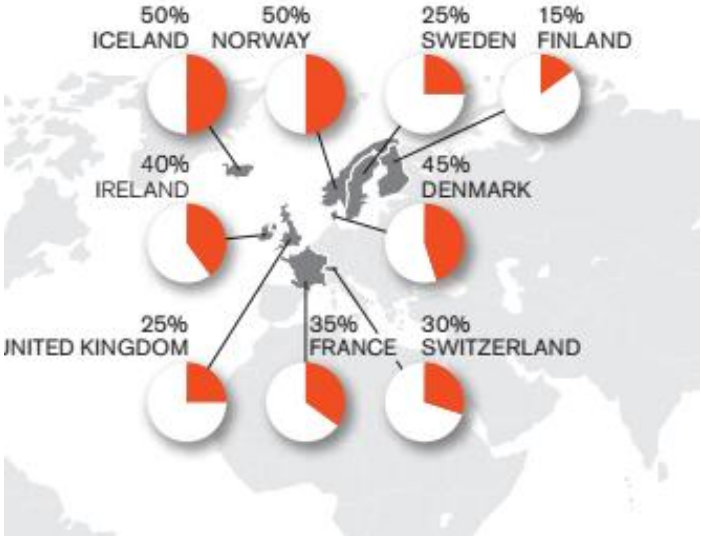
Source: EU Commission 2014, Impact Assessment of the 2014 Energy Efficiency Communication
Note: (*) Command and Control. The Energy efficiency scenarios foreseen mainly C&C instruments such as Ecodesign standards and CO2 standards in transport
EE targets assume constant 40% GHG target and 27% RES target

Harmonization at risk

National Carbon Taxes are gaining ground

- **Carbon taxes are proliferating** in Europe and in some cases the are/could overlap with the ETS (e.g. UK, It, Fr)
- Against common wisdom, carbon taxes..
  - ✓ **are NOT stable as deemed** (ex. UK carbon price floor)
  - ✓ **are MORE expensive for industry** being NOT aligned to economic cycles
  - ✓ **do NOT ensure the climate outcome**
  - ✓ **HIGH risk of fragmentation** and market distortion at EU level (Council unanimity required)
- **An EU wide carbon tax or border adjustment tax is highly unlikely**

Carbon taxes around the world and the estimated share of GHG emissions covered in their jurisdiction

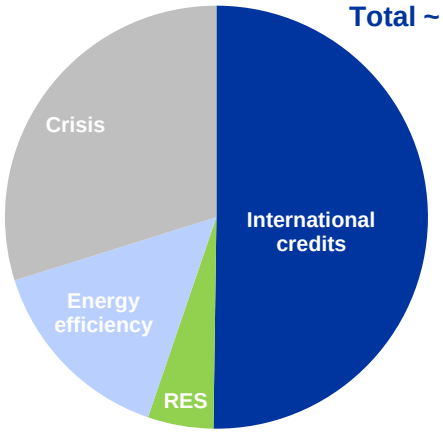


Source: State and Trends of Carbon Pricing, WB, 2014

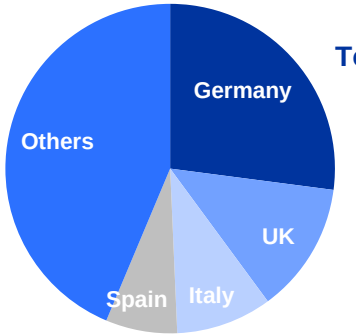
Tackling excess auction supply

The matter's urgency requires strengthening the MSR

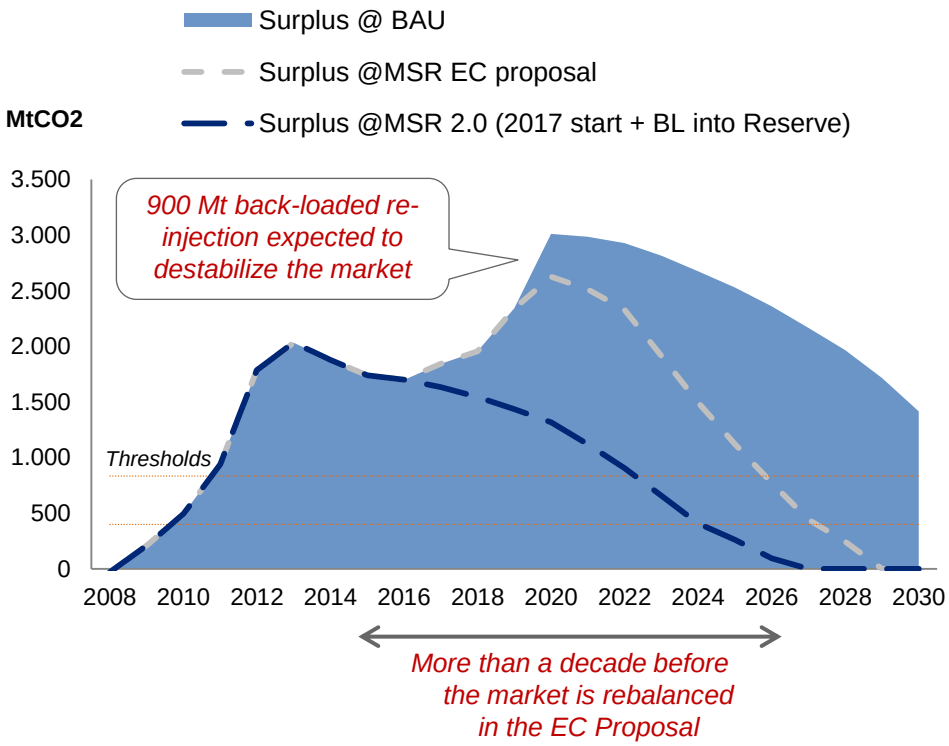
2020 ETS surplus – the drivers



~ 2 times total EU ETS emissions in 2013



BAU scenario vs. MSR design options



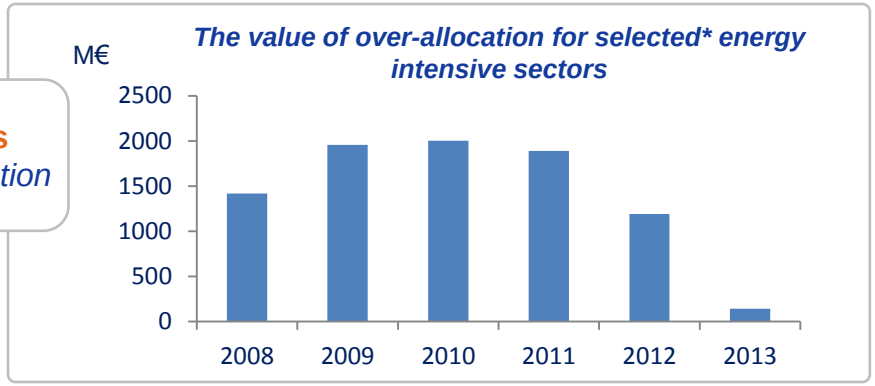
Source: Argus, 2015; Enel Group internal Analysis

Safeguarding EU competitiveness

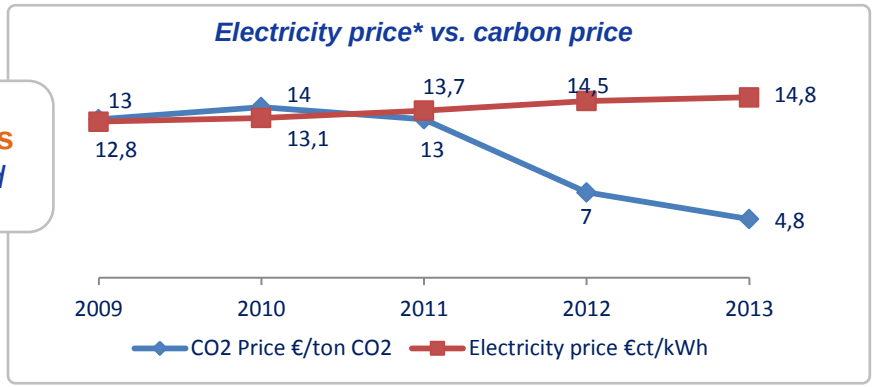
A clear and credible political commitment is in place

- To date **competitiveness impacts have been negligible** while support has been provided during the economic crisis
- Current carbon leakage rules calibrated on 30 €/t could **safeguard competitiveness for at least another decade**
- **A clear political commitment exist** to ensure that also in the future EU competitiveness is not undermined

Direct costs
Overcompensation



Indirect costs
Not observed



A strong commitment for the future

Council Conclusions on the 2030 Climate Energy framework clearly state:

- *"**Existing measures will continue after 2020** to prevent the risk of carbon leakage"*
- *"Both **direct and indirect carbon costs will be taken into account**"*

(*) Graph 1 "selected sectors" include refinery ,cement and iron & steel
Graph 2: the electricity price refers to EU 27 annual average industrial consumers 500-2000 MWh/yr

Conclusions

- **The ETS revision is heading in the right direction:**
  - ✓ Ambition consistent with the global context
  - ✓ Clear commitment to safeguard competitiveness
  - ✓ MSR ensuring a central role for the EU ETS
- **The MSR proposal should be strengthened by:**
  - ✓ Transfer of Back-loaded volumes in the Reserve
  - ✓ Early implementation in 2017
  - ✓ Stronger monitoring and review
- **Market dynamics will complement the MSR** ensuring stable price dynamics outside the natural speculative market volatility
- **Fundamentals will be affected by a number of factors including** hedging needs, abatement opportunities, planning horizons