Checking upon the ETS system: why the model must be improved

Enel dinner-debate

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Successes of the EU ETS

CO_2 has a price	Setting the example	Foundation for an international carbon market	Cost effective
➢ A key driver for long term investments and business decisions, engaging directly the private sector	➢ Pioneered carbon emissions trading schemes around the world	➢ Instrumental to the development of Kyoto mechanisms, providing support to sustainable development in developing and emerging countries while increasing cost efficiency and market liquidity	➢ Targeting abatements at the lowest cost and ensuring technology neutrality

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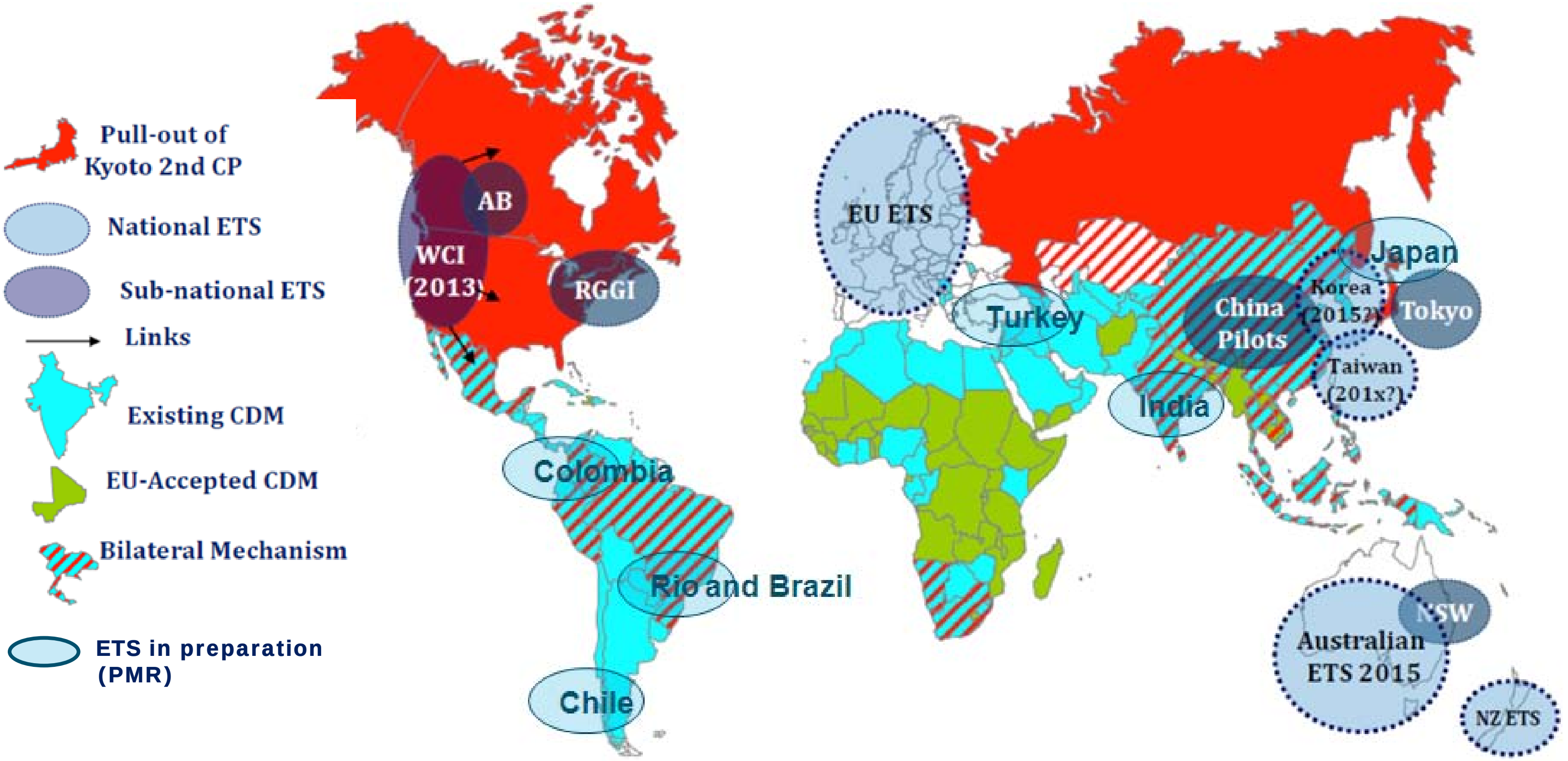
“Emission Trading” a world overview



Source: IETA

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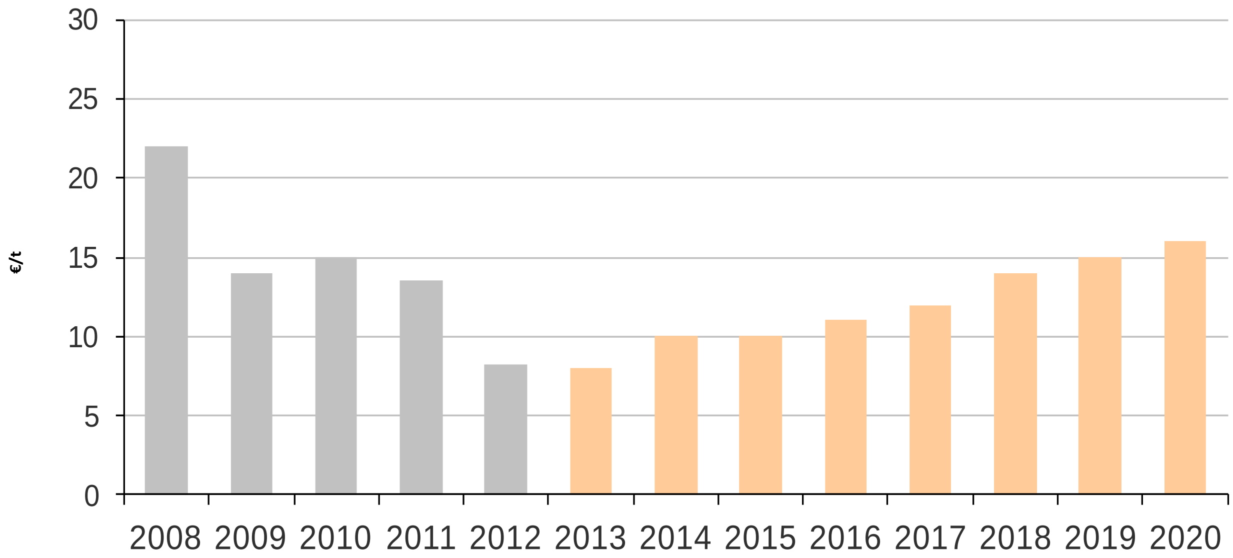
CO_2 price forecast to 2020

- **Current low prices are undermining ETS's credibility** as the driver of the transition to a low carbon economy

Expected carbon price trend for Phase 3 of EU ETS



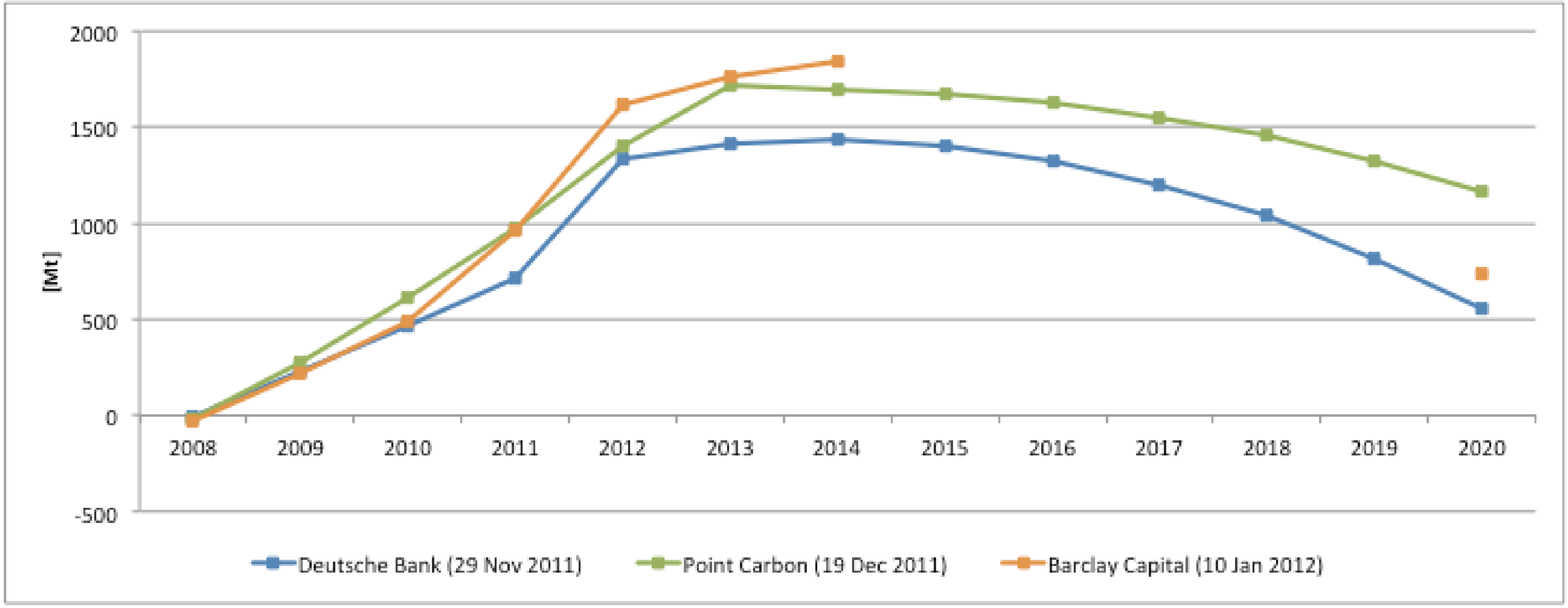
- **In case of "no intervention" prices are expected to remain low until 2020**
- **Forecasts are widely subject to regulatory decisions: according to analysts the average price for Phase 3 can vary between 10 and 20 €/t**

Source: Point Carbon 2012

Excess of supply of emission allowances

- With the carry-over of unused phase 2 allowances and international offsets, phase 3 of the EU ETS (2013-2020) is now expected to be oversupplied
- Market is **not expected to self-adjust: an annual average GDP growth of around 4.3% would be requested to restore balance**

EUA balance: market long up to 2020



Source: IETA based on Deutsche Bank, Barclays, Point Carbon, European Commission;

Challenges to face

1. The **economic recession** triggered a reduction both in energy demand and industrial production, denying expectations on market balance and creating an oversupply of allowances
2. The **overlap of complementary policy instruments** is reducing the effectiveness of the scheme, exacerbating the current lack of demand
3. **Policy and regulatory uncertainty**, both at EU and international level, is not providing a clear and stable framework for long term investments

1) What is the right price? …is there a right price?

2) Shall the ETS truly be the cornerstone of EU climate policy? …if so, how to ensure it?

3) How to increase clarity on long term policy framework?

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What investors need

Policy actions

Enabling the EU ETS to **accommodate for swings in the economic cycle and delivering a clear CO2 price signal**

- Restoring the effectiveness of the EU ETS, introducing flexibility with predictable and transparent rules

Intermediate **CO2 emission reduction target for 2030**

- Improving clarity on post-2020 targets

Stable regulatory framework for the development of energy market

- Investigating how to optimize policies for CO_2 reduction by co-ordinating systems for the development of renewables and energy efficiency with the ETS

"Do nothing" solution could lead to the failure of ETS scheme, increasing the likelihood of alternative **more expensive measures** such as the **strengthen of RES incentives** or the introduction of a **carbon tax**

Enel view on how to restore the effectiveness of the EU ETS

Long term

➢ Clear **post-2020 targets** coherent with long term objectives, and intermediate milestones

Short term

➢ **Flexibility** to adapt to short term contingencies under clearly pre-defined rules

As structural fixes will likely require 2-3 years to be implemented, a quick intervention is needed to restore credibility

EC proposal for the short term:

- By July DG Clima will present a formal proposal in order to **reschedule auction profile for Phase 3**, moving sale volumes planned for early years to 2020, **providing time for a deeper revision of the ETS**
- Expected **positive impact on prices** due to shift of banking of unneeded allowances on governments and bullish expectations on future revision of the scheme

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Conclusions

- **We reaffirm the ETS key role as the cornerstone of EU** climate policies **and call for a structural revision of the scheme**
- "**Do nothing**" would be more expensive and is not a viable option
- In the **short term** the most suitable option is the **"set-aside"** or at least the **revision of auctioning schedule for phase 3**
- **CO_2 reduction policies, incentives to RES and EE measures should be part of the same integrated policy framework**
- **Clear targets over longer time** periods are needed to sustain investments in low carbon technologies

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