Clean Energy Package and ETS Reform
Ensuring consistency between EU Climate and Energy policies
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The Clean Energy Package and the EU ETS reform: intertwined policies

- The Energy Union is one of the 10 priorities of the Juncker Commission.
- The “Clean Energy for All European” Package is a major building block of this strategy.
- It aims at ensuring that Europe has secure, affordable and climate-friendly energy, putting customers at the center.
- At the same time the current reform of the EU ETS (phase IV) seems to live a life of its own: not a tool only dedicated to the energy sector, includes exogenous goals (competitiveness, carbon leakage, etc.)
Impacts on ETS due to policy overlaps (Pöyry report, June 2017), compared to original impact assessment 2014

- Since the 2030 cap was set, the Council conclusions in 2014 and the 2016 Clean Energy package have increased, compared to original impact assessment 2014:
  - the renewable target upwards by 0.5pp to 27%; and
  - the energy savings target by 4.9pp to 30%.

<table>
<thead>
<tr>
<th>Impact</th>
<th>Reference</th>
<th>Renewables</th>
<th>Energy efficiency</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>CEZ\textsuperscript{26}</td>
<td>137Mt (14Mt/yr)</td>
<td>1,031Mt (103Mt/yr)</td>
<td>1,168Mt</td>
</tr>
<tr>
<td></td>
<td>FTI Consulting\textsuperscript{27}</td>
<td>92Mt (9Mt/yr)</td>
<td>718Mt (72Mt/yr)</td>
<td>810Mt</td>
</tr>
<tr>
<td>Price</td>
<td>COMM\textsuperscript{28}</td>
<td>n/a</td>
<td>From €42/t to €27/t (-35%)</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>FTI Consulting\textsuperscript{27}</td>
<td>n/a</td>
<td>n/a</td>
<td>From €37/t to €30/t (-23%)</td>
</tr>
</tbody>
</table>

Total allocation over 2021-2030: ~14,600 Mt
Current over-supply: ~1750 Mt
In 2016 Eurelectric commissioned a study to ICIS to investigate options to strengthen the ETS. They modelled a variety of scenarios to understand the impact of various hypothetical cases in Phase 4. The projected impacts on the 2030 carbon price are as follows:

— the phase-out of coal/lignite in Germany would decrease carbon prices by 15%; (German coal and lignite production: 235 TWh in 2016, about 8% of total EU production)

— a combination of national measures resulting in higher renewable energy deployment would decrease carbon prices by 7%; and

— an EU wide energy efficiency target of 35% in 2030 (an increase of 5pp) would decrease carbon prices by 54%. Most MEPs are asking for 40%.
The Paris Agreement has been a game-changer but does not translate itself into new EU policies

- The Paris Agreement (Dec. 2015) asks for: “holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels”

- This increased ambition is not yet included in the ETS legislation: cf. Report Proposal for aligning Carbon Prices with the Paris Agreement (Canfin/Grandjean/Mestrallet, 2016): current surplus of quotas along with low CO2 prices “has led to an inconsistency between the Paris agreement, the long and mid-term European climate objectives, and the functioning of the European carbon market.”

- Investment in new low carbon capacities such as gas or renewable energy power plants (amortization period: 20 years or more) requires a long term view on the climate policy, to implement the Paris agreement. In its current form, the ETS does not provide a long term price signal and the required certainty to reduce the EU emissions, by switching from coal to gas or renewable energy.
Separate negotiations on the CEP and the ETS do not lead to a mutual reinforcement, but a weakening of the ETS, and the climate ambition: **Improving synergies between energy and climate policies** is a requirement to reach the Paris objectives.

Fixing the ETS and use it as the main driver of EU decarbonisation: remedial measures could be introduced during the ongoing review process by increasing the Linear Reduction Factor, and adjusting the various parameters in due time.

Avoiding overlaps between policies and mixing policies

An example: introducing an **Emissions Performance Standard of 550 g CO₂/kWh** in the CRM mechanism **does not lead to an emissions reduction, and jeopardizes security of supply**

- Coal power plants do not need extra money to cover their fixed costs, while gas power plants do
- Many types of open cycle gas turbines or CCGTs working in open cycle do not meet the limit value
Introducing corrective measures in the Governance Regulation to adjust the emission cap by acting on the amount of auctioned allowances (Nordic proposal, June 2017)

One possible solution is the implementation of a carbon price floor in willing Member States; a value of 30 EUR/t CO$_2$ seems adequate to force the switch.

— It could be enforced at regional level by coalitions of MS, such as France and Germany, or more largely CWE.
— There is currently a momentum with President Macron’s proposal in France.
— The application of the price floor would be a temporary measure until the EU ETS price signal takes over.
Enforce synergies between energy and climate policies

- Switch coal to gas favored by UK carbon price support (2016 vs. 2015) – Source: Sandbag
Conclusions

- Carbon price signal not only a market based tool to cap CO2 emissions but also an investment signal to steer long term, cost-effective and environmental friendly investments.

- **Maintaining the consistency between the two separate packages**: Climate (ETS, ESR, LULUCF) and Energy (RES, EE).

- Reinforcing the EU ETS by strengthening the Market Stability Reserve, reviewing the cap and retuning the ETS when additional energy policies are planned (the Nordic proposal).

- Enforcing a carbon price floor to implement the urgent switch from coal to gas generation:
  
  € 30/t CO₂ => -100 Mt CO₂ in the EU, - 40 Mt CO₂ if applied in France and Germany only.
Thank you for your attention!

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Backup slides
Paris agreement and the ETS reform

- The greenhouse gas emissions in the EU-28 (Source: Eurostat)
Avoid overlaps between policies (Pöyry, Fortum, Vattenfall, Statkraft)

Scope covers all national and EU-level instruments on an ongoing basis

- Let's make a new policy!
- Calculate the expected impact on EU ETS \textit{ex ante}
- COMM cross checks
- 2 years after (t+2)
- Assess actual impact \textit{ex post}
- Compare with \textit{ex ante} assessment
- COMM recommends cancellation from MS auctions
- Revised schedule ensures correct volume withdrawn over time
Enforce synergies between energy and climate policies: Sandbag recommendations

- Set a lower EU ETS cap that reflects energy policy developments to ensure alignment between climate and energy objectives.

- Increase the rate by which EU ETS surplus is moved into the Market Stability Reserve (MSR) to allow for quicker adjustment of auction volumes to lower emissions.

- Cancel ETS surplus both EU-wide and at national levels to avoid that surpluses from plant retirements are used to increase emissions elsewhere or in the future.

- Introduce a carbon floor price that better reflects the social cost of climate change.

- Establish stringent investment criteria for the use of ETS revenues to ensure the EU ETS does not negatively affect an EU-wide coal phase-out.