
Clean Energy Package and ETS Reform

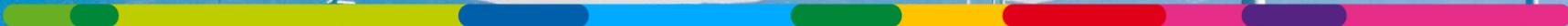
Ensuring consistency between EU Climate and Energy policies

04 July 2017

IFRI - L'avenir du système électrique : perspectives françaises et européennes

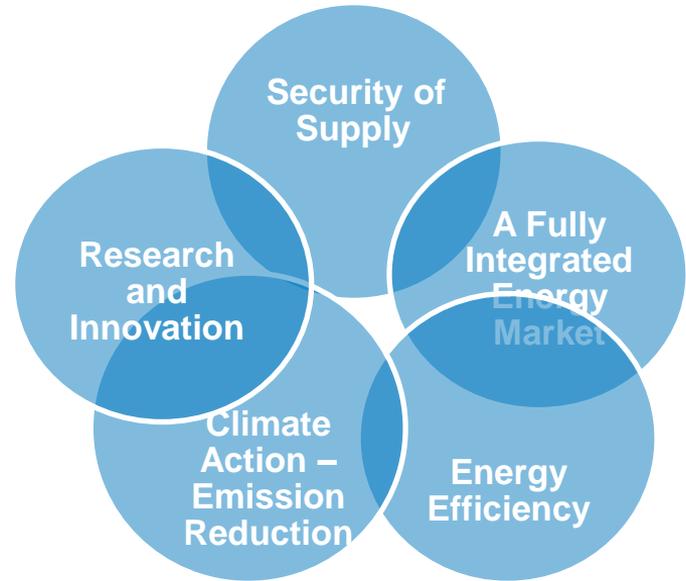


Emmanuel Tuchscherer
Director for European Affairs



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.)



2005: ETS

2009: 3x20

2014: 2030 Obj.

2015: Paris

2016: ETS review

2016: CEP

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 6 – Projected impact on the EU ETS of increased RES and EE ambition announced in the Clean Energy package in the period 2021-30

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

Total allocation over 2021-2030: ~14,600 Mt

Current over-supply: ~1750 Mt

Impacts on ETS due to policy overlaps (ICIS 2016)

New proposals for Phase IV

- 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 translates 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.

Enforcing synergies between Energy and Climate policies 1/2

- 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

Enforcing synergies between energy and climate policies 2/2

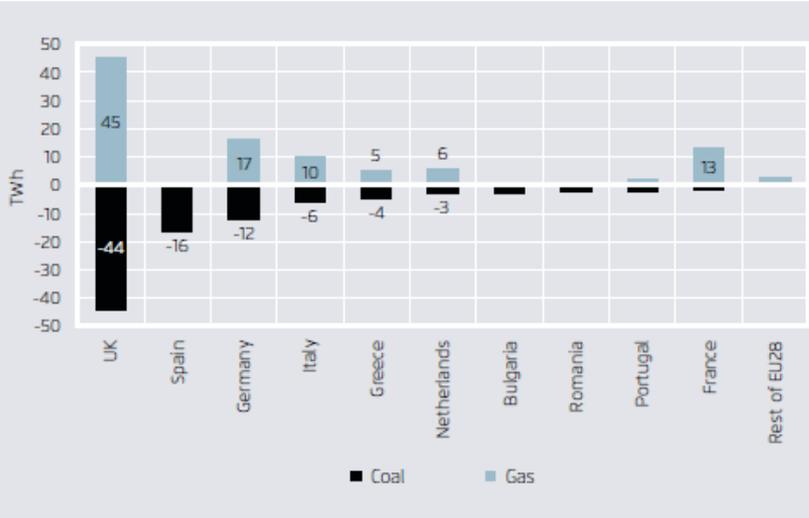
- **Introducing corrective measures in the Governance Regulation** to adjust the emission cap by acting on the amount of auctioned allowances (Nordic proposal, June 2017)
- One possible solution is the implementation of a **carbon price floor** in willing Member States; a value of **30 EUR/t CO₂** seems 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*

Changes in power generation of gas and coal from 2015 to 2016

Figure 18



Own calculations; *preliminary

ETS emissions from coal, other power and non-power sectors 2008–2016

Figure 27



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!

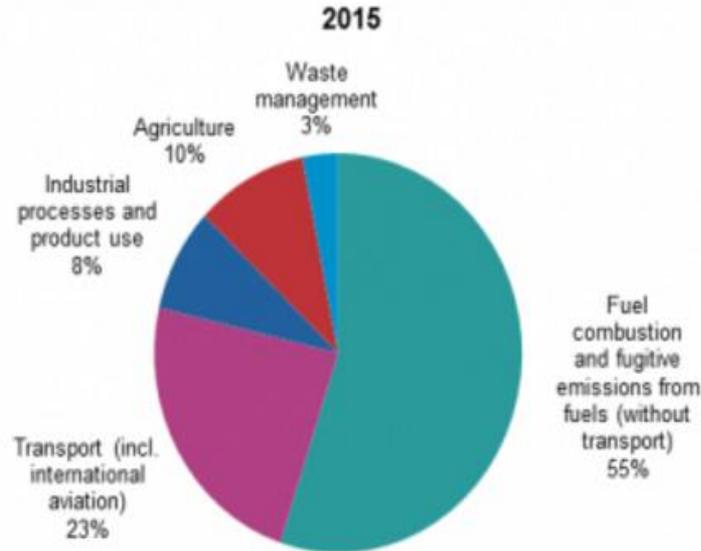
Contact: emmanuel.tuchscherer@engie.com

—
Backup slides
—



Paris agreement and the ETS reform

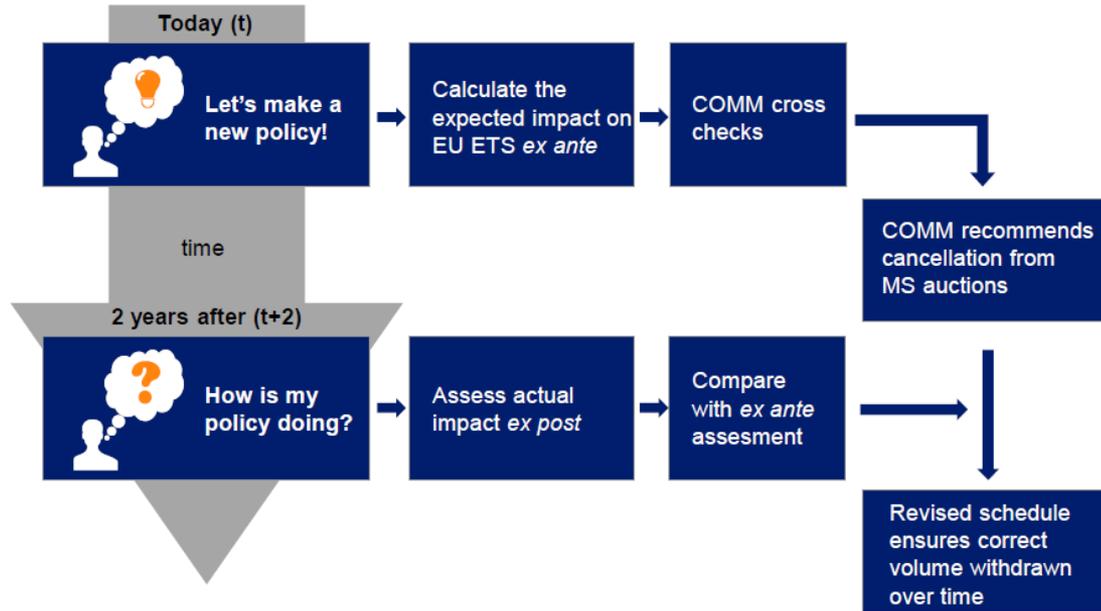
- The greenhouse gas emissions in the EU-28 (Source: Eurostat)



Enforce synergies between energy and climate policies

- Avoid overlaps between policies(Pöyry, Fortum, Vattenfall, Statkraft)

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



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