



# Linking ETS systems:

## *The need for a pragmatic approach*

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*The Enel Group*

*"Linkage: A Promising Approach to Achieving the Goals of the Durban Platform"*

Warsaw, November 18th, 2013

# Enel today

*A global operator*

**2002**

Presence

**3 countries**

Installed capacity

**46.500 MW**

Yearly production

**154 TWh**

EBITDA

**7,9 Bn €**

Clients

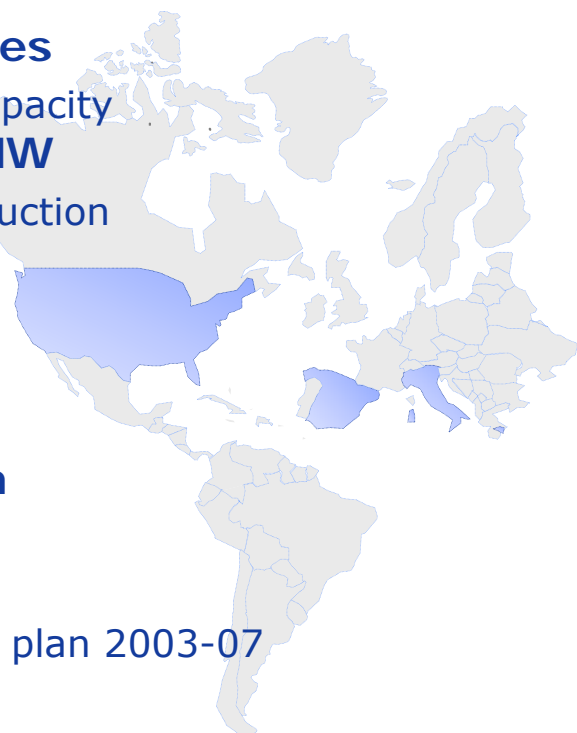
**31 million**

Employees

**71.200**

Investment plan 2003-07

**21 Bn €**



**2012**

Presence

**40 countries**

Installed capacity

**97.800 MW**

Yearly production

**296 TWh**

EBITDA

**16,7 Bn €**

Clients

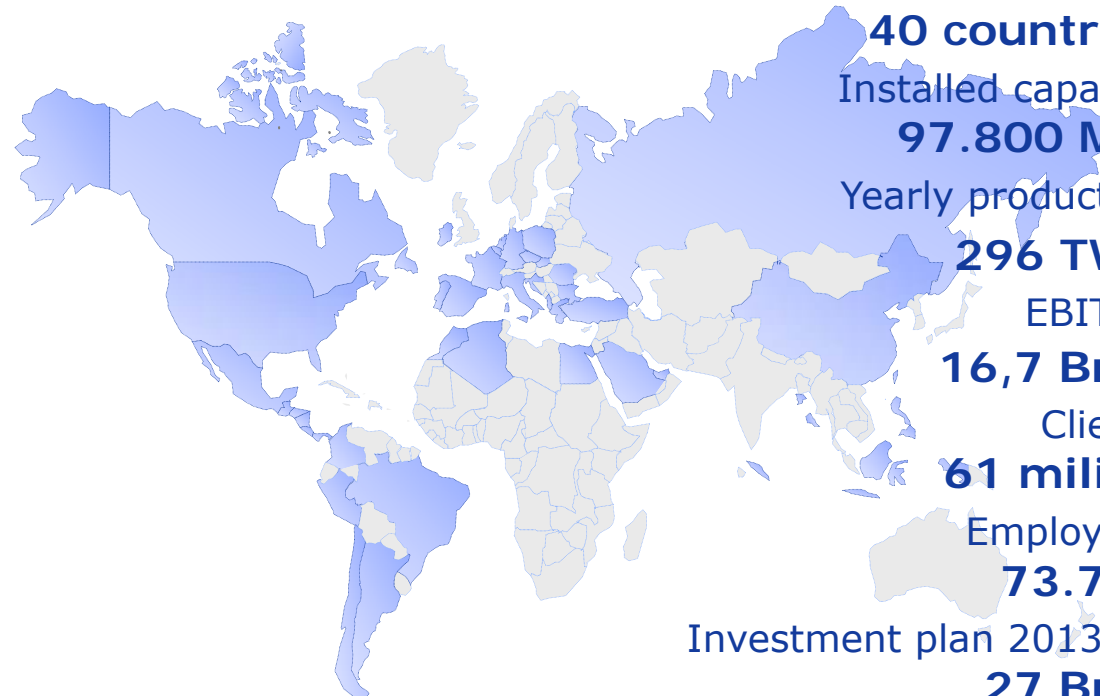
**61 million**

Employees

**73.700**

Investment plan 2013-17

**27 Bn €**



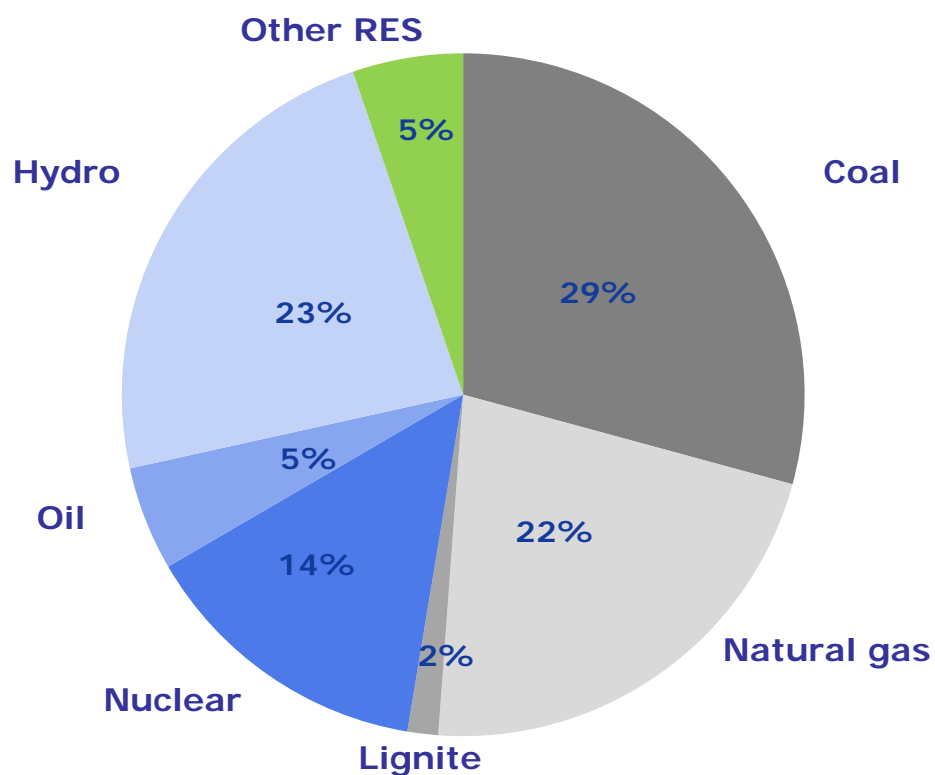
Global operator with activities spanning across geographies and the entire electricity value chain

# Enel today

*A Diversified asset base*

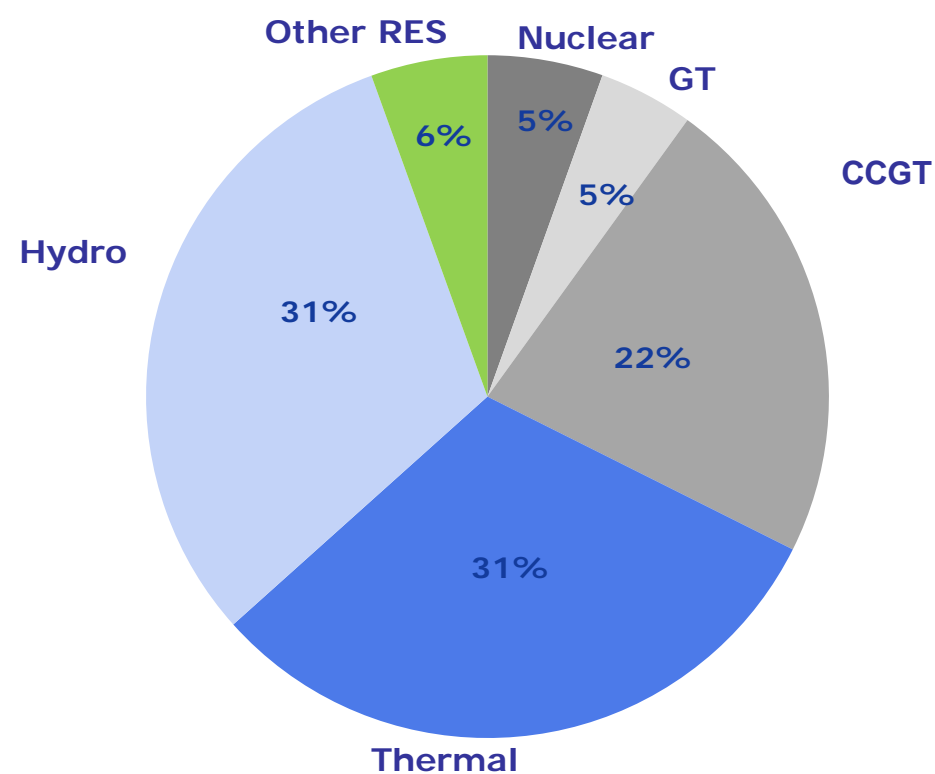
Total production 2012

296 TWh



Total installed capacity 2012

97.8 GW



More than 40% of the Enel Group installed capacity and production is already Low Carbon

# Enel Group position

## *Expectations from the Climate Change Negotiations*

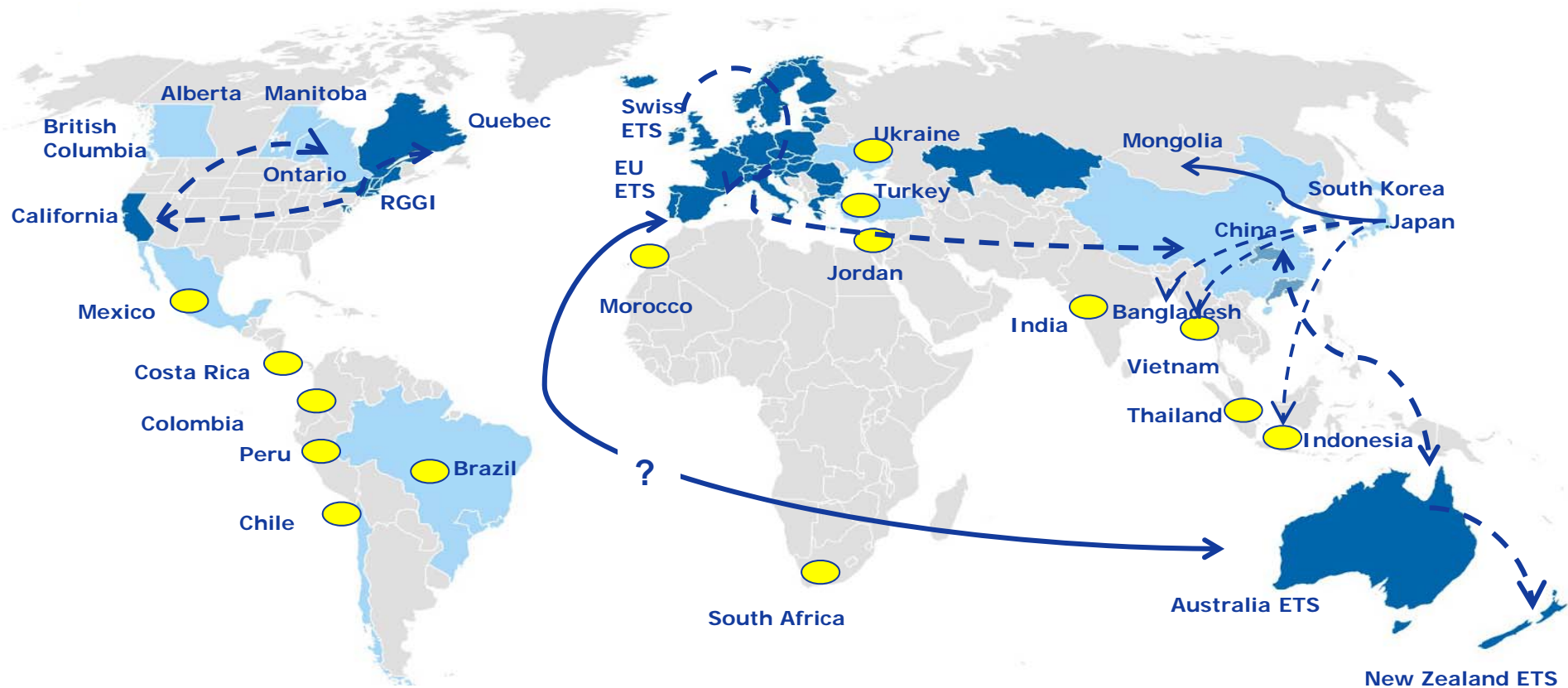


**COP19/CMP9**  
**UNITED NATIONS**  
CLIMATE CHANGE CONFERENCE  
**WARSAW 2013**

- A Global carbon market requires clear and stable **common framework at UNFCCC level**
- **Clarity to be achieved by 2015** on pursuing the final goal of a long-term global agreement
- Continued direct **involvement of the private sector** plays a fundamental role
- **New emphasis on market based approaches** which represent the **most effective tools** to tackle climate change

*We do keep on expecting*

# Carbon markets are on the rise

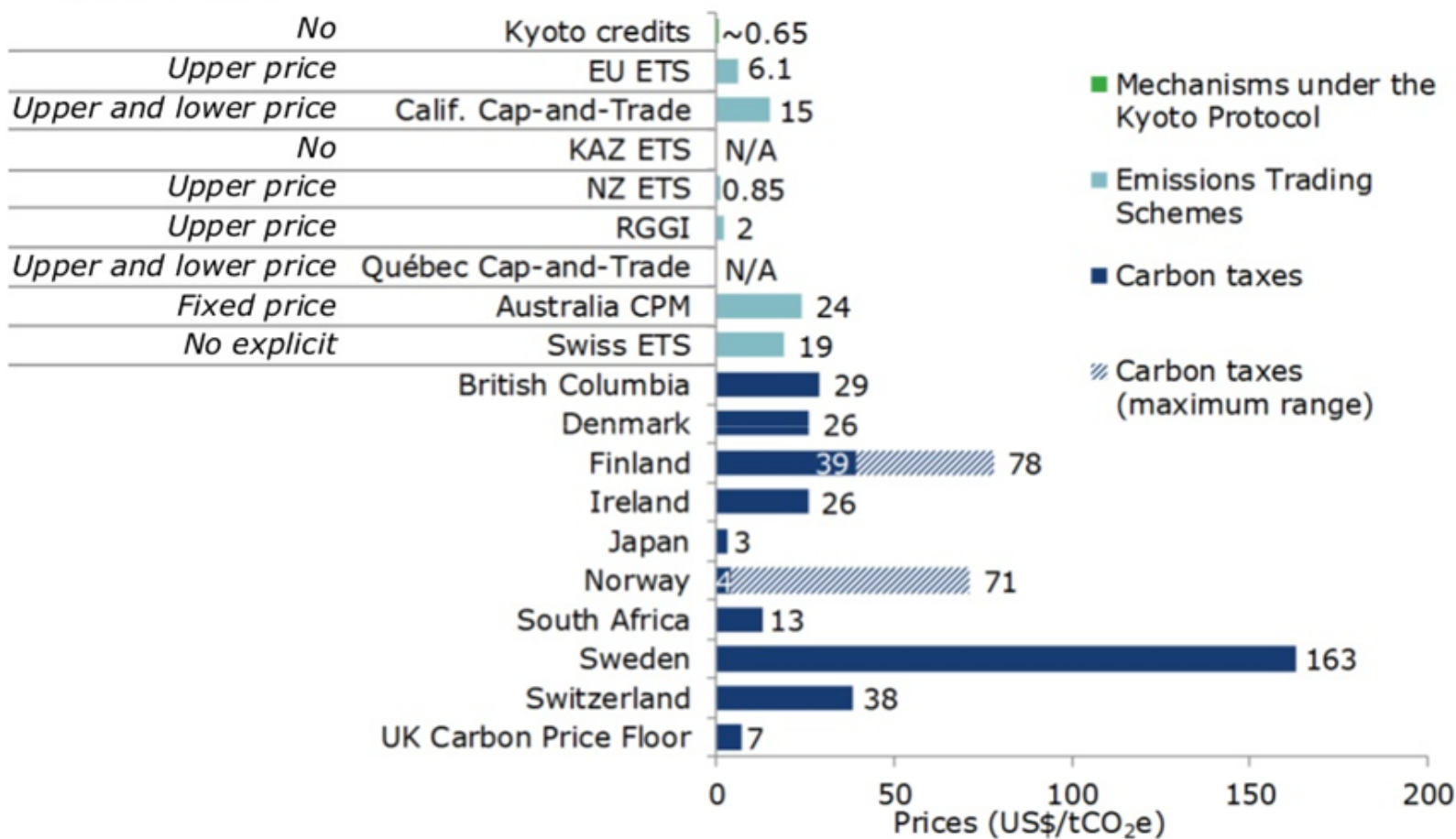


- ETS in Force
- ETS Implementation scheduled
- ETS under consideration
- Partnership for Market Readiness
- Already discussed linkages
- Possible linkages

**Failure to create a global carbon market will make linking inevitable**

# Room for a converging carbon price

## Price stabilisation?



The process will be driven by diversified abatement opportunities

# What is needed?

## 1. Coherent efforts

Linking requires special focusing on effort levels in terms of:

- **Initial allocation** – stringency of the annual cap compared to expected emissions
- **Interplay with other policies** – avoiding distortive overlapping effects
- **Use of offsets** – comparable flexibility in surrendering international credits for compliance

### *Copenhagen pledges*

Country/Region	Declared targets
Australia	-5% to -25% from 2000
Canada	-17% from 2005
EU27 & EFTA	-20% to -30% from 1990
Russia	-15% to -25% from 1990
United States	-17% from 2005
Brazil	-36% to -39% from BAU
China	CO <sub>2</sub> intensity -40% to -45% vs 2005
India	CO <sub>2</sub> intensity -20% to -25% vs 2005

Balanced linking requires comparable efforts

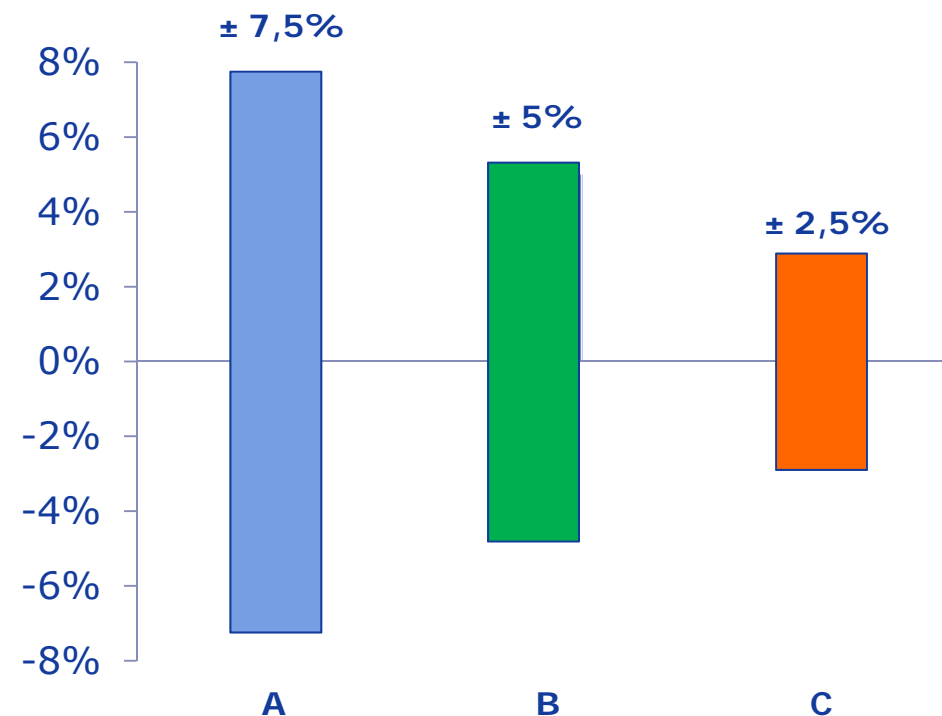
# What is needed?

## 2. Coordinate MRV procedures

Linking requires consistency of MRV procedures in terms of:

- **Accuracy and frequency of monitoring**
  - Reliability and traceability of collected data (i.e. common benchmarks, margins of uncertainty)
- **Independent verification governance**
  - Independent and qualified auditors for data check
- **Coordination among registries** – Ensure correct tracking of allowances to avoid double counting

### EU ETS – MRV uncertainty thresholds



Group A - CO<sub>2</sub> emissions ≤ 50 kton/yr

Group B - CO<sub>2</sub> emissions between 50 kton/yr and 500 kton/yr

Group C - CO<sub>2</sub> emissions > 500 kton/yr

“ A ton needs to be a ton ”



# What is needed?

## 3. Comparable compliance

Linking requires similar level of compliance and carefulness in terms of :

- **Frequency of inspections** – Similar frequencies ensuring comparable levels of scrutiny
- **Thoroughness** – Similar levels of thoroughness in compliance inspections
- **Level of penalty** - The penalties for non-compliance must be broadly similar in the linked systems

### Current penalties level

Emission Trading Schemes	Penalty for non compliance (€/tCO2)	Notes
EU ETS	100	Fixed parameter (to be adj. to Euro-zone inflation)
Swiss ETS	~100	Fixed - for large companies
South Korean ETS	~	Variable - 3 times the permit market price – starting from 2015
Kazakhstan ETS	~ 78	Fixed – starting from 2014
Californian Cap and Trade	35€	Variable - 4 times the permit market price <sup>(1)</sup>
Australian Cap and Trade	~ 13 €	Variable - twice the price of a permit <sup>(2)</sup>
Alberta ETS	~ 140 €	Fixed – if exceeding the intensity limit

The “threat” needs to be similarly credible



(1) Assuming CCA price equal to 12 \$ (Point Carbon, Nov 2013)

(2) Assuming a ACU price equal to 9,3 AUD (Point Carbon forecast for 2015, Nov 2013)

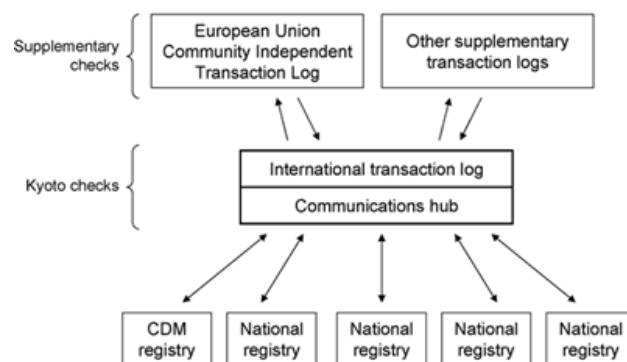
# EU ETS – A learning by doing experience

## 31 Countries ...



-  EU Member States
-  EEA Member States

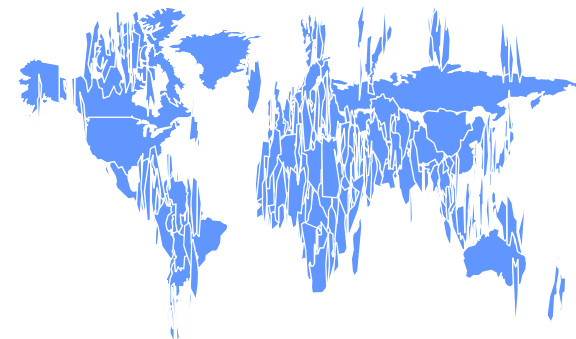
## A Single Registry...



### A Single EU Union Registry linked to the International Transaction Log (ITL)

- National registries
- Compliant operator accounts
- Trading accounts

## ...Infinite abatement opportunities



### Offsets flexibility up to half of the required efforts under the EU ETS :

- Clean Development Mechanism (CERs)
- Joint Implementation (ERUs)

A need to balance complexity and pragmatism

# Conclusions

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- **Markets are critical for leveraging private sector finance**
  - **Failure to create a single carbon market will inevitably lead to ETS linking**
  - **Linking requires focusing on main issues in terms of ambition, MRV and compliance**
  - **Only a pragmatic learning by doing approach will bring success**
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