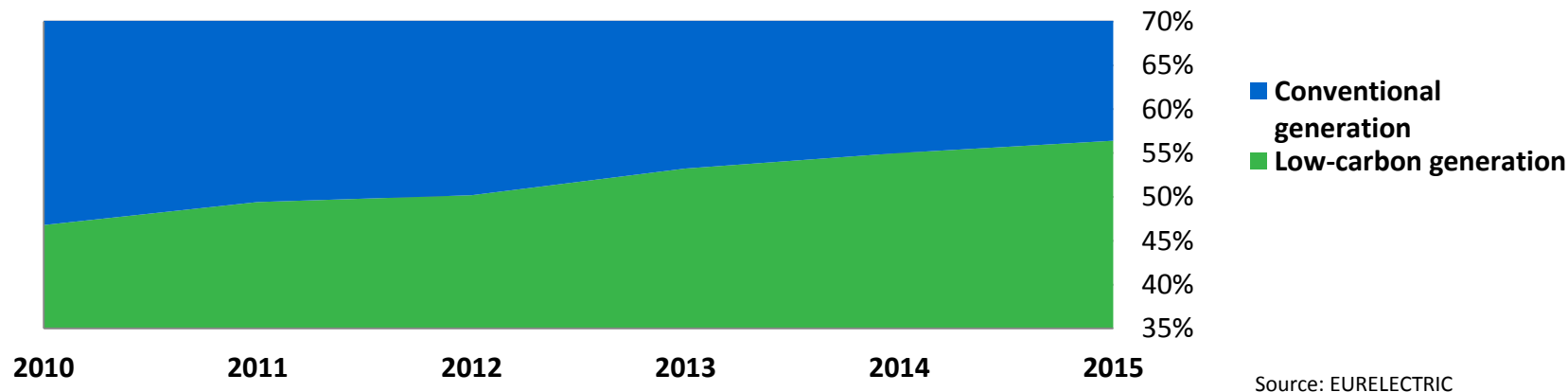


EU Climate Policy - challenges and opportunities for power companies

13 June 2017

The transition towards a low-carbon generation mix is best facilitated through a strong carbon price signal that allows industry to invest

Electricity is decarbonising...

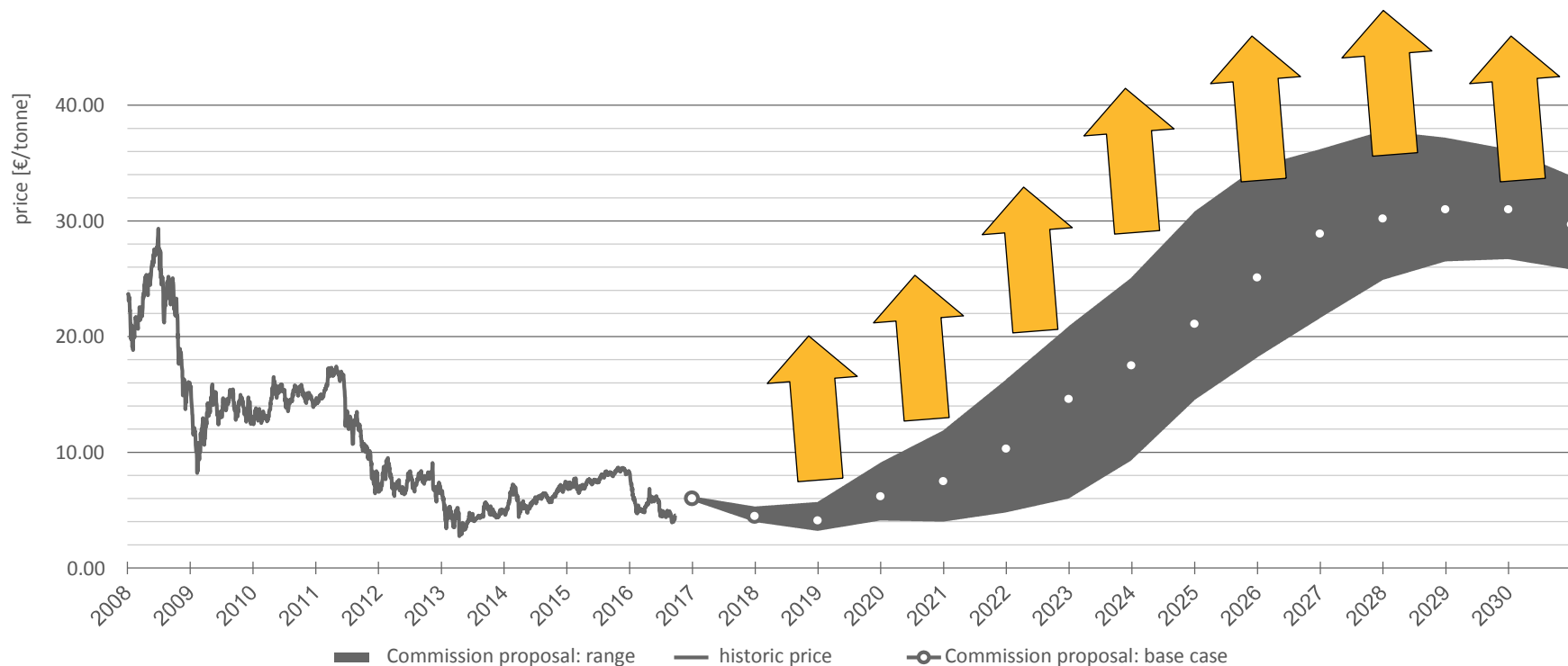


...but the process is **not driven by the EU ETS**

.....but rather by a **decreasing demand** and a **decommissioning of fossil fuel capacities** due to continued downwards pressure on electricity wholesale prices

...while at the same time customers across the EU are faced with **rising electricity bills**

Three time horizons are possible for more ambition: early ambition, late ambition, generally more ambition



Source: ICIS

To strengthen the EU ETS and to solve the current short-fall of the system, these measures should be implemented

STRENGTHEN

The EU ETS is not on track to meet its long-term reduction target



Increase the LRF to at least 2.4%

Not enough early abatement is incentivised to make the system inter-temporal efficient



Tighten the MSR: double the intake rate to 24%

Increased compliance costs for MS with low GDP/capita and high carbon intensity



Increase compensation from the current provisions of Art 10c and 10d

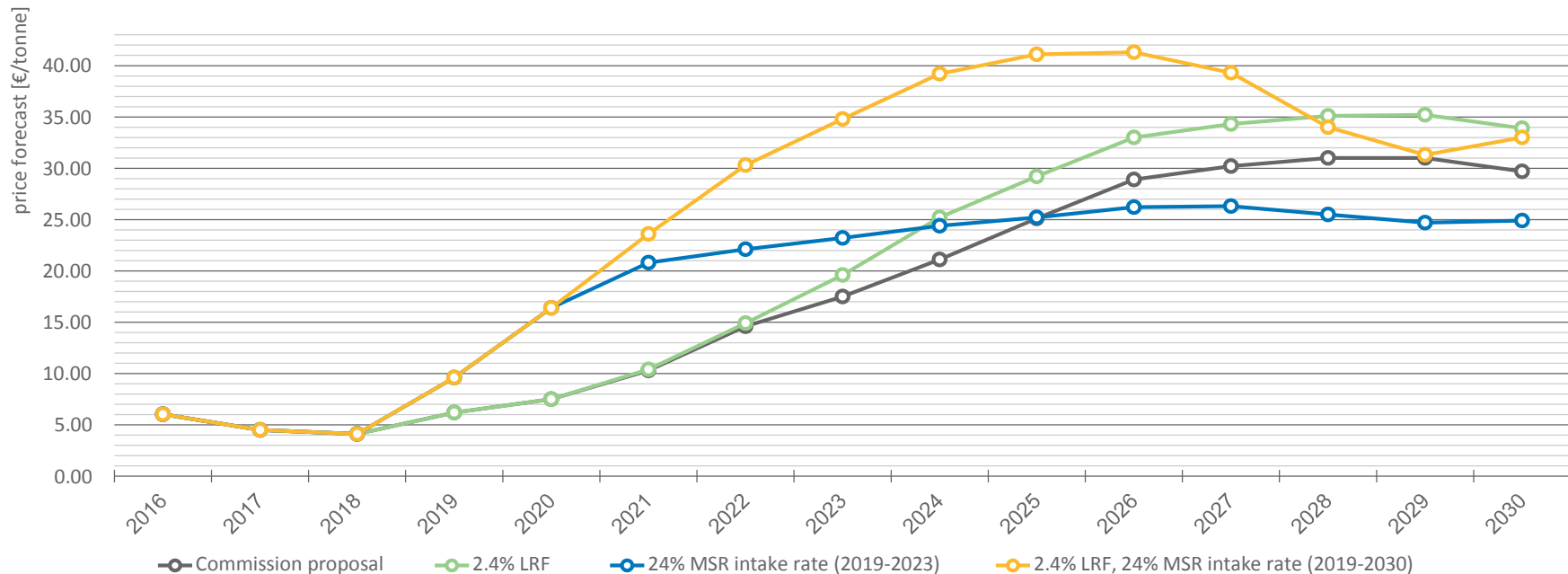
PROTECT

Overlapping (national & EU) policies can have significant impact on the ambition of the EU ETS



Adjustments to account for overlapping policies

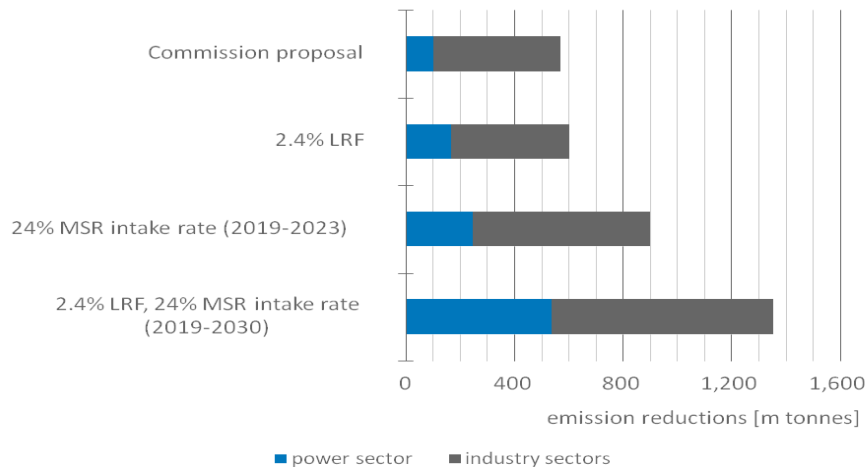
Increasing the LRF or tightening the MSR impacts the future price development differently in terms of timing – a combination of both increases the entire curve



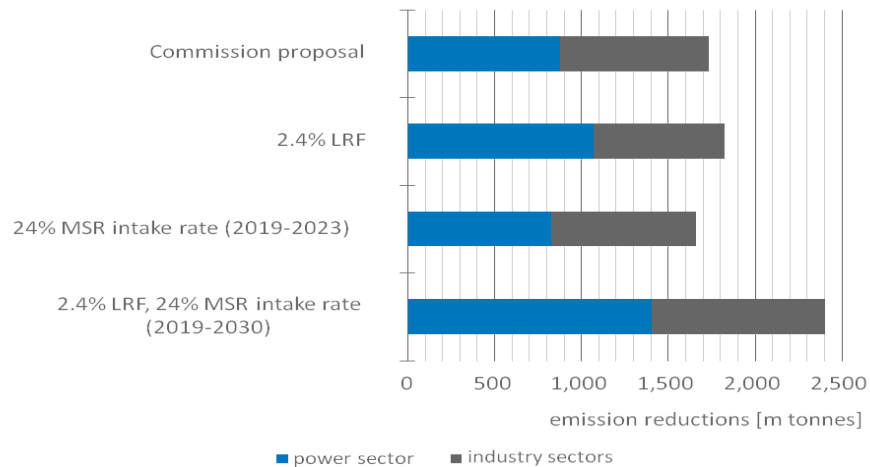
Source: ICIS

Emission reductions: increasing the LRF has late effect, while tightening the MSR lifts abatement early in TP4 – a combination achieves both

2021-2025

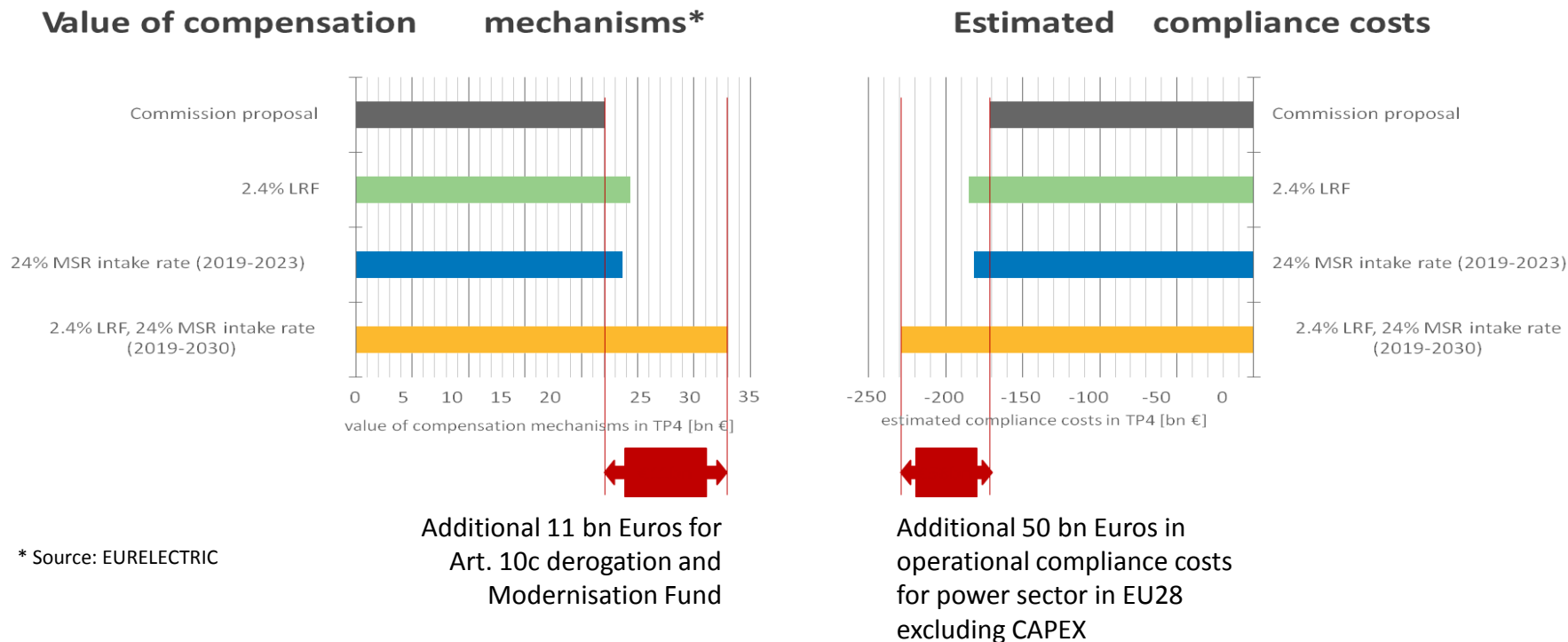


2026-2030



Source: ICIS

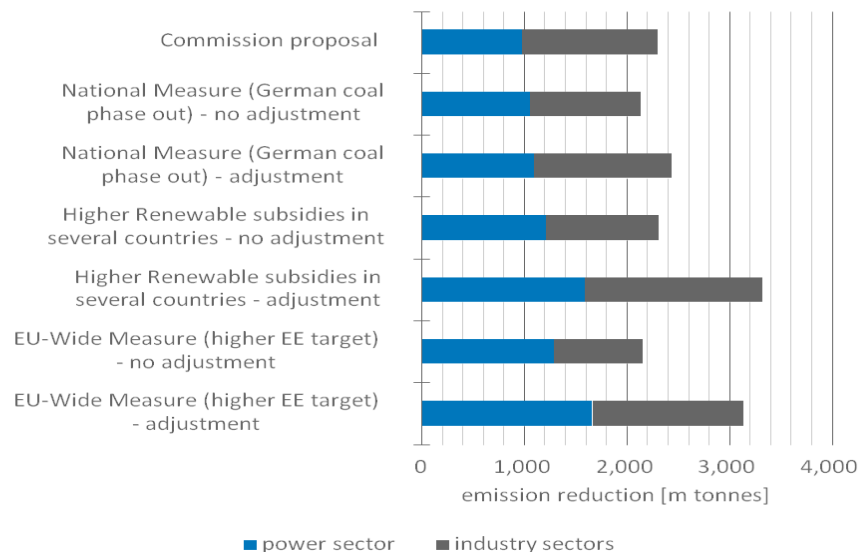
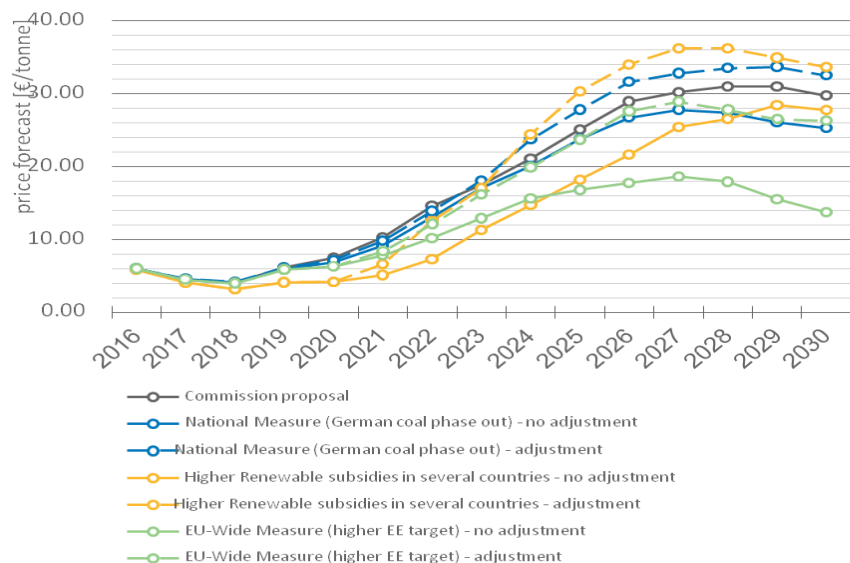
Estimated operational compliance costs for power sector in EU28: more ambitious reforms increase value of compensation mechanisms, but also the estimate compliance costs



The EU ETS funds should be proportionately increased to facilitate low-carbon transition of the power sector in the Baltic Sea region

- **Article 10c derogation** (Member States own revenues): **modernisation** of the electricity sector in Lithuania, Latvia, Estonia, Poland
- **Modernisation Fund** (common EU28 pot): low-carbon transformation of the electricity sector notably by RES, energy efficiency, networks and interconnections investments in Lithuania, Latvia, Estonia, Poland
- **But also the Innovation Fund** (common EU28 pot): finance of **low-carbon innovation in industry and energy sector** (RES, CCS/CCU, storage) in all Baltic Sea EU Member States: Sweden, Denmark, Estonia, Finland, Germany, Latvia, Lithuania and Poland

To avoid that overlapping policies depress carbon prices and the value of investment funds whilst not incentivising more abatement the EU ETS needs to be adjusted accordingly



Source: ICIS

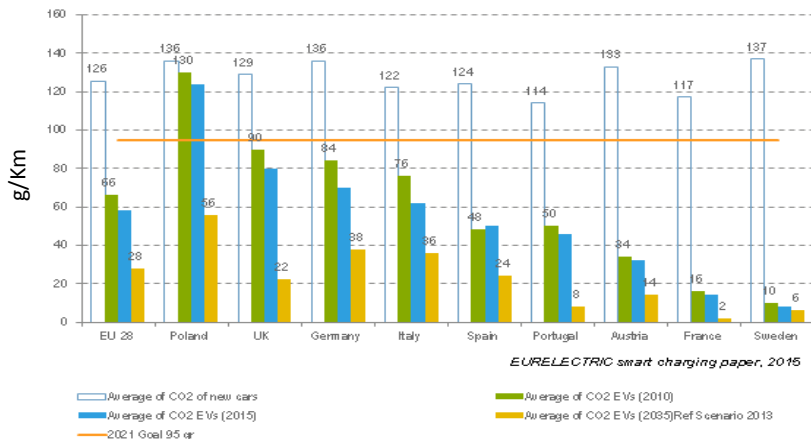
EURELECTRIC's policy recommendations regarding policy overlaps

- 1. Ensure that the EU ETS is well-equipped to adapt to future changes in demand resulting from policy overlap. A no-regret:** strengthen the MSR's design parameters
 - by increasing the intake rate of the MSR to 24% per year from 2019 until at least 2023,
 - as well as future-proofing the MSR by lowering the applicable thresholds (e.g. to 300-600 million EUAs across Phase IV);
- 2. The revised ETS Directive must include provisions for an agreed methodology to assess, in a transparent manner, the impact of other policies and measures on the EU ETS.** This must be complemented by a methodology to minimise the impact and appropriately recalibrate the supply side in order to overcome the structural impact of additional national and EU measures.
- 3. An improved governance process which clarifies and provides foresight of the impacts of the additional policy measures must be developed,** allowing for full dialogue between Member States and the Commission. The main objective of the Energy Union Governance Regulation should be to ensure the **cost-effective implementation and achievement of the 2030 headline targets by avoiding overlaps,** exploiting synergies and facilitating the achievement of the internal energy market.

Oh yes...decarbonised electricity will also enable a cost-effective decarbonisation of the non-ETS sectors

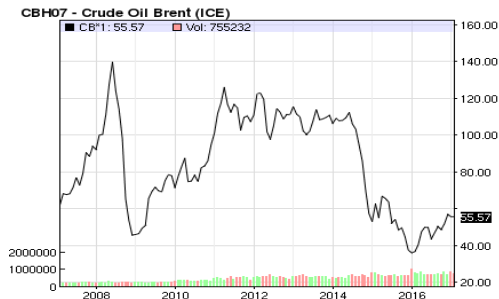
Emission savings by further electrification and deployment of demand response technologies

Transportation case:

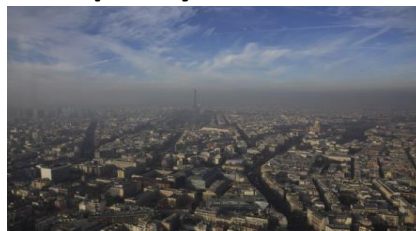


Source: EURELECTRIC

Fuel security



Air quality



The electrification of the non-ETS sectors (such as transport, heating and cooling) is essential to the EU's decarbonisation objectives