



THE STATE OF THE EU ETS

29/01/2016

Carbon Market Forum, CEPS, Brussels

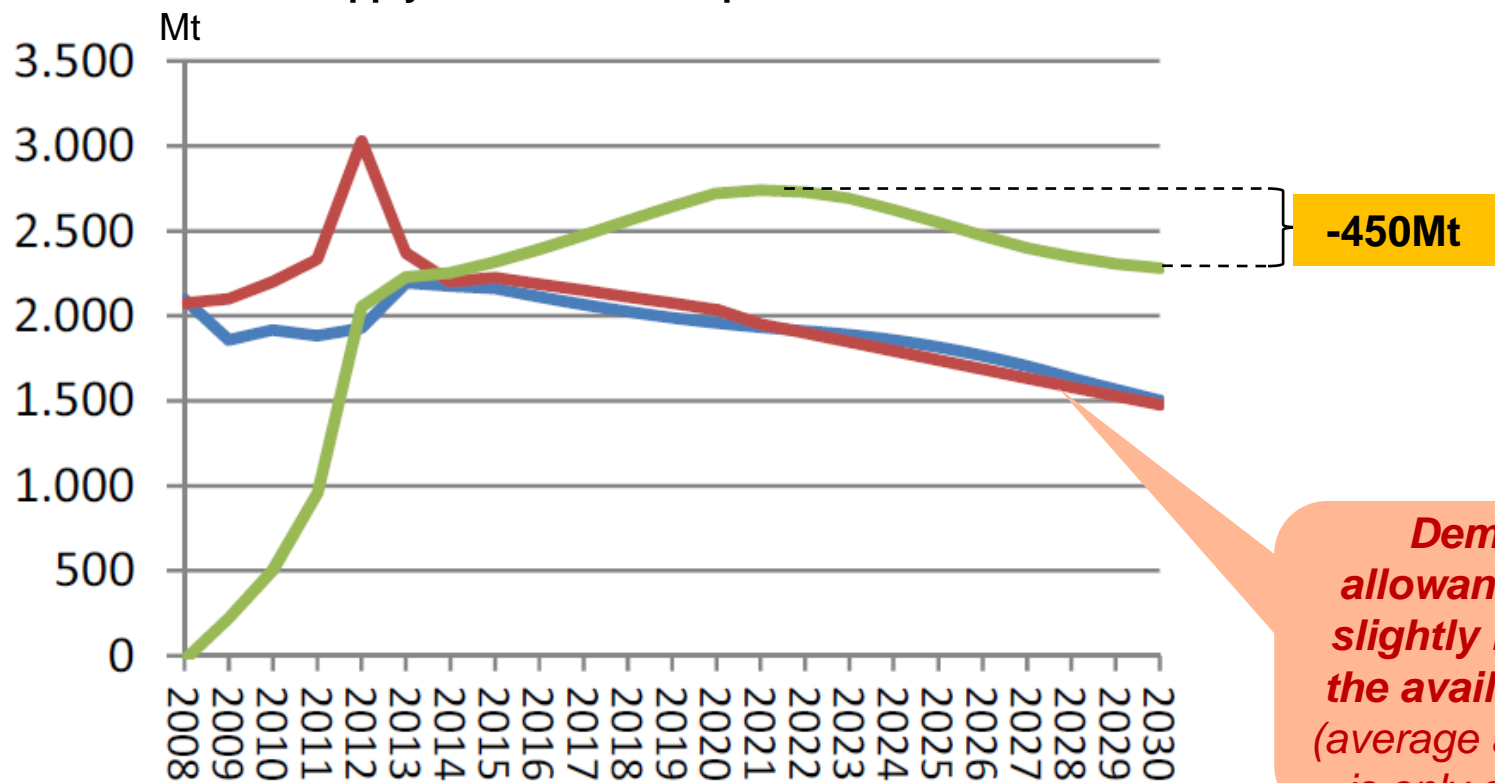
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PRESERVING THE FRAGILE SCARCITY OF ALLOWANCES IN THE EU ETS IS THE NEXT CRUCIAL TASK AFTER REMOVING THE CURRENT OVERSUPPLY



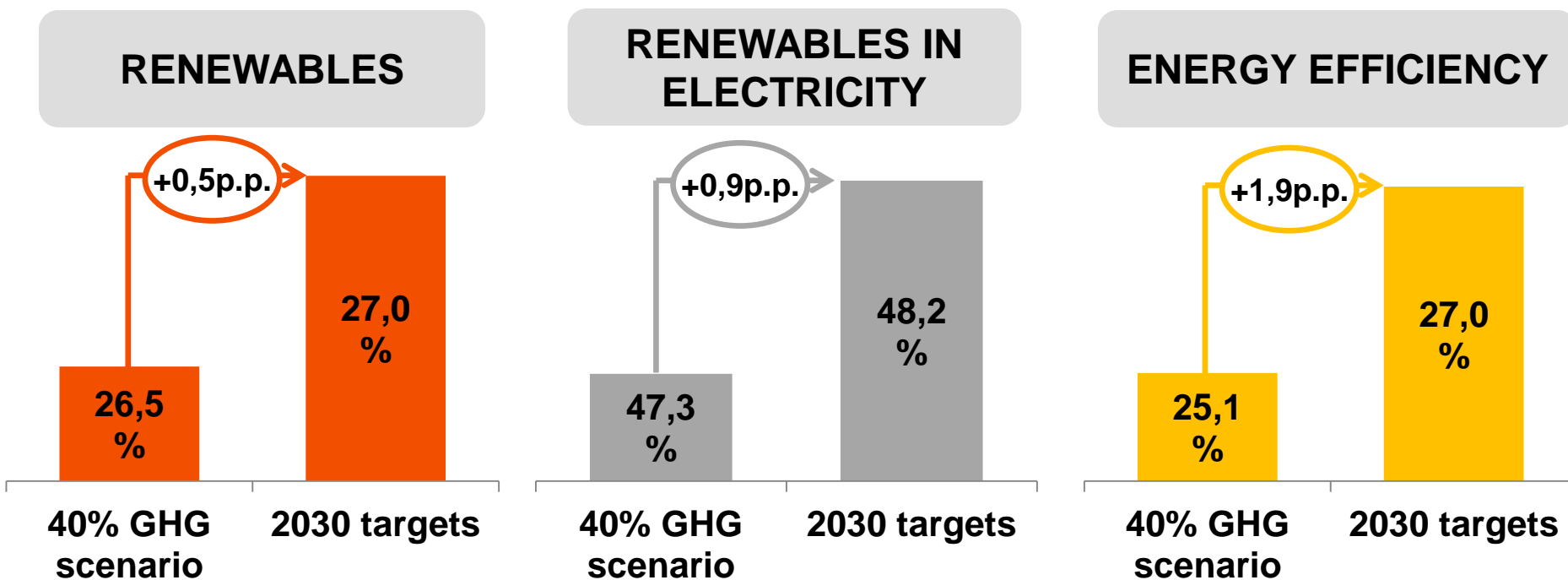
EU ETS supply demand and surplus in the EC GHG40 scenario



Demand for allowances is only slightly higher than the available supply (average annual deficit is only about 45Mt)

- Emissions as in -40% GHG
- Total allocation, -2.2% linear factor from 2021
- Surplus of allowances

REAL 2030 TARGETS ARE MORE AMBITIOUS COMPARED TO VALUES USED IN THE PREVIOUS GHG 40% SCENARIO

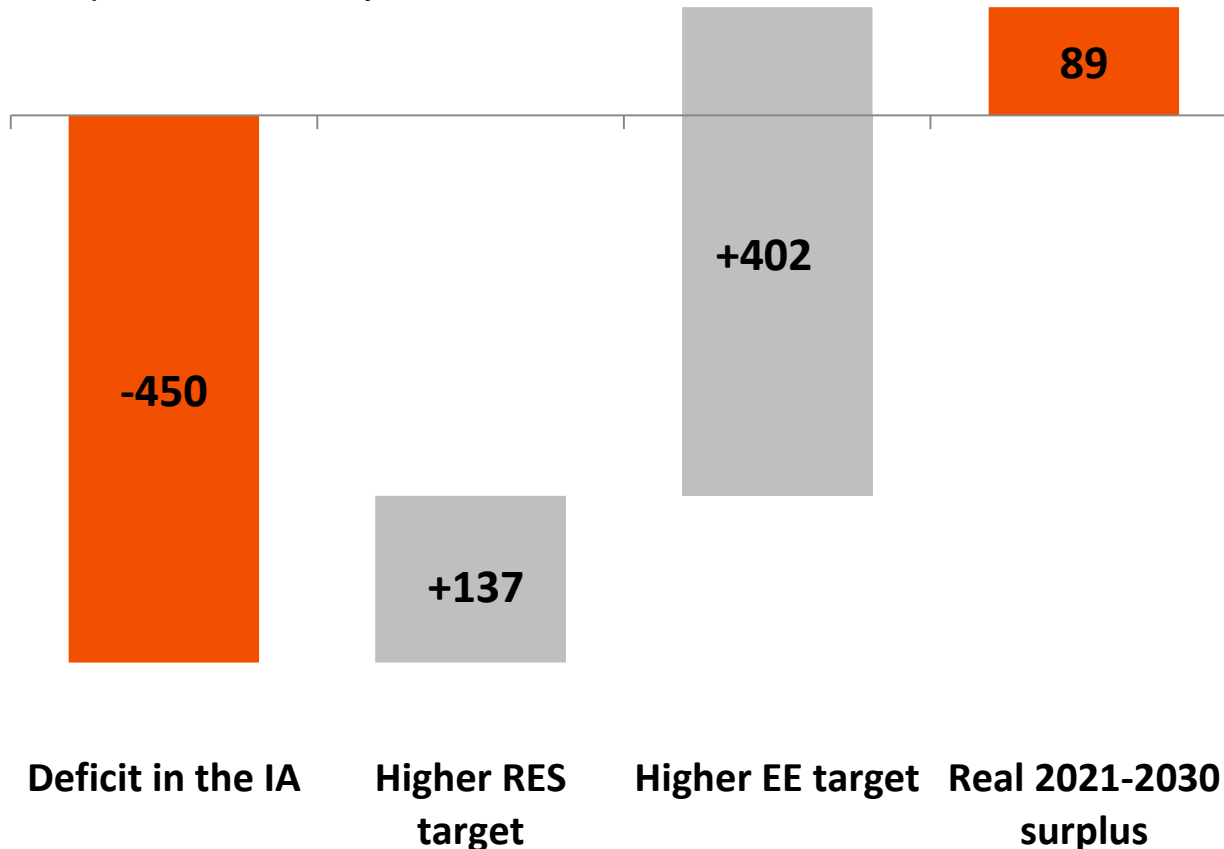


- Demand for allowances between 2020 and 2030 will be lower compared with the EC Impact Assessment

CONSEQUENT FALL OF DEMAND WILL LEAD TO A LONG-TERM STRUCTURAL OVERSUPPLY BETWEEN 2021-2030



Impact of more ambitious RES and EE target on the EU ETS
supply/demand balance
Mt, power sector only

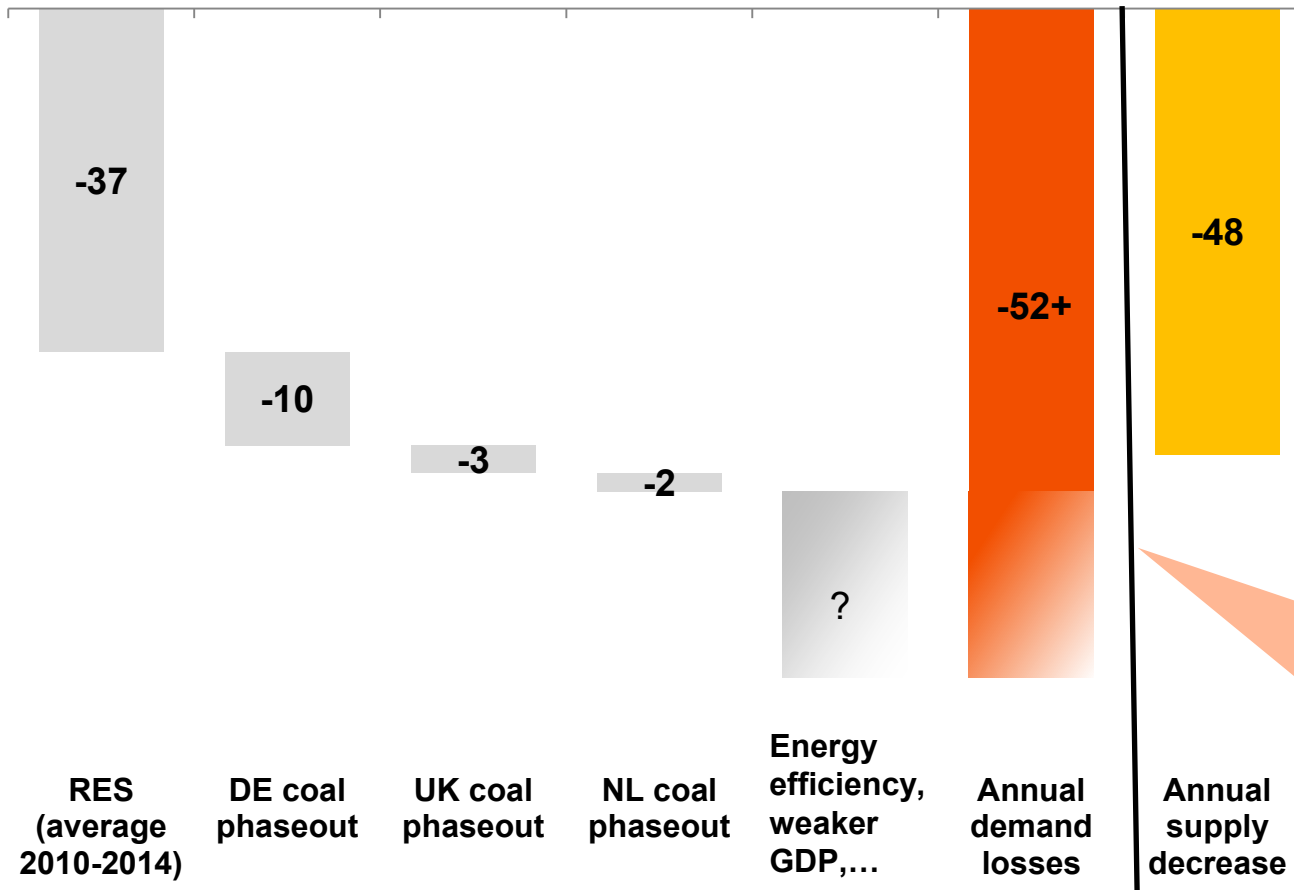


- More ambitious RES and EE targets bring **539Mt of additional CO2 savings** in the power sector only (there will be some additional savings also in the industrial sector)
- EU ETS will be structurally oversupplied** (supply is higher than demand in the long term)
- Weaker economy can cause bring further CO2 savings
- MSR** will certainly withdraw the unused surplus from the market, but this is **not sufficient to restore scarcity of allowances in the EU ETS**

AVERAGE ANNUAL BALANCES ALSO SUGGEST THAT NUMEROUS EUROPEAN AND NATIONAL OVERLAPPING POLICIES CAN EASILY DESTROY THE EUA SCARCITY



Average annual supply/demand balance in the EU ETS between 2021-2030
Mt



- The power demand growth is usually expected to stagnate due to energy savings, but it can even decrease in case of slow GDP growth or **ambitious energy efficiency target**
- German coal phaseout to be covered mainly by gas plants

**NO SCARCITY =
NO PRICE =
NO DECARBONISATION**

WE SHOULD ACTIVELY PUSH FOR THE IMPLEMENTATION OF MITIGATING MECHANISMS INTO THE REVISED EU ETS DIRECTIVE AND OTHER FUTURE LEGISLATIONS



- 1. Adjustment of the LRF from 2.2% to 2.7%-2.9%** annually in order to account for the more ambitious RES and EE targets
 - Neutralizes higher RES and EE targets
- 2. Amendment to the Directive: *Any new climate policy leading to an artificial drop in demand for allowances will be neutralized by placing an equivalent volume of allowances from the respective auctioning supply directly to the MSR***
 - Principle of overlap neutralization anchored in the EU ETS Directive
- 3. Every new climate legislation in the EU will quantify its effect on the EU ETS and adjust the auctioning volumes accordingly**
 - Negative effect of future overlapping policies is mitigated

BACK UP



THESE MORE AMBITIOUS RES AND EE TARGETS WILL DECREASE THE DEMAND FOR EMISSIONS BY ABOUT 540 MT IN THE POWER SECTOR ALONE



402 Mt
Energy efficiency



137 Mt
RES

- Target 27% vs. 25,1% in the IA
- This requires **416 TWh of additional savings**
 - 1,9% from the 2007 reference energy consumption of 78 775 PJ / 21 882 TWh
- For electricity, that means 104 TWh of additional savings in 2030
 - Share of electricity should reach 25% according to the Roadmap 2050
- Assuming marginal emission intensity of 0,7 t/MWh*, additional **73 Mt of CO2 would be saved in 2030**
 - Coal and gas will be marginal plants in 2030
- In total, **402 Mt will be saved in 2021-2030**

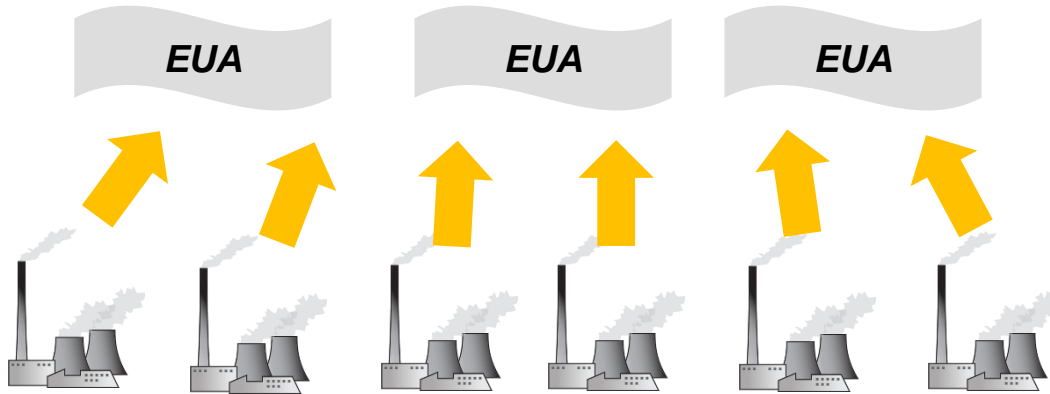
- Target 27% (48,2% in electricity) vs. 26,5% (47,3% in electricity) in the IA
- This requires **35,6 TWh of additional RES generation** in 2030
 - 0,9% from the 2030 reference electricity consumption of 3 993 TWh (electricity share 25% * energy savings 73% * 2007 reference consumption 21 882 TWh)
- Assuming marginal emission intensity of 0,7 t/MWh*, additional **25 Mt of CO2 would be saved in 2030**
- In total, **137 Mt will be saved in 2021-2030**

* 2013 fossil fuel generation: 1544 TWh; power sector and heat emissions: 1099 Mt

MSR CANNOT RESTORE THE SCARCITY **WHEN THE EU ETS STRUCTURALLY OVERSUPPLIED**

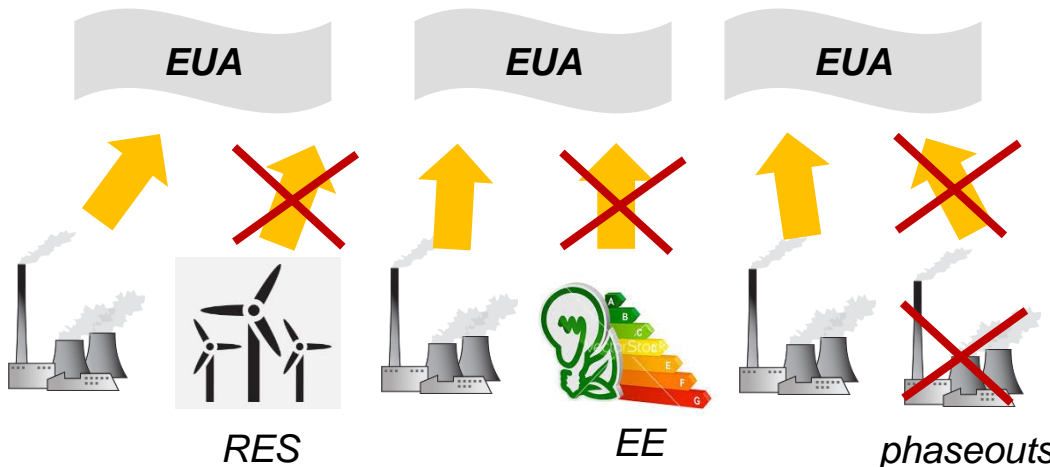


STANDARD MARKET SITUATION



- BAU demand is higher than the supply
- Installations compete for available allowances \Rightarrow **equilibrium price clears the market and drive low carbon substitution**

MISSING SCARCITY AS A CONSEQUENCE OF POLICY OVERLAPS



- BAU demand is more or less the same as the supply
- Market surplus is within the band so the **MSR is not triggered**
- If remaining installation can cover their emissions without any effort, **why should they bid a positive price?**