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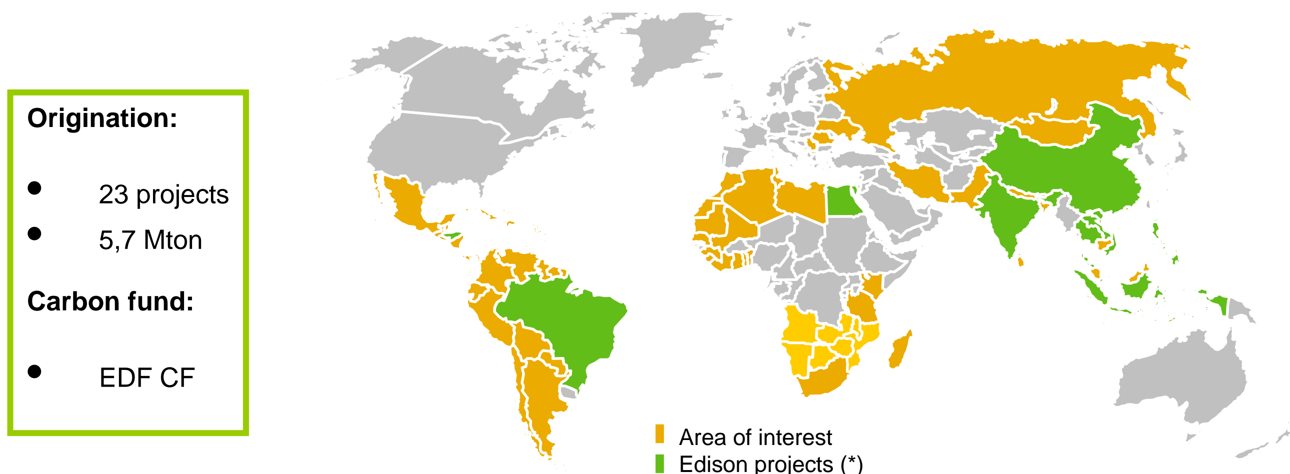
EDISON

EDISON – RESPONSE TO THE PUBLIC CONSULTATION ON A MEASURE TO INTRODUCE FURTHER QUALITY RESTRICTIONS ON THE USE OF CREDITS FROM INDUSTRIAL GAS PROJECTS

WHO WE ARE

Edison is Italy's second largest electric utility, with **41.6 TWh** produced in 2009, equal to 15% of the entire national production. Between 2002 and 2007, Edison completed **one of the most ambitious generating capacity expansion programs** ever carried out in Europe, building new efficient and environmentally compatible power plants fired with natural gas with an aggregate capacity of about **7,000 MW.** Today, the Group generating capacity has reached **12,300 megawatts (MW).**
Edison has been traditionally active in the area of renewable energy sources, which account for about 14% of its total installed capacity. Specifically, Edison's generating capacity includes 1,720 MW from historical hydroelectric power plants, 410 MW from wind farms and 3,3 MW from photovoltaic, 6 MW from biomass and 19 MW from mini Hydro.
Edison's **distinctive characteristic** is its success in developing a **portfolio of highly efficient facilities** that enables it to produce energy with an optimum mix, ranging from gas-fired, combined-cycle power plants to hydroelectric units and other renewable-source system.

Edison was one of the first Italian utilities to take concrete action to achieve Kyoto Protocol objectives creating since 2005 a dedicated team specialised in the development of CDM and JI projects.
Edison had established **internal guidelines** to select projects which **focus on renewable energy and energy efficiency**, giving strong importance to the **environmental and social aspects**.



EDISON KEY REMARKS

- A clear and **predictable implementation timeframe** is necessary to reduce the current uncertainty on future operational and investment decisions on CDM projects
- CDM qualitative restrictions should **strengthen the environmental integrity of projects**
- Clear **ex ante rules** should be set **without retroactive effects**.
- The role of UN flexible mechanisms in the EU ETS phase III (CDM/JI credits) should be addressed with the aim of providing in due time a **clear and stable framework for investments in mitigation actions and high quality CDM projects**.
- A further **extension of the scope for flexible mechanisms** by linking the EU ETS to other cap and trade systems will reinforce the robustness and the liquidity of the CER market, thus providing operators **investing in high quality projects** to keep doing so
- A sound and transparent carbon market is necessary to **provide investors and market operators the necessary CO_2 price signals** to address investment decision in mitigation and carbon abatement actions. Price signals should correctly reflect the opportunity costs for carbon abatement in the short-medium term (switch coal → gas) and in the medium-long term (deployment of new low carbon technologies on large scale).

GENERAL REMARKS

Clean Development Mechanisms (CDM) and Joint Implementation (JI) are a fundamental instrument in the UNFCCC framework for the EU ETS operators to reduce emissions in the most cost effective way, but beyond this, they do represent a powerful trigger to develop a truly global carbon market.
For this reason we believe the future of international carbon offsets, in the perspective of the upcoming negotiations for the COP 16, should be taken in the utmost account and addressed in the most pragmatic way, provided that the core objective of the EU effort is to reach a binding and comprehensive agreement.
The revised EU ETS Directive provides for the possibility to restrict the use of specific credits generated by CDM and JI as from 1 January 2013. In sight of the definition of such criteria, we welcome the consultation phase opened by the European Commission and we wish to share some comments on the definition of the rules and the criteria to be set out in order to foster the environmental integrity of some project types.

1. CARBON OFFSETS: A COMPLIANCE INSTRUMENT IN THE EU ETS
Qualitative restrictions, as long as their primary aim is to safeguard the environmental integrity of projects, will have indeed an impact on credits issuance, preventing a risk of oversupply of cheap credits which would be no longer eligible for compliance in the EU scheme. On the other hand, a stable and predictable flow of credits is vital for market liquidity and for CER price signals to be

reliable. If the new provisions allow for projects to be eligible only in LDCs and no extension of the flexible mechanisms to other cap and trade schemes is forseen, such a framework would be unlikely to develop robust and liquid secondary markets. For EU ETS operators investments and for avoiding major market disruptions a list of accepted technolgies would be much welcomed by the end of 2010.

2. QUALITATIVE RESTRICTIONS: ENTRY IN TO FORCE

New restriction should apply to credits issued in regard of reductions achieved from 1 January 2013. In no case should restrictions be retroactive. Market operators actively engaged in CDM projects have made firm commitments on credits issued in regards of reductions realized up to 31 December 2012 given that within this timeframe no regulatory risk would have been encompassed. Restricting the eligibility of those credits in phase II of the EU scheme would cause significant losses for ETS operators and investors and would undermine the credibility of the EU carbon market.

3. CARBON OFFSETS: AN INTERNATIONAL INSTRUMENT

One of the core features for project-based mechanisms in the UNFCCC framework, and a pre-requisite for credit issuance, is the projects' environmental integrity. For CDM and JI to keep providing a global and valuable instrument to reduce emissions in a cost-efficient way, it is of the utmost importance that new unilateral rules and restrictions are introduced keeping in mind the international framework and possible impacts on the future of CER and ERU markets.

Clear and ex ante rules should be set forward for market participants to take their investment decisions on the grounds of a stable and predictable framework, thus implying that no retroactive effect should arise from the decisions adopted by the Commission and EU member States.

The introduction of measures such as "multipliers" or "discounts" should be discouraged as they would bring additional uncertainty on the carbon market without concretely addressing the environmental drawback for which the measures themselves were conceived in the first place.

OUR VISION ON THE POST 2012 CER/ERU MARKET

Most of the credits currently on the market come from industrial gases projects and have been produced at low costs. Edison has decided from the beginning to select only environmentally sustainable projects. Edison has excluded projects linked to HFC and other industrial gases, but, notwithstanding this choice we have faced significant registration delays. Without the extension of the CER market to other players to boost the demand for credits (OECD countries for example) we do envisage a strong risk of oversupply which may hinder the rational for future investments in high quality CDM projects.