

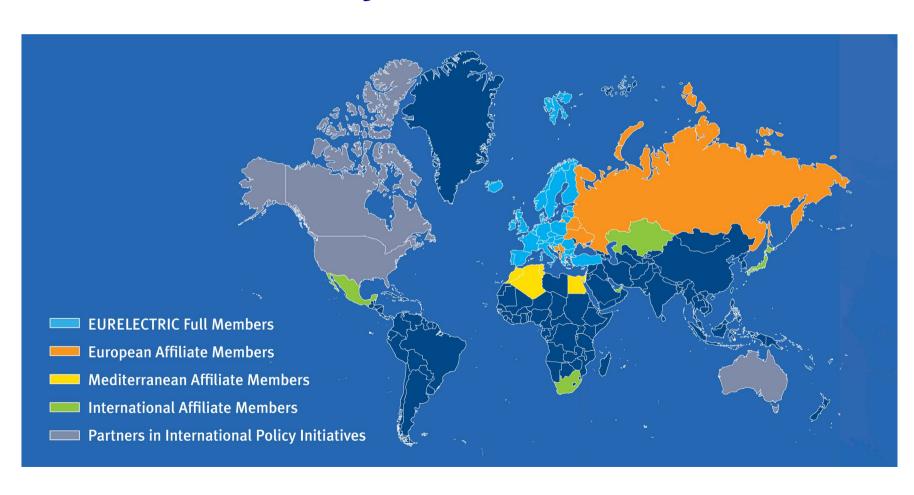
# **Emissions Trading - A view from the Electricity Industry**

John SCOWCROFT
Head of Environment & Sustainable Development
Policy Unit - EURELECTRIC

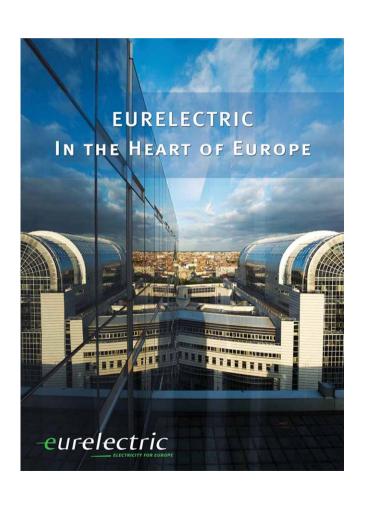
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## **EURELECTRIC** – a pan-European and Internationally Oriented Association







## The Voice of the European Electricity Industry:

- Carbon-neutral and secure electricity supply
- Competitive and wellfunctioning European market
- Electricity as the solution





#### **EURELECTRIC CEO Declaration**

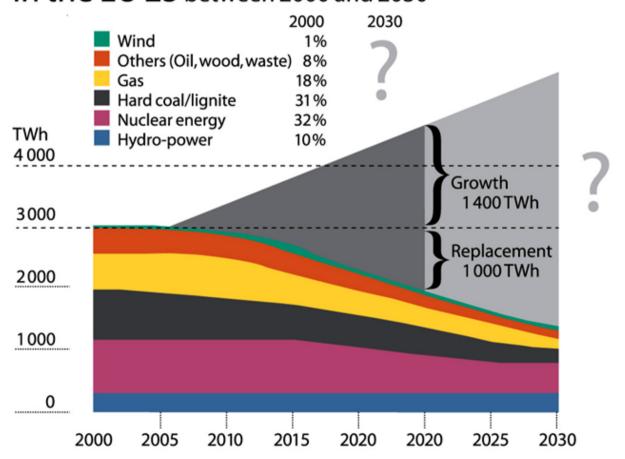
18 March 2009



- 1. Carbon-neutral power in Europe by 2050
- 2. Cost-efficient, reliable supply through an integrated market
- 3. Energy efficiency & electricity use as solutions to mitigate climate change



## Development of electricity generation in the EU 25 between 2000 and 2030



- ✓ Need for huge investments up to 2030 (750 GW)
- ✓ Costly investments(€1 trillion)
- ✓ No technology revolution in sight within 10 years
- ✓ Create an attractive business environment



### The need for new capacity

- To replace existing plants and meet increasing demand, about 750 GW new capacity to be built in the EU-25 by 2030 (according to IEA)
- 750 GW equals:
  - -5800 CHP plants (130 MWe each)
  - -1250 coal-fired plants (600 MWe each)
  - -470 nuclear units (1,600 MWe each)
  - -190 000 large wind turbines (4 MW each)



#### Reasons for investment

- Many European power plants are old and will be retired within 10-15 years
- New stricter environmental regulation will force much plant to close
- Liberalised electricity markets mean keener competition and some power plants will not be profitable
- Electricity companies do not want to keep costly reserve capacity if not paid



### Impact of CO<sub>2</sub> emissions trading

- The burden of CO2 reductions has fallen mainly to the electricity industry
- As in most commodity markets, prices are set by the marginal plant
- CO2 is one of the many factors that influence shortterm marginal operational costs and hence wholesale prices
- Ultimately, and in the longer term, electricity prices must cover long-term marginal costs, including capital costs
- Signal to invest in low carbon technologies



#### Impact on electricity companies

#### **Key elements to be addressed:**

- Climate strategy and risk management system
- Financial and accounting arrangements
- Taxation requirements (Corporate, capital gains, VAT)
- Legal, permitting issues
- Investment planning
- Production planning
- Organisation and administration (monitoring, reporting, verification, allowance recording, trading)
- IT systems
- Communication



#### **Company compliance strategies**

Internal abatement - Efficiency improvements, fuel switching (if portfolio allows) in short term. Repowering, restructuring plant portfolio, carbon capture and storage in longer term

Use of ETS market - Spot trading of EU allowances (active / passive)

Hedge EU allowance forward contracts / derivative products CERs and ERUs : bilateral, funds

Balance for each company based on own circumstances



#### **EU ETS Issues**

Unequal implementation – 27 NAPs

Electricity prices

Windfall profits



## **Auctioning – key points**

- Price discovery is not a requirement
  - A functioning market for EUAs exists. Therefore the auction design should be simple.
- Most important is that auction parameters do not undermine normal price formation in the market
  - e.g. timing, frequency, participation, transparency arrangements
- Need early auctions (by mid-2011 at the very latest)
  - To ensure orderly functioning of carbon AND electricity markets and avoidable (risk induced) electricity price increases
- Need to move to a centralised, common EU-auction platform
  - Most cost effective and efficient mechanism to release EUAs.
  - At minimum auction rules must be the same in every Member State



## Thank you for your attention

www.eurelectric.org