

**25 September 2014, Brussels, 3rd Stakeholder Consultation on
Carbon Leakage post-2020 carbon leakage provisions for the EU Emissions Trading System**

Updating benchmarks

Pros and cons of different options to update benchmarks for allocation in the EU ETS post-2020

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Focus of presentation



- The updating of the benchmarks themselves
- Not an update/overhaul of the whole benchmark-based allocation system
- NOT:
 - Carbon leakage provisions
 - Reduction factors (LRF/CSCF)
 - Dynamic allocation
- Objective of updating?
- Timing/frequency matters

Benchmark-based allocation

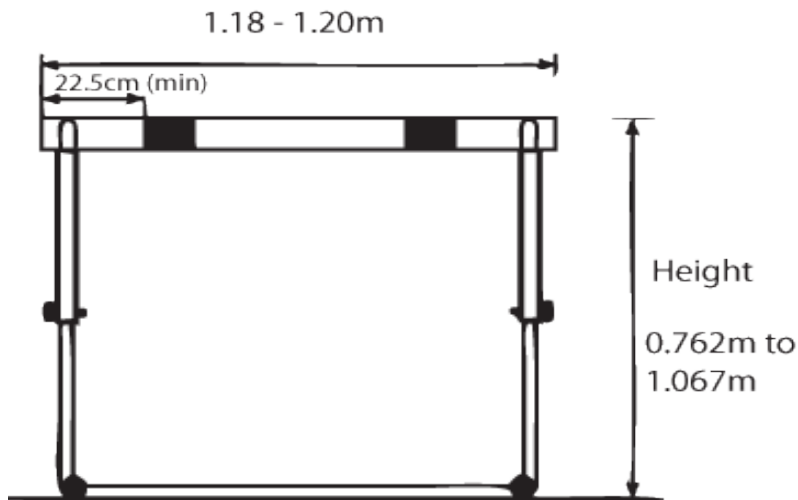
Currently, free allocation in the EU ETS based on:

$$\text{Allocation} = \text{Benchmark} * \text{Historic Activity Level} \\ (* \text{ CLEF} * \text{ reduction factor/s})$$

How about post-2020?

- Will there be free allocation? Will it be benchmark-based?
- (Will there be CLEF/reduction factors?)
- Will the benchmarks used be the same?
 - Same type? Same definition? Same values?
- Will the activity levels used be the same?
 - Historic, ex-post, dynamic?

Defining BMs



In this presentation:

- Type = which outputs?
- Definition of performance =
 - Average performance
 - 25%-ile, 10%-ile, 5%-ile
 - Best practice, BAT
- Values = x GJ/t

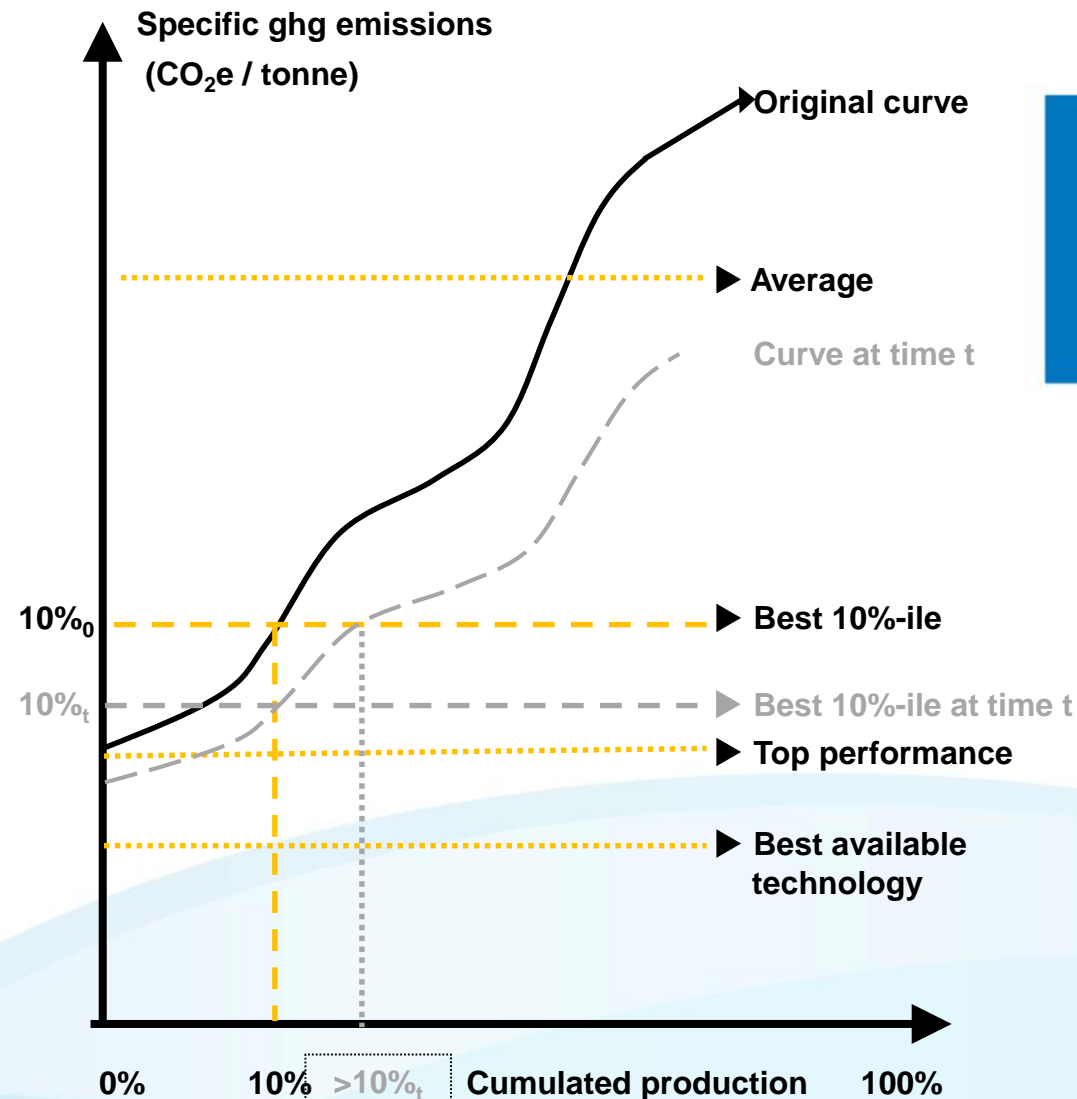
1. No change

Current approach:

- Current set of 52 BMs
- BM based on top-10% of the BM curve
- Based on '07-'08 performance

Consequences:

- Simplest, least effort
 - No new data gathering, verification
- Continuity from current approach
- Ignores progress in performance
 - Problematic?
- Frontrunners maintain competitive advantage



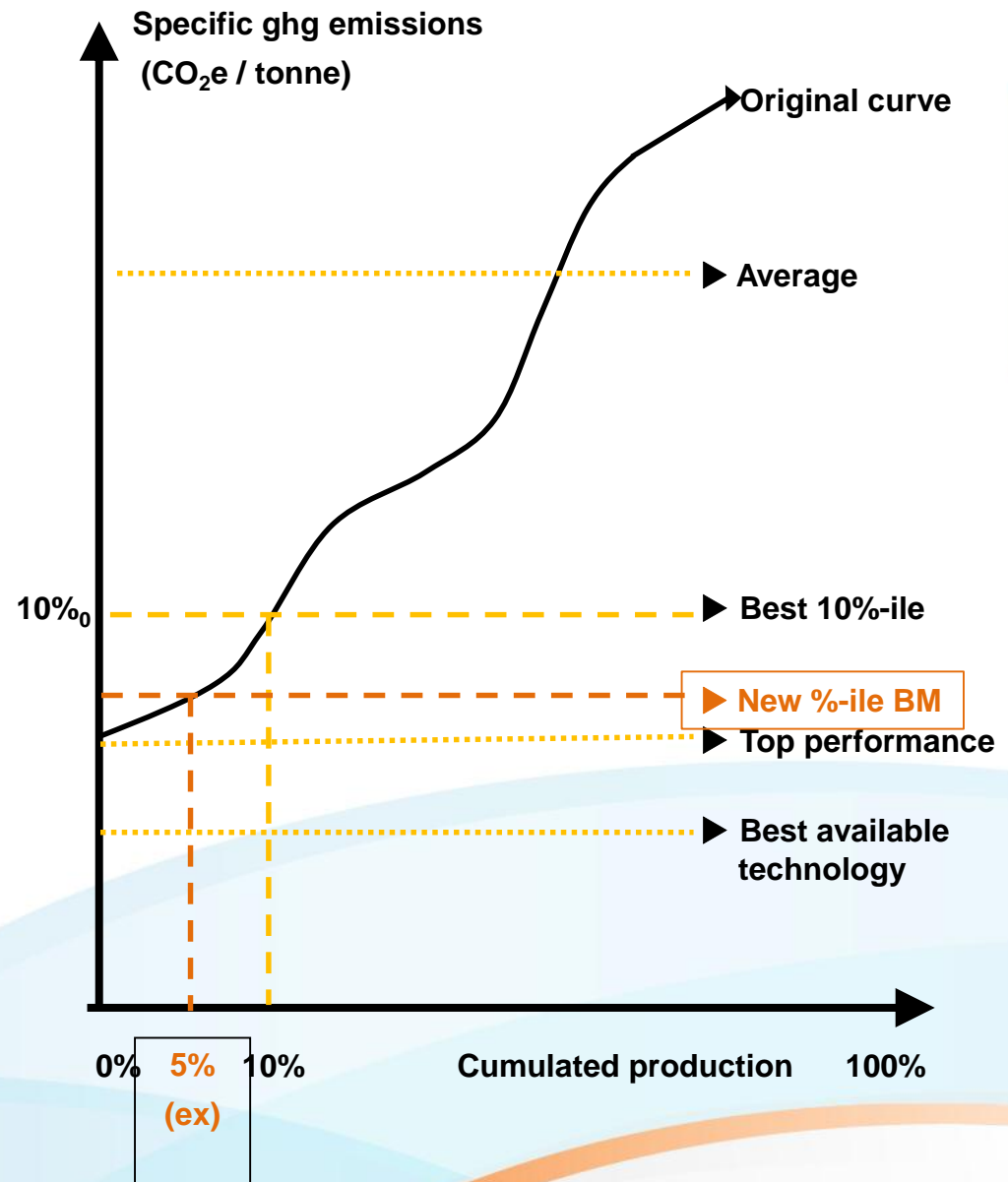
2. Same curve, different BM definition

Approach:

- Current set of 52 BMs
- BM based on **more stringent %-ile** of the BM curve
- Based on '07-'08 performance

Consequences:

- Simple, limited effort
 - No new data gathering, verification
- Limited change from current approach
- Reflects increasing progress, ambition level in ETS
- Part of frontrunners also face more stringent BMs



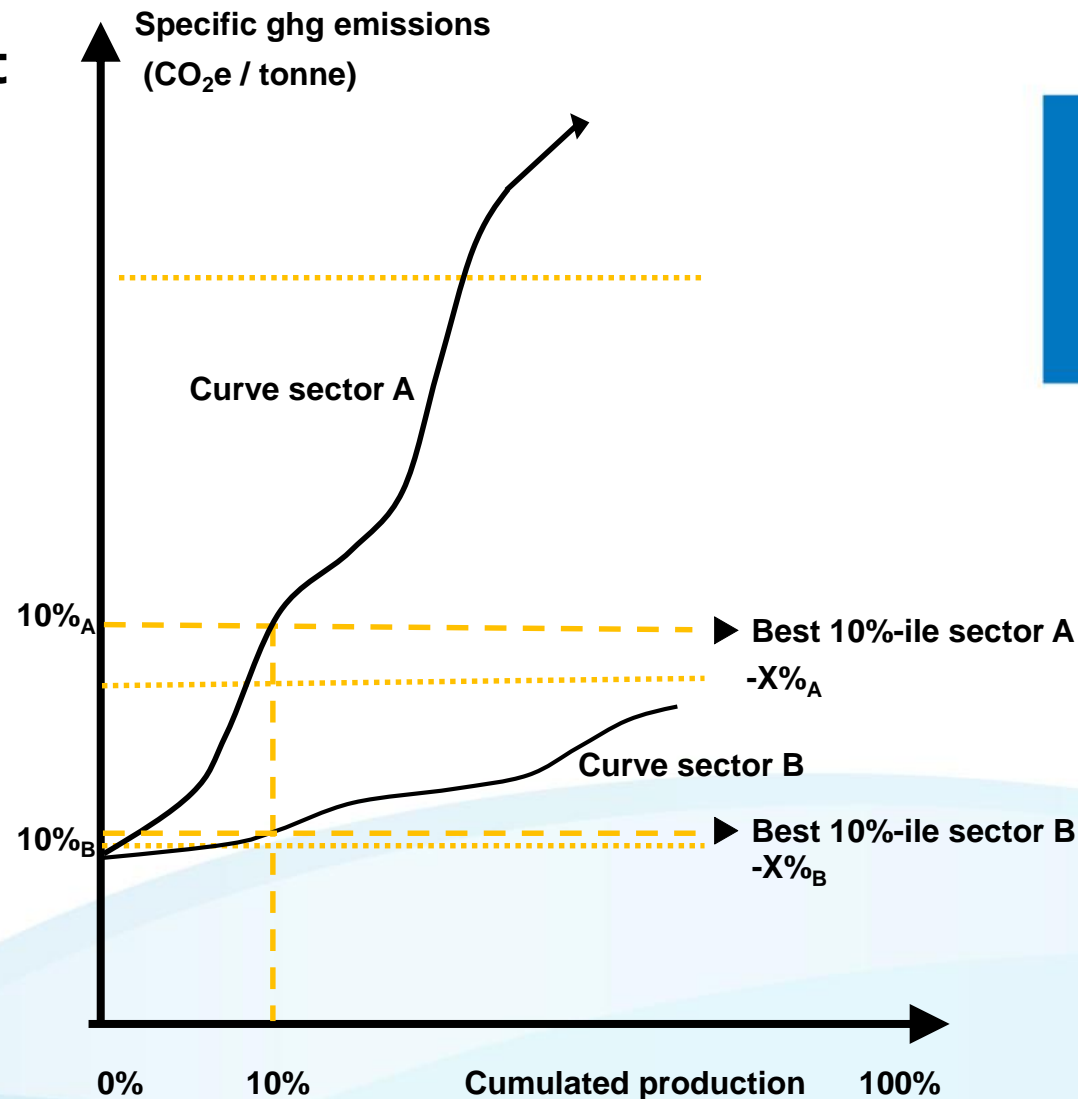
2.b Across the board cut

Approach:

- Current set of 52 BMs
- Based on current benchmark **with uniform % reduction**

Consequences:

- Simple, limited effort
- Limited change from current approach
- Reflects increasing progress (proxy), ambition level in ETS
- Part of frontrunners also face more stringent BMs
- Different from #2 if shape curve strongly differs by sector
 - Distribution of effort over sectors?



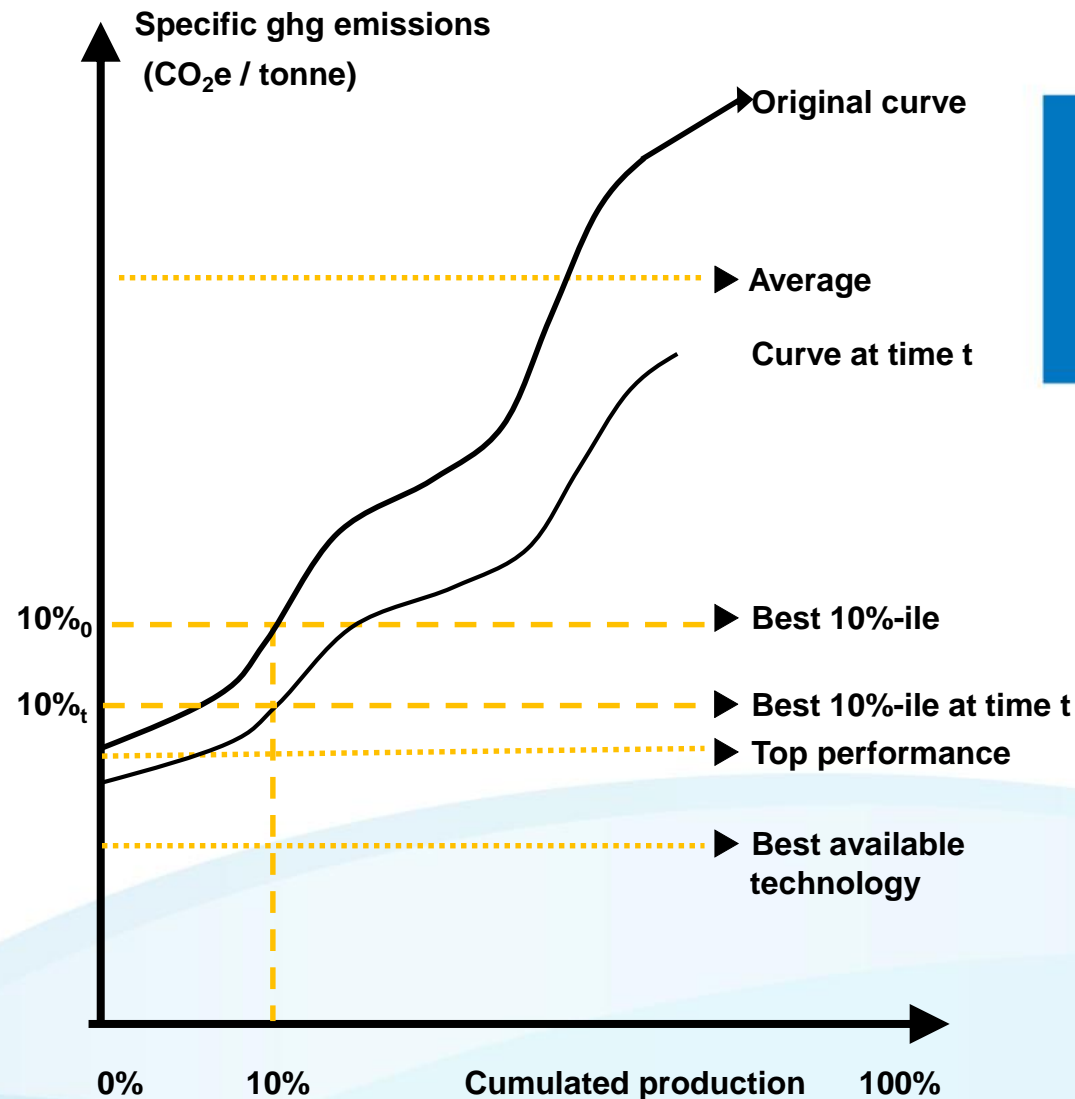
3. Updated curve

Approach:

- Current set of 52 BMs
- BM based on top-10% of the BM curve
- Based on **new performance data**

Consequences:

- Substantial effort
 - New data gathering, verification
- Limited change from current approach
- Reflects increasing progress, ambition level in ETS
- Frontrunners also face more stringent BMs



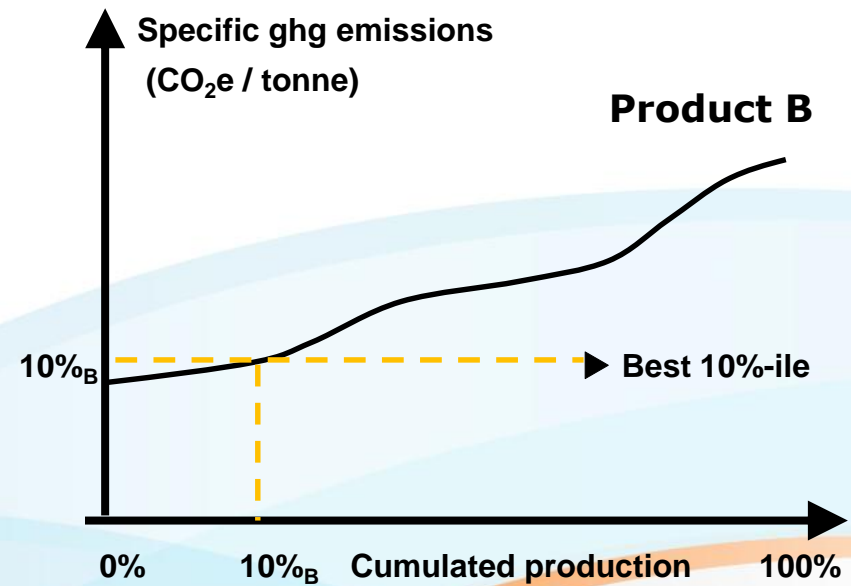
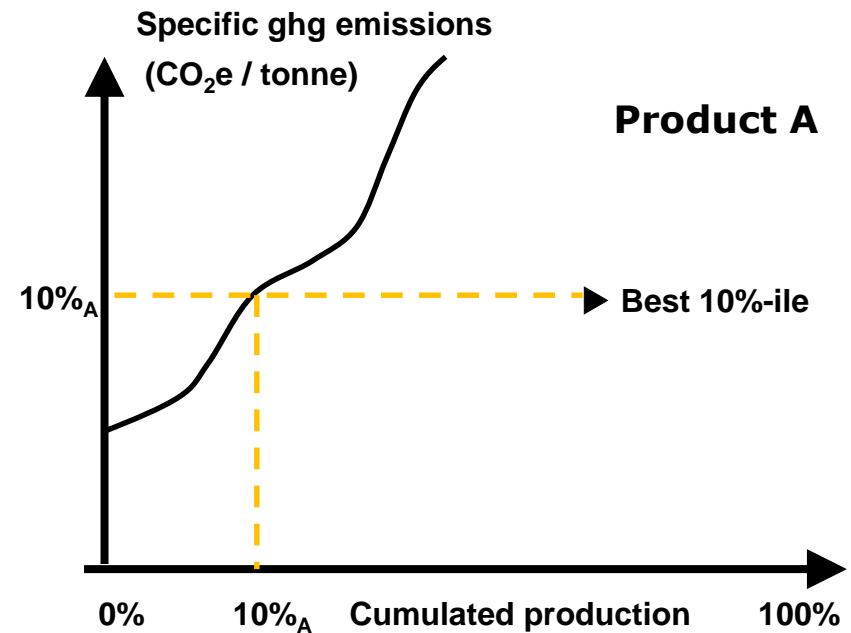
4. Different BM types

Approach:

- **Different set** of BMs (partly)
- BM based on top-10% of the BM curve
- Based on **new performance data** for new BMs

Consequences:

- Additional effort for selected BMs
 - New data gathering, verification
- Change from current approach, impact depends on activity/product
- Better reflects frontrunners and early action than combined curve
- How to decide for which BMs needed?



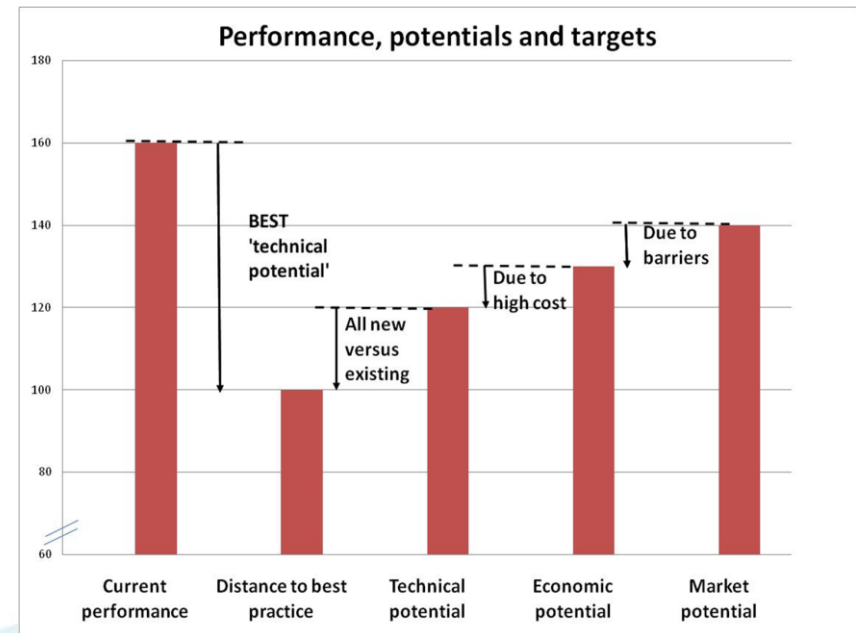
5. Different approach to setting BMs

Approach:

- **NOT** based on BM curve
- Based on **other performance data**, e.g. distance to bp, BAT, reference plant

Consequences:

- Substantial effort
 - New **methodology development**, data gathering, verification
- Similar issues as current approach re representativeness?
 - Definition of peers (products)
 - Consideration of specific plant characteristics different from reference plant



Other considerations

Other potential changes to BMs:

- Different benchmarks for greenfields than for incumbents, capacity extensions?
- Changes to Fallback BMs?
 - Simplifying rules around heat?
 - Complicated for many operators, CAs
 - Est ~20% of time/effort in NIMs for assessing cross-boundary heat flows

Other:

- Impact of BM update vs that of correction factors?
- Combine BM update with NIMs data collection effort?

Conclusions

- Different ways to update benchmarks with different pros/cons
 - Is objective of update to stimulate further emission reductions, to improve the equity of the distribution of free allowances, and/or create more insight into additional effort required under future rules/target?
 - Objective also colours judgment on pros/cons of the different options
 - Impacts also depend on frequency of updates
 - Choice is balance between effort required for updating
 - Methodology development, data gathering, verification
 - Industry, governments, European Commission
- and expected impact
- Emission reductions/investments, costs, equity, insight, robustness
- Will updating benchmarks stimulate further emission reductions/investments in clean technology?
 - May be different for incumbents and greenfields

For further information:



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