

IMPACTS ON ELECTRICITY PRICES OF EMISSIONS TRADING

3rd ECCP Meeting of the WG on Emissions Trading

Brussels, 21 May 2007

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Chairman of the Environment and Sustainable Development Committee

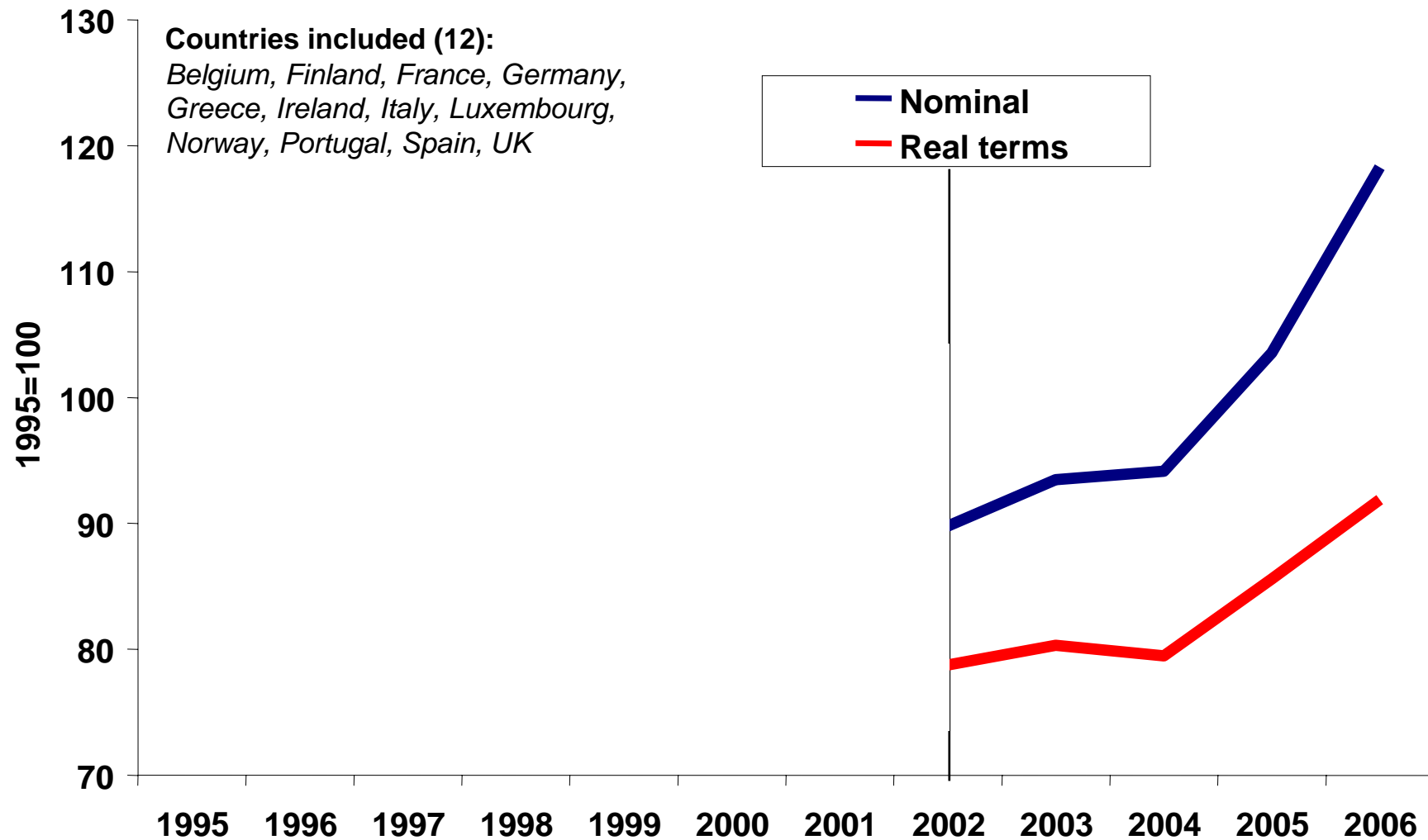


**Was the EU ETS the
cause of increasing
electricity prices and
loss of competitiveness
in Europe?**

A view at the start of the EU ETS

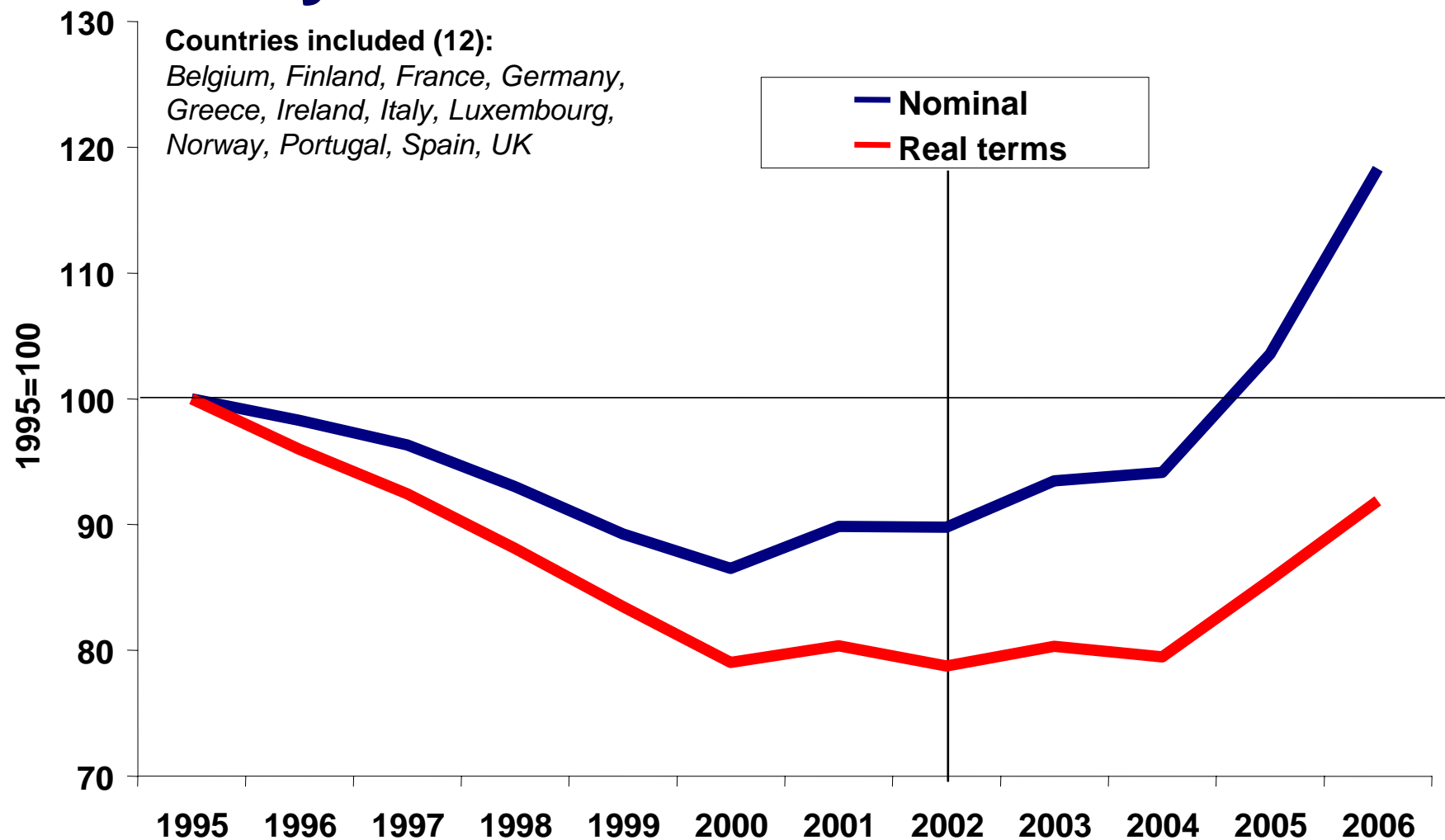
- **Changes in electricity prices will not be a consequence of emissions trading, but of implementation of the Kyoto Protocol.**
- Goods that contain more carbon will be relatively more expensive than goods that contain less carbon. As the trading scheme is the cheapest way to implement Kyoto, it means that any **price changes will be the lowest necessary.**
- Pricing decisions in the liberalised power market are **increasingly complex and difficult to predict.**
- There are **many events that directly affect the electricity price**, emission trading is just one of them.

Price increases started in 2002 but the EU ETS started in 2005!



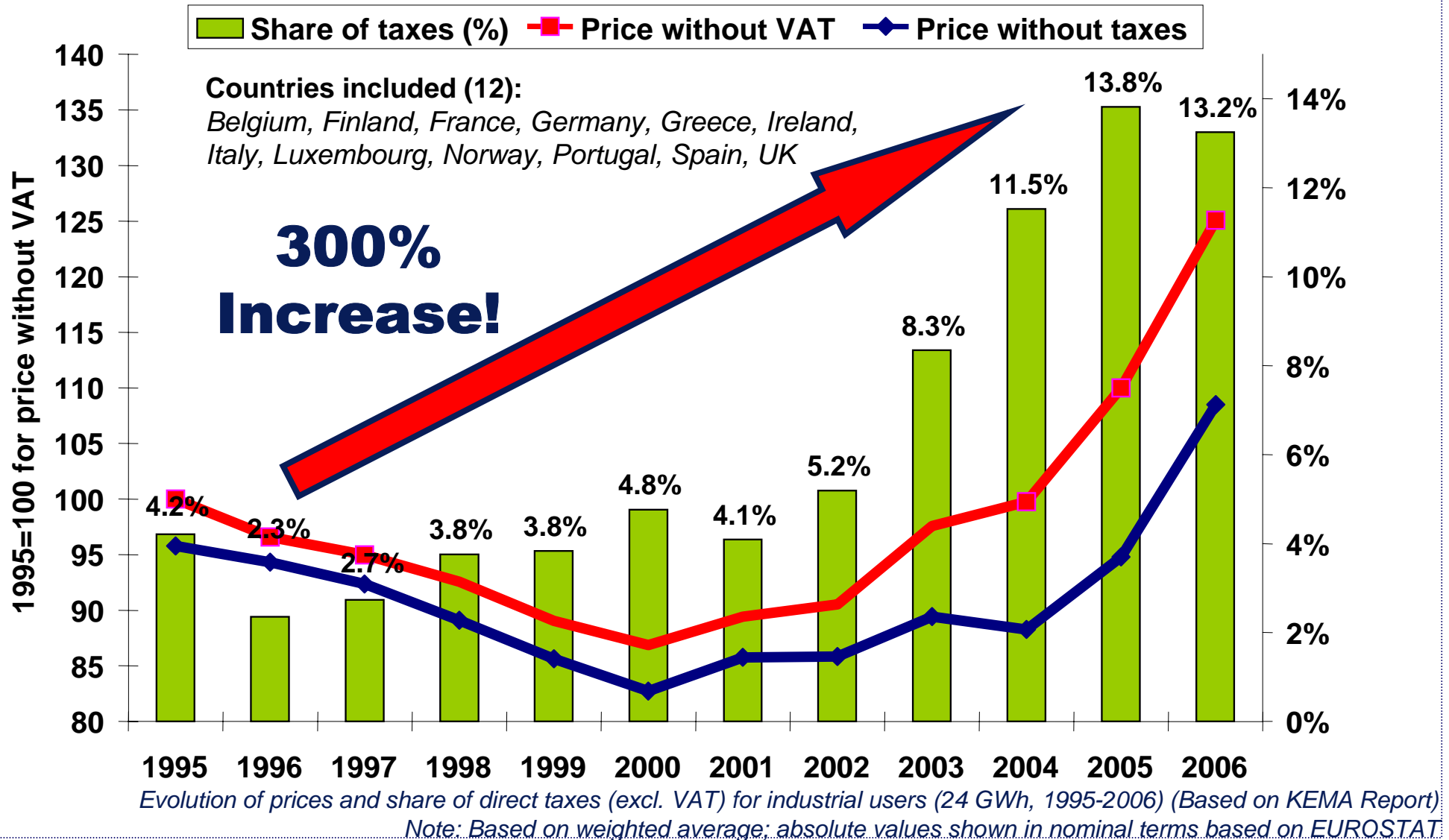
*Price evolution for industrial users using a weighted average (1995-2006)
Industrial users: 24 GWh, before taxes (based on KEMA report)*

Real prices are still **lower** than they were in 1990!

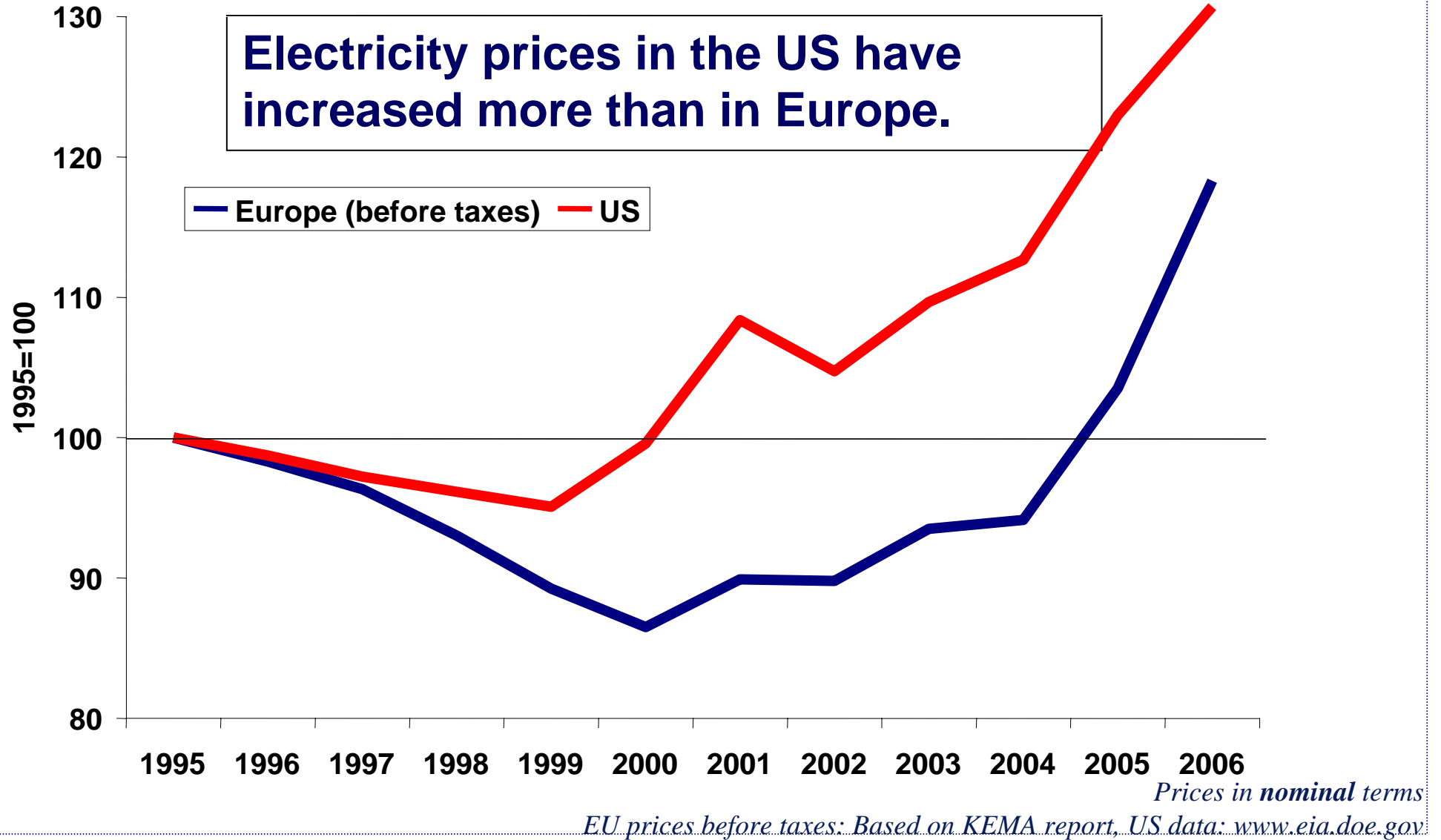


Price evolution for industrial users using a weighted average (1995-2006)
 Industrial users: 24 GWh, **before taxes** (based on KEMA report)

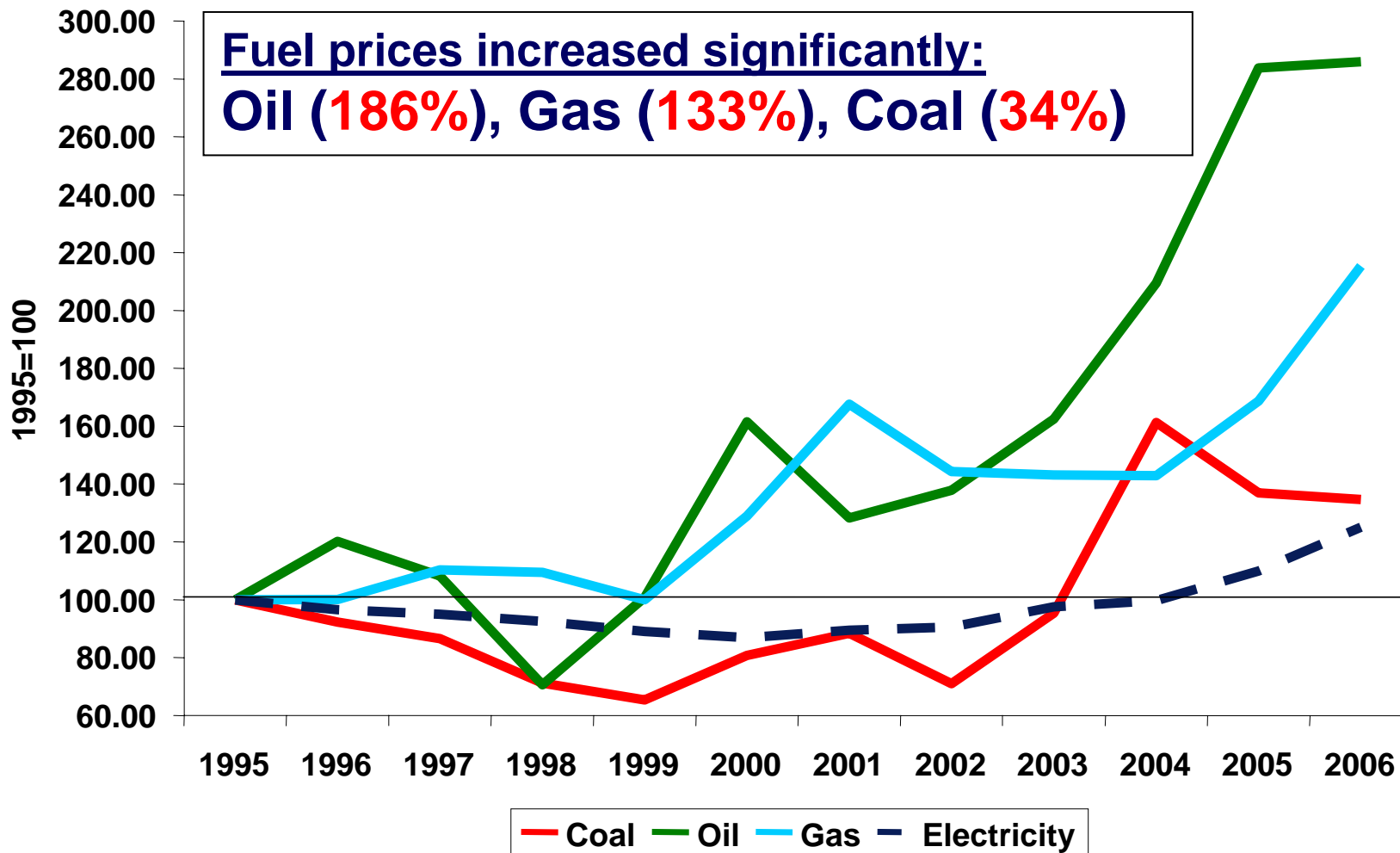
But taxes have risen sharply!



What about the US



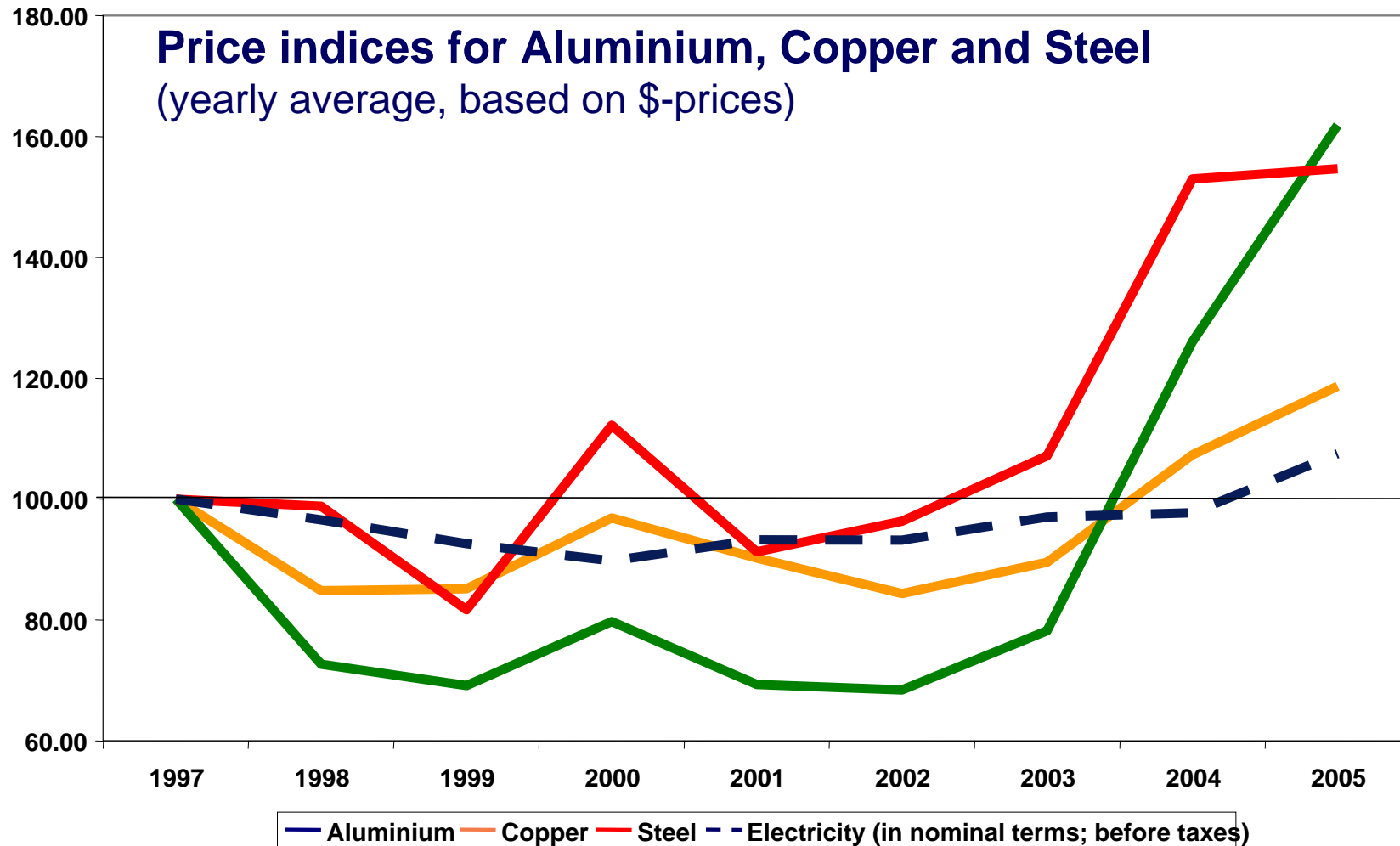
What about other energy prices?



Based on KEMA report: Electricity: Industry electricity prices EU-15 (nominal prices; without taxes); Gas: Industry gas prices EU-15 (nominal prices; without taxes); Oil: Average of Refiner Acquisition Cost of Imported Crude Oil (IRAC); Coal: Steam Coal Marker Price, 1% S, CIF NWE;

What about other sectors?

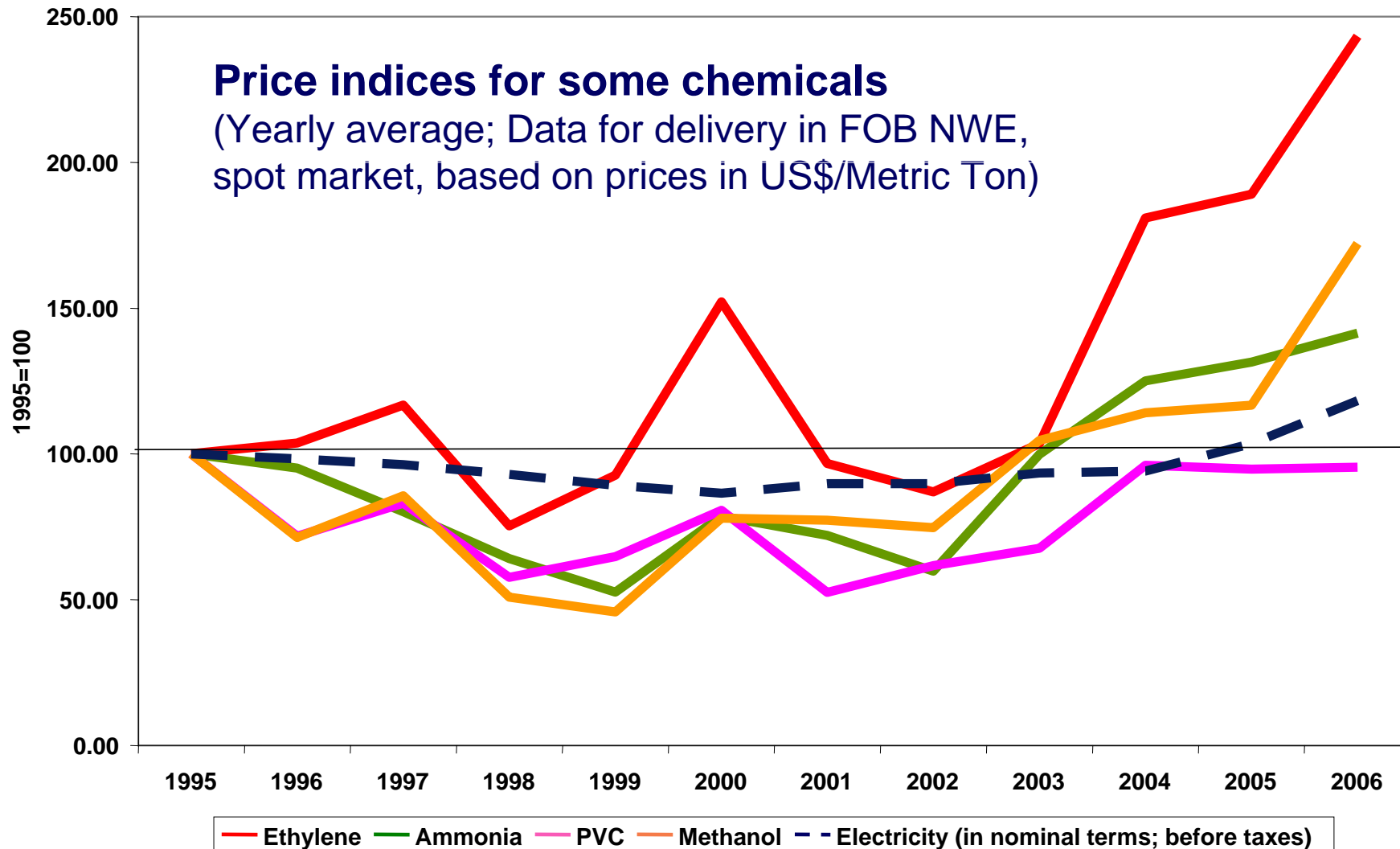
Metals



Source: Aluminium & Copper: London Metal Exchange, www.lme.co.uk;
Steel: MEPS (International) LTD, www.meps.co.uk; Electricity see slide 4 for source

What about other sectors?

Chemicals



Source: Chemical prices: ICIS, www.icispricing.com; Electricity prices see slide 4 for source.

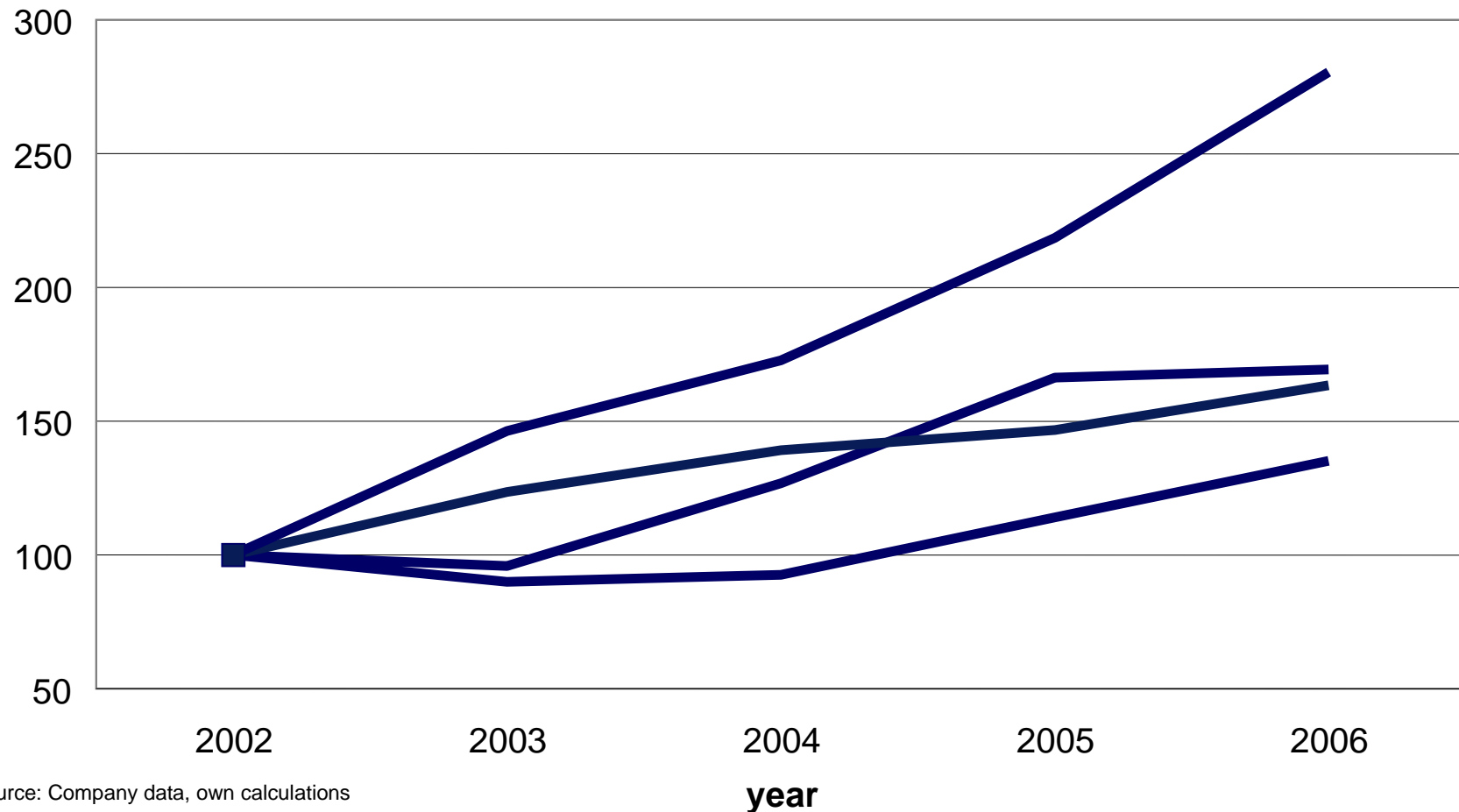
AN INTERESTING EXAMPLE !



Earnings of Electricity Companies

Index Earnings before Interest Taxes, Depreciation and Amortisation (EBITDA)

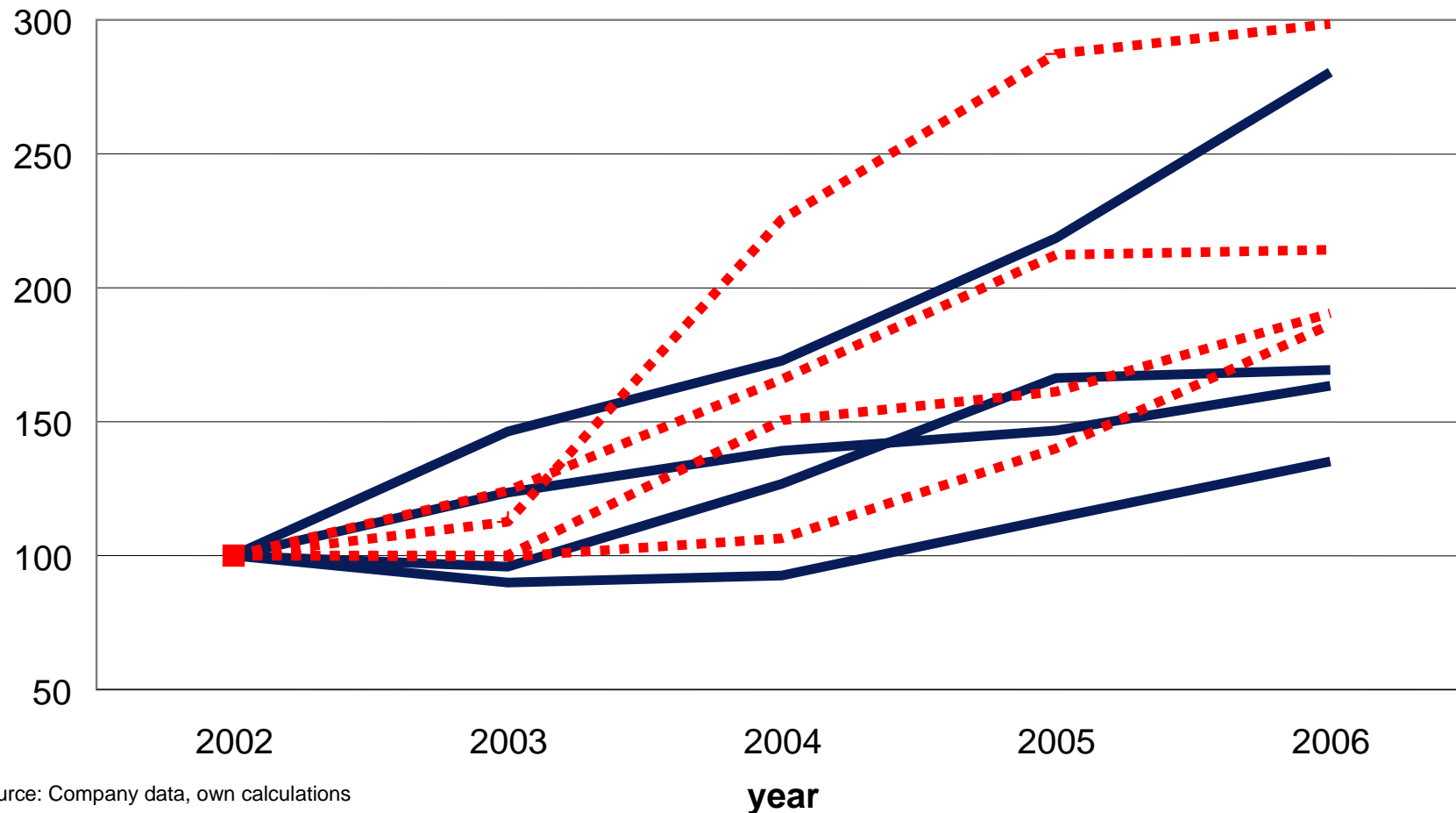
(2002 = 100), local currency



Source: Company data, own calculations

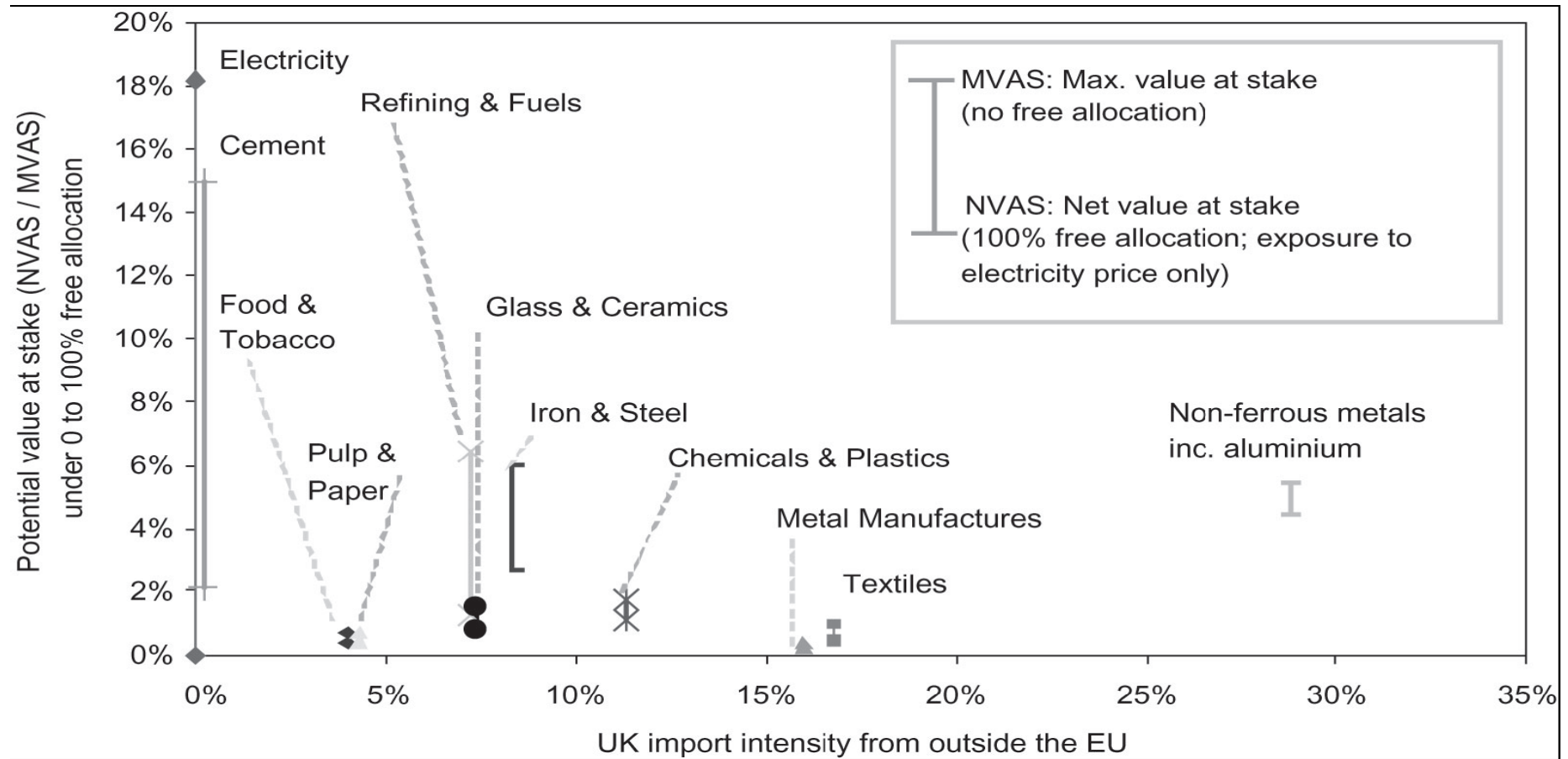
Earnings of Electricity and Energy-Intensive Companies

Index Earnings before Interest Taxes, Depreciation and Amortisation (EBITDA)
(2002 = 100), local currency



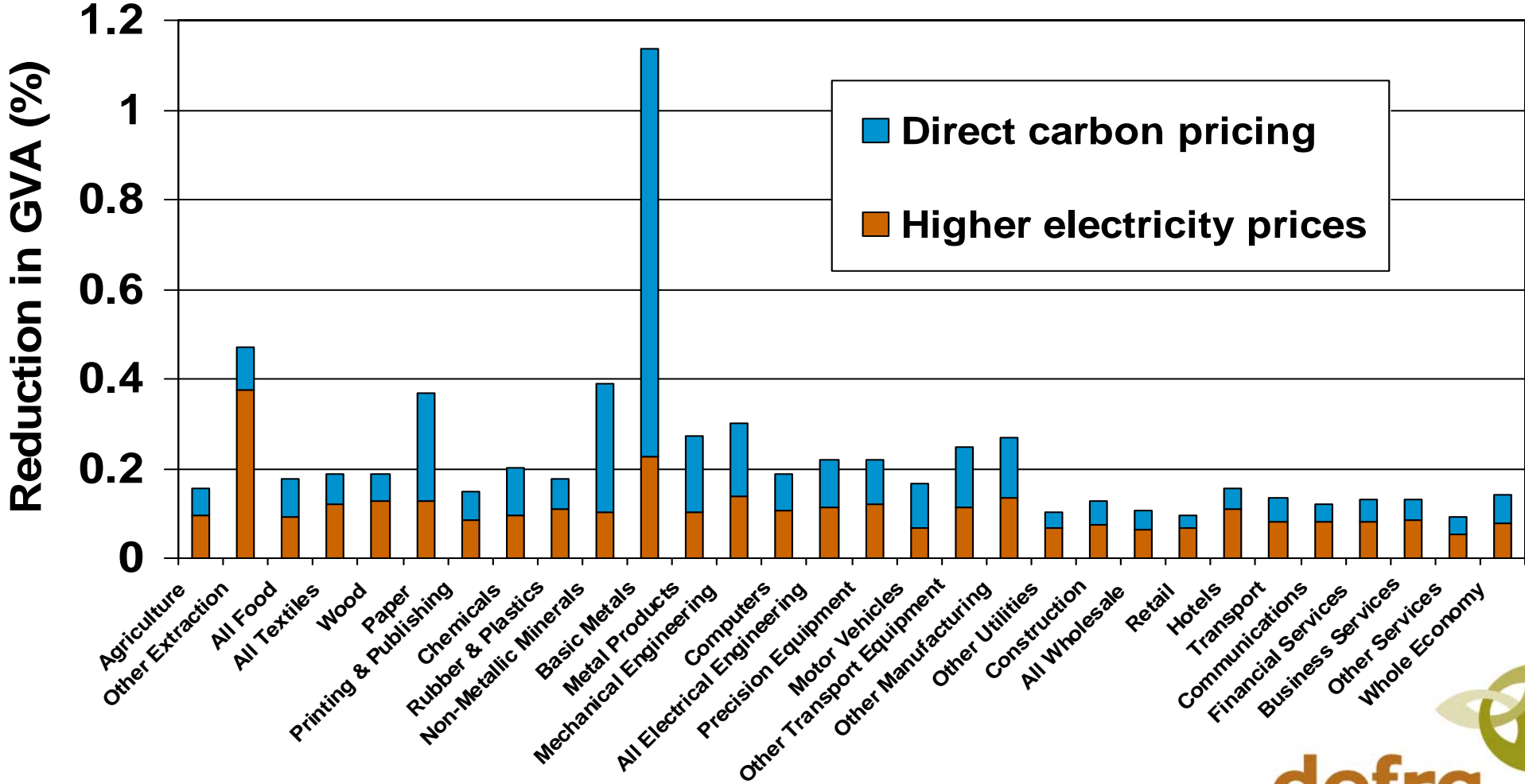
Source: Company data, own calculations

Impact of non-EU Competition on ETS sectors



Source: Climate Strategies analysis

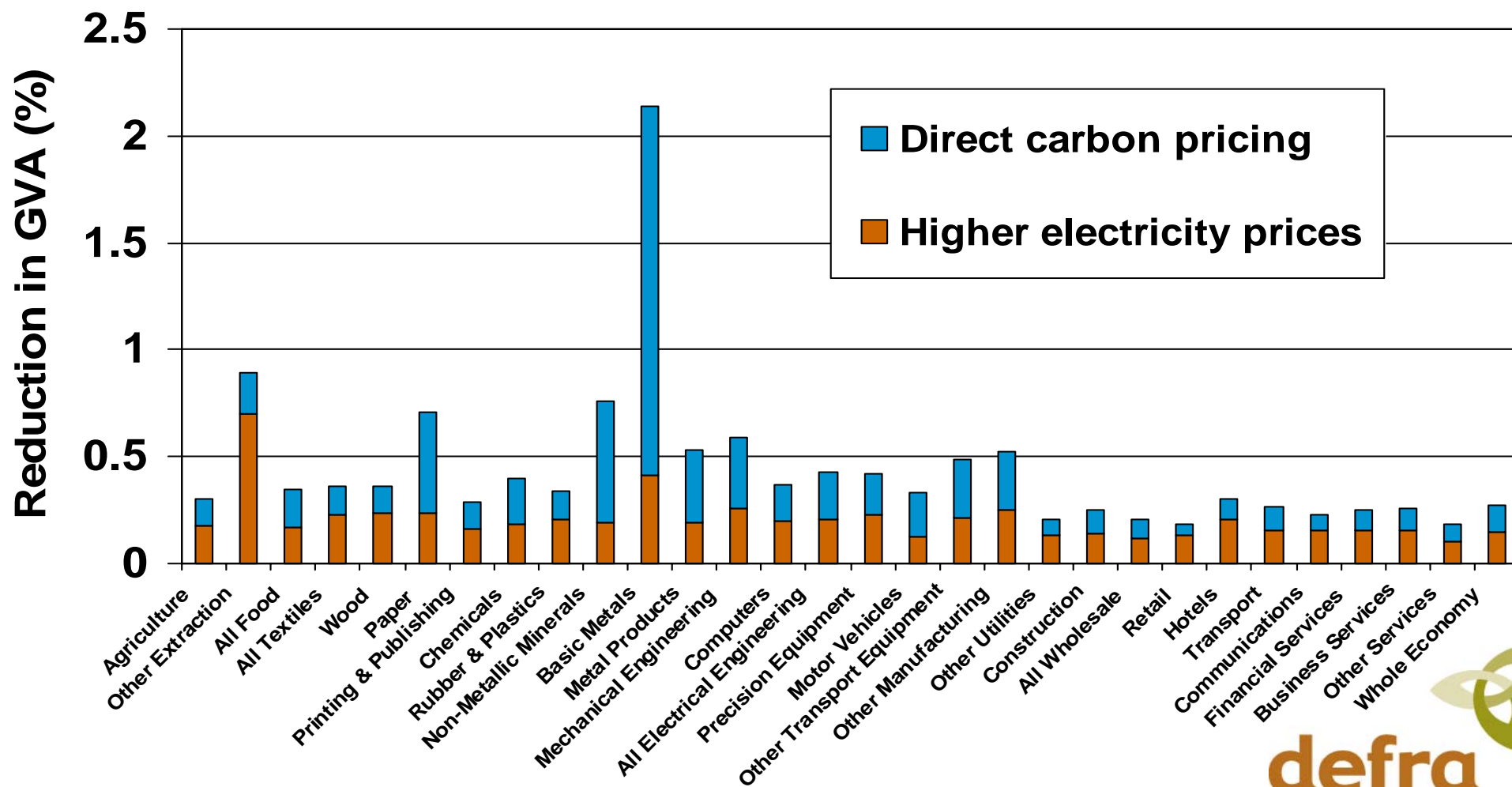
Estimated impacts on competitiveness is small in most sectors at a carbon price of €25/tCO₂



Source: Oxford Economic Forecasting analysis

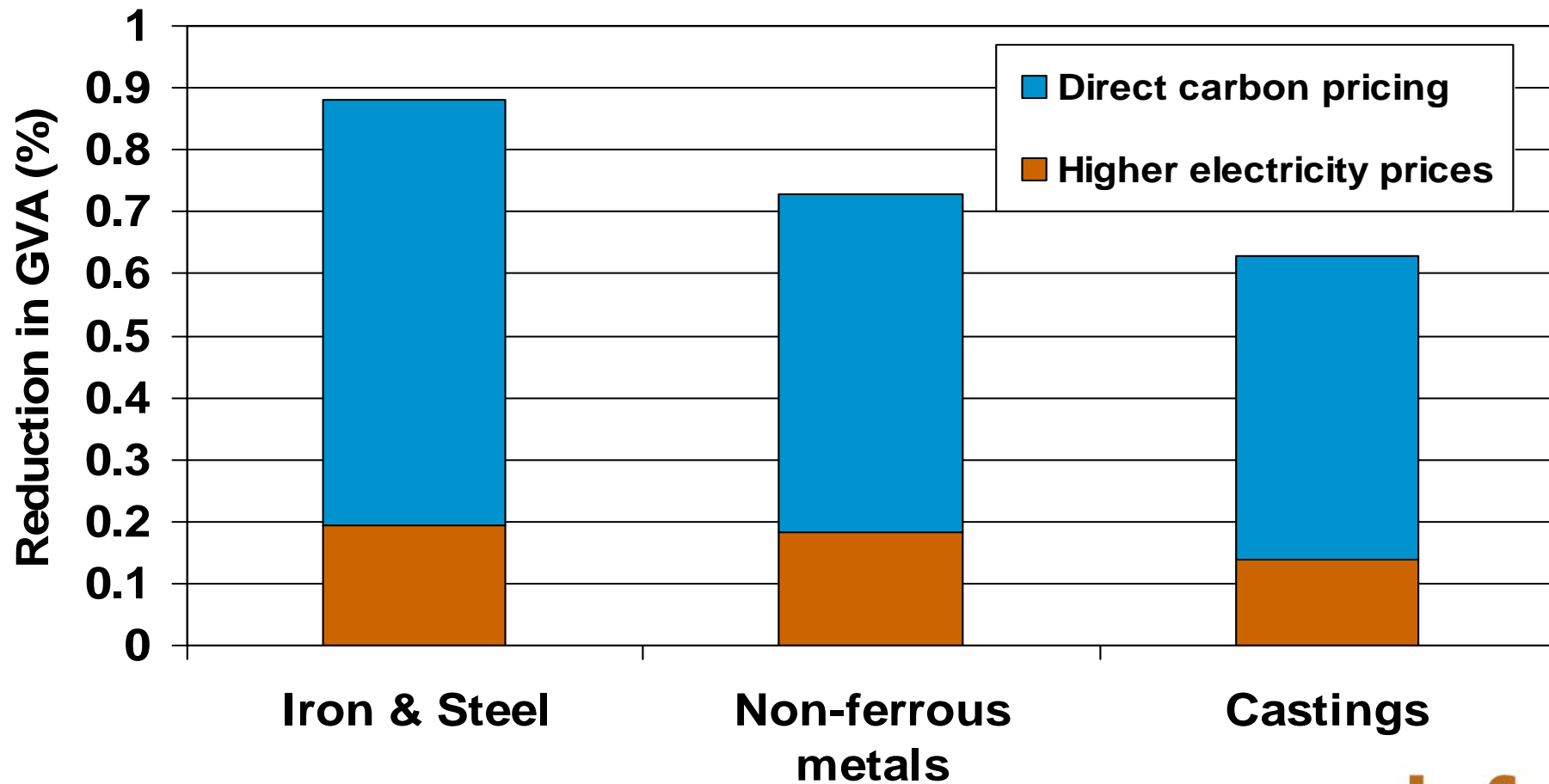


Estimated impacts on competitiveness <0.5% GVA in most sectors at a carbon price of €55/tCO₂



Source: Oxford Economic Forecasting analysis

Impact on metals sector mainly due to direct carbon pricing rather than higher electricity prices (€25/tCO₂)



Source: Oxford Economic Forecasting analysis

CONCLUSIONS

- 1. The objective of the EU ETS is to deliver carbon reductions at the least cost by setting a marginal carbon price.**
- 2. The EU ETS should not be distorted for short-term ‘political’ objectives.**
- 3. The impact of the EU ETS on competitiveness has been over-hyped and the emphasis on ‘windfall’ has distracted from real issues (e.g. investment). It is also discouraging other countries from acting.**
- 4. The impact on electricity prices is similar under all allocations methods**
- 5. All sectors, including non-ETS sectors, need to contribute to emissions reductions.**
- 6. Key principles for allocation are equity between installations, predictability and harmonization.**
- 7. All sectors need a transparent stable long-term framework for the EU ETS.**