EU Consultation on

"The 2015 International Climate Change Agreement"

Enel Group Response

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Enel Group welcomes the opportunity to respond to this consultation from DG Clima. Whilst answers to the questions are reported below, please consider at first our overall view regarding the key issues of the consultation:

- It is critical for clarity to be achieved by 2015 through a stable regulatory framework able to improve carbon market conditions and recover market operators' confidence. The on-going economic crisis and the uncertain regulatory framework of carbon markets have brought CO_2 prices to all-time lows reducing and postponing low carbon-investments. At the moment uncertainty remains high and ensuing market conditions are undermining the whole sector with a significant reduction of private investments. We believe that carbon markets need strong positive signals in order to restore credibility and attract new investments.

- A new Agreement in 2015 could be the opportunity to set a common framework between different domestic approaches. Currently the legal form of the new agreement is the center of a critical debate concerning mitigation efforts, where some Parties agree to binding actions in a top-down approach whilst others propose a bottom-up structure with a peer review. Enel believes that the current patchwork and bottom-up approaches should be regulated under a common framework at UNFCCC level, an all-embracing global agreement which recognizes and allows to compare efforts made at domestic level.

- The new Agreement should include all major economies contributing according to their means. The new Agreement needs to be considered as an opportunity of economic and technological development for all players involved, namely the countries which could host domestic schemes, buyer countries and private operators. Enel believes that the 2015 Agreement should renew and increase the target ambition of Annex I countries on one side and extend climate change responsibilities among emerging countries on the other. We believe that market mechanisms will still provide the key tools to create new opportunities to leverage technological know-how and to reduce at the same time mitigation costs. In such respect the establishment of a clear and stable carbon price signal plays a key role.

Consultation questions

1. **How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2°C objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C?**

   The 2015 Agreement should be legally binding, should encourage all major economies (both developed and emerging) to increase their levels of ambitions, should allow for all domestic and regional climate policies to provide their contribution within a single and coordinated framework. In such respect the Enel Group fully supports the Commission's objective to pursue a comprehensive and binding agreement in 2015. Such agreement should be set on an improved basis compared with the Kyoto Protocol: renewing and increasing the target ambition of Annex I countries on one side and extending climate change responsibilities among emerging countries on the other.

   The only way to develop a global agreement is through a strong and transparent common framework which allows market forces to provide incentives to all. The Copenhagen accord was the milestone which proved the international community's willingness to pledge against climate change under a new engagement. The same spirit should lead Parties to scale up their ambitions translating them into a binding agreement. We believe that the current patchwork of bottom up approaches emerging around the world should be regulated under a common framework encompassed in a global agreement which recognizes the effort made at domestic level. Under such considerations we judge positively the path undertaken in COP 18 to define a Framework for Various Approaches which aims to conceptualize new market mechanisms under a single and coordinated framework, ensuring environmental integrity and ease of access to mitigation opportunities. Within such context market mechanisms play a key role as they provide to all actors incentives to engage in decarbonisation by attracting investments where abatement opportunities are most attractive.

   Within such Agreement the equity issue should be duly addressed providing clear rules and a defined target that every Party should recognize, even if it appears to aim beyond measures already foreseen at the domestic level. Targets must be effective and based not only on historical responsibility, but also on correlation between emissions and expected economic growth. The new international agreement needs to include countries that have a "capacity to pay" correlated with their present and future economic development. The efforts of each country should be comparable not only in terms of ambition but also in terms of their economic and social cost. Only through a shared effort we can avoid a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C.

2. **How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimise the potential risk of carbon leakage between highly competitive economies?**

   By allowing a significant role to market mechanisms the 2015 Agreement will ensure contribution from all sectors and minimize distortions of competition and carbon leakage. Markets should play a key role providing attractive solutions to all involved actors, namely the countries which could host domestic schemes, buyer countries and private operators. To ensure the contribution of all major economies and sectors, we believe that the 2015 Agreement needs to be considered not only as a duty to avoid climate change consequences for future generations, but also an opportunity for economic and technological development triggered by market mechanisms implementing the most cost efficient and environmentally effective mitigation actions. In the past market-based mechanisms (such as ETS, CDM and JI) have proved to be powerful instruments for raising financial resources, mobilizing capital flows and enhancing dialogue between different actors engaged in mitigation activities. We believe that market mechanisms will still provide key tools to create new opportunities to leverage technological know-how while reducing mitigation costs. Developed countries are willing to contribute to shaping a new international policy framework allowing nations to use market-based mechanisms on an opt-in basis, in order to reduce costs, increase efficiency, attract private investments and reduce risk of carbon leakage. Indeed, new market mechanisms could guarantee net sector wide emission abatement in host countries or regions, reducing industrial relocation and helping compliance operators meet their targets in a cost effective manner. In order to let important sectors join in such a framework, it is extremely important that private operators are involved as governments alone cannot raise the necessary level of climate finance required to reach the 2°C objective. Governments and international organizations should adopt mechanisms aimed at encouraging private sector actions in this area. In light of this, such mechanisms need to be simple with a transparent policy framework, a clear demand and manageable risks in order to, on one side, plan long term investments, while on the other extend sectoral reductions among countries on a voluntary basis: the wider the scope of the mechanism, the lower the risk of carbon leakage. Furthermore, the actual incidence of carbon leakage should be monitored from the time of signature of the Agreement in order to provide data on its evolution once the Agreement enters into force.

3. **How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?**

   The 2015 agreement should develop a framework setting benchmarks and best-practices in mainstreaming and assessing abatement potential in the different policy areas/sectors. On the other hand the framework should encourage stable and clear policies which play a fundamental role in attracting private sector actors by reducing risk/uncertainty costs. As defined in the Consultative Communication, we believe that "climate policy must be fully integrated or "mainstreamed" across all policy areas and form a key component in the design of energy, transport, industry, agriculture, forestry and broader sustainable development policies and strategies". More however needs to be done in terms of exchange of best practices and monitoring potential. Furthermore, in order to reach such result, the 2015 Agreement should be able to provide an efficient incentive and financial mechanism to the private sector. IPCC studies have underlined the need for additional investments in a wide number of sectors including energy supply, industry, building and transportation. For each of these sectors, the Agreement could provide indicative, non-binding targets. Although the need to raise sufficient investments to mitigate climate change is clear, current market conditions and regulatory frameworks don't offer enough incentives to the private sector to further invest in such activities. We believe that clear, stable and coordinated policies should be addressed at an institutional level as a stimulus for all sectors and provide the right market conditions in order to ensure appropriate returns on investment with verifiable risks and reduced development and transaction costs.

4. **What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?**

   National circumstances should be reflected in the equity principles and in the "capacity to pay" principle correlated with their present and future economic growth. General principles should be established while sectorial opportunities should be identified through market mechanisms. The aim of the 2015 Agreement is to scale up ambitions in increasing emissions reductions and to broaden the commitment to all countries, developed and developing, consistently with the objective of limiting the rise of global mean temperature to 2° C target. In "a shared vision" for long-term cooperative action, Parties must assume their own responsibility in climate change not only for the past, but even for the future. The principle of "common but differentiated responsibilities and respective capabilities" should be renewed in order to let emerging countries find their way in a coalition of the willing: provided that there are different categories of countries in term of economic and financial growth, targets can be differentiated among Parties to meet equity concerns. Effort-sharing rules, such as those adopted in the EU, allow countries to act differently and not necessarily at the same level. As already emphasized, the new international agreement needs to include countries that have a "capacity to pay" correlated with their present and future economic development: a sensible approach to equity should consider the correlation between emissions and economic-financial growth, and should take into account countries that already have developed measures in their domestic policy for tackling climate change.

   Secondly, the new agreement needs to be an opportunity to develop a real integrated global carbon market possibly reducing emissions of entire sectors among countries. Market mechanisms have proved to encourage emissions reductions while generating economic growth and new jobs. Emerging countries should be involved and make commitments with such Agreement taking advantage of the potential benefits coming from market mechanisms. The 2015 Agreement should not target specific sectors through a rigid top down approach, but create a framework within which market mechanisms can identify the most cost efficient and environmentally effective technological opportunities.

5. **What should be the role of the 2015 Agreement in addressing the adaptation challenge and how should this build on ongoing work under the Convention? How**

can the 2015 Agreement further incentivise the mainstreaming of adaptation into all relevant policy areas?

The private sector has become increasingly aware of the critical role it plays in enabling effective, timely, and appropriate adaptation, but business contributions need to be supported by governments and international organizations in order to direct and implement financial measures. The 2015 Agreement should contribute to climate change adaptation in two spheres of action by:

- engaging with governments, communities, and other stakeholders to put policies and ground-level practices in place that contribute to long-term resilience
- engaging with private sector, developing technologies, products and services that help vulnerable countries and communities adapt to climate risks and impacts

Business-led adaptation interventions are particularly important in developing countries, where poor communities have significant exposure to climate change impacts. Private sector, with government support, could play a very important role in supporting sustainable development and efforts to build the green economy recognizing opportunities to expand operations and increase their market share through developing climate-resilient products and services, without forgetting the need to take measures to adapt to climate change also in developed countries.

6. **What should be the future role of the Convention and specifically the 2015 Agreement in the decade up to 2030 with respect to finance, market-based mechanisms and technology? How can existing experience be built upon and frameworks further improved?**

The 2015 Agreement should focus mainly on enabling market mechanisms which in turn will activate finance and technological innovation. Market based approaches represent the most effective tools to tackle climate change. In order to meet long term abatement targets, both ambition and instruments available need to be scaled up significantly. It is now evident that in order to stimulate the reduction of GHG emissions across broad segments of the economy, it is necessary to go beyond a pure offsetting approach. The challenge that the international community is taking into account, is to progressively substitute the fossil fuel generation with low carbon generation in order to prevent catastrophic climate change. Since existing tools are not sufficient to achieve this goal, there is a clear need for New Market Mechanisms to fill the gap between project-based approaches and economy-wide cap and trade.

The Enel Group supports the establishment of a new framework to activate new and more effective mechanisms of private carbon finance. A "private capital carbon market for sustainable development" should be capable of promoting a reform of existing mechanisms and prepare the ground for new ones. Even if Kyoto Mechanisms have proved to work, properly delivering significant emissions reductions and increasing capital flows, they are not able to trigger a shift in investment priorities in developing countries on the scale and with the speed necessary to avoid carbon lock-in. As an intermediate step between economy-wide and project-based approaches, a sectoral (or a segment of the economy) mechanism has the advantage of potentially setting the framework for industry-specific level-playing field across the globe. Such wider approach allows to scale up technology transfers and mitigation efforts and to achieve more ambitious targets in a cost-efficient way. More specifically the development of New Market Mechanisms (NMM) should take into account the following elements:

- *The New Market Mechanism should be defined as soon as possible* within the Durban Platform track to become a building block of the coming Global Agreement. and to support the achievement of the CP2 targets under the KP
- *CDM still has an important role to play and provides important lessons* for the design of New Market Mechanisms which should, where possible, leverage existing capabilities and infrastructures
- *New Market Mechanisms should be based on top down rules with a common framework at UNFCCC level*, setting the standards for environmental integrity and accounting to encourage the creation of a global carbon market with a common carbon currency, eventually supported by a credit conversion mechanism
- Between the different New Market Mechanisms models *Sectoral trading is a straightforward model* where the individual effort is rewarded and there is more certainty on the implementation rules *Baselines for new crediting mechanisms should both attempt to ensure environmental integrity* of credits and reflect circumstances of developing countries
- *Incentives must be right* for host *country, buying countries and private sector, and risks must be acceptable in order to attra*ct the required investments
- A decision on New Market Mechanisms would provide an *additional instrument* for those countries that cannot afford the design of full-blown domestic market mechanism
- *Pilot projects and real experiments are key* to progress towards New Market Mechanisms

Moreover, we believe that current fragmentation of carbon markets currently emerging around the world should be regulated under a common framework which recognizes efforts made at domestic level. Under such considerations we judge positively the path undertaken in COP 18 to define a Framework for Various Approaches which aims to conceptualize new market mechanisms under a single and coordinated framework, ensuring environmental integrity and ease of access to mitigation opportunities. The approaches could be market and non market based, but they need to be integrated under an international framework. An oversight body falling under the UNFCCC framework is a suitable option to guarantee the necessary governance of the system. An independent authority should be appointed to assure multilateral linkage of various national, sectoral and project approaches, establishing standardized global measurement, reporting and verification methodologies: the presence of a "regulatory body" could be particularly effective in order to guarantee that host country governments don't inflate credit generation through weak targets, weak monitoring and high baselines. Credits issuance and accounting rules should also be centralized to provide streamlined standards for country-led mechanisms such as the eligibility criteria and the compliance with transparency requirements. Finally, the creation of a common umbrella and the mutual recognition of an oversight body will guarantee the development of shared reference standards and transparency requirements regarding the issuance of credits and report activities in order to ensure credits fungibility (acceptance ex post guaranteed based on ex ante defined common rules).

Regarding the international finance, the Green Climate Fund, established in Cancun and made operational in Doha, will account for and manage large part of the $100 billion per annum by 2020 pledged in Copenhagen. That money, both public and private, can be in part allocated to renewable energy programs defined by developing countries to support capacity building and provide lump sum or low-cost financing to capital investments.

7. How could the 2015 Agreement further improve transparency and accountability of countries internationally? To what extent will an accounting system have to be standardised globally? How should countries be held accountable when they fail to meet their commitments?

The 2015 Agreement needs to fully integrate the experience developed so far to provide for a robust accounting framework while accountability should be ensured through binding measures and stakeholder scrutiny. Indeed, we do believe that existing UNFCCC bodies and rules should be taken into account to avoid useless replications or to lose the experience and the know-how accumulated until now. At the same time the Agreement should complete the consolidation process of measurement, reporting and verification (MRV) systems. For that reason the Agreement represents an important opportunity to reform and improve existing bodies, but even the chance to deliver a Framework for Various Approaches able to standardize different rules ensuring compliance with sustainable development criteria, including both social and environmental aspects, and avoiding the risk of double counting.

To preserve transparency and accountability the Framework should consider the following main issues:

- Clear and consistent methodologies for monitoring, reporting and verification (MRV) of emissions, including offsets: Parties need to demonstrate that baselines are sufficiently ambitious and use a robust MRV system taking advantage from the CDM/JI experience and including verification of emissions reductions by accredited third parties;
- Exploiting the accumulated experience of JI MRV procedures, every National Authorities could choose to verify emission reductions through national rules and procedures in accordance with the eligibility requirements shared in the FVA or transfer to a UN body the MRV procedures (i.e. Track 2 in JI procedures);
- A mutual linking between schemes and a conversion mechanism, to allow countries to use international trading mechanisms even though their respective environmental products may be of different denominations/expressed in different units.
- To avoid double counting between different environmental programs/schemes, especially in presence of international trading, it is essential to ensure that every unit traded is shadowed by a real emission reduction accounted in the national GHG inventory of provenance. Developing countries without commitment in KP2 should implement a full accounting system in preparation of an international agreement in 2020 where AAUs, or an equivalent unit, become the base unit on which their domestic program and the international trading rely. Under such perspective, NMM will contribute directly to the domestic emission reduction target and to the mitigation program, and the International Transaction Log (ITL) could be re-

designed in such a way that it would also allow for unit tracking between different national and subnational mechanisms.

8. How could the UN climate negotiating process be improved to better support reaching an inclusive, ambitious, effective and fair 2015 Agreement and ensuring its implementation?

   In order to ensure an effective 2015 Agreement implementation, first of all it is important to restore the credibility in the UNFCCC process lost with stakeholders by improving its ability to deliver. Furthermore greater transparency, less bureaucracy and accountability of the negotiating process could facilitate stakeholder engagement and lead to enhanced and expanded political support for climate change policies. Indeed, the civil society and business engagement in the decision-making process could provide advice to ensure that commitments agreed are achievable.

9. How can the EU best invest in and support processes and initiatives outside the Convention to pave the way for an ambitious and effective 2015 agreement?

   Initiatives outside the Convention should encouraged especially where they constitute effective piloting exercises of actions that could eventually be brought under the Convention. In such respect we welcome the bilateral agreements on climate change and on economical and technological cooperation and believe they should be strengthened. The European Union should actively engage in supporting processes and initiatives outside the Convention in order to shape and implement the global Agreement agenda. Bearing in mind the importance of the Convention, nevertheless it is crucial that such initiatives should be the occasion of convergence between the need to develop a shared vision toward 2020 and the mutual cooperation among countries. Enel considers that the action made until now by the European Union in external policy could be strengthened setting a more stringent cooperation program on technological and economic issues with a special focus on carbon crediting mechanisms and public funding.