

ENERGY COMMUNITY WEBINAR SERIES

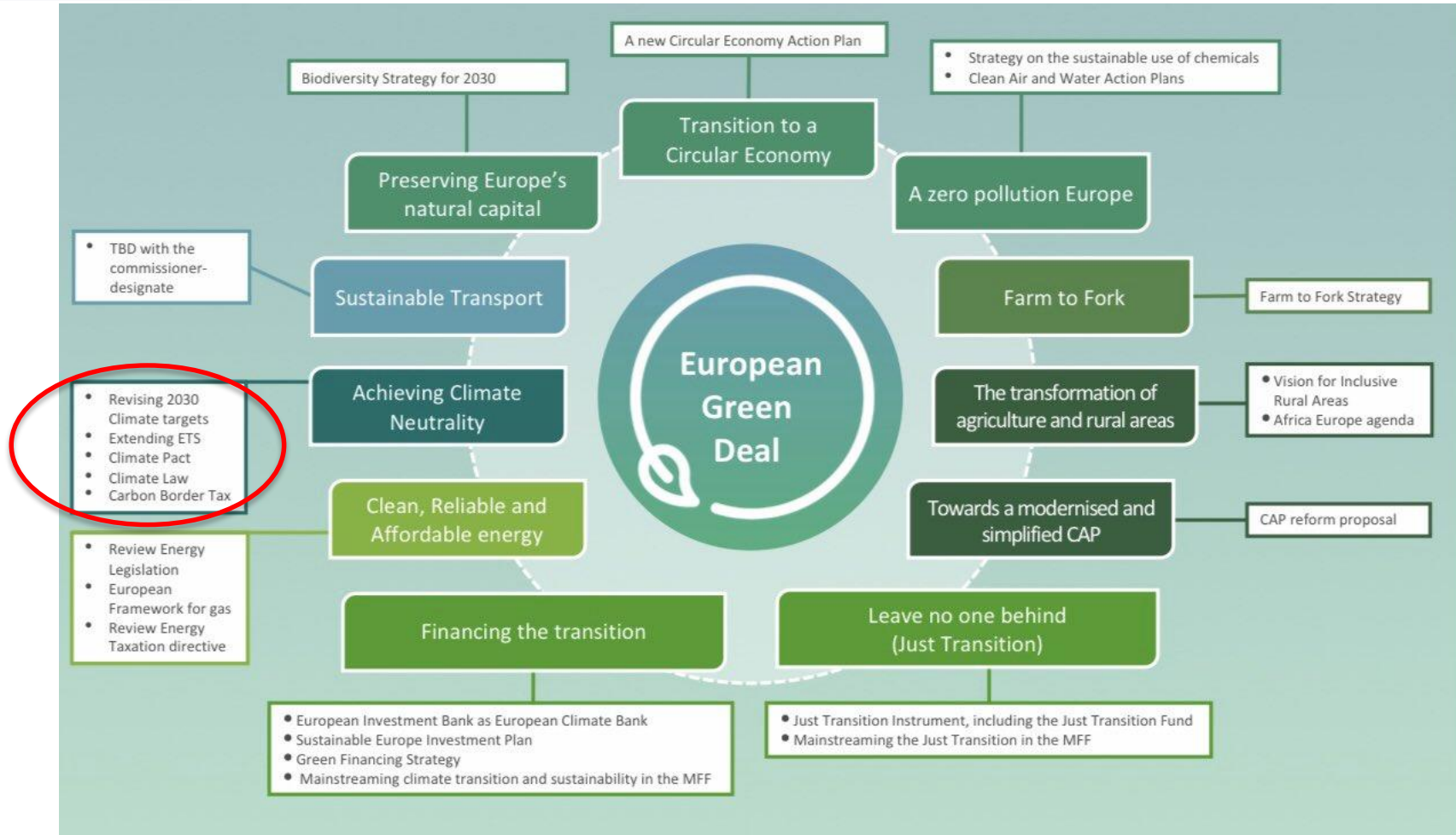
United in decarbonization? – an Emissions Trading Scheme for the Energy Community

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Peter Pozsgai, Energy Community Secretariat

In focus for this webinar

- Main features of an ETS and the EU practice;
- Examples for linking ETSs;
- A proposal for the Energy Community.



State of play in the Energy Community

Related legal acts

[2016] Ministerial Council Recommendation on the adoption of the **MMR Regulation**

R/2016/02/MC-EnC on preparing for the implementation of Regulation (EU) No 525/2013 on a mechanism for monitoring and reporting greenhouse gas emissions

National Energy and
Climate Plans

[2018] Ministerial Council Recommendation on the development of **NECPs**

R/2018/1/MC-EnC on preparing for the development of integrated national energy and climate plans by the Contracting Parties of the Energy Community

[2018] General Policy Guidelines on the **2030 Targets for the Contracting Parties of the Energy Community**

General Policy Guidelines, methodology and definition of the EnC 2030 targets, adaptations of the Energy Efficiency Directive, RES Directive and the Governance Regulation

Emission targets &
Related legal acts

2019 General Policy Guidelines on the **2030 Targets and Climate Neutrality for the Energy Community and its Contracting Parties**

2019 General Policy Guidelines, new study for the definition of the EnC 2030 targets, adaptations of the Energy Efficiency Directive, RES Directive and the Governance Regulation

Carbon pricing instruments



- **Emission Trading System – “cap-and-trade” system;**
- Carbon tax (direct carbon price, no pre-defined level of emission reduction);
- Fuel tax;
- Removing fossil fuel subsidies;
- Other regulations incorporating the social costs of carbon.

EU ETS covers cca. 45% of total EU emissions (11.000 installations) → cca. 20-25% auctioned

Transport, buildings, agriculture and waste are not in the ETS – but in the “Effort-Sharing Regulation”

An ETS operates in the EU, Canada, China, Japan, New Zealand, South-Korea, Switzerland and the US

A snapshot of the EU ETS

Phases I. – III.

- 2005-2007; 2008-2012; 2013-2020;

Phase IV. (2021 – 2030)

- Updated legal framework (ETS Directive, MRV and MMR Regulations);
- Annual reduction of allowances by 2.2%*;
- MSR will include a higher share of allowances; 1st review of MSR in 2021; from 2023 the amount of allowances in the reserve limited to the auction volume in prev. year;
- FREE ALLOCATION PROLONGED (1.) 100% for sectors @highest risk; (2.) for others phase-out from 2026 [30%] to 2030 [0%]; (3.) FA adjusted to actual production levels;
- Innovation Fund; + Modernisation Fund; + Phasing-out the use of international credits after 2020;



EUR 27 bln from auctions
between 2012-2019
→ In 2018 cca. EUR 15
bln

2 auction platforms:



Auctions

ICE FUTURES EUROPE

EUA Futures

[Product Specs](#)
[Data](#)
[Expiry Details](#)
[Margin Rates](#)

[Options](#)

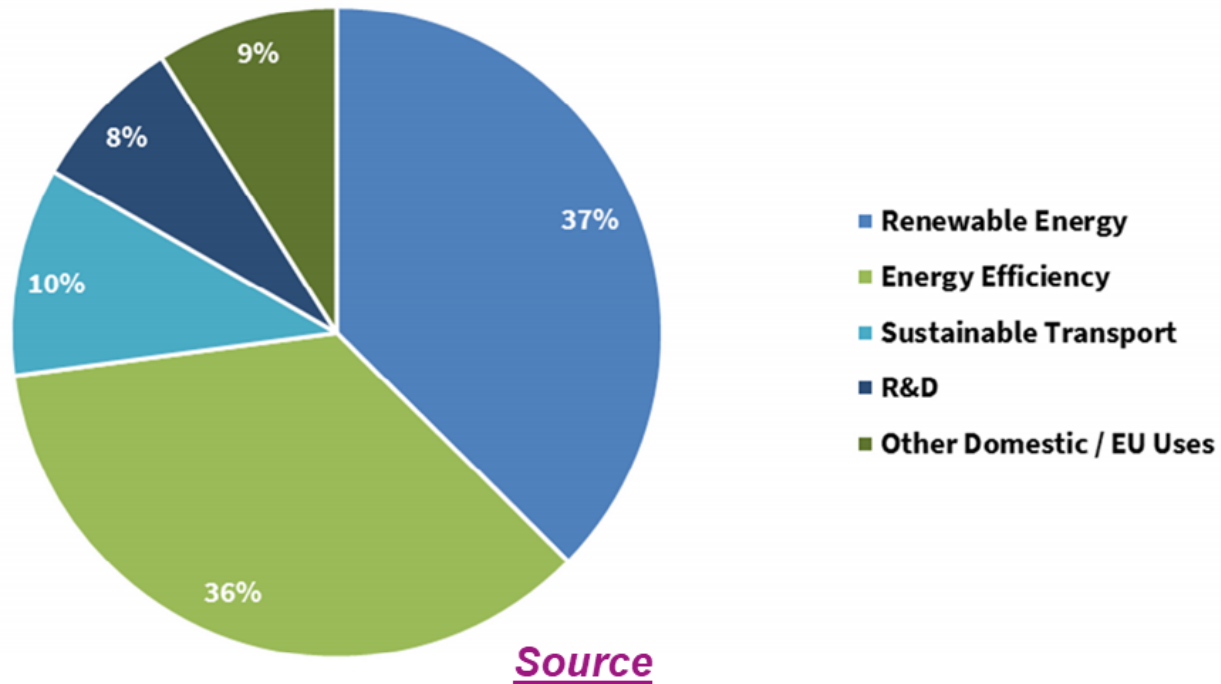
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[INTRADAY](#)
[3 MONTHS](#)
[1 YEAR](#)
[2 YEARS](#)
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Emission trading in the Energy Community – possible use of revenues

Figure 6: EU member states' domestic use of auctioning revenue 2013-2017



Linking the Norwegian and EU ETSs

In order to join the EU's ETS, the emissions trading system must be mandatory, set absolute limits on emissions, have robust registry systems, and have strict monitoring and compliance measures in place

- National Norwegian ETS regime between 2005 – 2007 covering cca. 10% of the emissions (industry);
- One-way linkage in Phase I. of the EU ETS (NO entities could buy EU allowances but not vice-verse);
- Bilateral link with the EU ETS from 2008 in Phase II. through the incorporation of the EU ETS Directive into the European Economic Area agreement – Decision No 146/2007 of the EEA Joint Committee;
- Scope and obligations almost fully the same as the EU ETS (covering cca. 50% of total emissions, additional gases included, ambition to move towards full auctioning);
- Similar challenges in Norway as in EU ETS – oversupply of allowances, collapse of price;
- Large share of free allocations at the initial stage;
- Even though auctioning is in place in NO since 2013 – auctions on EEX launched only from 2019.

Linking the Swiss and EU ETSs

- EU-CH Agreement (signed in 2017, entry into force Jan 2020) - Negotiations between 2011 – 2016;
- Linking but not merging:
 - ✓ CH ETS remains with its own autonomous legal base (no EU law adopted);
 - ✓ Mutual recognition of emission allowances – polluters can use allowances from both systems;
 - ✓ Participation in auctions in both systems (account and registration still needed);
 - ✓ Compatibility, equal treatment and system security – “essential criteria” in the Annex of the Agreement → continuous update/amendment as the legislation evolves;
 - ✓ Aviation and TPPs now integrated in the CH ETS;
 - ✓ Trading spot emission allowances: in the EU = financial instruments (MiFID II) | in CH \neq fin. ins.

| pos. limit + OTC only

EU ETS

- 11.000 installations
- ~ 2 bnt CO₂eq
- 500 aircraft ops. 65 mnt CO₂

CH ETS

- 50 installations
- ~ 5,5 mnt CO₂eq



Linking the Swiss and EU ETSs

- Allowances can be held in and transferred between the EU and Swiss emission trading registries only at certain times at the beginning;
 - provisional solution to link the two registries from May 2020;
- Changes in Swiss legislation:
 - ✓ CO₂ Act and CO₂ Ordinance;
 - ✓ MSR is introduced in CH from 1 Jan 2020;
- The management and compatibility of the LA (including interpretation and dispute settlement) is ensured by a Joint Committee;
- Negotiations with third parties must be notified (e.g. EU to notify CH about negotiations with EnC);
- Conditions:
 - ✓ The system in the partner country is (1) compatible, (2) mandatory and (3) has an absolute emissions cap;
 - ✓ Agreement on “essential criteria” (ambition and stringency of the cap, equal treatment in free allocation and the use of international credits);
 - ✓ For fossil-thermal power plants, the existing compensation obligation are discontinued.

Emission trading in the Energy Community

- **Objective:** to put the Energy Community on the track of decarbonization and to prevent the widening of the legal gap between EU MSs and CPs;
- **Principles considered:**
 - ✓ Taking into account CPs current situation – energy mix, emission profile, socio-economic differences;
 - ✓ Building on existing initiatives (Montenegro and Ukraine);
 - ✓ Gradual approach – establishing national measures first and then moving towards an EnC-wide regime;
 - ✓ Putting in place national allocation and then moving towards auctions;
 - ✓ Proposing a realistic scope of measures.

Potential *indicative* timeline for an ETS in the EnC

Adoption of ETS related acquis in the EnCTy

Transposition in CPs

- Ntl. CAs;
- Rules & regime for reporting, monitoring & verification of emissions;
- Plan and national allocation of allowances;
- Pricing on ntl. basis;
- EnC registry of allowances.

- Introduction of national auctions for allowances;
- Narrowing the scope of entitlements for free allocation.

- Expanding the scope of activities subject to auctioning of allowances;
- Linking the auctions among CPs – harmonized/central auctioning.

- Linking/merging with the EU ETS.

- Harmonized rules for emission trading both in the EU and in the EnCTy;
- Linked/merged auctions → converging carbon price.

2020 - 2023

2023 - 2027

2027 - 2030

2030 -

Legal acts proposed for adaptation and adoption:

- ETS main Directive
 - ✓ ETS Directive – Directive 2003/87/EC* (*2018/410);
- Monitoring and reporting
 - ✓ Governance Regulation (2018/1999) (*former Regulation (EU) No 525/2013*);
 - ✓ Commission Implementing Regulation (EU) 2018/2066 (*former Regulation (EU) No 601/2012*);
- Verification
 - ✓ Verification and accreditation of verifiers – Commission Implementing Regulation (EU) 2018/2067;
- Auctions
 - ✓ Commission Regulation (EU) No 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances.

Proposals for adaptation – ETS Directive (1/2):

- **Scope** – same as Dir. 2003/87/EC **except** aviation to be included only in reporting and verification;
- **Gases** – all what is in Dir. 2003/87/EC;
- **Allowances:** application, surrender, free allocation, auctioning, transfer and cancellation;
- **Auctions:** for allowances, which are not allocated freely, use of auction revenues for decarbonization activities, auction rules based on the adoption of EU rules (Auction Regulation) at a later stage;
- **Delegated Acts** – to be implemented via a procedure in Art. 79 of the EnC Treaty;
- **Power plants could be entitled for free allowances for a limited initial period.**

Proposals for adaptation – ETS Directive (2/2):

- **Reporting and publication** obligations generally the same as in Dir. 2003/87/EC;
- **Penalties** defined on national level for non-compliance;
- Set-up of national **Competent Authorities** and a **Central Administrator**;
- Establishment of an **Energy Community Registry of Allowances**;
- Review of the Directive linked to the developments in the follow-up of the **Paris Agreement** BUT: no provisions linked to international agreements on climate change.



THANK YOU FOR YOUR ATTENTION

peter.pozsgai@energycommunity.org

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