C4E Forum
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Revised EU ETS and options for energy efficiency investments in CEE after 2020

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2030 EU Framework for Climate and Energy

	Greenhouse Gas Emissions	Renewable Energy	Energy Efficiency	Interconnection
2020	-20 % Greenhouse Gas Emissions	20% Renewable Energy	20 % Energy Efficiency	10 % Interconnection
2030	≤ - 40 % Greenhouse Gas Emissions	≥27 % Renewable Energy	≥ 27%* Energy Efficiency	15 % Interconnection

* To be reviewed by 2020, having in mind an EU level of 30%

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Implementation of EU's Paris commitment: at least 40% emissions reduction by 2030

(compared to 1990)

Emissions Trading System (ETS)

- Power sector
- Industry

-43% by 2030
(compared to 2005)

Effort Sharing Decision (ESD)

- Buildings
- Road Transport
- Agriculture
  Non-C02 emissions
  (cows!)

-30% by 2030
(compared to 2005)

Land use and forestry (LULUCF)

No "back-sliding"
(compared to 2005)

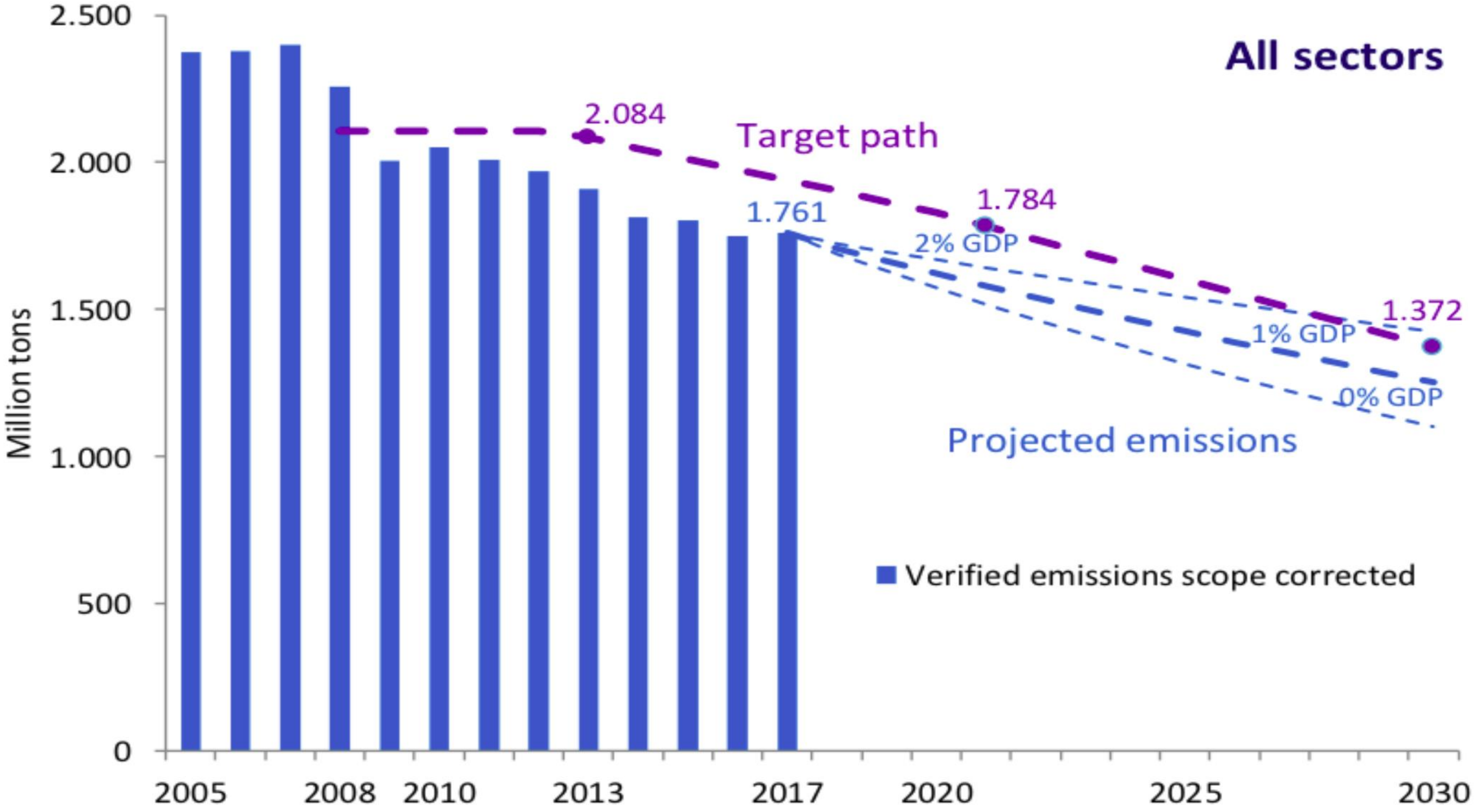
EU ETS Revision Timetable

- Revised Directive formally adopted on 28. February 2018 (after almost 2,5 years of negotiations)
- 14 March 2018 Revised Directive officially published
- Now the phase of transposition into national legislation and the setting of implementing rules (IA and DA)
- Expected Timetable (next steps):
  - 30. June 2019 Deadline for applying for derogations to the European Commission;
  - 19. September 2019 Deadline for transposition of the Directive into the Czech legal order;
  - 1. January 2021 Beginning of the 4th trading period (the effectiveness of most major revision measures)

Selected list of changes between Phase 3 and Phase 4

Parameter	Phase 3	Phase 4
End-year cap	1834mt in 2020	1372mt in 2030
LRF	1.74%	2.2%
Flexibility of Auction Share (In light of CSCF avoidance)	/	Reduction of up to 3% of the share of allowances to be auctioned
Backloading	Auction of 900m allowances postponed *(400m in 2014, 300m in 2015 and 200m in 2016)*	900 million allowances backloaded in 2014-2016 will be transferred to the MSR rather than auctioned in 2019-2020, and consequently up for invalidation in 2023
MSR	12% intake rate	24% intake rate for the first 5 years
Invalidation of allowances in the MSR	/	From 2023, yearly invalidation of allowances above the number of allowances auctioned the year before
Voluntary cancellation of allowanced by Member States	/	Option for Member States to cancel allowances from their auction share to counteract the impact of closing down electricity generation capacity, up to the average verified emissions over the last five years preceding the closure
Carbon leakage list criteria (Qualitative assessment limit)	Carbon costs ≥ 5% AND Trade intensity ≥ 10% // Carbon costs ≥ 30% OR Trade intensity ≥ 30%	Trade intensity * emissions intensity > 0.2 (> 0.15)
Benchmark rates	Ex-ante decided, as calculated by the Commission (fixed)	Will reflect actual intensity changes in the sector (annual reduction rates capped at 0.2% minimum, and 1.6% maximum) as calculated by the Commission. Benchmark values will be updated twice for P4
Adjustment of free allocation based on change in production levels	Only reduced when production levels decrease by a significant amount (50%, 75% and 90%)	Reflect actual changes in production level on the basis of a rolling average of 2 years. Changes above a 15% threshold with respect to the baseline period should be reflected in the amount of free allowances allocated
Free allocation to sectors not deemed at risk (including for district heating)	80%, linearly decreasing to 30% by 2020, with a view to reach 0% in 2027 (30% for district heating)	30% until 2026, linearly decreasing to 0% by 2030 (30% for district heating)

EU ETS cap 2005 - 2030



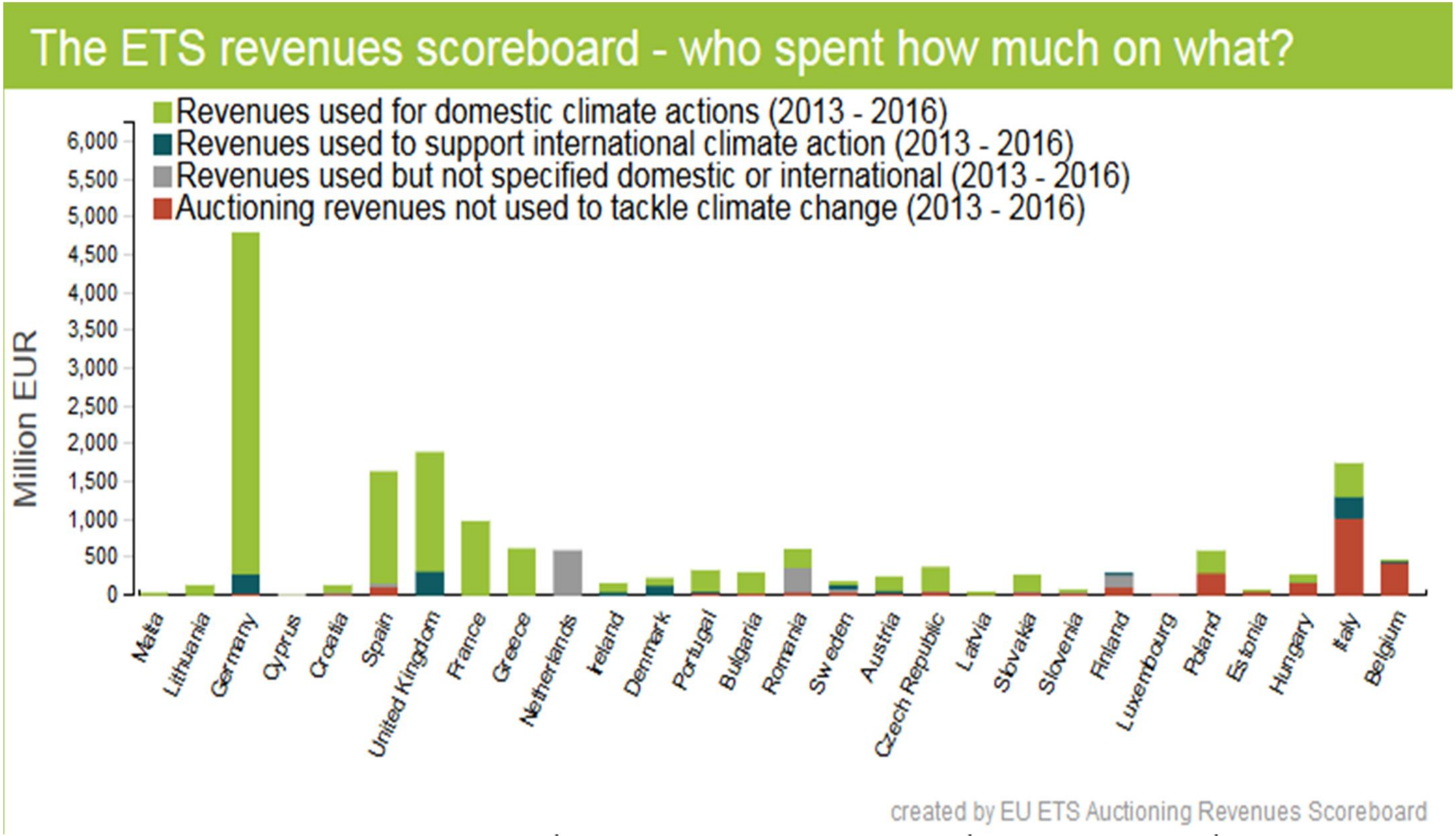
The ETS auction revenues remain the main source of climate funding

Art 10/3. Member States shall determine the use of revenues generated from the auctioning of allowances. At least 50 % of the revenues generated from the auctioning of allowances referred to in paragraph 2, including all revenues from the auctioning referred to in paragraph 2, points (b) and (c), or the equivalent in financial value of these revenues, should be used for one or more of the following:

“inter alia“

(h) measures intended to increase energy efficiency and insulation or to provide financial support in order to address social aspects in lower and middle income households;

The ETS revenues scoreboard - who spent how much on what?



Financial mechanisms of the revised EU ETS Directive (I/III)

1) Free allocation for energy sector (derogation, 10c)

- Available volume for individual MS: 40 % of their 90% part of auction share; (+ possible transfer between derogation and Modernisation Fund)
- Threshold for competitive bidding process = EUR 12,5 mil., more rounds/projects calls enabled
- Eligible projects:
  - diversification of energy mix and sources of supply,
  - necessary restructuring, environmental upgrading and retrofitting of the infrastructure,
  - clean technologies, such as renewable energy technologies,
  - modernisation of the energy production sector (i.e. efficient and sustainable district heating), and of the transmission and distrib. sector
  - ~~**contribution to or improvement of the financial viability of highly emission-intensive electricity generation or increase of dependency on emission-intensive fossil fuels.**~~
- Max. intensity of support: 70 % (min. 30 % from private sources)

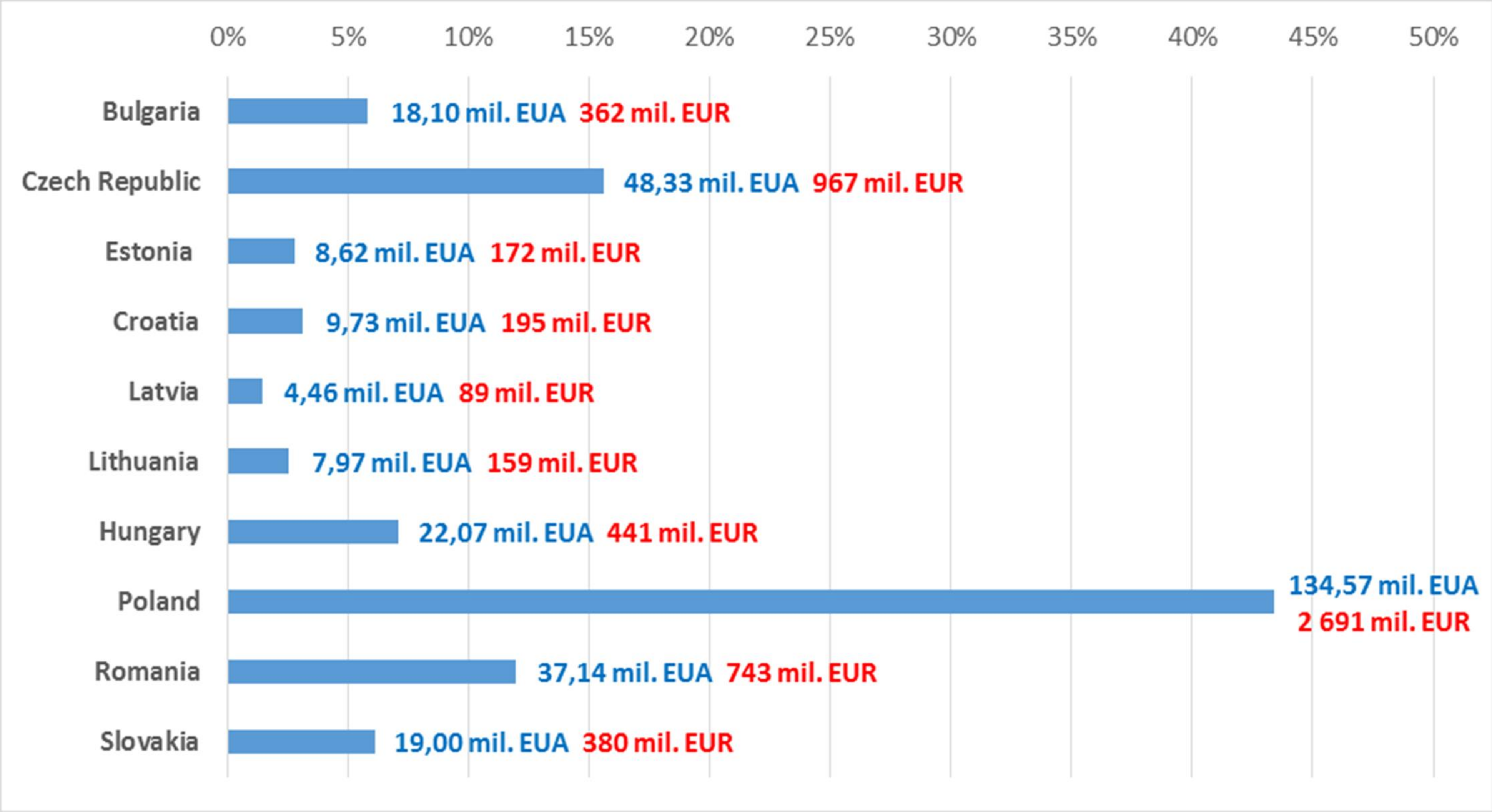
Financial mechanisms of the revised EU ETS Directive (II/III)

2) Modernisation Fund (MF, 10d)

- Available volume: 2 % of all EUAs = approx. **310 mil. EUAs**;+ conditional 50 mil. (**share of CZ** = 15,59 % = 48,3 mil. EUAs = **1 bn EUR expected**)
- Primary range of eligible projects (atl least 70 % of available support):
  - generation and use of electricity from **renewable sources**,
  - the improvement of **energy efficiency**, except energy efficiency relating to energy generation using solid fossil fuels,
  - **energy storage** and the modernisation of **energy networks**, including district heating pipelines, grids for electricity transmission and the increase of **interconnections** between Member States,
  - **just transition** in carbon-dependent regions,
  - **energy efficiency in transport, buildings, agriculture and waste**
  - ~~**support for energy generation facilities that use solid fossil fuels**~~
- Project evaluation by EIB: project within primary range = direct financing by MS **X** *project does not fall under primary range = evaluation of Investment comm. + max. 70 % intensity of support*
- Share of EU MS: BG 5.84%, CZ 15.59%, EE 2.78%, HR 3.14%, LT 1.44%. LV 2.57%, HU 7.12%, PL 43.41%, RO 11.98%, SK 6.13%.

Modernization Fund

Total amount = 310 mil. EUA
EUA average price estimation = 20 EUR

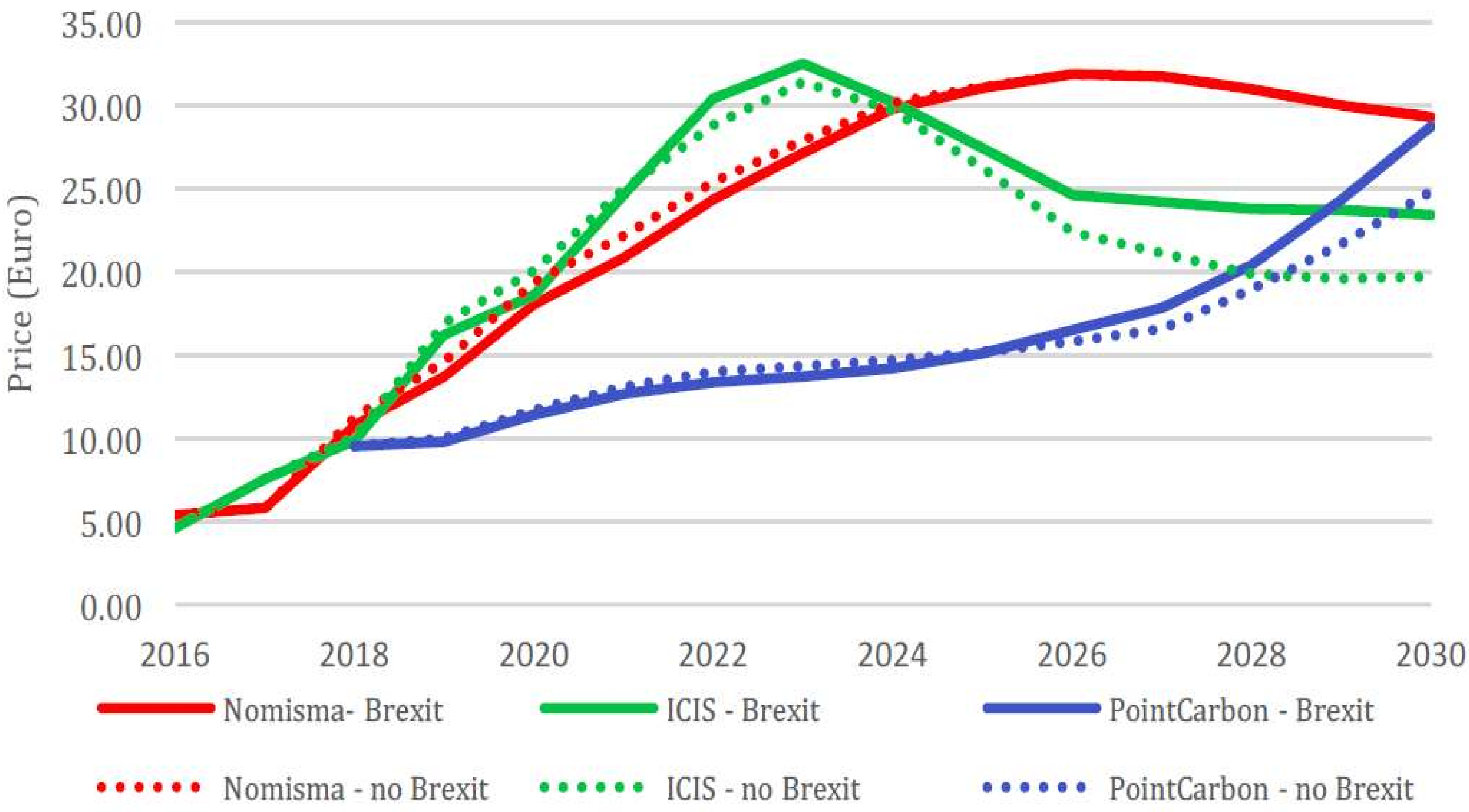


Financial mechanisms of the revised EU ETS Directive (III/III)

3) Innovation Fund (IF)

- Available volume: 400 mil. EUAs + 50 mil. EUAs from MSR (before 2021) + unused NER300 sources + 50 mil. EUA conditionally (no CSCF); no MS envelopes
- Eligible projects:
  - **innovation in low-carbon technologies and processes** in sectors listed in Annex I, including environmentally safe carbon capture and utilisation ("**CCU**")
  - **products substituting carbon intensive ones** produced in Annex I sectors
  - **environmentally safe capture and geological storage** ("**CCS**") **of CO_2**
  - **innovative renewable energy and energy storage technologies**;
- Main eligibility criteria:
  - emission reduction potencial; potential for widespread application or lowering the costs of transitioning towards a low carbon economy in the sectors
  - **technologies receiving support shall not yet be commercially available**, but shall represent breakthrough solutions or be sufficiently mature to be ready for demonstration at pre-commercial scale.
- Support: geographically balanced locations, all size of projects; Intensity: 60 %

Expected price of EUA by 2030



Source: Nomisma Energia, ICIS and PointCarbon, 2018

Follow up questions

- What has been the situation in individual MS regarding ETS revenues use and what we can expect for the ETS phase 4?
- Do EE investments/programs belong to those which MS prefer to finance through ETS mechanism/funds?
- Which activities should be supported through a new Modernization Fund (MF)?
- Is there any room for eligible MS to cooperate closely under the MF?
- Do you see any possible EE projects under 10c or Innovation Fund?

Room for your questions and discussion…