



EU ETS Reform and Renewable Energy

Paris – IEA – 14 March 2016

Jos DELBEKE

Director General for Climate Action

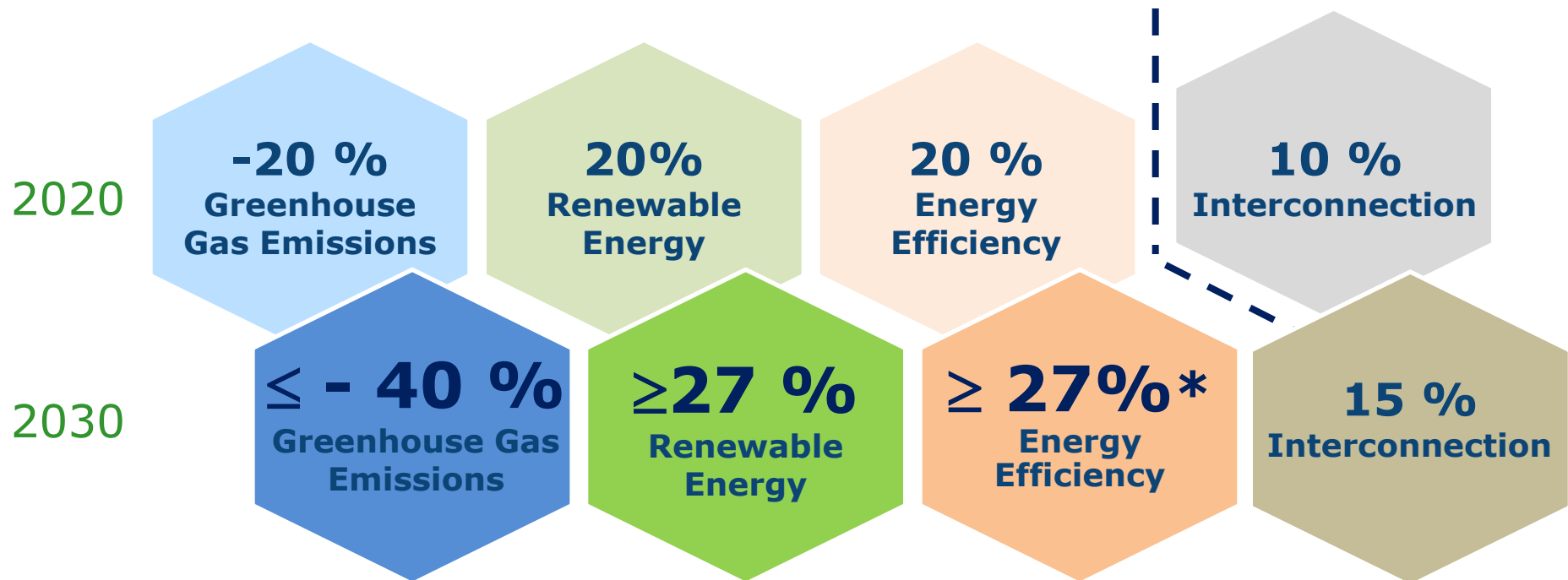
European Commission



The Paris Agreement

- **A legally binding, universal agreement**
- **189 nationally determined contributions (NDCs)**
- **Ambitious long-term goal ("well below 2°C")**
- **Dynamic 5-year ambition cycle**
- **Enhanced transparency and accountability**
- **Greater emphasis on adaptation**
- **Support for poor and vulnerable countries**

2030 EU Framework for Climate and Energy

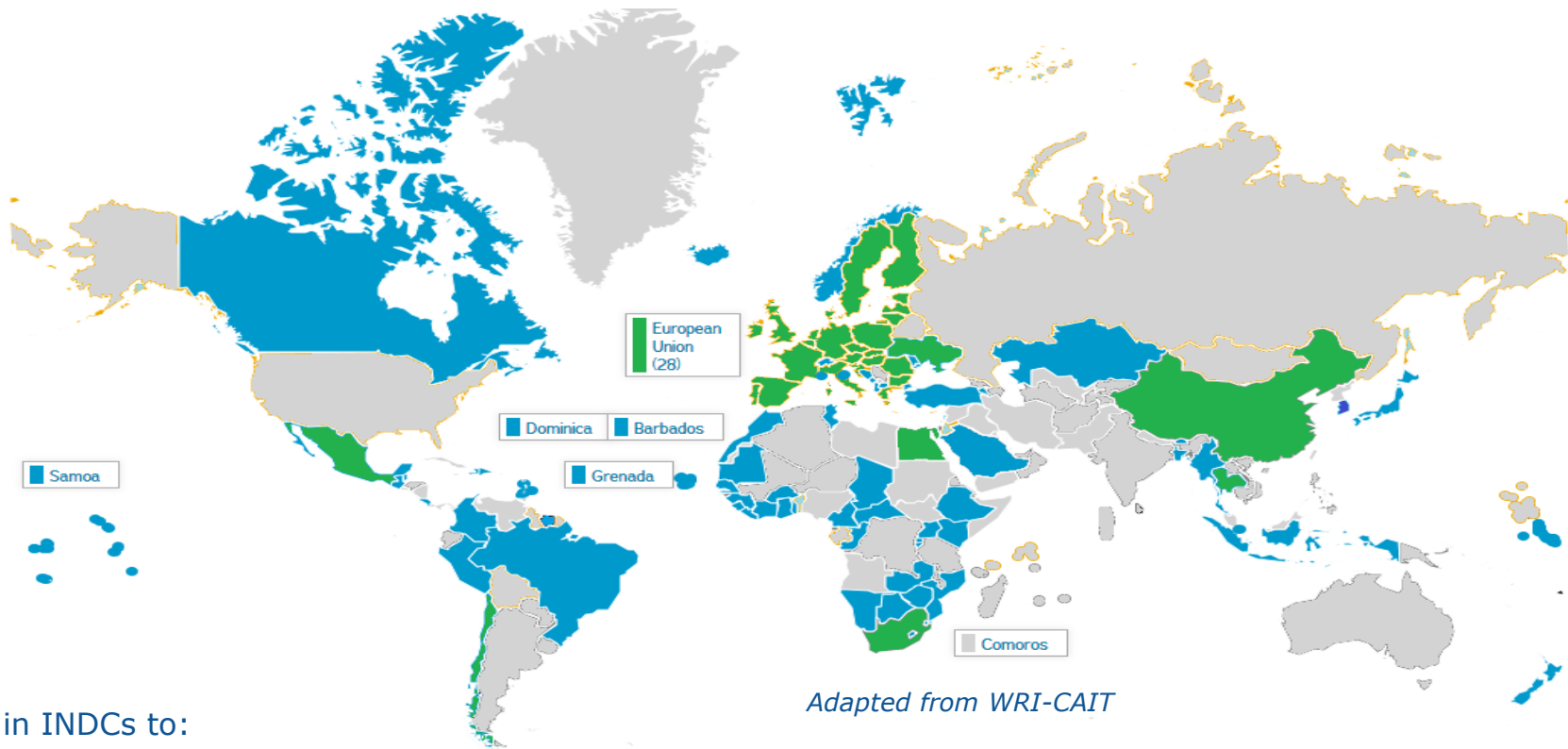


* To be reviewed by 2020, having in mind an EU level of 30%

EU Emission Trading System (ETS)

- **One EU wide target : -21% in 2020 and -43% in 2030**
- **One single EU carbon price**
- **Harmonised infrastructure and operation**
 - + delivery of target**
 - + cost-effective reductions**
 - weak incentives for alternatives (low prices)**

INDCs : References to carbon pricing



Ref. in INDCs to:

- Domestic ETS and carbon taxes
- Planned / possible use of int'l market mechanisms
- No specific references or no INDC yet

Renewable Energy Directive

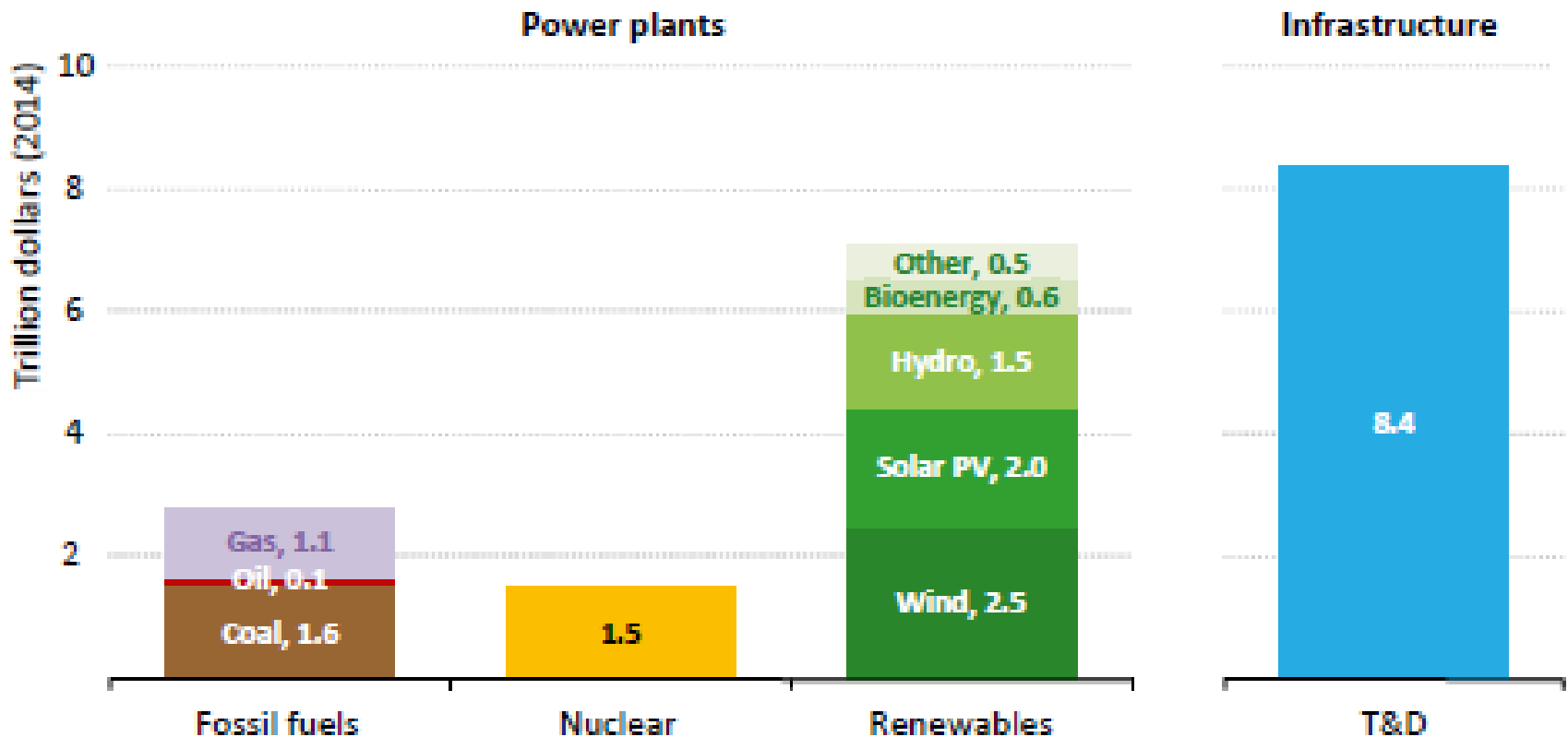
- **Differentiated national targets, adding up to 20 % for the EU by 2020**
- **National (wide ranging) support schemes**

**+ delivery of target : 16 % in 2015
(8% in 2008)**

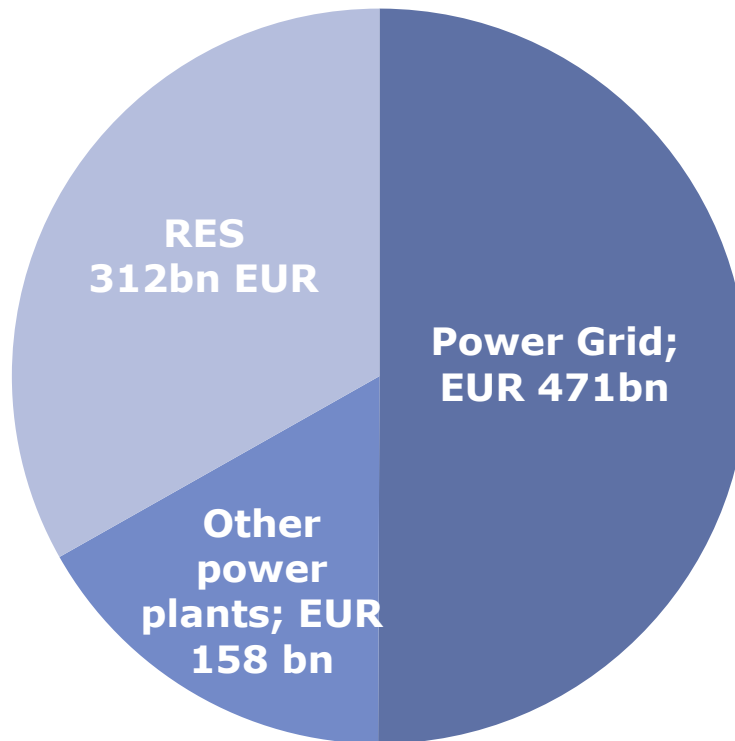
- impact on internal electricity market
- **Overcompensation ?**
- **Fragmented markets**

- cost-effectiveness

Potential impact of INDCs on global cumulative investment in the power sector, 2015 – 2040



Investment Needs for the EU power sector, 2021-2030



- **Total needs in power sector 2021-2030:
Est. EUR 941 bn**
- **66% of all power plant investments are for renewables for 2021-2030**

EU - key determinants for renewables development

- **Wholesale electricity price**
 - *To balance supply and demand*
 - *To provide sufficient revenues to cover full costs of generators*
- **EU ETS price**
 - *To increase relative price of fossil fuels*
 - *To generate revenues for low carbon policies*
- **Costs of renewables**
 - *Expected to decrease further and become increasingly competitive*

EU ETS – preparing for 2030

- **Market Stability Reserve (MSR) as from 2019**
- **ETS revision for post-2020 period**
 - *Increased reduction of cap by 2.2%/year*
 - *Fixed auction share of 57%*
 - *Better targeted free allocation for industry*

EU ETS – auction revenues, 2020-2030

- EU Member States should use **50% of their ETS auction revenues for climate-related purposes**
 - ➡ *more than 6bn allowances in total to be auctioned*
- **Innovation Fund** for low-carbon innovation
 - ➡ *450 mio allowances*
- **Modernization Fund** for energy investments in low-income Member States
 - ➡ *310 mio allowances*

"High price" scenario

- **Wholesale electricity price (incl ETS price) \geq RES costs**
- **Electricity supply and demand are in equilibrium**
 - *Scarcity pricing yields sufficient revenues to cover full costs of generators*
- **ETS price plays out its full force**
 - *Gas more competitive than coal*
 - *RES competitive with gas*
- **Support to renewables**
 - *Support to innovation through EU funds (Innovation Fund, Horizon2020)*
 - *State aid for innovative technologies?*
 - *Obligation on electricity suppliers to deliver certain share of renewables?*

"Low price" scenario

- **Wholesale electricity price (incl ETS price) < RES costs**
- **Temporary oversupply on electricity market**
 - *Low prices help EU competitiveness*
 - *But renewables not competitive at low prices*
- **MS could use ETS revenues to support renewables and balance market**
 - *Market-based support for mature renewables: competitive bidding, investment support, technological neutrality*
 - *Support to take out power capacity based on conventional fuels?*
 - *Importance of regional/EU wide cooperation*
- **EU-wide support from ETS revenues?**
 - *EU funding instrument (guarantees)?*
 - *Technologically neutral RES auctions at EU or regional level?*

Role of EU governance for renewables

- **Transparency**
 - *Provide information on MS policies*
 - *Facilitate regional cooperation*
 - *Improved investment planning*
- **How could Member States contribute towards EU renewables target?**
 - *National policies and investments*
 - *Financial contributions to EU-wide/regional auctions and EU projects?*
- **How to fill "gap" in case national policies do not add up to 27 %?**
 - *EU-wide auctions financed by MS' ETS revenues?*
 - *Taking account of early actions by MS*

Conclusions

- **ETS plays double role for support of renewables:**
 - *Increases competitiveness relative to fossil fuels*
 - *Provides revenues that can be used to further support innovation and competitiveness of renewables*
- **Harmonized rules are essential to create common market for renewables:**
 - *Market design*
 - *EU ETS*
 - *Market-based support for renewables*



Thank you!

Visit DG Climate Action online:



ec.europa.eu/clima/



facebook.com/EUClimateAction



twitter.com/EUClimateAction



pinterest.com/EUClimateAction



youtube.com/EUClimateAction



DECEMBER
Paris Climate
Conference COP21