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New Energy in Emissions Trading

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Need for sustainable development?

- Climate change is a world-wide problem
- Reducing Greenhouse emissions is a necessity
- Global politics – peace and stability
- Limited fossil fuels resources (population growth)
- Part of the sustainable development solution

Objective of today's discussion

- Reducing Greenhouse Gas emissions at low costs
- New instrument: Emissions Trading
- Kyoto sets the reduction targets for 2012
- Part of Kyoto target is issued as CO₂-Allowances in the European Emissions Trading Scheme
- How to allocate?

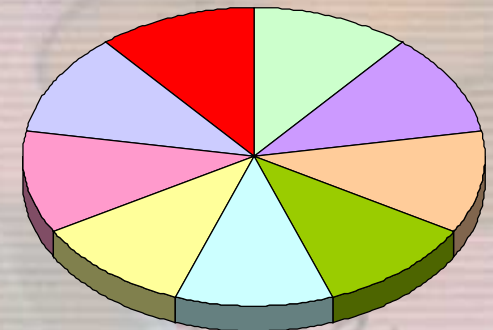
What are the options?

- Allocation for “free” versus for “money” (auctioning)
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- Allocation for “free” on:
 - Historic emissions
 - Benchmarks

Regulation: Until 2012 main part (>90%) to be allocated “for free”

Allocation of CO₂-Allowances "for free" needs to take account of:

- The EU emissions trading directive
- Minimize distortions and leakage effects for secondary markets
- Rewarding early action
- Security of supply (long and short term)
- The technical-economic feasibility
- New market entrants
- Simple and robust
- Broad stakeholder support
- EU wide harmonization



Side-remarks Emissions Trading

- Is not substitute for renewable energy policy
- Will only marginally promote the efficient use of electricity and heat
- Is only part of the Sustainable Development solution

Energy Efficiency Benchmarking

- Is Energy Efficiency Benchmarking the key for the allocation “for free”?
- Does it fulfills the needs?
- Is it better than the alternatives?
 - Grandfathering on historic basis
 - Auctioning

Benefits Benchmarking for energy production installations:

- Transparency, fuel inputs and energy outputs become comparable
- Clear standards stimulates sound behavior (no free-riders)
- Promotes investments in energy efficiency by new entrants
- Data is available for energy sector, makes use of recent reference years
- Smooth transition to carbon constrained economy
- Does not exclude “Cap and Trade”

A power plant's energy efficiency benchmark that is equal to the fuel specific energy efficiency standard should get CO₂-allowances equal to its greenhouse gas emissions.

Why decide now?

- Energy supply and fuel contracts (for 2005-2007) are already being closed now
- New investments are being delayed as regulatory framework is not clear
- Allocation is only a first step (next steps: capacity and institution building)

Need for a European harmonized approach!

The challenge: Sustainability

- CO₂ reduction (costs as low as possible)
- Energy efficiency improvements (production/use)
- Reaching renewable Energy targets



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