



NEWSLETTER GME – New issue now online

Rome 16 November 2017 – The new issue of the newsletter of Gestore dei Mercati Energetici (Gme) is online and can be downloaded from the website www.mercatoelettrico.org.

The newsletter opens with an intervention by Marco Pellegrino and Ana Georgieva from the REF-E on the reform of the European Ets system and the potential risks associated with it. Twelve years have passed since the launch of the first environmental permits exchange mechanism that has led the process of de-carbonisation of the European economy. However, the two REF-E experts explained that over this period, prices have not been able to *"influence emission reductions and hence accelerate the transition to a low-carbon economy and ensure the achievement of environmental goals. Among the different causes that have affected the outcome of emission trading, the excess of permits, which has become structural over the years, has played a key role"*. As of today, the EU ETS covers about 45% of European emissions, covering 31 countries and including about eleven thousand thermoelectric plants and industrial sites. In 2015, the EU Commission presented the first EU ETS revision proposal to be implemented in its IV phase (2021-2030), followed, in 2016, by a package of measures aimed at accelerating the reduction of carbon intensity in all sectors of the European economy, including non-EU ETS. To this end, binding reduction targets have been set. Pellegrino and Georgieva stated that *"the main actions envisaged in the reform focus on redefining some of the parameters of the current mechanism," such as "a cap reduction starting from 2021", "the maintenance of the annual allowance that will be allocated by auctions (about 57% of the cap), "an improvement in the allocation of free emission allowances" and "the support to innovation and low environmental impact investment through an innovation and modernization fund in the low-income countries"*. The EU 2030 target has also been translated into a 43% reduction in emissions compared to 2005 emissions for the ETS sectors, and 30% for non-ETS sectors. The two REF-E analysts stressed that *"unlike the EU ETS, where emission reductions remain a common goal, the Effort Sharing proposal of the Commission sets the binding targets to be reached by each country in the period 2021-2030. The criteria behind the differentiation of the objectives are based on the principles of equity, cost-effectiveness*



and environmental integrity". Among the alternative solutions there is also the carbon price floor, which provides for a overprice to be applied to every ton of carbon released in the atmosphere, and already adopted in Great Britain. The two REF-E experts stated that such a measure "has effects on price by directly discouraging carbon production, in addition to the ETS market price." Besides Great Britain, other European countries such as France, Germany and Italy have issued similar proposals. In conclusion, Pellegrino and Georgieva said that our country "joined the debate through the SEN, that shows how the lack of a carbon tax, along with the reduced effectiveness of the EU ETS scheme, is among the main causes for which the production of electricity from coal and fuel-oil based plants is still active. Coal production in Italy is still competitive, mainly due to the sharp rise in natural gas prices in recent months and a stable carbon price whose levels are not discouraged". The implementation of additional measures other than the ETS scheme unilaterally compared to the rest of the EU countries can certainly report a more effective achievement of the decarbonisation objectives. The risk, however, is an imbalance in the competitiveness of the European system of electricity production if the measure is implemented in a non-homogeneous manner, with the more "green" countries able to offer energy at lower costs".

The new issue also includes the usual technical commentaries on the markets and the national and European electricity and environment exchanges, the section devoted to the analysis of the trends of the Italian gas market and the section with an analysis on European trends, which delves into trends in key European commodities markets.

The GME's new publication also reports, as customary, the summary data of the electricity market for October 2017.

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