

ETS phase 4

Free allowances adjustment

ERCST - Brussels 12/10/18

Agenda

- State of play - Free allocation rules
- EU ETS phase 3 - Free allocation adjustments
- California ETS - AB 32 & AB 398
- EU ETS phase 4 - Free Allocation adjustments recommendations

State of play - Free allocation rules

- Waiting for the final version
- Delegated act process
- Still some issues are pending
 - Lack of transparency in the decision process
 - Changes in current measuring approaches
 - Possible significant reduction of Heat benchmark (impact assessment?)

ETS phase 3 - Free allocation adjustments

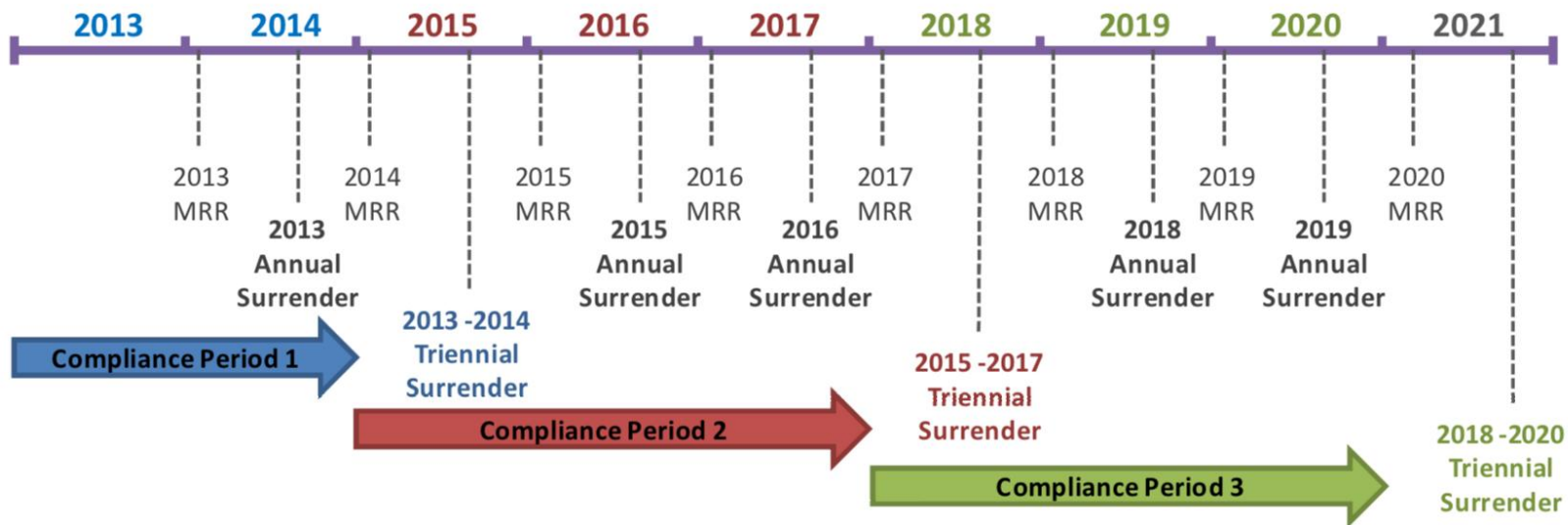
- Fundamentally, a request from industry to get a more dynamic and less distortive system
- Historical activity level calculated, once for all, at the beginning of the period
- Partial cessation threshold at 50%, 25%, 10%
 - FA at 50%, 25%, 0% respectively
- Possibility to review the free allocation if significant capacity extension:
 - increase of the plant « initial capacity » by more of 10% (physical modification)
 - or by more of 50 000 EUAs representing at least 5% of the initial allocation.
 - Additional FA based on added capacity with new entrants rules.

California ETS

- AB 32 and now AB 398
- Free allowances = Industry Assistance
- 2020 target = level 1990 = 427 Mt CO₂e
- **Free allocation calculated on actual production** in 2 steps: estimated FA based on year n-2 activity and true-up mechanism before surrender date.
 - October Year(n-1) : Estimated FA(n) = Activity (n-2) x benchmark x cap adjustment factor x industry assistance factor
 - January Year(n) : free allowances, Estimated FA(n), available on industry account
 - Mid Year (n+1) : reporting n
 - October (n+1): true-up n (delta +/- FA based on activity n)
 - Beginning n+2 : surrender n

California ETS timeline

AB32 Compliance Timeline



ETS phase 4 - Free allowance adjustment

- Historical activity level : average 2014-2018
- Adjustment if rolling average of 2 previous production years > HAL+/- 15%
- Questions:
 - Need to introduce an absolute threshold of 50 000 tCO₂e, as in phase 3, to take into account the different permit structures used in the Member States
 - When will start the adjustment mechanism : 2021 or 2023?
 - How HAL is recalculated?
 - Is a true-up mechanism going to be applied on the 2 previous years ? (Similar to Californian model)
 - CSCF adjustment? New entrant reserve?
 - ...