

GME NEWSLETTER – New issue published

Rome 16 December 2020 - The new issue of the Gestore dei Mercati Energetici (Gme) newsletter is online and can be downloaded from the website www.mercatoelettrico.org.

The newsletter opens with a speech by Simona Soci of Ref_e on the results and objectives for 2030 of phase 3 and 4 of the EU ETS mechanism.

“The current phase 3 of the EU ETS commenced in 2013 and will be completed at the end of this year. Phase 4 will run from 2021 to 2030. On the eve of the transition from phase 3 to phase 4, as part of the European Green Deal, the EU ETS is confirmed as the key tool to combat climate change”, highlighted the Ref_e researcher. *“The main characteristics of phase 4 are the application of a factor of constant reduction in the volume of emissions and the introduction of new rules for the allocation of free allowances, with more dynamic changes in the free allocations based on production losses of $\pm 15\%$ and updating of the benchmarks to take into account technological progress and the establishment of a reserve for new entrants”*– recalled Soci. Considering, instead, phase 3, the emission reduction factor *“increased from 1.8% in 2013 to 2.1% in 2020. Starting from 2020, a constant reduction factor of 2.2% is applied, decided by the Commission taking into account the United Kingdom's exit from the European Union (effective from 1 January 2021) “which will lead to “a lowering of the cap to 1,400 million in 2030 (-40% compared to 2005). This rate – added the Ref_e analyst - could be revised further upwards during the same phase 4, as reported in the Inception Impact Assessment on the review of the EU ETS, published last October 29 by the European Commission in conjunction with the 2030 plan for climate and energy and on which a public consultation is underway which will end on 5 February, 2021. In fact, the Commission will have to recalibrate all relevant regulations in order to reach the 55% emission reduction target”*. Again during phase 3 *“around 43% of the available certificates were allocated free of charge. At the end of June 2020, the total free*



allocations approved at the start of phase 3 for the reporting period decreased by 570 million due to system closures and to the reduction of production or of the production capacity, while 171 million was placed in reserve for new entrants", explained Soci, highlighting that in phase 4 the free allocation of allowances "will continue to safeguard the international competitiveness of industrial sectors at risk of carbon leakage, but with specific rules that reflect technological progress and that help industry and the energy sector to respond to the innovation and investment challenges of the low-carbon transition". These sectors (which include manufacturing, mining and petrochemicals) "will receive 100% of the allowances free of charge" while for the less exposed sectors, "the free allocation should be phased out after 2026 from a maximum of 30% to 0 at the end of phase 4 (2030) – underlined Soci -. Overall, over the course of the 2021-2030 period, more than 6 billion allowances should be assigned to companies free of charge". Overall, it is therefore estimated that "in 2020 the reduction in emissions compared to 2019 will be greater than 12%, also due to the interruption of production activities linked to the containment measures of Covid-19 - continued the Ref_e analyst -. Based on the current functioning of the MSR and the gradual lowering of the CAP for emissions, supply will continue to decrease, approaching 550 million in 2030, leading to a further progressive reduction of the surplus". Finally, regarding the future prospects, "despite the sharp drop in electricity demand and the severe difficulties encountered by industry and aviation caused this year by the crisis linked to the spread of Covid-19, the price of the CO2 ETS has demonstrated excellent holding qualities. In fact, since the beginning of 2020, prices have remained stable at around € 25 / ton, with the exception of the period between March and May when the first wave of infections caused a return in the area of € 20 / ton– concluded Soci -. In last November's report, the European Commission assessed the architecture of the EU 42 ETS as robust and the administration of the member States effective. In the next few years, the system will probably undergo major revisions with a strengthening impetus with a view to adapting to the ambitious plan for energy and climate up until 2030, and with the year 2021 which will be key both for the transformation underway and for the start of phase 4 of the system".



The new issue also includes the usual technical comments relating to the national and European electricity and environmental markets and exchanges, the section dedicated to the analysis of trends in the Italian gas market and the analysis section on trends in Europe, which explores the trends on the main European commodities markets. The new GME publication also reports, as is now customary, the summary data of the electricity market for the month of November 2020.

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Press release