



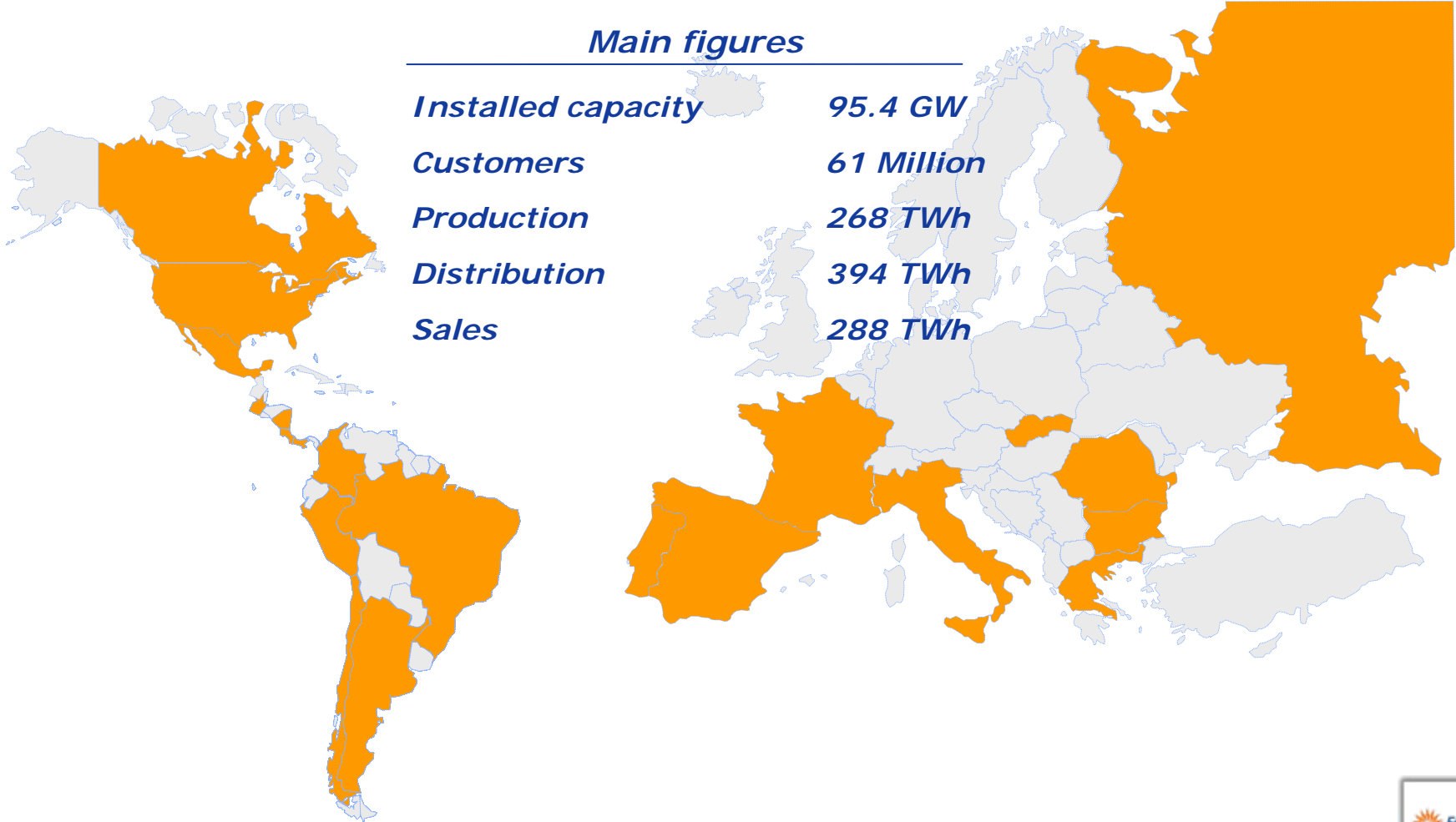
# Enel in the CDM market

CEPS meeting - Brussels - 2 July 2010

# Enel Group Overview

## *Main figures*

<i>Installed capacity</i>	<b>95.4 GW</b>
<i>Customers</i>	<b>61 Million</b>
<i>Production</i>	<b>268 TWh</b>
<i>Distribution</i>	<b>394 TWh</b>
<i>Sales</i>	<b>288 TWh</b>



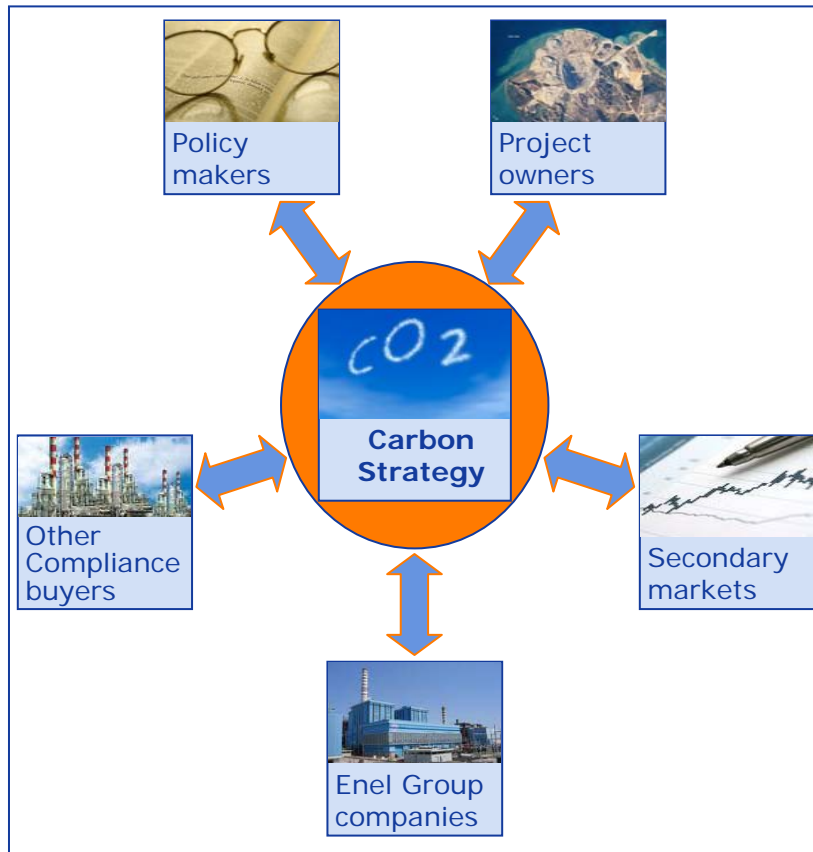
Enel operates in 23 countries as a global integrated energy player



# Creation of the Enel Carbon Strategy Unit

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- As part of the integration between Enel and Endesa, the Group has setup a **centralized Carbon Strategy Unit**, integrating all existing carbon operations
  - The Enel Carbon Strategy Unit shall act as a single point of responsibility for all carbon activities within the Group, aiming at the **realization of the unified Enel's strategic approach to compliance and exploiting additional opportunities on carbon markets**
  - Starting from a leading position in the compliance and offset markets, Enel strongly believes in the **growth potential** for carbon markets, and is committed to contribute its energy and capabilities to the further development of its CO<sub>2</sub> activity
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# The Carbon Strategy Unit's key priorities are compliance cost minimization and capture of growth opportunities

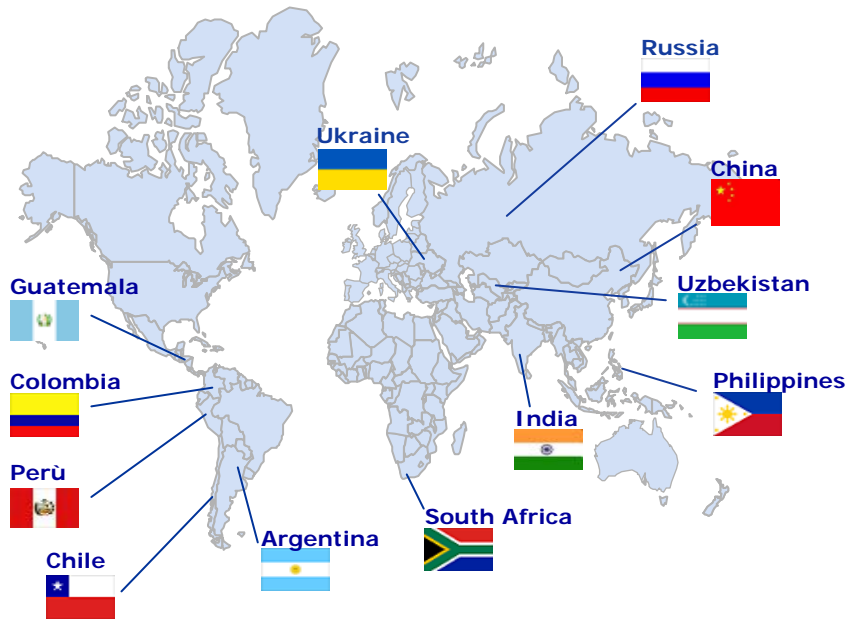


1. Develop and execute the **compliance strategy** of the Group, minimizing the compliance **cost** while limiting the associated **risks**

2. Capture opportunities in the growing carbon markets addressing **third party needs** or **investing in profitable opportunities** within risk limits

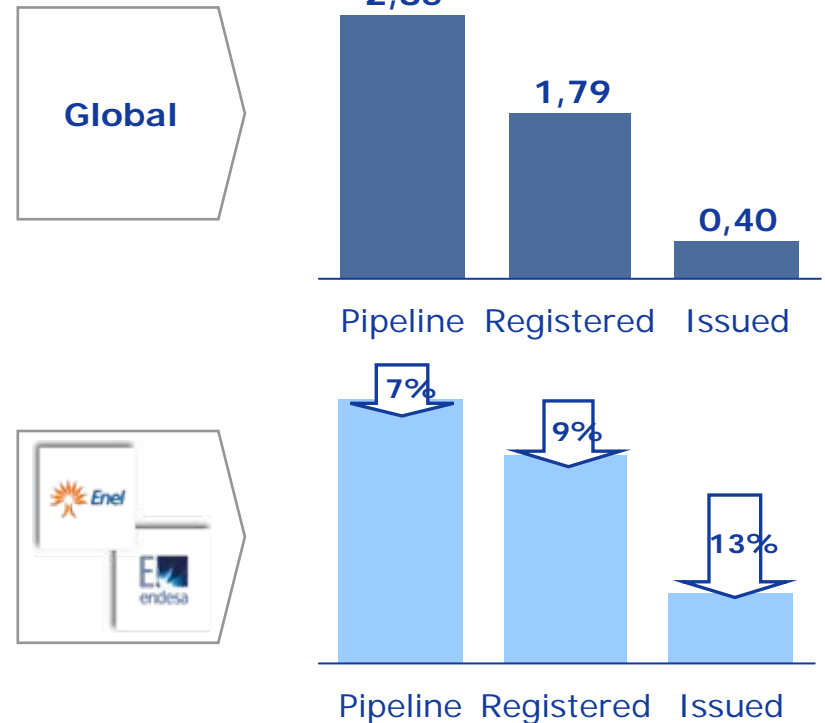
# Enel has a leading position in the carbon market

## Geographical presence CDM/JI Projects\*



\* Not including 9 Carbon Funds resulting in participation in about 125 additional projects

## Potential Volume CERs (Gt)



Source: UNEP, UNFCCC, companies' data

Enel CDM portfolio: an important share of the global market



# Regulatory open issues

Phase III  
in EU-ETS  
(Commission  
Comm. of 26  
May)

- Discussion over **30% reduction** target (34% below 2005)
- **Qualitative/geographical limitations** on eligible offsets
- Partial **deviation of the demand to new sectoral credits**

Int.  
agreement  
(Bonn 31  
May- 11  
June)

- Few progresses on AWG-KP
- Pre-work for COP16 with pledges from LDC on NAMA
- Confirmed pledges of **-50-85% by 2050** from developed countries

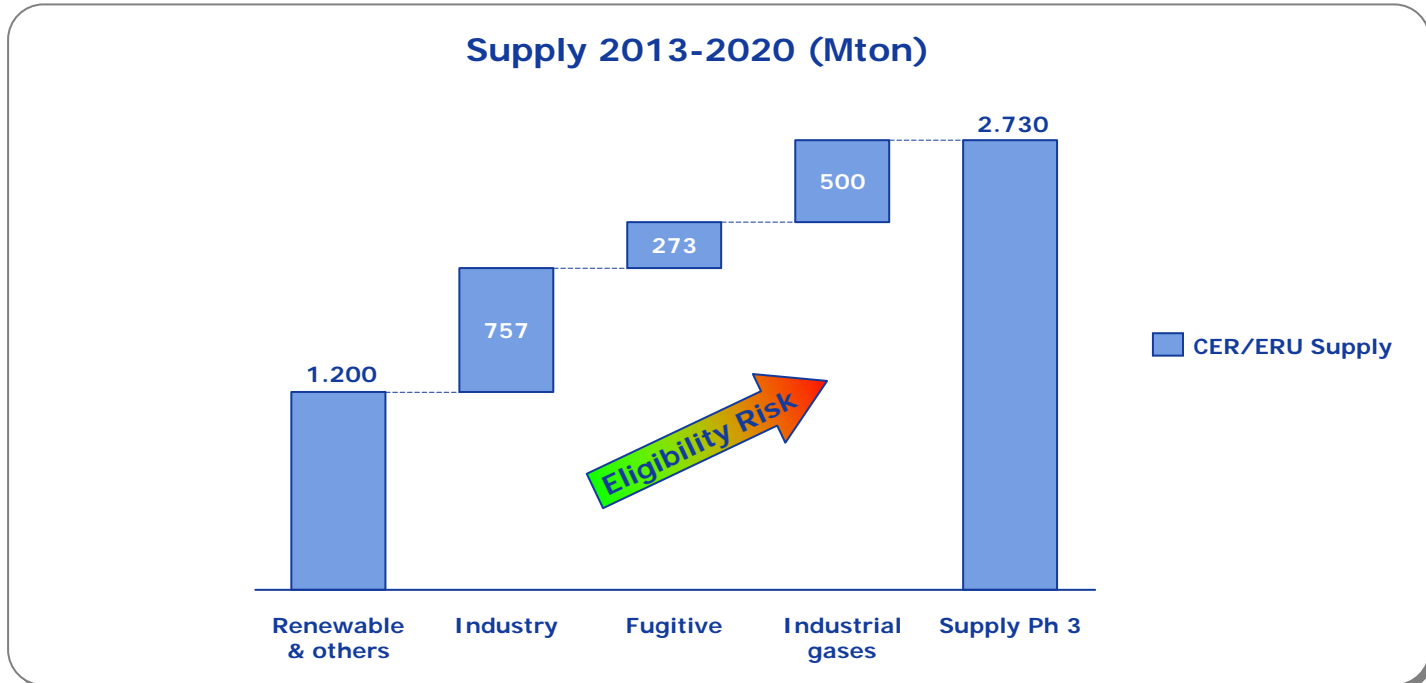
Offset  
markets  
(EB for  
Carbon Expo  
26-28 May)

- **Reform of CDM markets** with streamlined approval process for LDC and positive list of technologies
- **Emergence of alternative schemes** (NAMA, Sector targets,...) still not clearly designed



# EU ETS – Eligibility criteria will affect the available supply

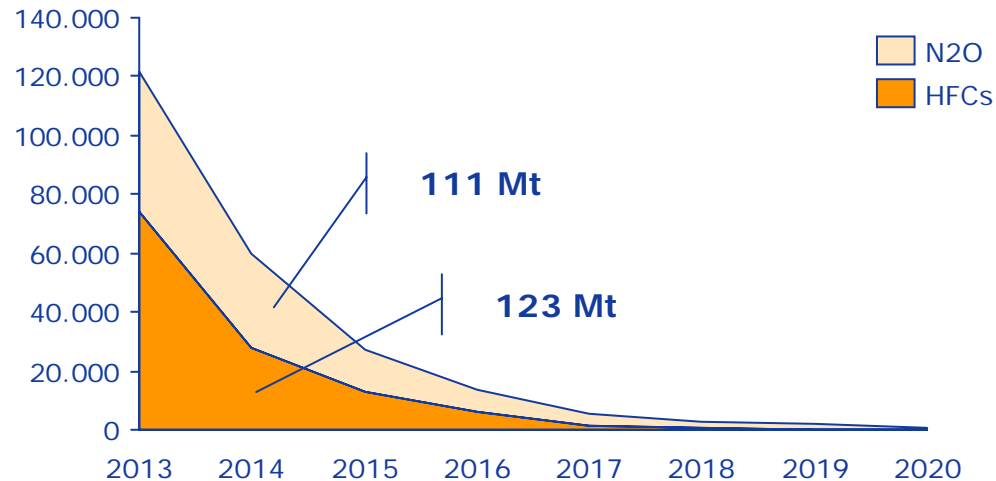
EU Offset Supply – with renewal CP



- Regulatory arbitrariness on the application of limits and/or discounts could **reduce the supply of offsets available from 2013** and thus push up the cost of compliance for EU industry
- Potential reductions of Industrial gases up to **500Mt** with renewal CP
- Proposal of implementation of **sectoral mechanism** without a realistic prospective of achievement

# Quality restrictions on industrial gases will produce a shortfall in the mid term

Industrial gases generation Post 2012 without renewal CP (234 Mt)



- CERs post 2012 from current crediting period of Industrial Gas project are **mostly generated in 2013-2014** (~80%)
- The ban of these CERs can create a **deficit in the supply** up to full development of sectoral approach
- **HFC-23** projects have a **huge abatement potential and environmental benefits**, as HFC-23 has 11,700 times the global warming potential of CO<sub>2</sub>.
- Moreover under the Montreal Protocol, **HCFC-22 will continue to be produced** for servicing existing equipment through 2019: qualitative restrictions will not provide environmental benefits



# Flexible mechanisms and sectoral crediting mechanisms in comparison

## CDM/JI (existing)

## Sectoral crediting (future?)

Pros

- Technology transfer
- Private sector involvement
- Possible bridge towards a global carbon market
- Bottom-up approach

- Volume scale-up
- Lower transaction costs
- Standardize time in the approval process
- Top down approach

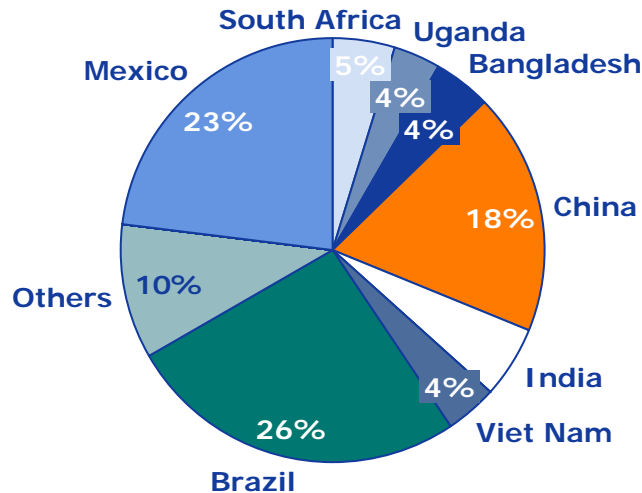
Cons

- Complex methodologies and lengthy procedures
- Projects and credits eligibility uncertainties
- Lack of institutional capacity of DNA in host Countries (i.e LDC)
- Project by project demonstration of additionality

- Still just a concept
- Sharing of responsibilities and rewards among investors
- Fungibility of credits with other mechanisms
- No real guarantees for investors

# State of the Programme of Activities (PoA)

## PoAs by country: annual emission reductions



## PoA approval cycle

Programmes under all statuses = 46  
 Validation = 42  
 Corrections requested = 1  
 Registered = 3

Volume in pipeline 2013-2020 = 18 Mt  
 Small scale = 93%  
 Large scale = 7%

### Advantages

- Implementation of project: coordinating/managing entity (CME) (private/public)
- Unlimited number of CDM CPAs can be added after registration
- Payment of the registration fee: once at the time of registration of a PoA
- Individual crediting period for each CPA

### Disadvantages

- Still insufficient experiences both by developers, DOEs and EB
- Risks on issuance of credits and on verifications
- DOEs unwilling to take PoAs
- Problem of financing by banks



# Conclusions

- Regulatory uncertainties for private investors, does create a lack of **confidence** for market operators.
- Any implementation of new rules concerning the future of CDM projects should not be retroactive as this will challenge the **credibility and the future of the carbon market**.
- Need to preserve the **business continuity** in order to give confidence to the private sector which up to date contributed to the success of the carbon market.