Enel in the CDM market
CEPS meeting - Brussels - 2 July 2010
Enel Group Overview

Main figures

- **Installed capacity**: 95.4 GW
- **Customers**: 61 Million
- **Production**: 268 TWh
- **Distribution**: 394 TWh
- **Sales**: 288 TWh

Enel operates in 23 countries as a global integrated energy player.
Creation of the Enel Carbon Strategy Unit

• 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 CO₂ activity
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*

Potential Volume CERs (Gt)

Global

2,85

1,79

0,40

Pipeline Registered Issued

7%

9%

13%

Source: UNEP, UNFCCC, companies’ data

Enel CDM portfolio: an important share of the global market

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

Supply 2013-2020 (Mton)

- Renewable & others: 1,200
- Industry: 757
- Fugitive: 273
- Industrial gases: 500
- Supply Ph 3: 2,730

- 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.

Source: Bloomberg New Energy Finance
Quality restrictions on industrial gases will produce a shortfall in the mid term

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 CO2.

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

Pros

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

Sectoral crediting (future?)
- Volume scale-up
- Lower transaction costs
- Standardize time in the approval process
- Top down approach

Pros

Cons
- 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

- Brazil: 26%
- Viet Nam: 4%
- China: 18%
- Bangladesh: 5%
- Uganda: 4%
- Mexico: 23%
- Others: 10%

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.