

NEWSLETTER OF GME – The new issue is online

Rome, December 15, 2015 – The new issue of the newsletter of Gestore dei Mercati Energetici (Gme), downloadable from the website www.mercatoelettrico.org, is online.

The newsletter starts with the intervention by Stefano Clò of RIE on the revitalization of the *European Emissions Trading Scheme* through the mechanism of the *Market Stability Reserve* approved by the European Parliament on July 7, 2015 and subsequently by the European Council on October 6, 2015. This mechanism "*is an enterprise policy of the European Commission that, with great diplomatic and negotiating art, managed to revive the ETS patient, now presumed dead,*" admits Clò, according to whom the ETS as it was thought in the past, "*failed in its attempt*", namely "*to encourage in the short term the increased use of lower carbon intensity resources and to promote long-term investments in low-carbon technologies.*" *In ten years, in fact, the price of CO2 "has never become a strategic variable that Market Participants include in a business plan to define investment strategies"*, emphasizes the expert of RIE, who identifies the root cause as "*the structural rigidity of ETS. The emissive limits defined a priori and administratively - highlights Clò - cannot be modified with flexibility to adapt quickly to the often unpredictable economic fluctuations and changing market conditions.*"

To restore credibility of the mechanism of emissions trading, the European Commission has therefore decided to postpone the entry of 900 million permits to 2019-2020: this is a temporary measure aimed at creating greater scarcity of allowances in the short term by intervening on their temporal distribution. "*Indeed, it was expected that the permits taken in the period 2014-2016 would be re-introduced at the end of period - explains the analyst of the RIE - with the result of increased price volatility, again slowly recovering from 2013, but intended to undergo a new collapse after 2019.*" This risk, however, will be "*averted thanks to the approval of the Market Stability Reserve (MSR). By virtue of this mechanism - emphasizes Clò -, the supply of permits becomes flexible and can be adjusted to maintain stable prices of permits within a desired range. This mechanism is not too dissimilar from the operation of the*



European Central Bank that adjusts the money supply to meet an inflation target." The MSR is set to adjust the supply of permits automatically and predictably, thus being not subject to (changing) political sentiments. "The MSR will be activated automatically if the total number of permits issued in the ETS is outside of a predefined range - recalls the expert of the RIE-. If the number of the permits will exceed 833 million, the MSR will be increased to 100 million (i.e. 100 million permits will be withdrawn from the market).

In contrast, 100 million permits will be placed on the market if the quantity of permits will be less than 400 million". Although the MSR will enter into force behind the fourth trading phase (2021-2030), "its impact on prices will be evident in the coming years, as it will support the price expectations." A study commissioned by the British government estimates that, thanks to the MSR, "prices will continue to rise to a height of € 30/ton in 2020, before stabilizing and gradually increasing over the next decade until the threshold of 40 €/ton in 2030", concludes Clò.

The new issue of the newsletter comes with the usual technical commentaries on the markets and national and European environmental and power exchanges, the section devoted to the analysis of the performance of the Italian gas market and the analysis section on trends in Europe, which examines the trends of the main European commodity markets.

The GME's new publication also reports, as it has become customary, the summary data of the electricity market for the month of November 2015.

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