

Carbon Price Floor Study



CPF Consortium

THE EUROPEAN COMMISSION REAFFIRMED AND INCREASED ITS COMMITMENT TO DECARBONISE ITS ECONOMY WITH THE RATIFICATION OF THE PARIS AGREEMENT ON 5 OCTOBER 2016. SEVERAL COUNTRIES HAVE CONSIDERED THE POTENTIAL OF A CARBON PRICE FLOOR TO COMPLEMENT THE EUROPEAN UNION'S EMISSIONS TRADING SYSTEM.

FTI-CL Energy was mandated by a group of sponsor companies to assess the European Union Emissions Trading System price outlook and resulting progress against European Union objectives and to identify the possible contribution of a carbon price floor (CPF) to an accelerated decarbonization of the power sector.

OUR INPUT

FTI-CL Energy experts assembled a detailed analysis using their carbon and power market models to analyse the impacts of a CPF implemented by a subset of European countries on emissions, power prices, renewable electricity investment, electricity trading flows and consumer costs (including costs for energy intensive industries).

IMPACT:

The study concludes that a CPF can aid in the energy transition in Europe by driving greater coal to gas switching in the near term and enabling greater investment in renewable energy technologies (at lower cost of capital) in the medium to long term. Costs to consumers and industry will depend on power price impacts and may in fact be negative (i.e. savings) to the extent that the CPF enables greater investment in low carbon, low marginal cost generation capacity (the "merit order effect"). If there are additional costs to energy intensive industries and a risk of carbon leakage, the revenues raised through the CPF can be used to compensate these industries.

Fabien Roques

Executive Vice President
Paris, France
+33 1 5306 3529
froques@compasslexecon.com

Alon Carmel

Senior Director
London, UK
+44 020 3727 1154
alon.carmel@fticonsulting.com

Yves Le Thieis

Senior Economist
Paris, France
+33 1 5305 3626
ylethieis@compasslexecon.com

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