

The background is a dark blue image of the Earth from space, showing the continents. Overlaid on the Earth are numerous glowing blue lines that represent energy or power grids. These lines are curved and interconnected, creating a complex network across the globe.

Electricity from coal

Costs and prices

Milka Mumović

Investigation of the scope, feasibility, modalities and dynamics of introduction of carbon pricing in the power sector of the Energy Community

Involved stakeholders

Outcome

Beneficiaries

Public consultations

Assessment of possible modalities

Power producers

Ministries in charge of energy

Ministries (agencies) in charge of environment & clima

Ministries in charge of social protection

Ministries of finance

Citizens' associations and NGOs

NRAs



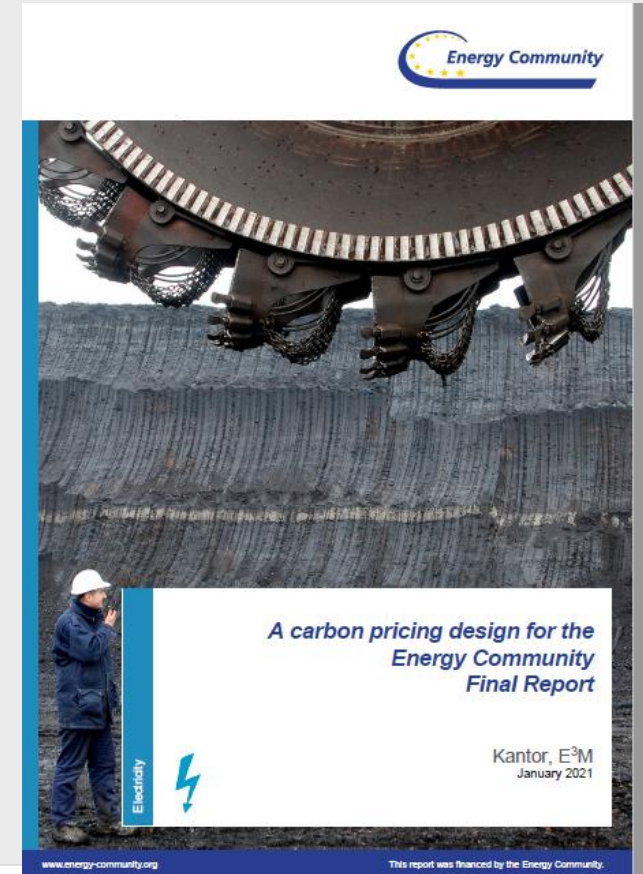
Proposal for introduction) of carbon pricing

Carbon pricing study

In January 2021, the Energy Community Secretariat released the study “[Carbon Pricing Design for the Energy Community](#)”, prepared by the consultants Kantor and E3Modelling.

After conducting an in-depth analysis of different carbon pricing scenarios and their impact on reduction of CO2 emissions, the study identified **cap and trade to be the first best policy option** for introducing carbon pricing in the power and district heating sectors of the Contracting Parties.

The study recommends the **Gradual Carbon Pricing and Market Integration Scenario** as the optimal approach for the Energy Community

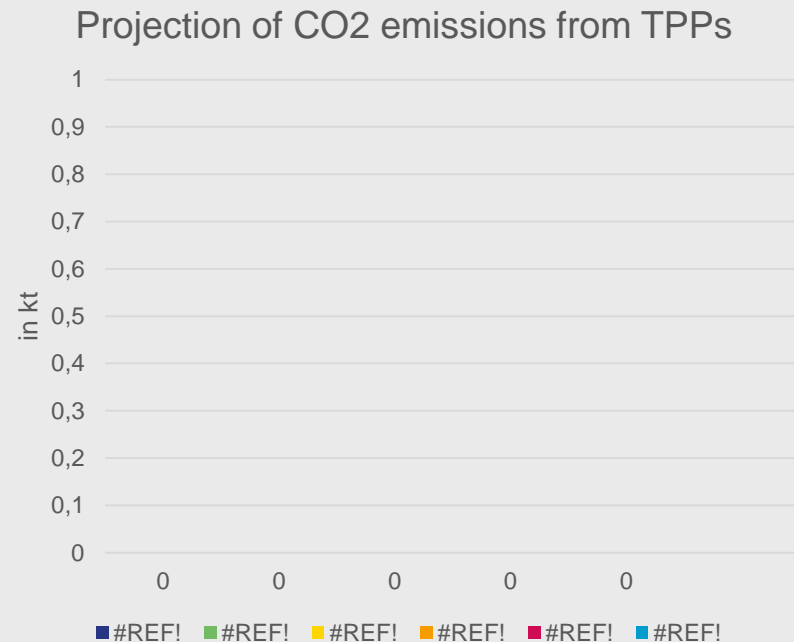


Carbon pricing options

Analysed scenarios

Baseline scenario	no carbon pricing but the continuation of current, asymmetric policies,
Baseline scenario with CBAM	variant of the Baseline, which assumes the imposition of a cross-border adjustment carbon tax (CBAT) on electricity exports from CPs to EU countries in proportion to their carbon intensity
Full carbon pricing in fragmented market	100% auctioning of allowances from 2025 onwards in all CPs without exemptions, with isolated and fragmented market
Full carbon pricing with integrated market	100% auctioning of allowances from 2025 onwards in all CPs without exemptions, and markets are integrated in EnC and with EU
Gradual carbon pricing in fragmented market	auctioning of allowances starts at 2025 but applies gradually, at different rates and speeds in each CP,
Gradual carbon pricing in integrated market	auctioning of allowances starts at 2025 but applies gradually, at different rates and speeds in each CP, and markets are integrated in EnC and with EU

Emissions in different scenarios



Gradual carbon pricing with full market integration



Stage 1: Internal carbon pricing – certificates

- Subject entities assign a carbon price to carbon emissions for all internal decisions for operation and investment
- State allocates emission allowances and provides a credit; otherwise emitters pay penalty to the state
- Administered carbon price and no trade of allowances

Stage 2: Internal carbon pricing – traded at a national level

- National trade of allowances under bilateral transactions or within a market of allowances
- State acts as a buyer and a seller to balance the market and increase liquidity
- The carbon price is market-based, but a carbon price floor is suggested to apply

Stage 3: Cross-border trade

- Cross-border trade of allowances based on bilateral agreements between the countries
- Reasonable pre-conditions including for financial transactions, market liquidity and transparency and level-playing field
- Allowances are still granted for free

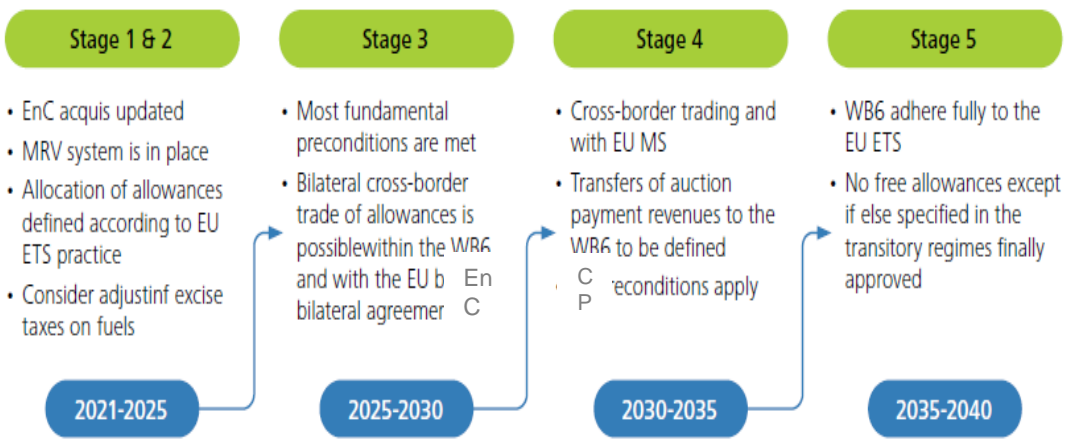
Stage 4: Adherence to the EU ETS under a transitional regime

- Full trade of allowances within the EU ETS
- Free allowances during the transition period are possible

Stage 5: Full integration in the EU ETS

- Free allowances abolished, all allowances auctioned

Indicative timeline and steps for joining EU ETS



Auctioning rate



Government

Coal subsidies phase out

- Ministries
 - State aid authorities
 - Power producers

Operators

Internal carbon pricing

- Power producers
 - Accounting and reporting bodies
 - Ministries

Coordinated measures

Internal carbon pricing

- Energy Community
- Power producers

The background is a satellite-style image of Earth at night, showing city lights. Overlaid on this are numerous glowing blue lines that curve and intersect across the globe, representing a global energy network or data flow.

*Thank you
for your attention!*

www.energy-community.org