Impacts of the european emissions trading scheme directive and permit assignment methods on the Spanish electricity sector

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Abstract— This paper assesses the economic impact of the European Emissions Trading Scheme Directive on the Spanish electricity sector. Although some other studies have been carried out before, our approach uses a more detailed model for the Spanish electricity sector, which provides more realistic results both for the expected price of the carbon allowance and for the evolution of electricity prices, installed power and firms' revenues in Spain. Results show that the implementation of the Directive will result in a significant increase of electricity prices, and also, due to the Spanish pricing system, in a large increase in the revenues of generating firms, unless the regulator intervenes. Results also show the different implications of different assignment methods. This is especially relevant currently given that most European countries are approving their national assignment plans for 2005-07 and have to revise them for 2008.

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