



Proposal for Additional Funding Allocation: *Chile*

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Presentation Outline

- I. Overview of Existing MRP Activities and Progress**
- II. Overview of Chile's Mitigation Strategy, Nationally Determined Contribution (NDC) and Carbon Pricing Policies**
- III. Proposed Activities: Scope of Work and Additionality**
- IV. Budget, Timeline and Outputs**
- V. Anticipated Risks, Expected Outcomes and Monitoring and Evaluation (M&E)**

I. Overview of Existing MRP Activities and Progress

Existing MRP Activities: An Overview

◆ *MRP overview*

Grant Executed By:	Recipient: Chilean International Cooperation and Development Agency (AGCID)
Grant Effectiveness and Closing Dates:	09/05/2014 - 09/05/2017
Grant Amount (USD):	USD 3,000,000
Funding Mobilized (USD):	Actual estimates pending
Funding Committed (USD):	USD 2,250,000 (contracted to date, 75%)

◆ *Objectives of the original MRP*

- (i) to support the implementation of the Chilean carbon tax (MRV, build knowledge);
- (ii) to evaluate alternatives and future scenarios to implement a more comprehensive carbon pricing system (e.g. ETS, offsets);
- (iii) to help positioning carbon pricing developments in Chile at national and international levels.

















Existing MRP Activities: Status

COMPONENT 1 Activity	Status			Comments
	Delayed	On track	Delivered	
Activity 1: To analyze international developments on carbon pricing and their implications on Chile's related public policies.			✓	Policy analysis to feed into the roadmap
Activity 2: To evaluate Chile's participation in the CDM			✓	In-depth analysis of CDM, insights from PPs
Activity 3: To evaluate an design alternatives for a more comprehensive carbon pricing instrument& a roadmap for decision making		✓		Carbon tax proposals delivered
Activity 4: To design a Mandatory Reporting System	✓			Tendering process
Activity 5: To design an MRV Platform and a mitigation recognition program in the energy sector.	✓			Tendering process
Activity 6: To design an ETS Simulator	✓			TOR design

Existing MRP Activities: Status

COMPONENT 2 Activity	Status			Comments
	Delayed	On track	Delivered	
Activity 1: To analyze IT Security and computer procedures			✓	Current security issues improved
Activity 2: To design the Carbon Tax's MRV System		✓		Scalable to other sectors, gases, carbon pricing instruments
Activity 3: To implement the Carbon Tax's MRV System		✓		Scalable to other sectors, gases,.....
COMPONENT 3 Activity				
Activity 1: To design and implement a Communication, Consultation, and Engagement Strategy		✓		Capacity building Media Plan "Champions"

Existing MRP Activities: Expected Results and Status

Component	Main Deliverables	Start Date	Finish Date	Status	Risk
1	Analysis of international developments on carbon pricing and their implications on Chile's related public policies	sep-16	jan-17	100%	
	Detailed evaluation of Chile's participation in the CDM, considering the new scenario of commitments under the Paris Agreement	nov-16	feb-17	95%	
	Alternatives of design and additional measures to decide on a more comprehensive carbon pricing instrument, including a roadmap for decision making	dec-17	jul-17	30%	
	Design of a robust MRV system (MRV 3.0), based on a Mandatory Reporting System	apr-17	aug-17	5%	
	Design of an MRV Platform and a mitigation recognition program in the energy sector	apr-17	aug-17	5%	
	Design of an ETS Simulator for the energy sector	apr-17	aug-17	1%	
2	Diagnosis of computer security system for the emissions registry	nov-16	mar-17	100%	
	Design of Carbon Tax MRV	jan-17	jul-17	35%	
	Implementation of Carbon Tax MRV	dec-17	jul-17	30%	
3	Communication, Consultation, and Capacity Building Strategy	aug-16	jun-17	60%	
	Project webpage, merchandising and overall dissemination materials	jun-16	mar-17	100%	
	Technical Workshop program	oct-16	aug-17	30%	
UPA/PAW*	Impacts of the Carbon Tax in thermal power generation	nov-15	mar-16	100%	
	Interaction between the Carbon Tax and the Energy and Environmental Policies	nov-15	mar-16	100%	
	Energy Sector Mitigation Plan (Policy package for NDC compliance)	jun-16	mar-17	95%	
TWP*	Survey of emitting industries	jun-16	mar-17	100%	

Policy Analysis Work Program Activities: An Overview

◆ *PAWP: scope, funding allocation(s) and expected outcomes*

Scope	Funding Allocation	Expected outcomes	Comments
Carbon Tax (1)	79.000 USD	Interactions with other policies in the energy sector	Inputs to study on carbon pricing alternatives
Carbon Tax (2)	165.000 USD	Impacts of carbon tax on energy tariffs, emissions reduction, fuel shifting	Inputs to study on carbon pricing alternatives
NDC	215.700 USD	Mitigation Action Plan	Under public consultation

◆ *Complementarity of PAWP activities with other ongoing activities*

- National Energy Policy Implementation (linked NDC);
- National Climate Change Action Plan
- MRP Deliverables
- OECD Environmental Outlook Chile 2016

Existing PMR-supported Activities: Lessons Learned

◆ *Main lessons learned during the first proposal implementation*

- ***Carbon pricing is still not sufficiently mature in Chile***
- ***Carbon tax has helped in installing the debate (private sector is engaged and looking for ways forward)***
- ***MRV capacities need further strengthening***
- ***Competitiveness considerations must be taken into account, as well as competition of environmental services associated.***
- ***Complementarity with related policies is a must***
- ***There is a good opportunity to consider **other instruments** (offsets)***

Existing PMR-supported Activities: Lessons Learned

◆ *Key readiness gaps identified during the first proposal implementation*

- **Lack of knowledge** at the technical and political levels on carbon pricing
- **Environmental information** gaps (emissions)
- **Limited MRV** capacities (carbon pricing)
- **Limited environmental service** industry (emissions)
- **Legal attributes regarding emissions** regulation (Superintendence of the Environment)
- **Institutional** and **financial** resources
- **Role of carbon pricing in achieving NDC** is not well understood.

II. Overview of Mitigation Strategy, Nationally Determined Contribution (NDC) and Carbon Pricing Policies

Overview of Climate Change Mitigation Strategy

◆ *Overview of the overall mitigation strategy*

- ***Chile is firmly committed to contribute to international mitigation efforts:***
- ***Pre and post-2020 mitigation commitments***
- ***Paris Agreement ratification submitted to UNFCCC on February 2017***
- ***National Climate Change Action Plan is being revised and updated***
- ***NAMA portfolio/GCF portfolio***
- ***Mitigation Action Plan in the Energy Sector is under public consultation (relevance of EE, Renewable Energy and Transport measures; Carbon Pricing and PMR highlighted as part of enabling instruments)***

Overview of Climate Change Mitigation Strategy

◆ *Other important policy developments*

■ ***National Energy Policy (for 2050)***



- Launched by President Bachelet on December 2015
- Long term view on energy development
- Multistakeholder engagement
- Relevant goals on RE and EE
- **Climate change as important topic**

Overview of Climate Change Mitigation Strategy

◆ *National Energy Policy and Climate Change*

GOALS FOR 2035

- To **reduce the intensity of GHG emissions** committed under the Paris Agreement.
- To implement a **GHG Emissions Mitigation Plan**, as well as an **Adaptation Plan** for the energy sector.

GOALS FOR 2050

- GHG emissions of the energy sector are consistent with international thresholds and NDCs.

RELEVANT RELATED GOALS

- At least 60% of electricity generated in Chile comes from RE sources (2035).
- At least 70% of electricity generated in Chile comes from RE sources (2050).
- Promote the use of **low emissions fuels**.
- **EE Law** (in preparation), initial focus: big consumers.

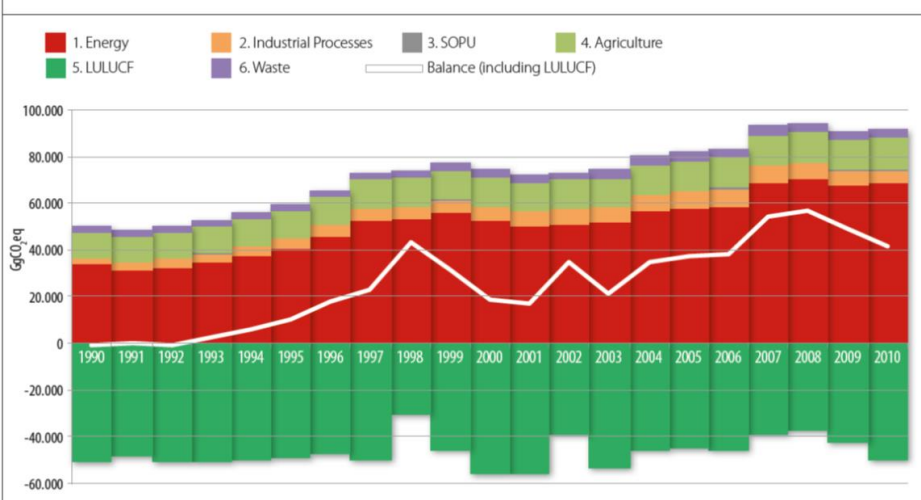
Overview of Climate Change Mitigation Strategy

- ◆ *Other important policy developments*
- ***National Sustainable Consumption and Production Strategy***
 - *Approved in July 2016 by the Council of Ministers for Sustainability, it contains actions in several sectors, **with energy as a crosscutting theme**. In line with the National Energy Policy, it **highlights carbon pricing and the role of the PMR**.*
- ***Climate Change and Sustainable Development Agency***
 - *Operational since January 1st, 2017, has the aim of promoting an integral transformation towards a low carbon economy (higher levels of efficiency in the use of resources, lower pollution levels).*

Overview of Climate Change Mitigation Strategy

- ◆ *Main features of Chile´s NDC, including stated emission reductions objectives and targets*
- **30% reduction of Chile´s emissions intensity (CO_2/GDP) by 2030, compared to 2007 levels.**
- **Increasing up to 45% with international support**
- **Role and responsibility of the Energy Sector** is very high (77.4 % share of total emissions in 2013).

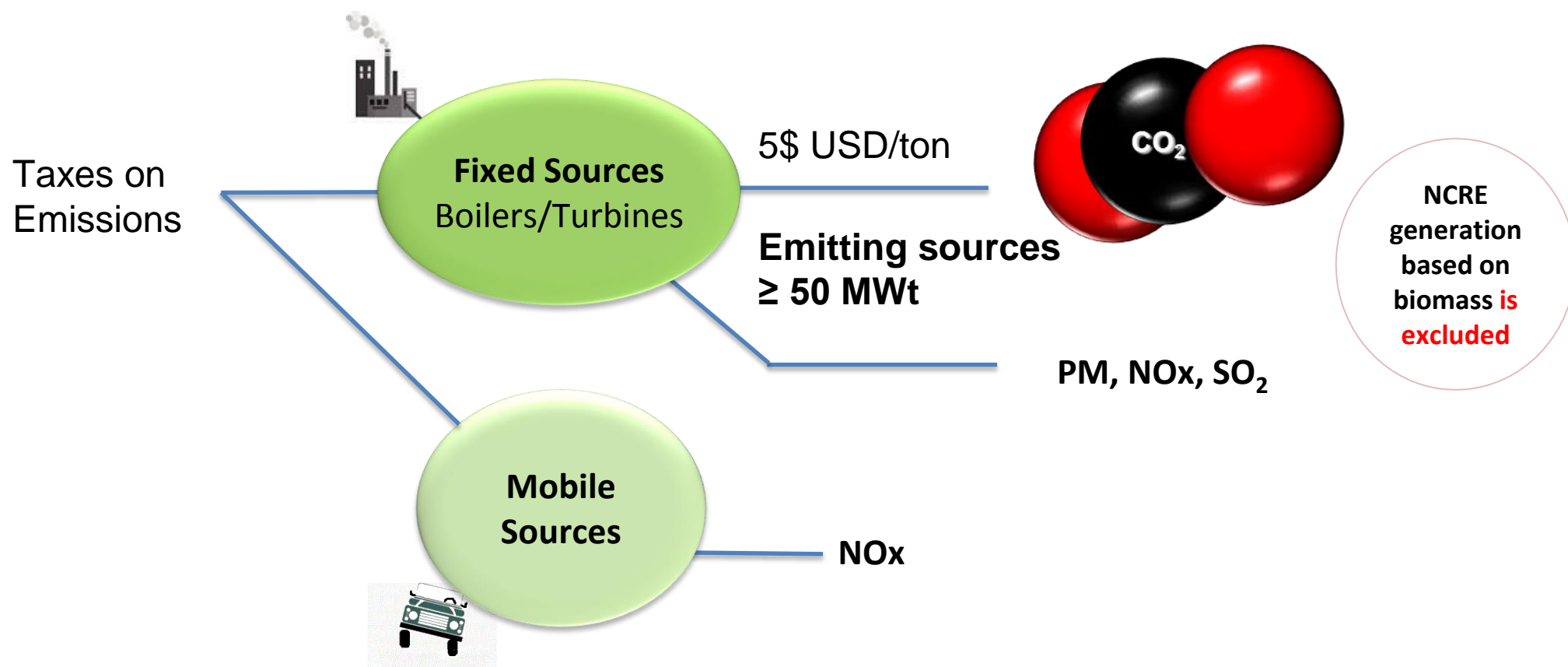
Figure 1. Chile's NGHGI: GHG emissions and removals trend by sector, 1990–2010 series



- **Forests:** recovery of 100,000 hectares of native land/reforest
100,000 hectares of native forest

Overview of Country's Carbon Pricing Policy

◆ Existing carbon pricing instrument(s): green taxes



Entry into force: 1st of January 2017

Overview of Country's Carbon Pricing Policy

◆ *Planned carbon pricing instrument(s): PMR*

1. Enhancement of the current Carbon Tax Scheme

- Broadening the scope
- Review for an incremental tax rate

2. Inclusion of Supplementary Measures to the Tax

- Use of offsetting mechanisms
- Income recycling
- Measures to reduce low income households impacts
- Other alternatives

3. Transition to an Emissions Trading Scheme

- Evaluation of the design for a Chilean ETS Scheme (sectors, allocations, scope, MRV system, etc.)
- Pilot – with real data but no enforcement – of an ETS with the private sector

Proposals by August 2017

Overview of Country's Carbon Pricing Policy

◆ *The role of carbon pricing instruments in achieving mitigation ambition*

- Needs to be **better understood**
- The **carbon tax is covering around 40% of total CO₂ emissions** (85 installations).
- If **not applied to the variable cost**, impacts on **emissions reduction is low**.
- In **combination with higher rates and included in VC**, it could change the merit order between different forms of thermal generation.
- **Role of ETS and offsets should be included in modelling exercises/decision making**

Overview of Country's Carbon Pricing Policy

- ◆ *Legislative basis and institutional arrangements for planned/existing carbon pricing instrument(s)*

Legislative basis:

- ***Tax Reform, Law 20.780 (green taxes)***
 - ***Bylaw, Decree No. 18 (MMA): This legal instrument enables green taxes to operate.***
 - ***Instructions for the quantification of emissions from fixed sources.*** Establishes the protocols (methodologies and procedures) to measure emissions of PM, NO_x, SO₂ and CO₂.

Overview of Country's Carbon Pricing Policy

◆ *Institutional arrangements for existing/planned carbon pricing instrument(s)*

Ministry of the Environment

- **Defines an annual list of entities** that are subject to the carbon tax and local contaminants, starting in 2017
- Opened a **register of installations**

Superintendence of Environment

- **Defines the MRV system for CO₂** and other pollutants, and the **requirements to certify those emissions** (ex post) that are reportable for carbon tax purposes.

National Energy Commission/Dispatch Energy Centers (1)

- Estimate and apply the apportionment mechanism established in the Law, concerning electricity generation and how the CO₂ tax is being applied.

Planned Institutional Arrangements

- For a **more comprehensive carbon pricing instrument**, such as an ETS, the analysis and design will be **done through Chile's PMR Project**.

(1) System Operator

Overview of Country's Carbon Pricing Policy

- ◆ *Political support and commitment for planned/existing carbon pricing instrument(s)*
 - ***President Bachelet as member of High Level Panel on CP and strong support to CPLC.***
 - ***Carbon tax as a relevant figure in official statements and op-eds at local newspapers and specialized magazines.***
 - ***Ministries of Energy, Environment, Finance and the Superintendence of Environment, are highly committed towards a sound implementation of the carbon tax.***
 - ***The PMR-Chile Project will provide robust evidence to promote political debate on future carbon pricing options.***

III. Proposed Activities: Scope of Work and Additionality

Additional Funding Proposal: An Overview

◆ Objectives and outline of the proposed activities and related deliverable(s)

Overall Objective	Activity	Deliverable(s)
<p>To provide solid training and hard evidence to all relevant stakeholders, with the purpose of:</p> <ul style="list-style-type: none"> -Mainstreaming carbon pricing instruments within a national climate change policy; -Understanding their role in achieving the country's NDC; -Building on the progress and readiness achieved through the implementation of the initial PMR activities. 	A1. To implement a roadmap for decision making on future carbon pricing policies in Chile	<ul style="list-style-type: none"> - Discussion papers & policy drafts on Carbon Pricing proposals (Tax, ETS) - Evaluation of carbon tax's first implementation year - Technical workshops and seminars briefings - In-country visits - High level decision-making agreements - Technical documents - Press releases and notes - Dissemination materials and documents
	A2. To implement a Mandatory Reporting and Verification System (MRV 3.0), compatible to operate an ETS in Chile and compatible with similar regional reporting systems	<ul style="list-style-type: none"> - Mandatory MRV System - Registry platform - Technical cooperation agreements (Mexico, California,.) - Regional workshops - South-south cooperation for integrated MRV systems
	A3. To Implement an MRV Platform and Mitigation Recognition Program for the energy sector	<ul style="list-style-type: none"> - Energy sector MRV platform - GHG mitigation recognition system - Technical workshop documents/briefs
	A4. ETS Simulator Implementation	<ul style="list-style-type: none"> -ETS Simulation Software/implementation - Cooperation agreements - Technical workshop documents/briefs - Case study documents

Additional Funding Proposal: Additionality of Proposed Activities

- ◆ *Complementarity of proposed activities*
- ◆ The proposed activities are complementary to ongoing MRP activities:
 - ◆ They are seeking **to provide continuity** and **be operational** to what was defined and executed during **initial PMR project**.
 - ◆ They are expected **to broaden the scope** for the use of carbon pricing instruments, by **resetting the focus** on alternatives for the carbon tax, as well as an ETS proposal (complemented by an ETS simulator) and the use of offsets.
 - ◆ They would **allow for a “Leap frogging”** from the Carbon Tax MRV to a **Mandatory Reporting System**.
 - ◆ They will **provide the foundations** to build **an accounting system** in line with Paris Agreement requirements.

Additional Funding Proposal: Additionality of Proposed Activities

- ◆ *Ways in which they are expected to fill readiness gaps identified in Section I of the PPT*
 - *The implementation of a CP Roadmap aims mainly at reducing the knowledge gap, aiming at training decision-makers and high level officials in CP and its applications*
 - *The implementation of a Robust MRV System will help continue efforts towards MRV capacity building and accounting robustness both on a top-down and a bottom-up approach*
 - *An ETS pilot program aims at providing evidence for stakeholders and further engaging with the private sector and helping increase coordination between government agencies involved in monitoring and regulating emitters*

Additional Funding Proposal: Additionality of Proposed Activities

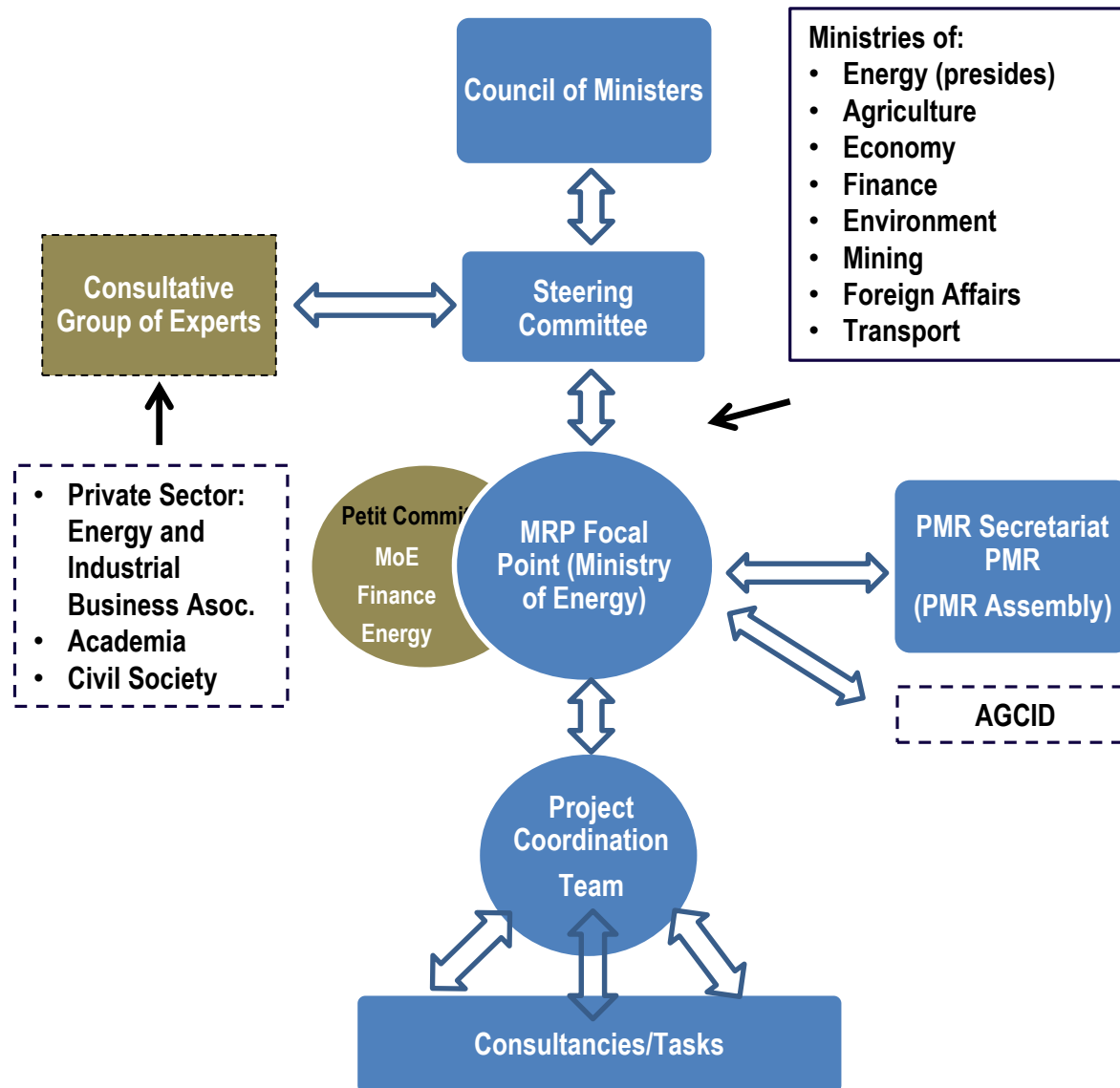
- ◆ *Ways in which they are expected to fill readiness gaps identified in Section I of the PPT*
- ◆ *Knowledge at technical and political level will be strengthened through workshops, high-level meetings and seminars, in-country visits, technical briefings and policy papers on carbon pricing alternatives, among others...*
- ◆ *Local emission factors and other relevant data will be elaborated;*
- ◆ *MRV capacities at government and industry will be strengthened through capacity building activities;*
- ◆ *Market of environmental service providers will be increased;*
- ◆ *Financial resources options to sustain the implementation of the carbon tax and other CP instruments will be explored;*
- ◆ *In depth analysis of CP and NDC will be performed.*

Additional Funding Proposal: Institutional Arrangements

- ◆ *Institutional arrangements: Proposal development (key agencies involved)*
 - *Ministry of Energy in collaboration with:*
 - *Ministry of Environment*
 - *Consultative Group of Experts*
 - *Steering Committee*
 - *AGCID*

Additional Funding Proposal: Institutional Arrangements

◆ *Institutional arrangements: Proposed activities implementation*



Additional Funding Proposal: Institutional Arrangements

- ◆ *Demonstration of political support for proposed activities*
- No-Objection letter from the Ministry of Finance
- Cooperation Agreement with the Ministry of the Environment:
 - specific provisions for MRP implementation/coordination

Additional Funding Proposal: Eligibility Criteria

- ◆ *A snapshot of how the proposal complies with the agreed eligibility criteria for additional funding*
- **Committed funding** is 75% at present
- The **proposal strengthens and complements** the implementation of existing activities
- It will **help achieve** the MRP objectives
- It is expected **to overcome the existing barriers** to implementation, and
- **Improves readiness** for the implementation of carbon pricing instruments

IV. Budget, Timeline and Outputs

Additional Funding Proposal: Timeline and Budget

Activity	Output(s)	Time required for completion	Estimated completion date	Budget allocation (PMR)	Budget allocation from other sources
A1. Implementation of roadmap for decision making on future carbon pricing policies in Chile	<ul style="list-style-type: none"> - Discussion papers & policy drafts - Evaluation of carbon tax's first implementation year - Technical workshops and seminars briefings - In-country visits - High level decision-making agreements - Technical documents - Press releases and notes - Dissemination materials and documents 	36 months	August 2020	420.000	80.000
A2. Mandatory Reporting and Verification System (MRV 3.0), compatible to operate an ETS in Chile and compatible with similar regional reporting systems	<ul style="list-style-type: none"> - MRV System - Registry platform - Technical cooperation agreements - Regional workshops - South-south cooperation for integrated MRV systems 	24 months	January 2020	480.000	20.000

Additional Funding Proposal: Timeline and Budget

Activity	Output(s)	Time required for completion	Estimated completion date	Budget allocation (PMR)	Budget allocation from other sources
A3. MRV Platform and Mitigation Recognition Program for the energy sector	<ul style="list-style-type: none"> - Energy sector MRV platform - GHG mitigation recognition system - Technical workshop documents/briefs 	20 months	March 2019	380.000	20.000
A4. ETS Simulator Implementation	<ul style="list-style-type: none"> - ETS Sim Software - Cooperation agreements - Technical workshop documents/briefs - Case study documents 	30 months	June 2020	720.000	80.000
Total				2.000.000	200.000

V. Anticipated Risks, Expected Outcomes and Monitoring and Evaluation (M&E)

Additional Funding Proposal: Identified Challenges and Risk Mitigation Strategy

- ◆ *Potential risks to implementation or successful completion of outcomes*
 - ***Funding Accession process and Change in Administration (potential delays)***
 - ***Knowledge level and infrastructure capacity for carbon pricing***
- ◆ *Strategy for risk mitigation*
 - ***Concrete and feasible proposals on carbon tax evolution and ETS, ready for the new Administration***
 - ***Implementation of the roadmap for decision making***
 - ***Frequent discussions and technical workshops with high level decision makers/in-country visits.***

Additional Funding Proposal: Overview of M&E Arrangements

◆ *Proposed M&E arrangements*

Activity/Output	Indicator	Baseline	Target	Method for Measuring Progress
Implementation of roadmap for decision making	-n° of issued discussion/policy papers, high level meetings, consultations made.....	Original MRP	-Final reports	-PDO and intermediate results indicators -Status Reports -Completion Reports -Financial Statements -PMR country updates
Mandatory Reporting	-n° of companies adding to the reporting,....	Current MRV System	Final Reports	
MRV Platform/recognition program	n° of Mitigation actions registered/recognized; amount of emissions being quantified....	Current NAMA portfolio, other mitigation follow-up	Final Reports	

Impacts of initial MRP activities

◆ *Key impacts stemmed from Chile´s PMR Project.*

“The **PMR** has made a significant contribution to creating the bases for a **path for a low carbon economy in Chile**, strengthening carbon pricing and the policies, institutions and instruments directly related to carbon pricing”.

Impacts of initial MRP activities

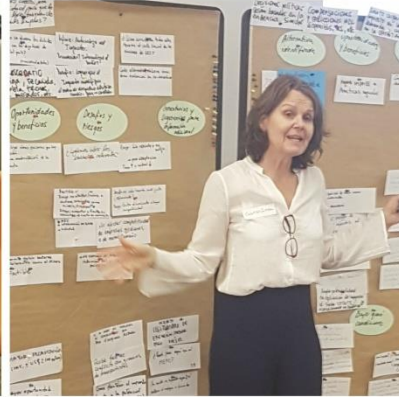
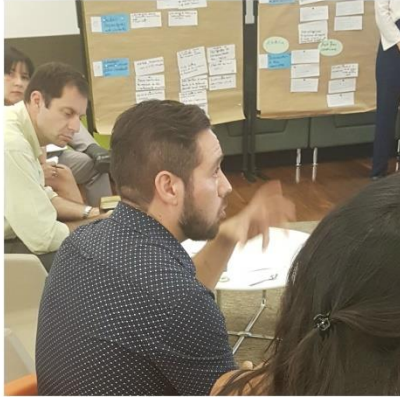
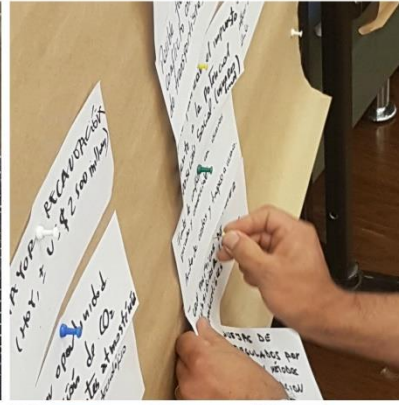
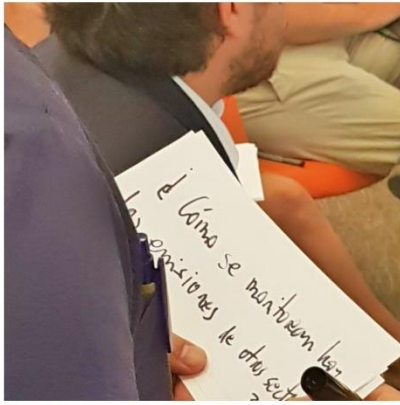
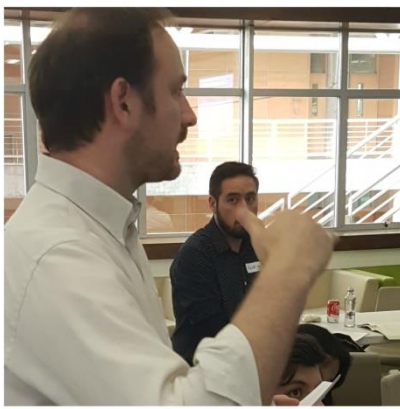
◆ *Key impacts stemmed from Chile's PMR Project.*

- Has been **crucial** in **substantially improving the implementation of the carbon tax** (institutional and human resources);
- Has been **instrumental** in **defining the scope of regulated entities** (TPW study, “survey of emitting industries”) and in exploring possible pathways for carbon tax changes in the electricity sector.
- Has created **new knowledge, raised awareness** and built **new capacities** in CP through technical workshops, high level meetings and studies;
- Has contributed to **raising consciousness** towards climate change in society as a whole.

Impacts of initial MRP activities

◆ *Key impacts stemmed from Chile´s PMR Project.*

- Has contributed to a **close interministerial collaboration** (Ministry of Environment, Ministry of Energy, Ministry of Finance);
- Has contributed to **bringing together key public and private actors**, by means of the Advisory Group of the project. All relevant industry associations actively collaborating in the Project;
- Has **caught the attention** of Congressmen;
- Has **provided the key input** to the Climate Change Mitigation Plan in the Energy Sector.



Impacts of initial MRP activities

◆ *Key impacts stemmed from Chile´s PMR Project.*

“The PMR has been a cornerstone not only in carbon pricing itself, but has made a significant contribution in laying the foundations for more solid institutions and instruments regarding climate change in Chile”.

IT´S CONTINUATION IS KEY!!

Thank You for Your Attention

MITIGATION ACTION PLAN:

[HTTP://WWW.ENERGIA.GOB.CL/PARTICIPA/CONSULTAS-
CIUDADANAS/CONSULTA-PUBLICA-3](http://www.energia.gob.cl/participa/consultas-ciudadanas/consulta-publica-3)

FOR MORE INFORMATION, PLEASE CONTACT:

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Project overview: Original MRP + additional activities

