

ECOFYS



sustainable energy for everyone

Relationship of MSR with other policy interventions

27/06/2014

Bram Borkent

Separate discussions can lead to sub-optimal solutions

> Examples:

- RE / EE / ETS
- Carbon Leakage list vs Cross-sectoral correction factor

> Discussions to date:

- Reduction pathway for 2030
- Competitiveness and carbon leakage
- MSR

Integral approach
needed



Background of dynamic allocation study

- > Agreed framework by broad group of Dutch ETS stakeholders:
 - Increased reduction pathway towards -80 to -95 % in 2050
 - 100% free allocation based on realistic benchmarks and actual production for CL-exposed sectors
 - Compensation framework for costs from indirect emissions

Dynamic allocation could meet the demand for an improved allocation system

> Basic concept

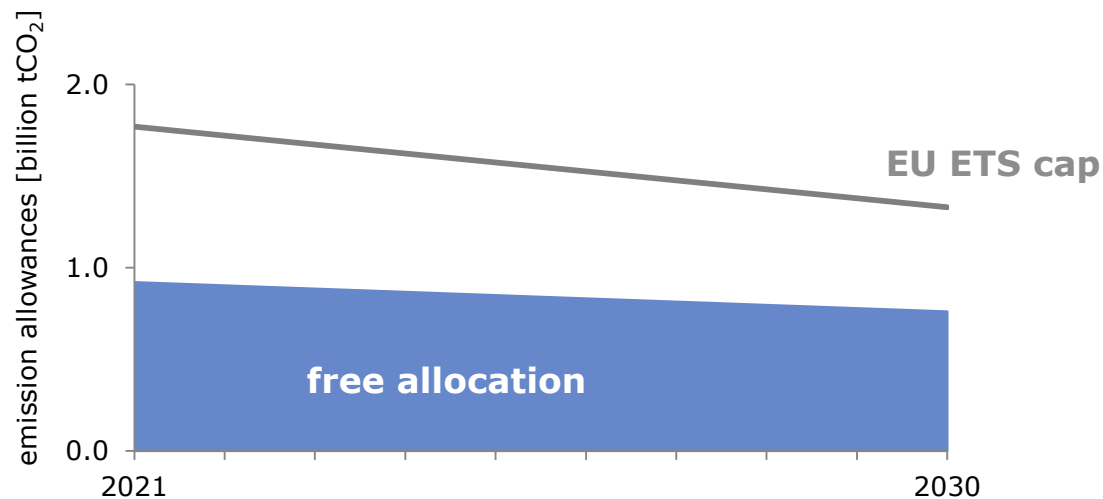
- *Free allocation = Benchmark x Actual activity level x ~~Correction Factor~~*
- Flexibility in free allocation provided by Allocation Supply Reserve (ASR)

> Note:

- Cap is not compromised
- Cross-sectoral correction factor no longer needed

How does dynamic allocation work in practice?

1. Upfront: Determine allocation budget for full trading period, based on benchmarks, forecasted activity levels and CL-list



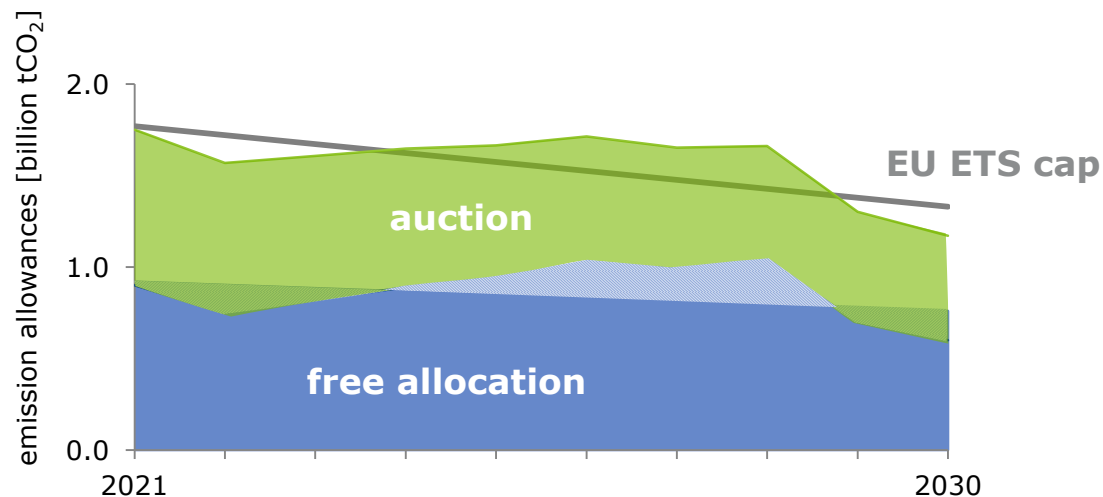
How does dynamic allocation work in practice?

1. Upfront: Determine allocation budget for full trading period, based on benchmarks, forecasted activity levels and CL-list
2. Upfront: Fix the auction volumes



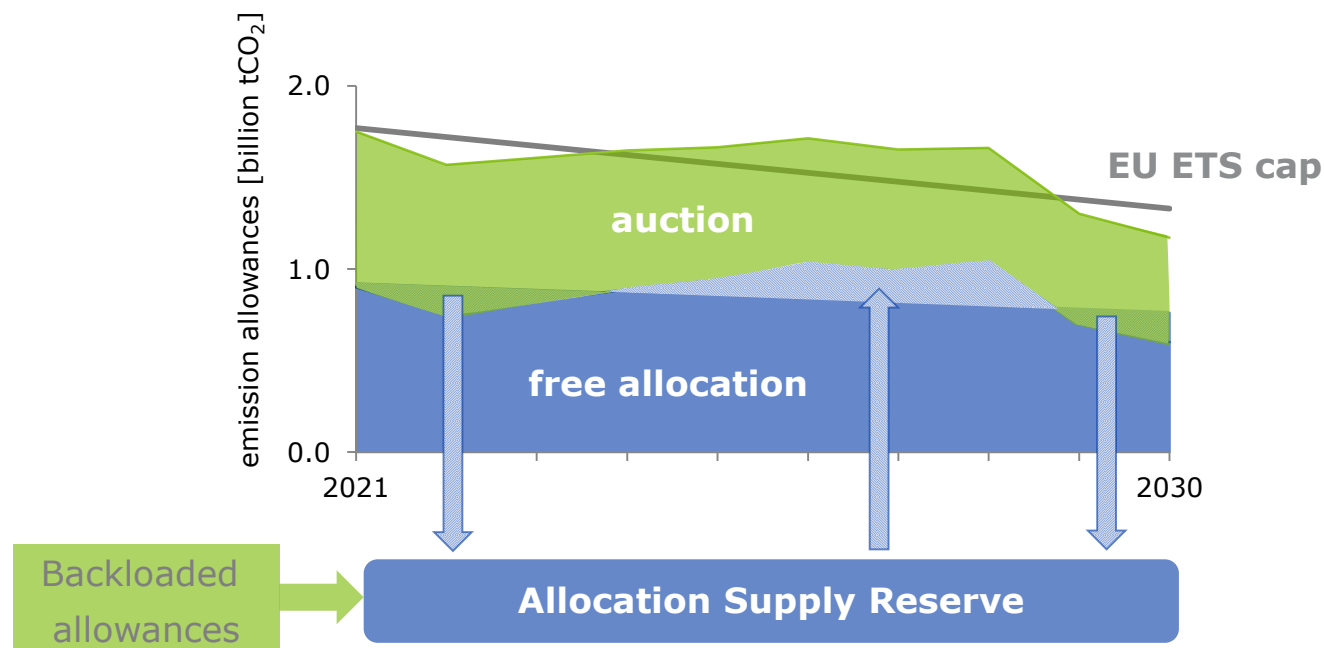
How does dynamic allocation work in practice?

1. Upfront: Determine allocation budget for full trading period, based on benchmarks, forecasted activity levels and CL-list
2. Upfront: Fix the auction volumes
3. During trading period: flexible free allocation based on $BM \times$ actual activity level

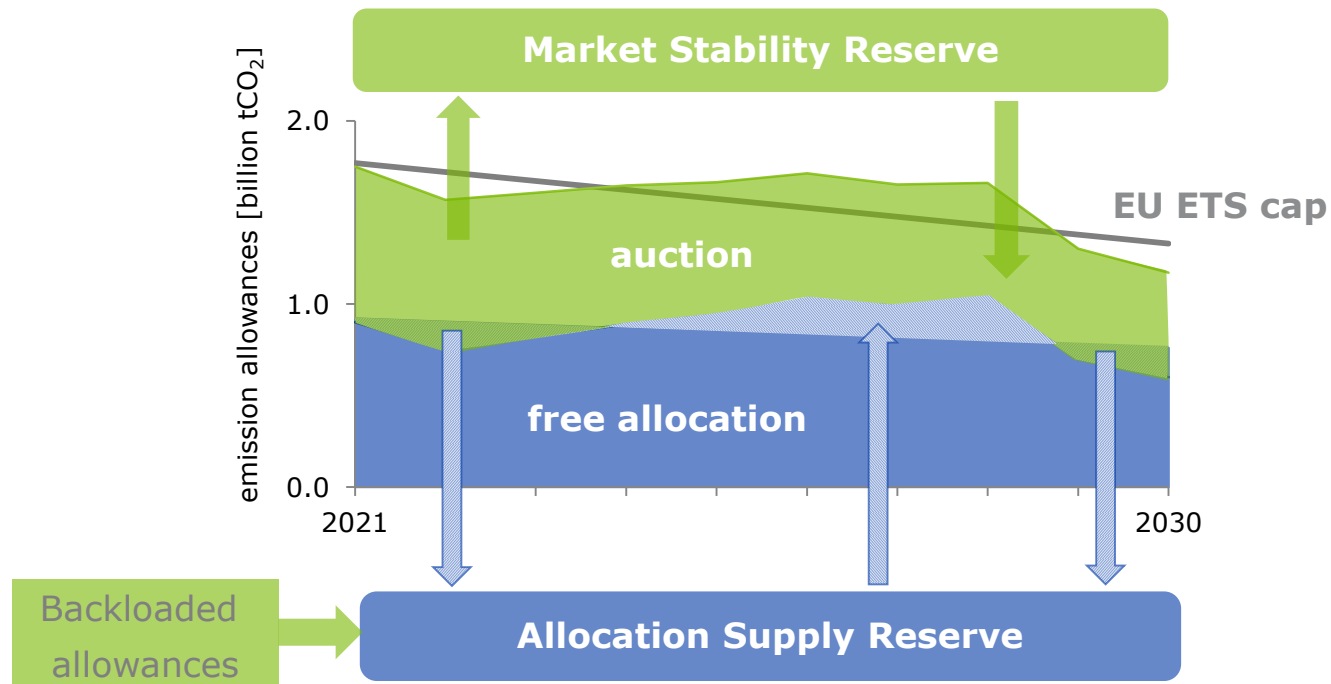


How does dynamic allocation work in practice?

1. Upfront: Determine allocation budget for full trading period, based on benchmarks, forecasted activity levels and CL-list
2. Upfront: Fix the auction volumes
3. During trading period: flexible free allocation
4. ASR provides flexibility to combine changing allocation with fixed budget, while respecting the cap



ASR can operate next to the MSR



- > Because of their different aims, they have different trigger levels and act independently (cf. New Entrants Reserve).

Similarities and differences between ASR and MSR

> Similarities:

- Both tackle the surplus
- Both enhance market stability

> Differences:

	MSR	ASR
Purpose	Improve supply-demand balance	Facilitate dynamic allocation and prevent carbon leakage
Interaction with	Auction volumes (allocation is untouched)	Allocation volumes (auction is untouched)
Triggered by	Surplus	Economic growth

Interaction between ASR and MSR

- > Combining ASR & MSR into a single reserve
 - A more complex reserve with less predictability

- > Two separate reserves
 - Complementary to each other
 - Start budget in ASR = less uptake by MSR
 - Stabilizing effect from ASR on size of surplus
 - In times of growth: less reduction of surplus
 - In times of recession: less growth of surplus

- > Backloaded allowances in ASR or MSR?

Thank you for your attention



Dr. Bram Borkent
T: +31 (0)30 662 3822
M: +31 (0)6 5463 5575
b.borkent@ecofys.com