



The MSR: Impact on balance and prices

CEPS Task Force: EU ETS Market Stability Reserve, 10 April 2014, Brussels

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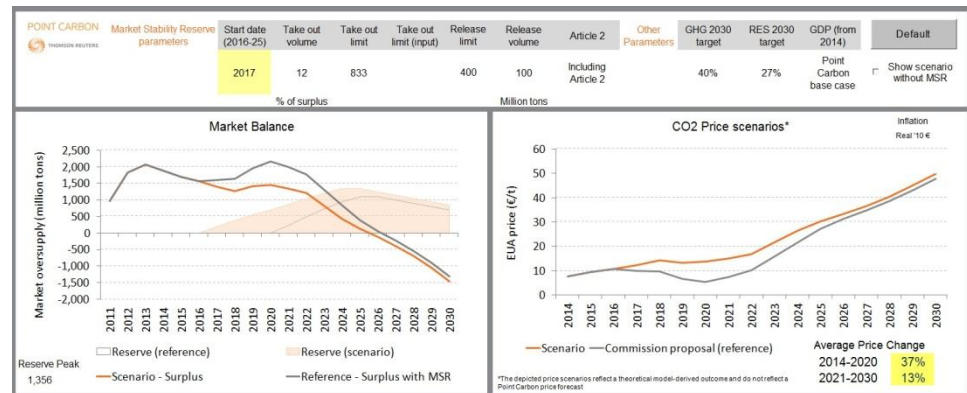
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Scenario visualisation tool

- Shows the impact on market balance and prices
- Multiple parameters can be changed
 - Trigger levels
 - Starting point
 - Return of backloaded allowances
 - EU GHG target and RES targets
 - GDP scenarios



The market stability reserve

- Market stability reserve implemented from 2021
- 12% of oversupply will be taken out
 - For example: 2 billion surplus x 12% = 240 Mt to MSR
 - Upper trigger = 833 Mt
 - 833 Mt x 12% = 99.9 Mt, the minimum transfer to MSR is 100 Mt
 - Lower trigger = 400 Mt
 - 100 Mt will be released if oversupply falls below 400 Mt
- Backloading of backloading
 - Auctioning volume in 2020 reduced by 421 Mt which is moved to 2021/22

Price forecast: key assumptions

- 40% GHG reductions → 2.2% cap reduction factor from 2021
- 27% share of renewables in final energy consumption
- Market stability reserve implemented from 2021
 - Base case in line with EC proposal
- No additional credits after 2020, no linking
- GDP growth of 1.7% per year from 2015-2020 and 1.9% per year from 2021-2030

Selected scenarios

The following slides provide a number of selected scenarios to show the impact of single changes to the set of parameters.

- Impact of the market stability reserve
- Change of outtake level to 20%
- Change of release volume to 200 million p/a
- Increased upper trigger limit (1000 Mt)
- Early start date (2018)
- Transfer of 900 million allowances to MSR
- Combined early start date (2018) and transfer to MSR
- Effect of Article 2 of MSR proposal

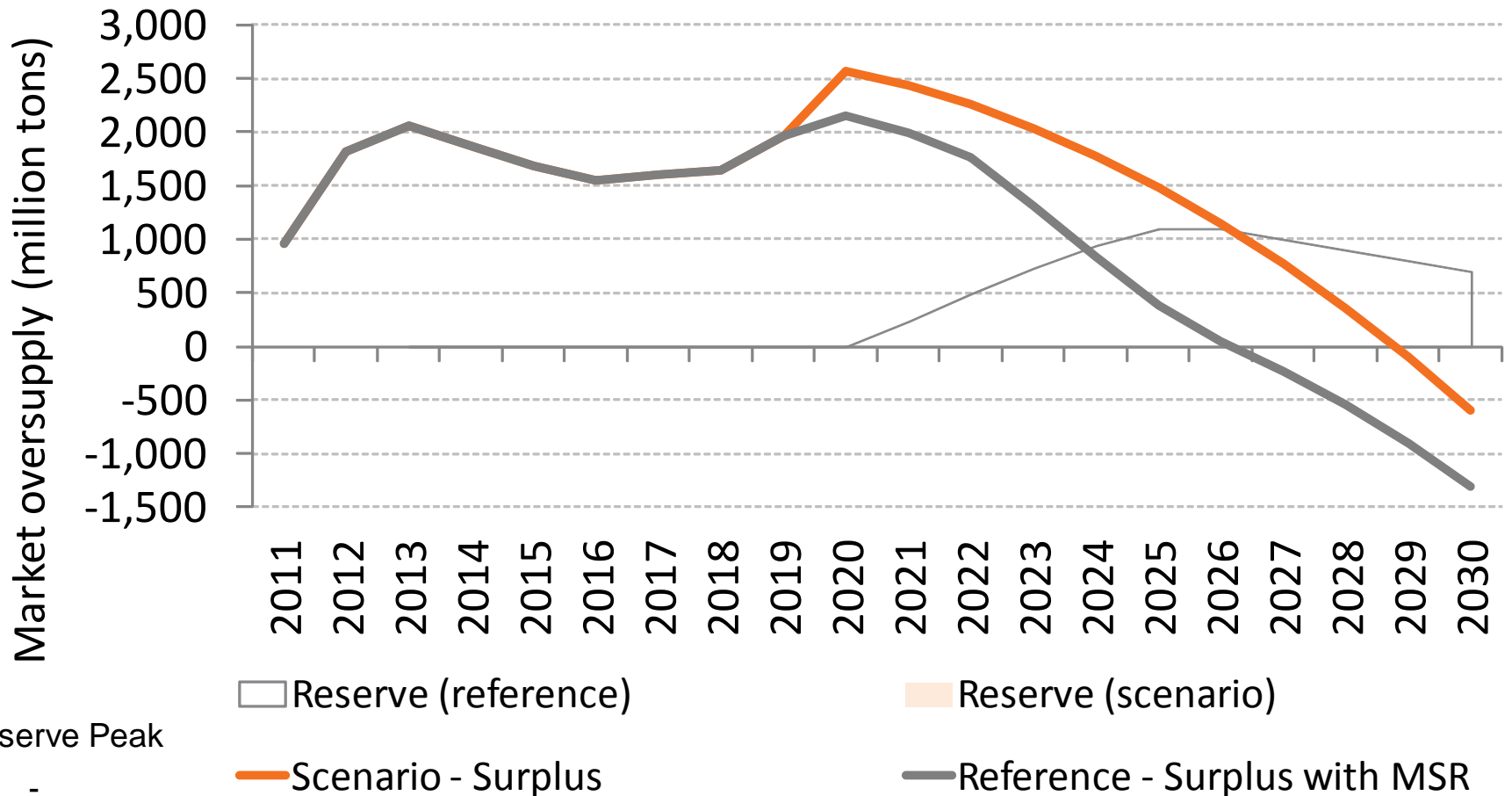
Please note: The prices attached to the scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast. The price changes provide an indication of the importance of the changed MSR parameter and have to be considered as indicative.

Impact of the market stability reserve

- Scenario with and without the market stability reserve in place

Market stability reserve – impact on balance

Market Balance

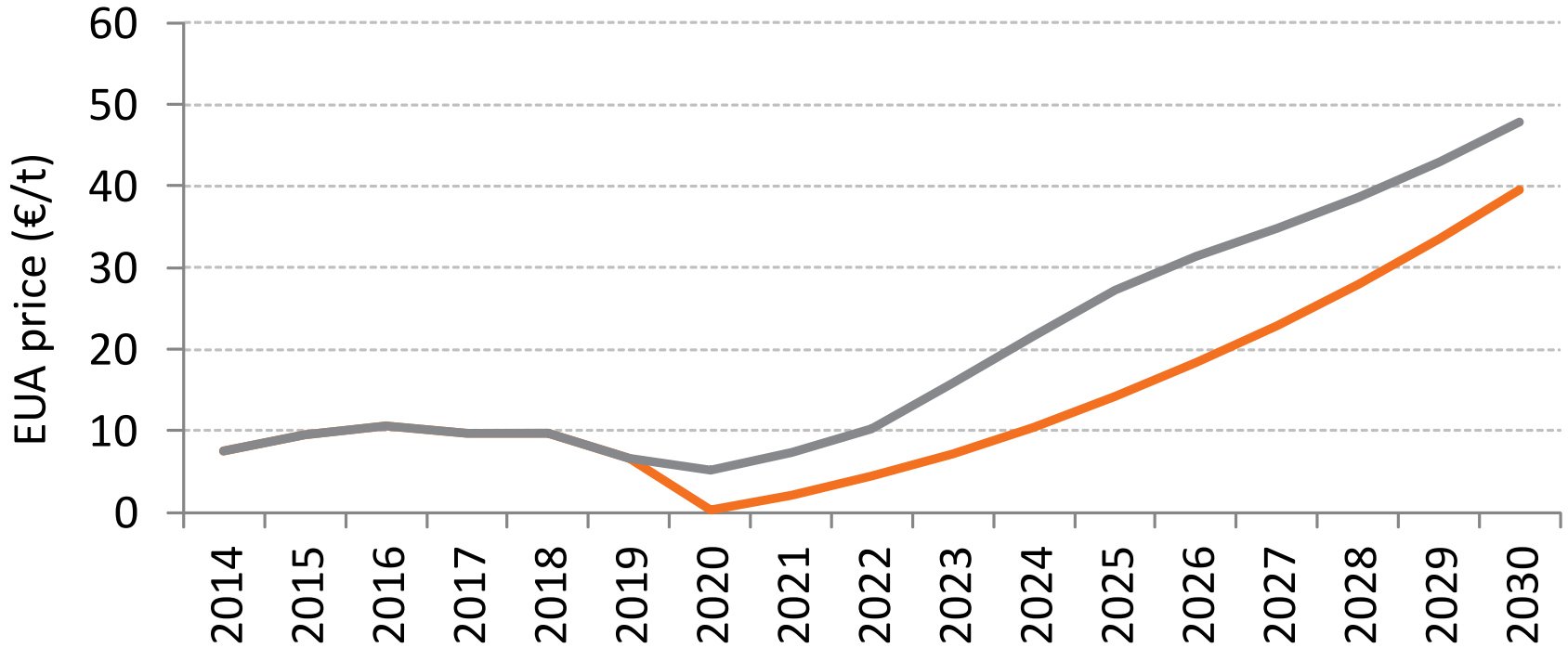


Reserve Peak

Market stability reserve – impact on price

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change

2014-2020 **-8%**

2021-2030 **-35%**

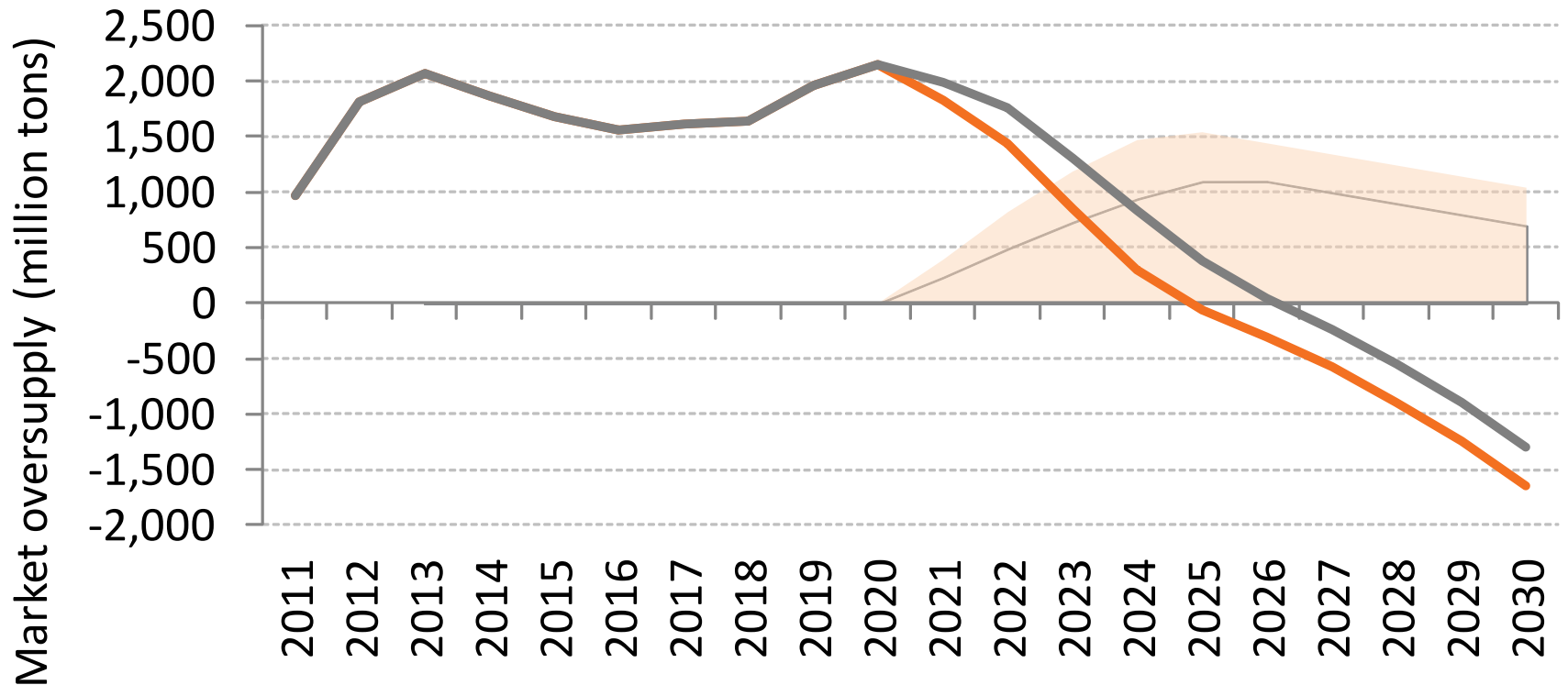
*The depicted price scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast

Changed outtake level (20%)

- Instead of taking out 12% as proposed, 20 % of the oversupply is transferred to the stability reserve. In order to keep the 100 million minimum transfer volume, the take out limit is lowered to 500 million tons, from 833 million previously.

Change of outtake level to 20% - balance

Market Balance



Reserve Peak
1,545

□ Reserve (reference)

■ Reserve (scenario)

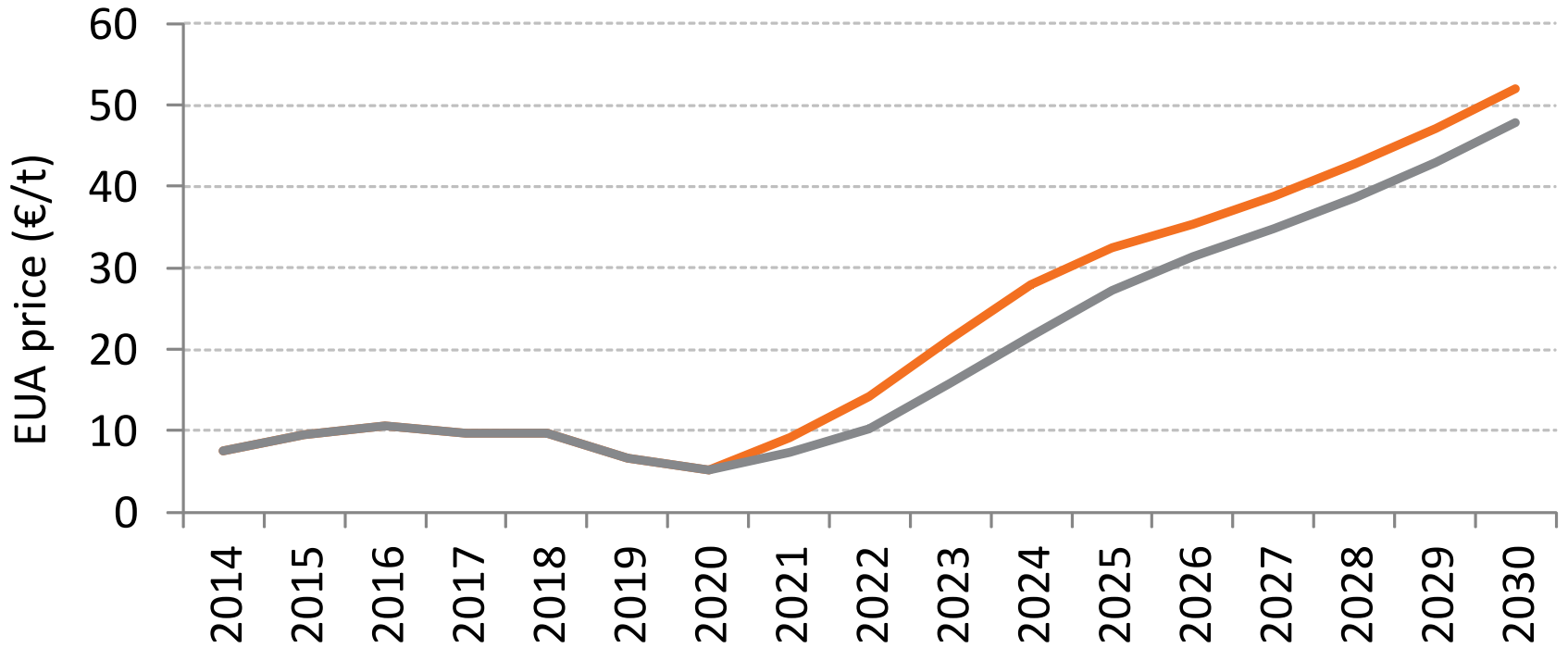
— Scenario - Surplus

— Reference - Surplus with MSR

Change of outtake level to 20% - price

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change

2014-2020 0%

2021-2030 16%

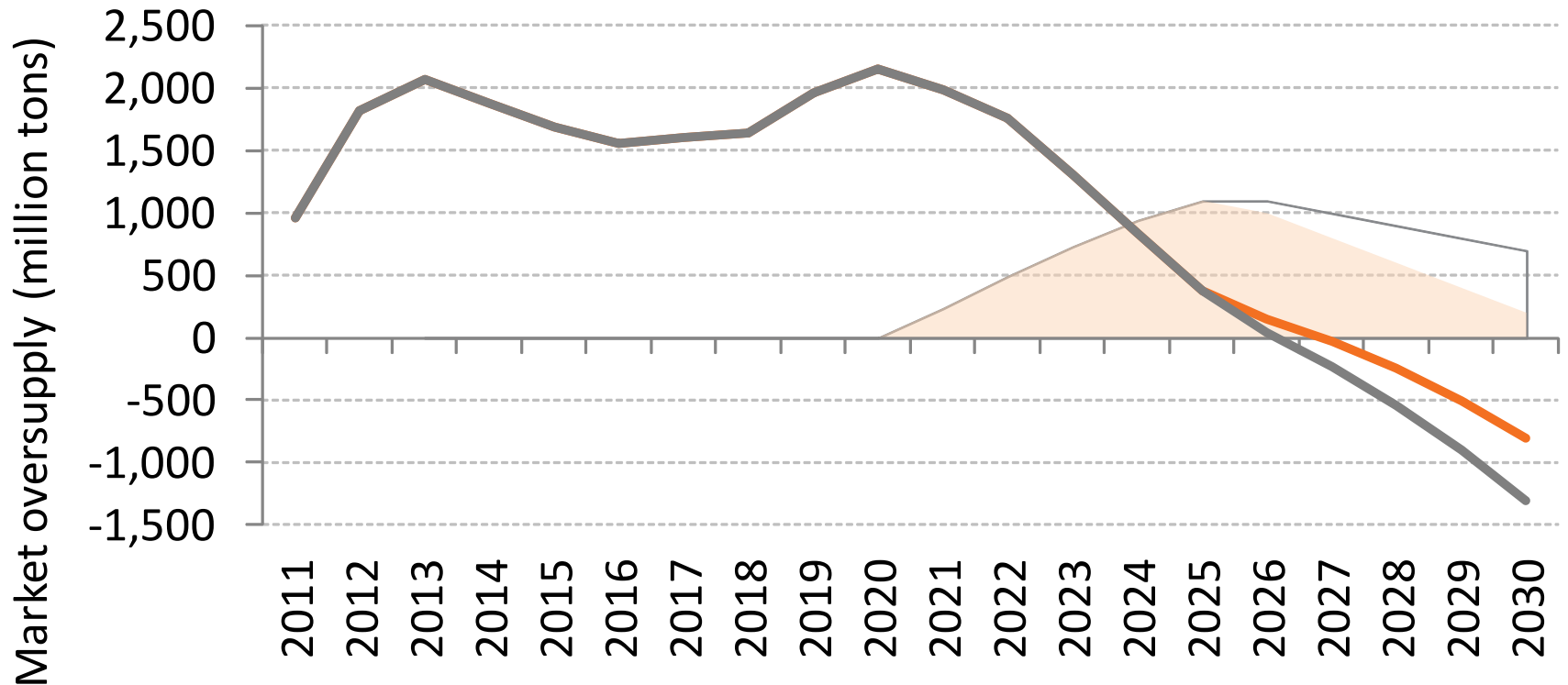
*The depicted price scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast

Changed release volume (200 million)

- Instead of releasing 100 million allowances per year back into the market when the oversupply falls below 400 million tons, the stability reserve releases 200 million allowances per year.

Change of release volume (200 Mt) - balance

Market Balance



□ Reserve (reference)

■ Reserve (scenario)

Reserve Peak

1,100

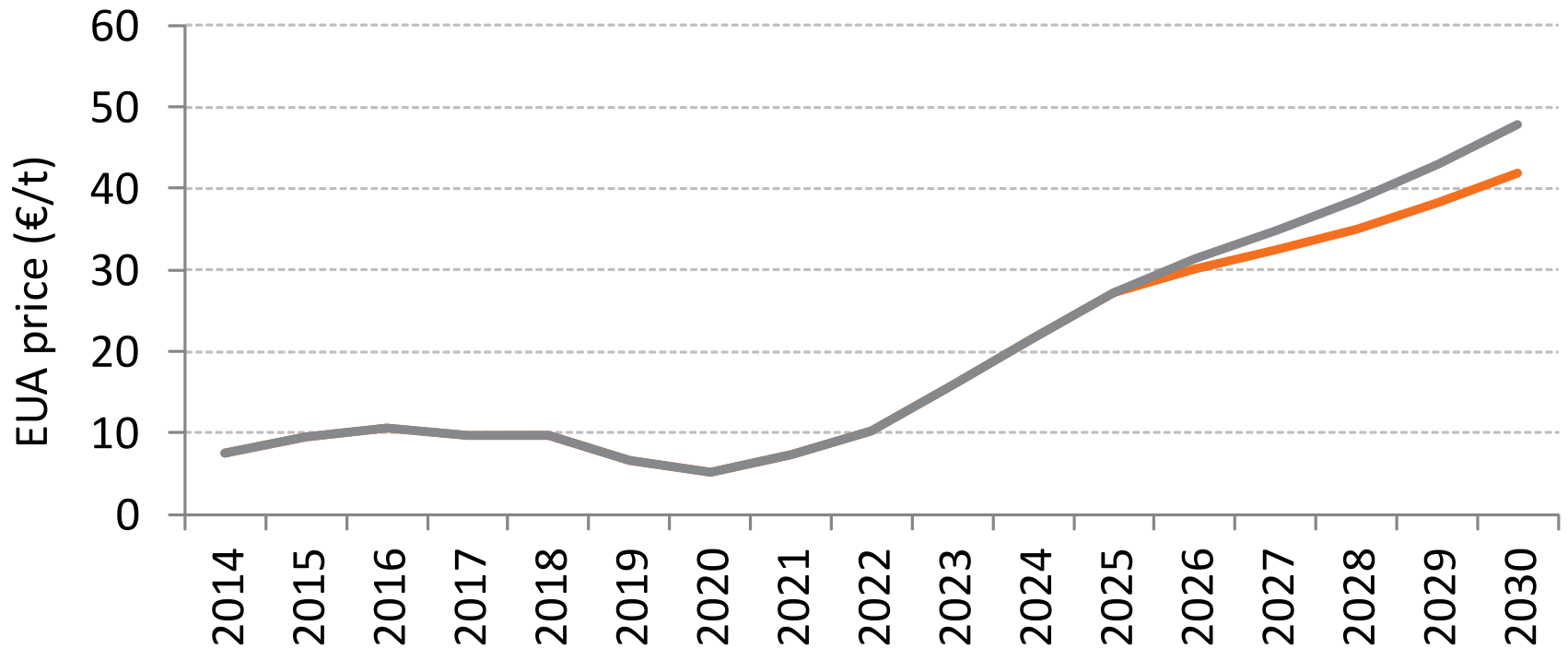
— Scenario - Surplus

— Reference - Surplus with MSR

Change of release volume (200 Mt) - price

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change	
2014-2020	0%
2021-2030	-6%

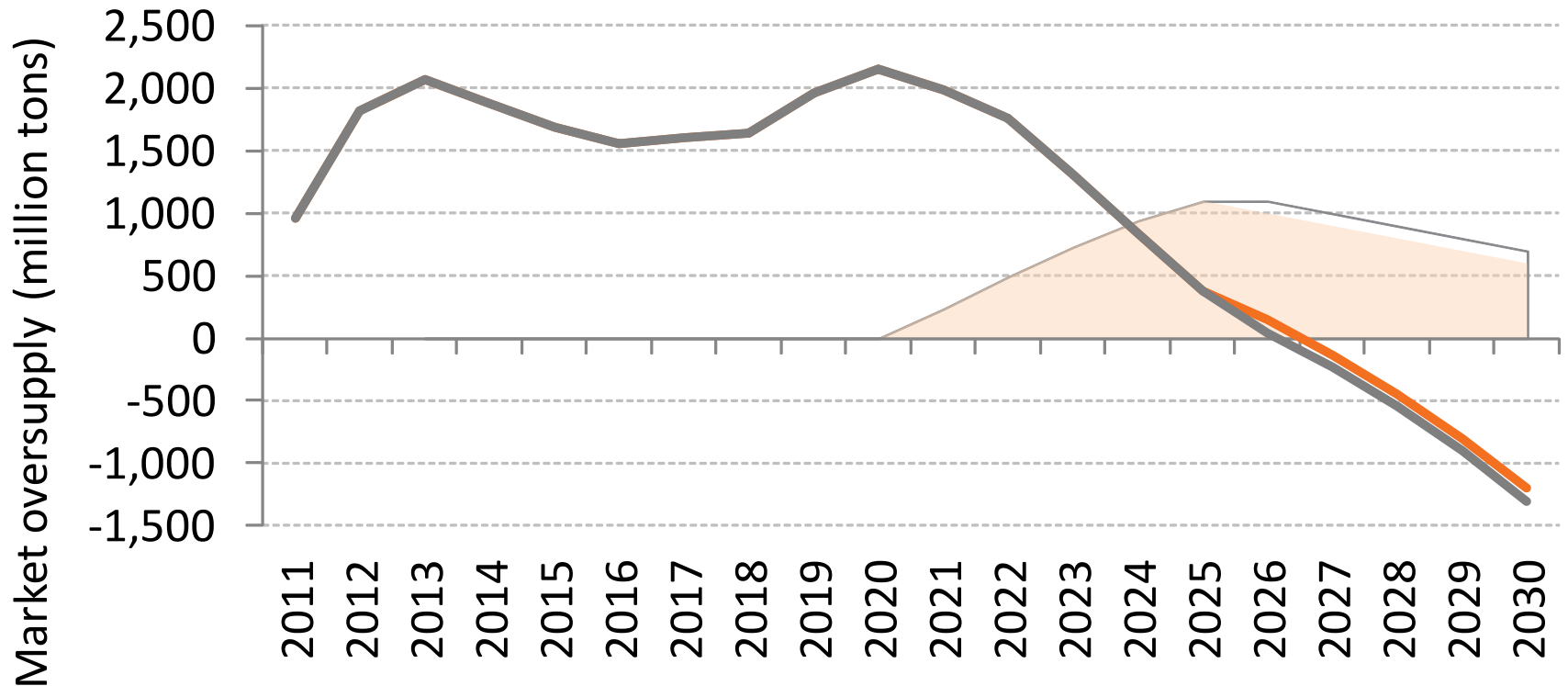
*The depicted price scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast

Increased upper limit (1000 Mt)

- Instead of stopping the transfer to the stability reserve when the oversupply has reached 833 Mt, the transfer stops already when the oversupply reaches 1000 Mt, keeping the 12% take-out volume unchanged.

Increased upper limit (1000 Mt) - balance

Market Balance



Reserve Peak
1,100

□ Reserve (reference)

— Scenario - Surplus

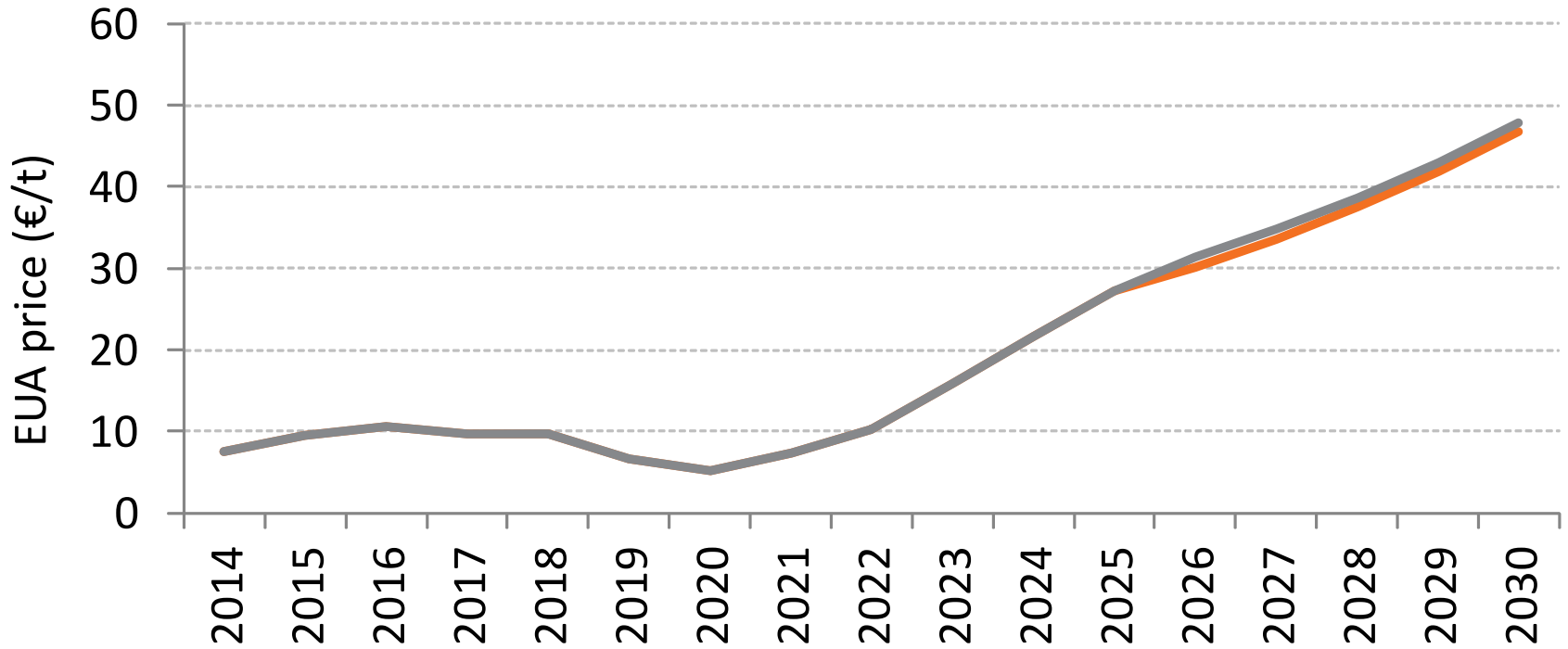
■ Reserve (scenario)

— Reference - Surplus with MSR

Increased upper limit (1000 Mt) - price

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change	
2014-2020	0%
2021-2030	-2%

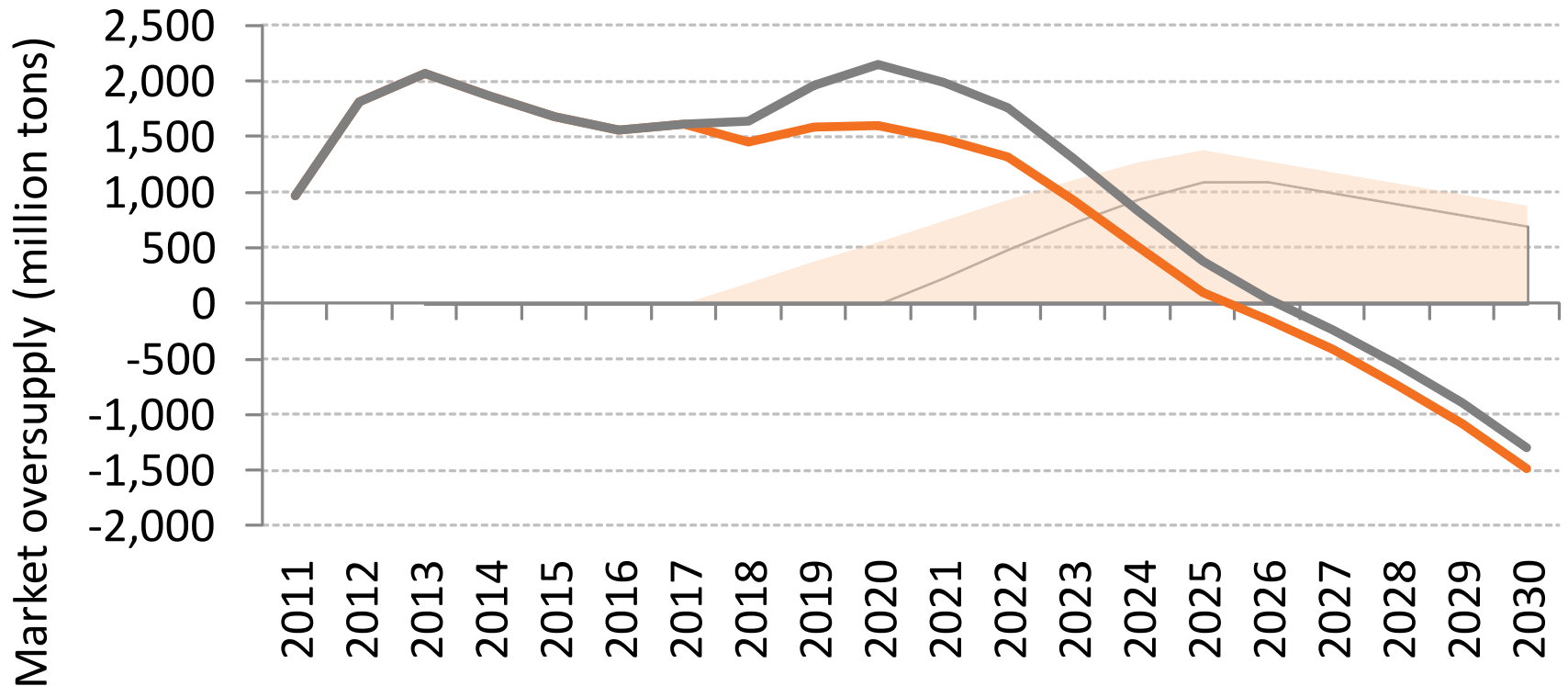
*The depicted price scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast

Earlier start date

- Market stability reserve implemented already in 2018 instead of 2021

Early start date 2018 - balance

Market Balance



Reserve Peak
1,382

□ Reserve (reference)

— Scenario - Surplus

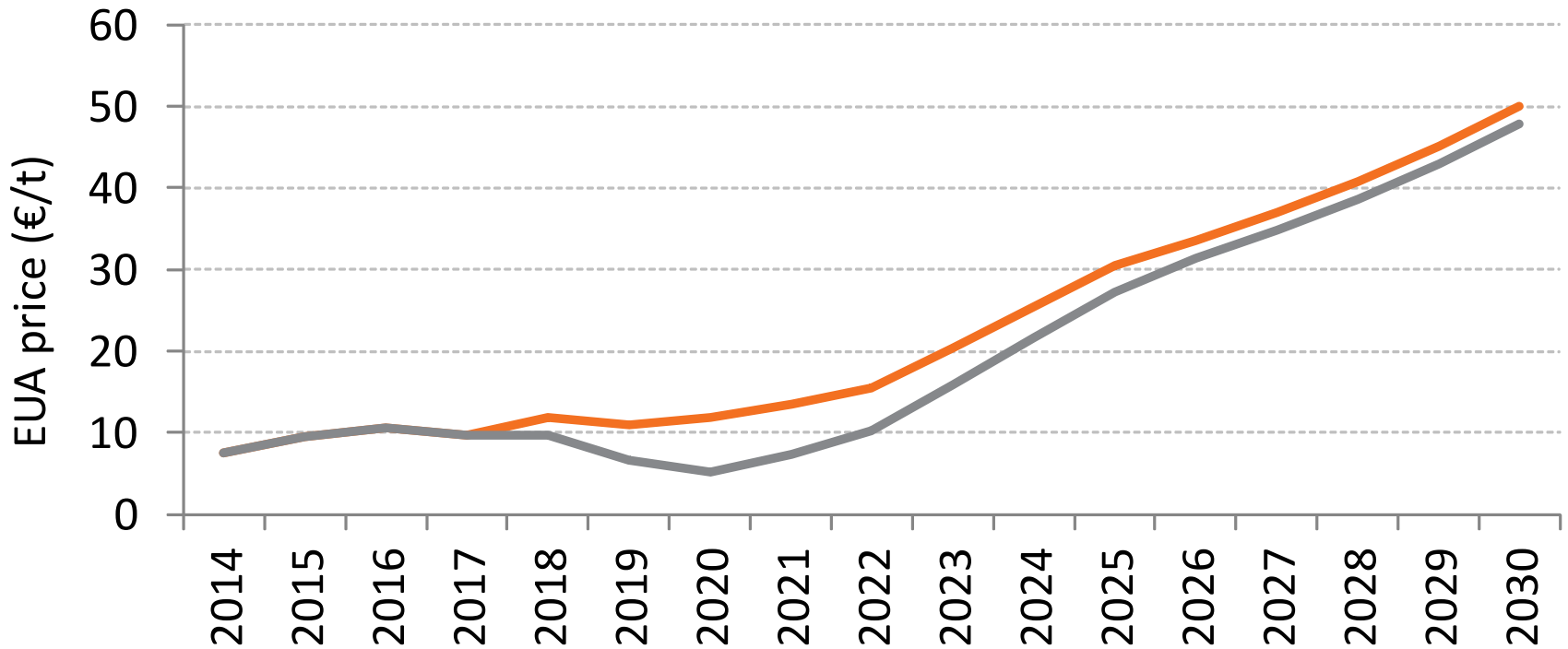
■ Reserve (scenario)

— Reference - Surplus with MSR

Early start date 2018 - price

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change

2014-2020	23%
2021-2030	12%

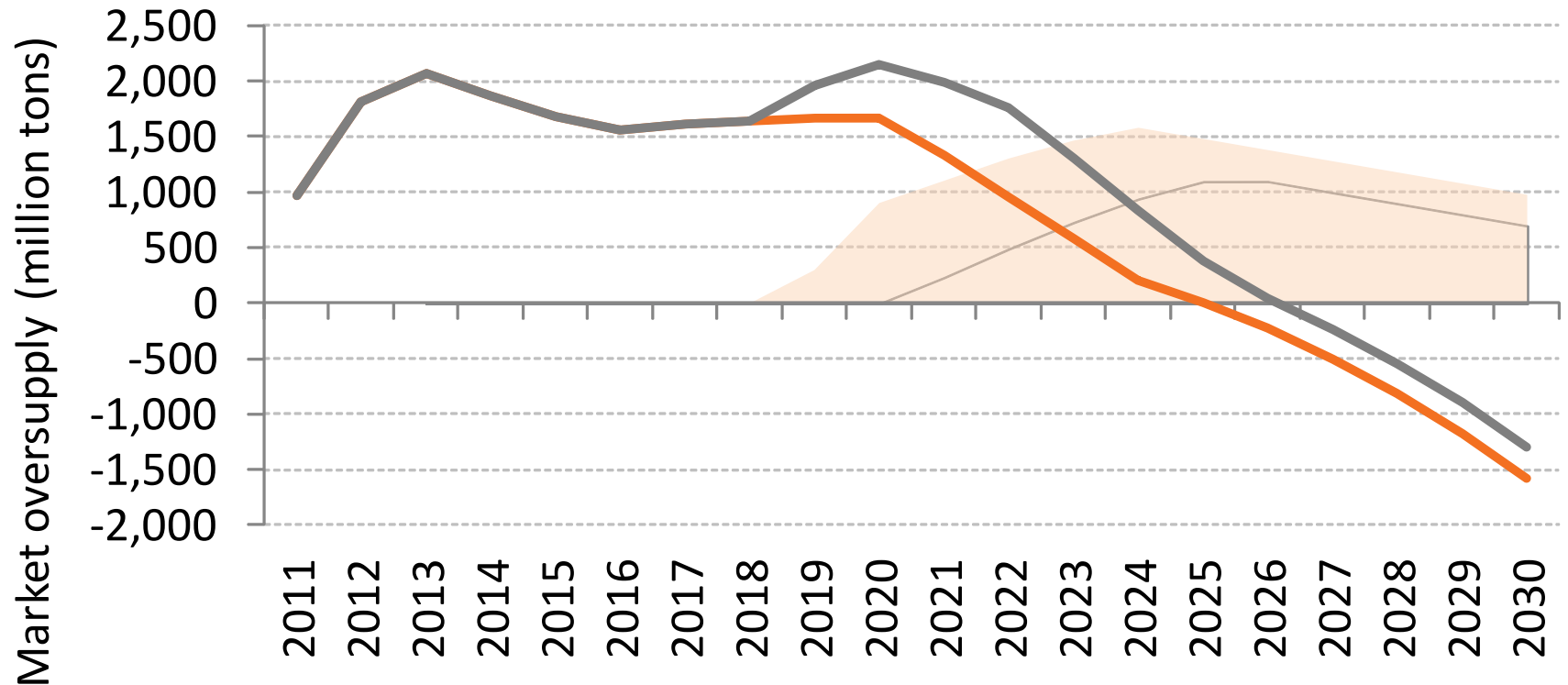
*The depicted price scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast

Transfer of backloaded allowances to MSR

- Backloaded allowances (900 million) are transferred to the stability reserve instead of being released to the market in 2019 and 2020

Transfer backloaded allowances - balance

Market Balance



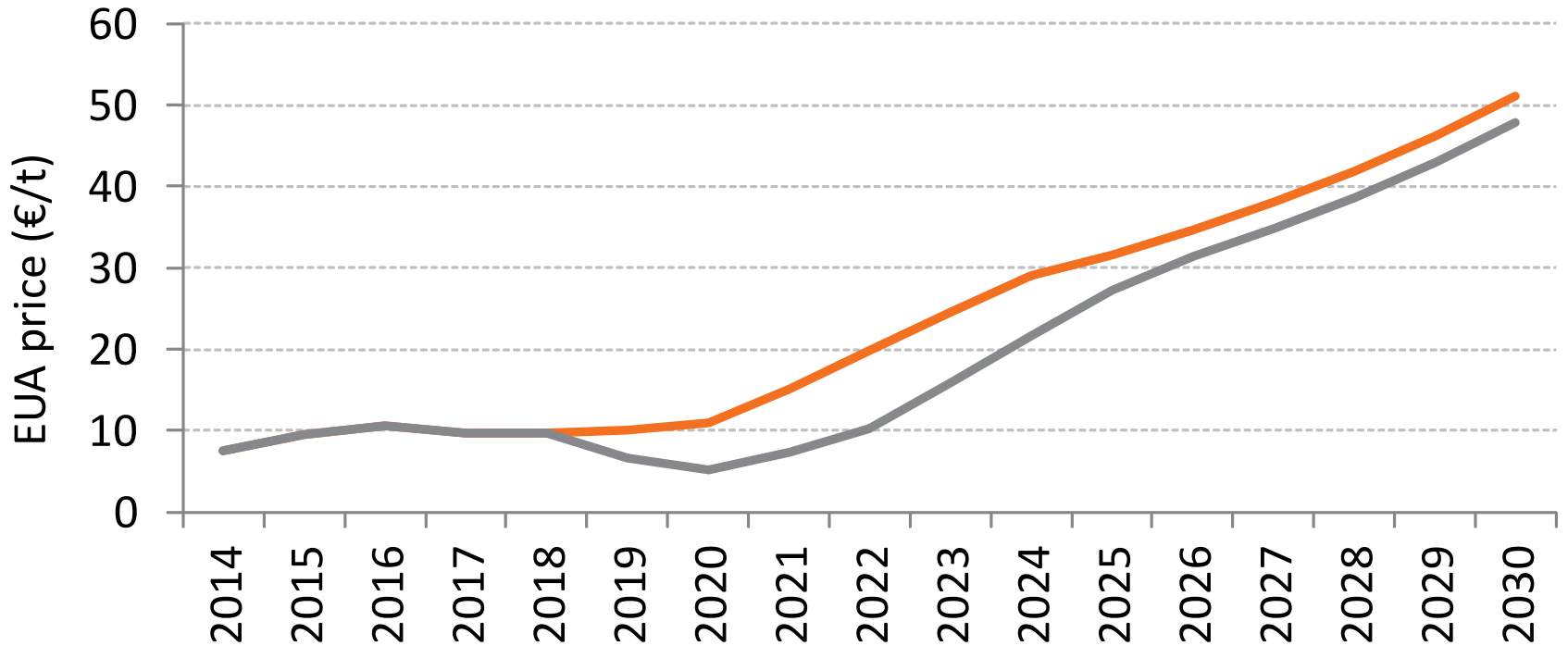
Reserve Peak 1,575

Reserve (reference)
 Reserve (scenario)
 Reference - Surplus with MSR
 Scenario - Surplus

Transfer backloaded allowances - price

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change

2014-2020 **16%**

2021-2030 **19%**

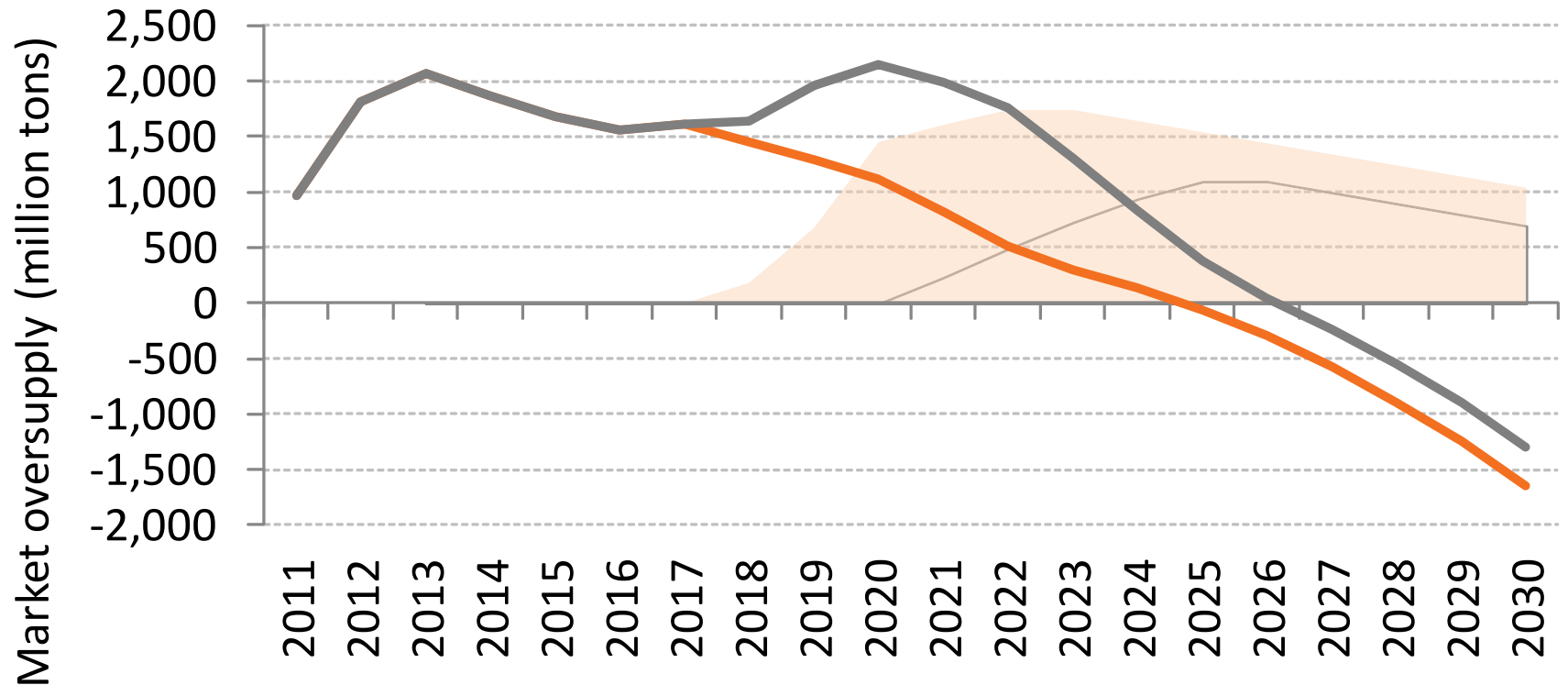
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Combined early start date and transfer of backloaded volume to MSR

- Backloaded allowances (900 million) are transferred to the stability reserve instead of being released to the market in 2019 and 2020 and the market stability reserve starts to operate in 2018.

Early start date (2018) and transfer - balance

Market Balance



Reserve Peak
1,742

□ Reserve (reference)

— Scenario - Surplus

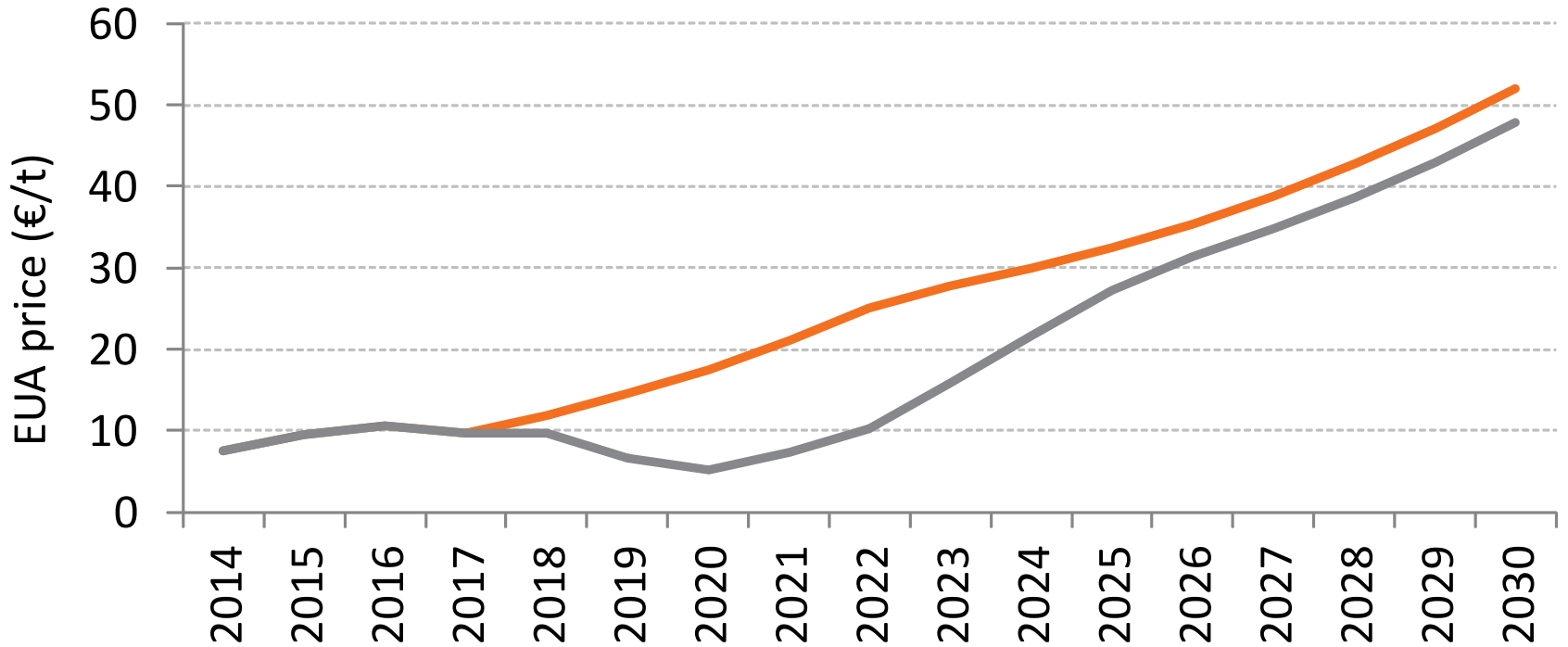
■ Reserve (scenario)

— Reference - Surplus with MSR

Early start date (2018) and transfer - price

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change

2014-2020	38%
2021-2030	27%

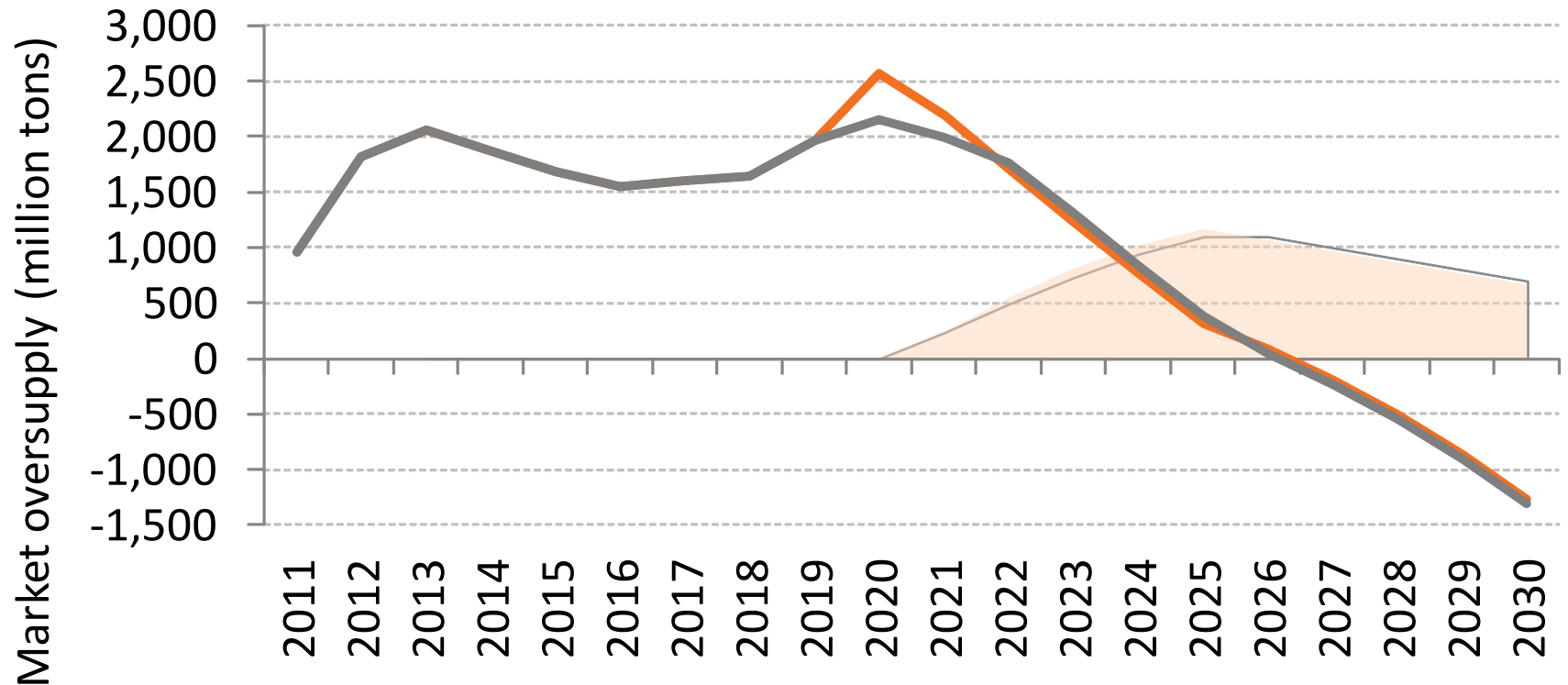
*The depicted price scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast

Effect of Article 2

- Scenario with and without the inclusion of Article 2

Effect of Article 2 of MSR proposal - balance

Market Balance



Reserve Peak
1,161

□ Reserve (reference)

■ Reserve (scenario)

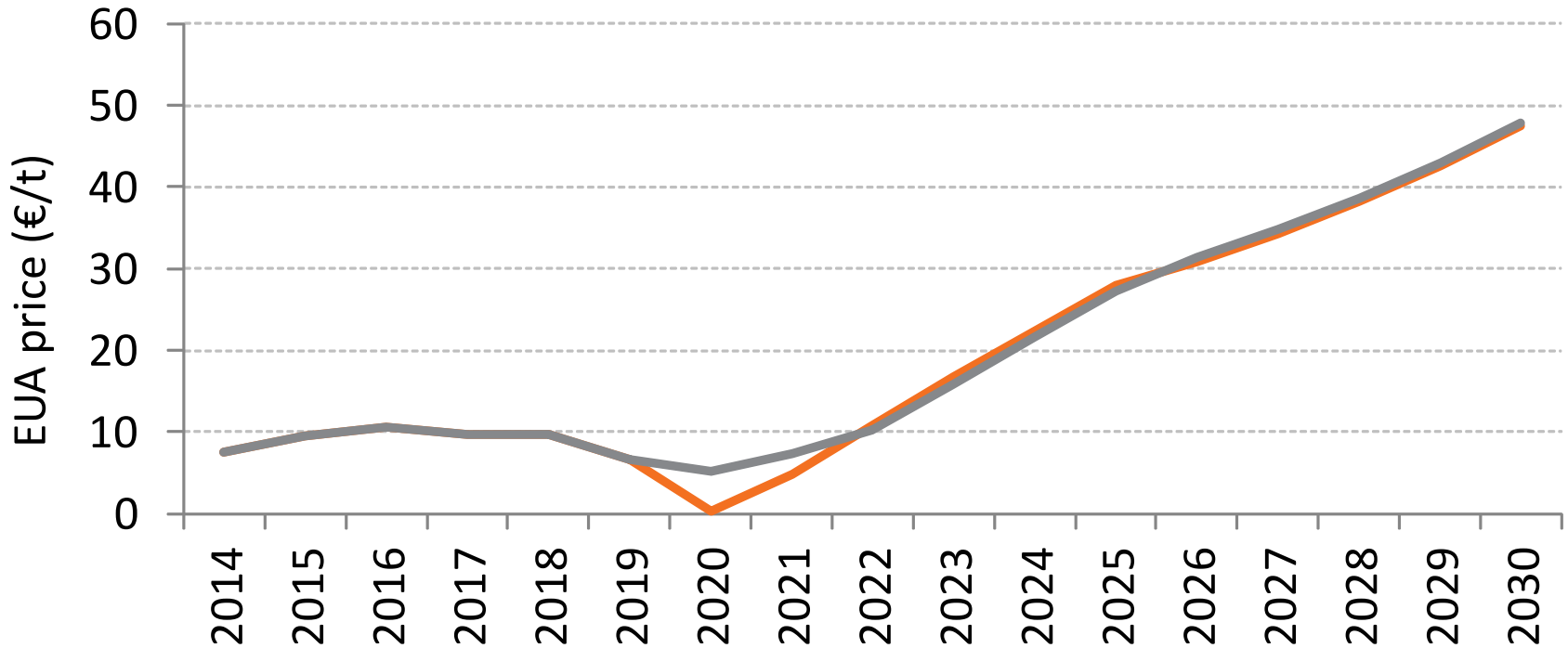
— Scenario - Surplus

— Reference - Surplus with MSR

Effect of Article 2 of MSR proposal - prices

CO2 Price scenarios*

Inflation
Real '10 €



— Scenario — Commission proposal (reference)

Average Price Change

2014-2020 **-8%**

2021-2030 **-1%**

*The depicted price scenarios reflect a theoretical model-derived outcome and do not reflect a Point Carbon price forecast

**Thank you very much for your
attention!**

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