

What to do with the back loaded EUAs?

- Look at the alternatives, as well as plusses and minuses.
- Should it put back in the auction schedule or directly in the MSR?
 - What can be the logic and consequences of either option?
- Are there other options available?

Dynamic allocation -The EcoFys solution

- Present compensation system not adopt to change in economic conditions;
 - Full carbon cost if production above historical level
 - Opportunity income for production below historical level
- Dynamic allocation;
 - **Free allocation= Benchmark*actual activity level**

Allocation Supply Reserve (ASR)-The EcoFys solution

- Flexibility in free allocation provided by the **ASR = Back loaded Volume (900 mill)**
- The idea;
 - Most recent activity level corrected afterwards for realized (verified) activity
 - Benchmarks ; realistic improvements
 - Both direct and indirect
 - **If cap is exceeded?**
 - **Use back-loaded volume from the ASR**
- Long-term certainty and predictability.
 - Both for existing plants and green fields.

	Put back the auction schedule as currently envisaged in the MSR proposal	Put directly in the MSR	Other options available: The ASR solution
Improve incentives for forward looking low carbon investments	Yes	Yes	Yes
«Economic stabilizer»	Yes but	Yes	Yes
Undermine cost-effective target by 2050	No, but	No	No
EU ETS playing the leading role	Yes	Yes	Yes
Risk for climate policies made at MS level, not EU	No	No	No

	Put back the auction schedule as currently envisaged in the MSR proposal	Put directly in the MSR	Other options available: The ASR solution
Solving carbon leakage and trade-exposed industries at the same time	No	No	Yes
Intervention again	Yes but increased certainly	Yes but increased certainly	Yes but increased certainly
Still trust in the system	Yes	Yes	Yes, absolutely from industries
A significant oversupply far beyond 2020	Yes	Yes, but	No, less
Volatility increase	Yes, but	No	No
Liquidity	Yes	Yes	Yes, but power might argue

	Put back the auction schedule as currently envisaged in the MSR proposal	Put directly in the MSR	Other options available: The ASR solution
Balancing market Medium term	Yes	Yes	Yes
Balancing market long term	No	No	No
Today's compensation level inadequate to price level risk due to MSR	Yes	Yes	Less after 2020
Solving hedging need and hedging need change	No, as backward looking	No, as backward looking	No, as backward looking
MSR solving new recession	No	No	No

EUA price changes from Point Carbon's (PC) base case scenario.

	Average price change 2014-2020 (PC's Base Case; € 8.4)	Average price change 2021-2030 (PC's Base Case; € 27.8)
Current status without MSR compared to PC's scenario with MSR	- 8 % (€ 7.7)	- 35% (€ 18.1)
Transfer of 900 million allowances to MSR compared to PC base base	16 % (€ 9.7)	19% (€ 33.2)
Combining early start (2018) and transfer of 900 million to MSR compared to PC base case	38 % (€ 11.6)	27 % (€ 35.3)