The MSR: Ceiling and floor triggers

CEPS Task Force: EU ETS Market Stability Reserve, 14 May 2014

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Remider: triggers in the EC proposal

• Trigger for removing allowances
  – 12% of oversupply will be taken out
  – For example: 2 billion surplus x 12% = 240 Mt to MSR
  – Lower trigger for removing allowances = 833 Mt
    • 833 Mt x 12% = 99.9 Mt, the minimum transfer to MSR is 100 Mt

• Trigger for releasing allowances = 400 Mt surplus
  • 100 Mt will be released if oversupply falls below 400 Mt
Why triggers at these levels?

• Q&A document: figures are within the ranges of what stakeholders have suggested to allow an “orderly functioning of the market”

• A surplus of 833 Mt is in line with hedging needs
  – With the current power stack and hedging patterns we assume a hedging demand of about 900 Mt/year

• Hedging demand will decrease towards 2030
  – With forward fuel prices (IEA projections post-2020) we assume a hedging demand of 700 Mt by 2030
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
Thank you very much for your attention!
Price forecast: key assumptions (delete?)

• 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
# Heding profiles

<table>
<thead>
<tr>
<th>Region</th>
<th>27% RES</th>
<th>30% RES</th>
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<tbody>
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<td>Central west</td>
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<td>324</td>
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<tr>
<td>East</td>
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<td>282</td>
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<td>103</td>
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<tr>
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<td>94</td>
<td>79</td>
</tr>
<tr>
<td>TOTAL</td>
<td>889</td>
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