The MSR: Ceiling and floor triggers

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

Stig Schjølset, Head of Carbon Analysis

POINT CARBON

THOMSON REUTERS

Remider: triggers in the EC proposal

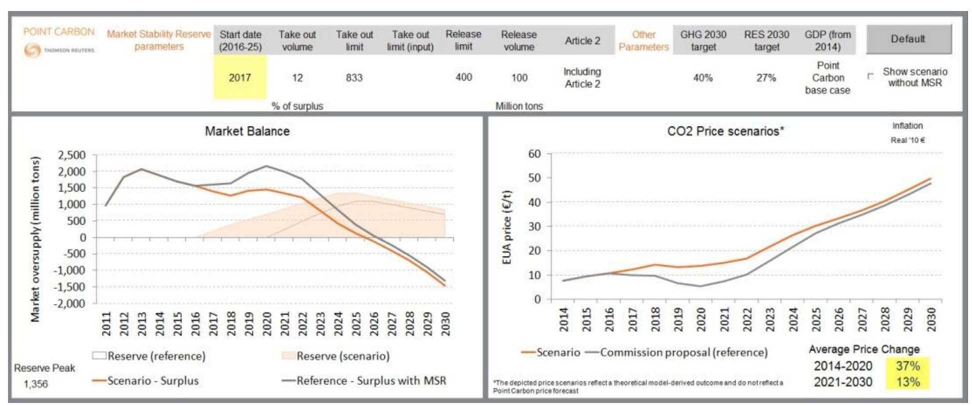
- Trigger for removing allowances
  - 12% of oversupply will be taken out
  - For example: 2 billion surplus x 12% = 240 Mt to MSR
  - Lower trigger for removing allowances = 833 Mt
    - 833 Mt x 12% = 99.9 Mt, the minimum transfer to MSR is 100 Mt
- Trigger for releasing allowances = 400 Mt surplus
    - 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 hegding needs
  - With the current power stack and hegding patters 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 parametres 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

		27% RES	30% RES
	2014	2025	2025
Central west	346	324	293
East	186	282	257
Nordic	26	26	24
Iberia	76	58	56
UK	160	103	94
Italy	94	79	74
TOTAL	889	873	798

DISCLAIMER

The data provided in this report were prepared by Thomson Reuters Point Carbon's Trading Analytics and Research division. Publications of Thomson Reuters Point Carbon's Trading Analytics and Research division are provided for information purposes only. Prices are indicative and Thomson Reuters Point Carbon does not offer to buy or sell or solicit offers to buy or sell any financial instrument or offer recommendations to purchase, hold or sell any commodity or make any other investment decision. Other than disclosures relating to Thomson Reuters Point Carbon, the information contained in this publication has been obtained from sources that Thomson Reuters Point Carbon believes to be reliable, but no representation or warranty, express or implied, is made as to the accuracy or completeness of this information. The opinions and views expressed in this publication are those of Thomson Reuters Point Carbon and are subject to change without notice, and Thomson Reuters Point Carbon has no obligation to update either the opinions or the information contained in this publication.

Thomson Reuters Point Carbon's Research and Forecasts division receives compensation for its reports. Thomson Reuters Point Carbon's Research and Forecasts division reports are published on a subscription basis and are not issued at the request of any client of Thomson Reuters Point Carbon.

POINT CARBON

THOMSON REUTERS