Volume effects of the “Market Stability Reserve”

Allowances in Circulation and Volume Shifted to MSR

Number of allowances in circulation
Volume effects of the “Market Stability Reserve”

Allowances in Circulation and Volume Shifted to MSR

- Estimate for Utility hedging demand + industrial hedging and banking demand
- Impact Assessment of EU-COM (p. 21)

Allowances in Circulation - Minus utility hedging demand - Minus Industrial banking demand = “Surplus”

Volume Shifted to Reserve

Number of allowances in circulation

Low estimate

High estimate
Volume effects of the “Market Stability Reserve”

Allowances in Circulation and Volume Shifted to MSR

- Estimate for Utility hedging demand
- + industrial hedging and banking demand

Impact Assessment of EU-COM (p. 21)

Once Demand outstrips Supply of EUA, then the missing volume has to be made up by emission reductions via energy efficiency, fuel switching, renewables etc.

Prices will rise until the higher prices lead to the necessary emission reductions to balance the market.

Tschach Solutions now part of ICIS
Utility hedging will trigger the “MSR”

Allowances in Circulation and Volume Shifted to MSR

- Estimate for Utility hedging demand
- + industrial hedging and banking demand
- Impact Assessment of EU-COM (p. 21)

Volume Shifted to Reserve

Number of allowances in circulation

Lower/Upper MSR Thresholds
Reserve coming back when emissions are very low

Allowances in Circulation and Volume Shifted to MSR

Volume Shifted to Reserve

Number of allowances in circulation

EU-COM

Hedging demand decreasing over time as emissions decrease
Important issues for Market Stability Reserve

- Consider price-insensitive utility hedging demand (industry as well)
- What happens if values are not chosen correctly (or behaviour changes over time)
- How can the impact of incorrect assumptions be minimized?
- Treatment of backloading volumes important to avoid excessive price fluctuation
- Forward looking measures in case of structural supply volatility (e.g. NER leftover), i.e. can these effects be „stabilized“ ex ante by directly shifting into the reserve?
Alternative structure of “MSR”

Allowances in Circulation and Volume Shifted to MSR

- EU-COM
- ICIS-TS

Estimate for Utility hedging demand + industrial hedging and banking demand

Impact Assessment of EU-COM (p. 21)

Volume Shifted to Reserve

Number of allowances in circulation
Alternative structure of “MSR”

Allowances in Circulation and Volume Shifted to MSR

- EU-COM
- ICIS-TS
- Alternative

Estimate for:
- Utility hedging demand
- + industrial hedging and banking demand

Impact Assessment of EU-COM (p. 21)

Volume Shifted to Reserve

Number of allowances in circulation
Thank you!

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