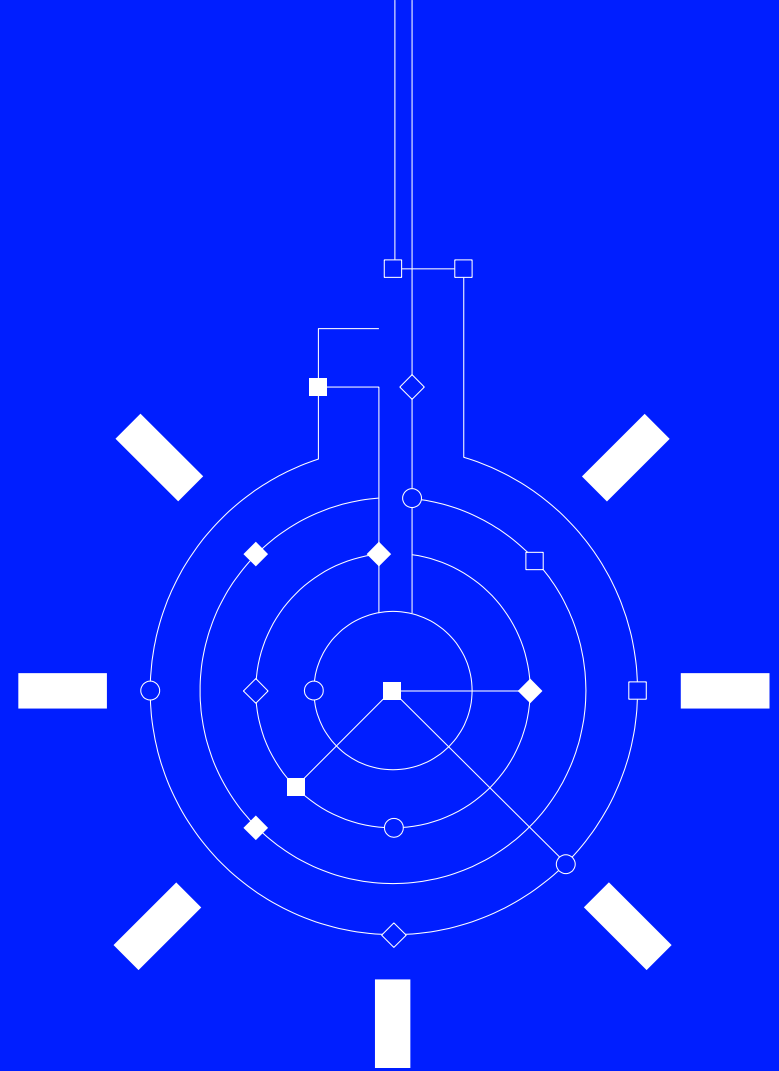


# What role for the MSR in times of corona and ETS revamp?

Hæge Fjellheim

ERCST webinar 16 June 20202

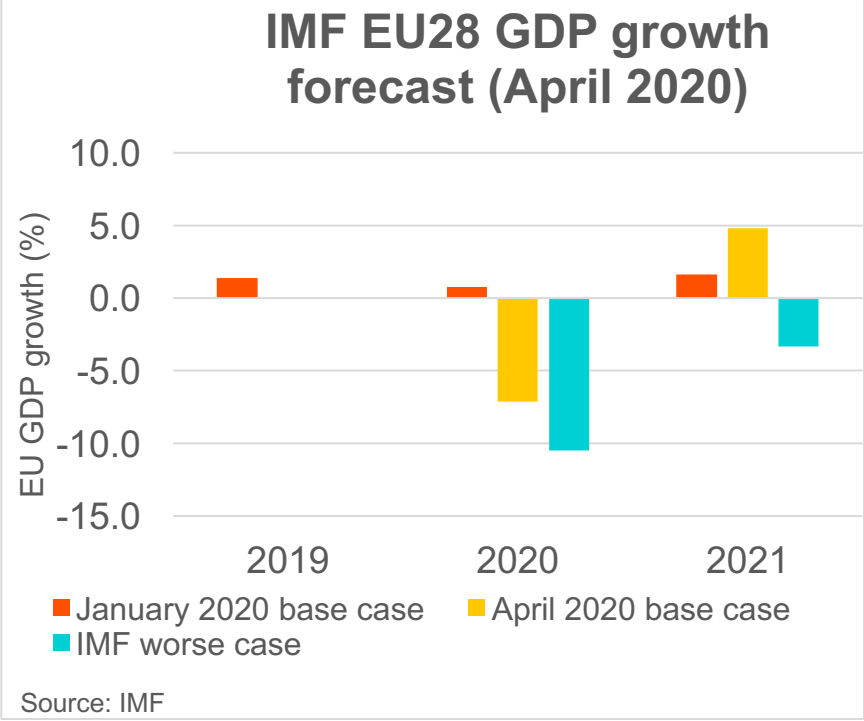
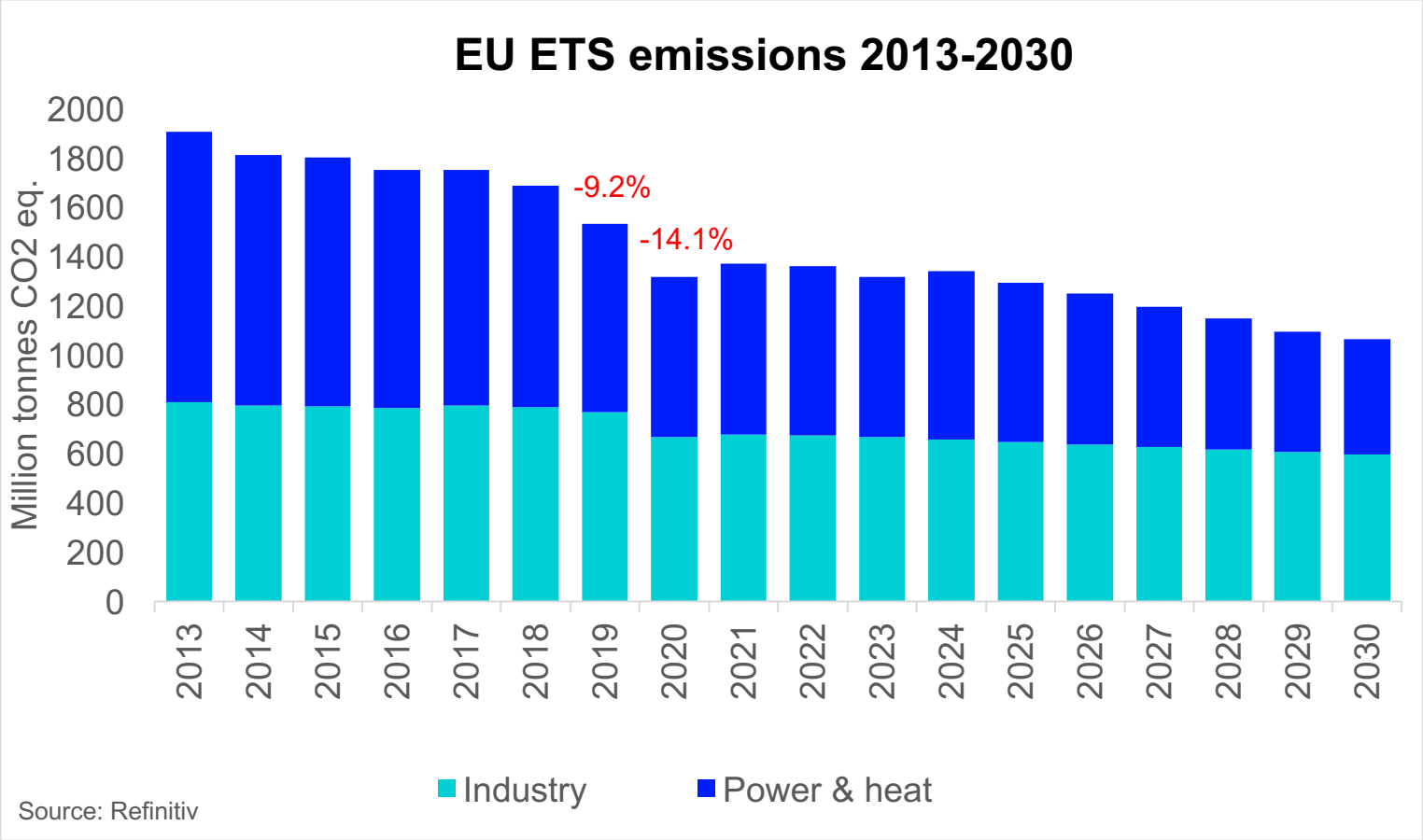


# Agenda

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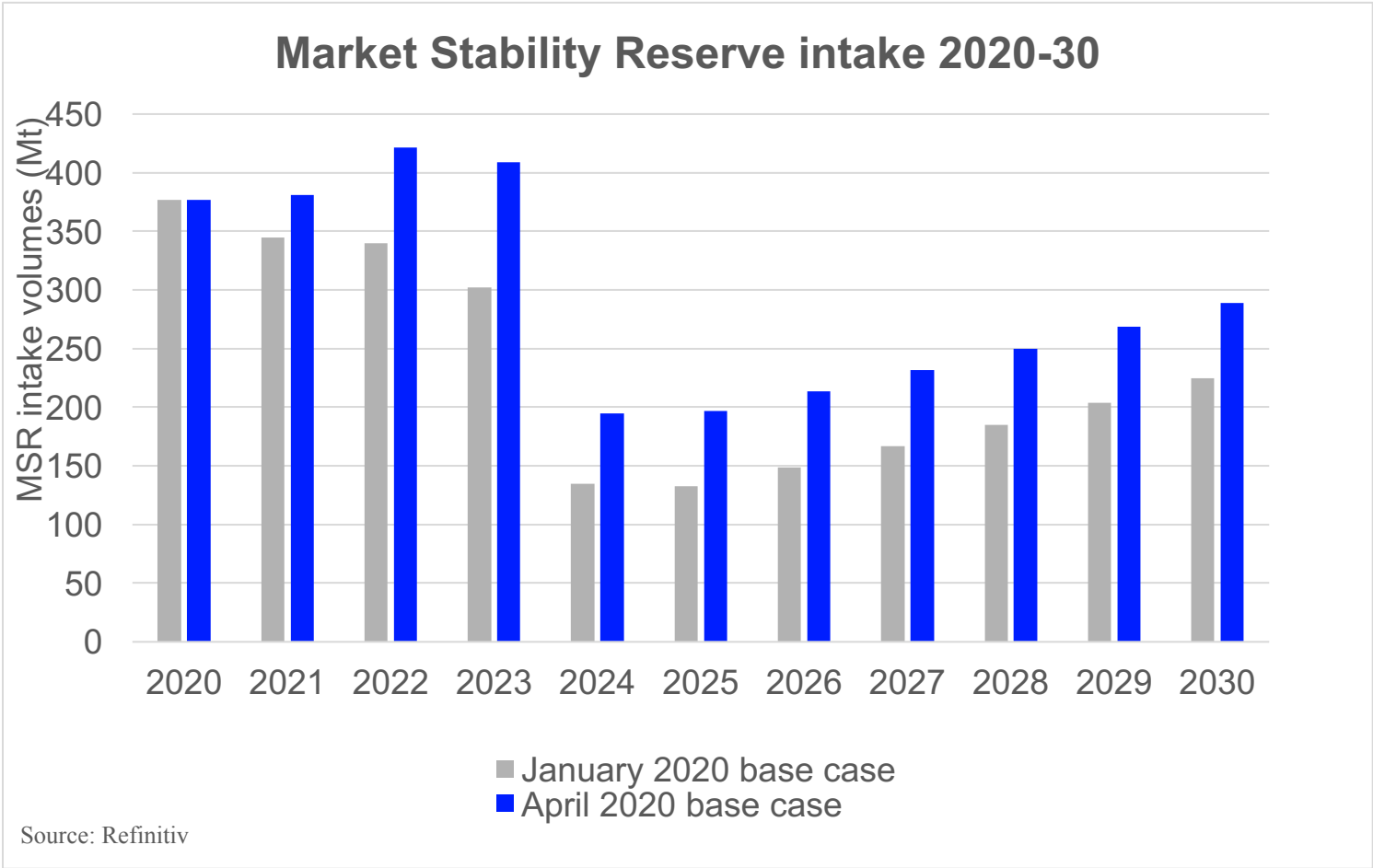
1. How will the Market Stability Reserve cope with COVID-19?
2. How will the invalidation of allowances from the Market Stability Reserve be addressed in the context of 2030 climate ambition?

# Rapid greening of Europe's power sector, emissions drop amplified by COVID-19



\* Assumes current climate and energy policy framework

# Massive additional intake to the MSR



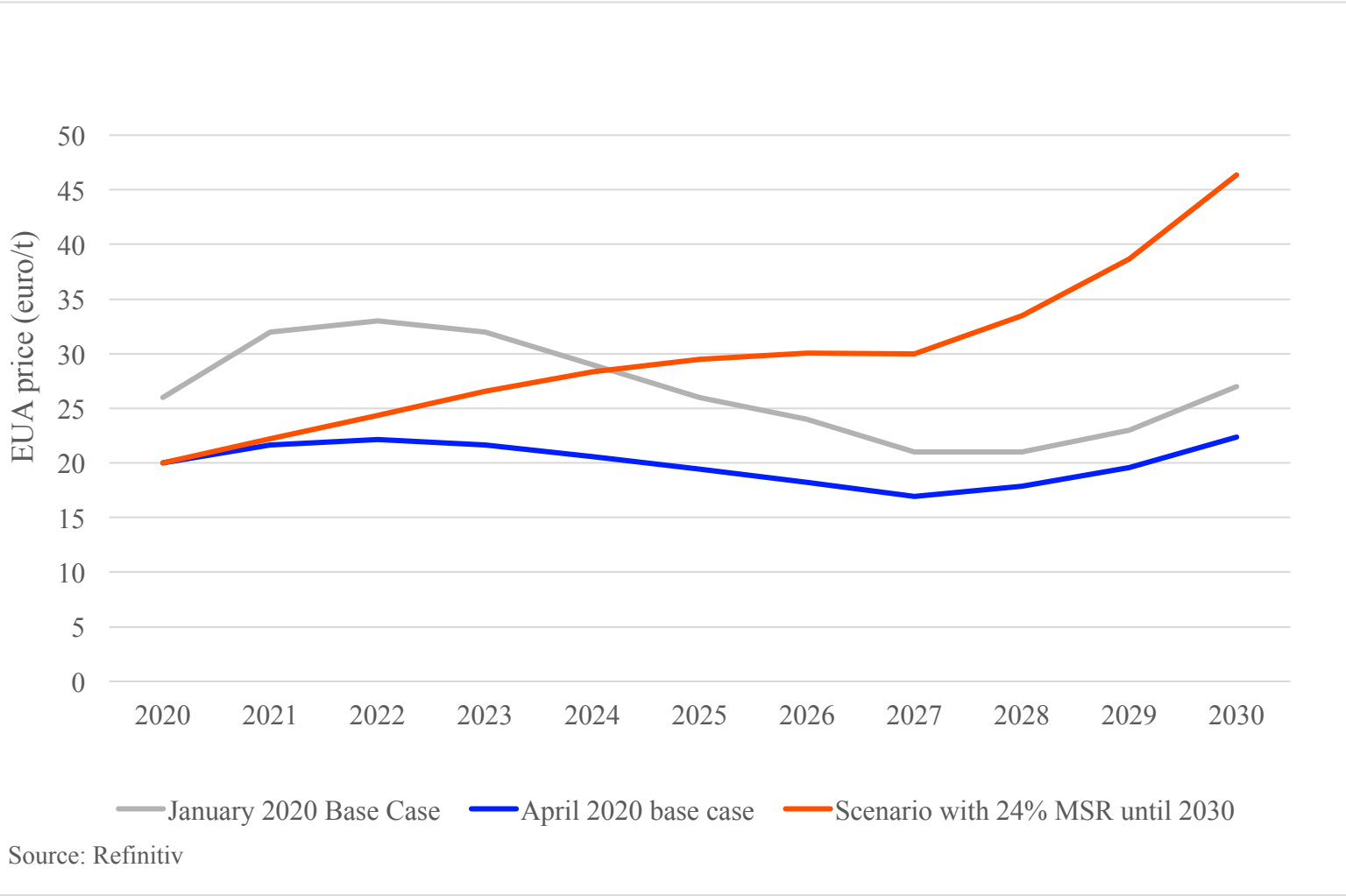
- Lower emissions → higher market surplus (TNAC) → larger intake to the reserve

- Intake until 2024: 1.6 Gt + 225 Mt

- Intake until 2030: 3.2 Gt + 670 Mt

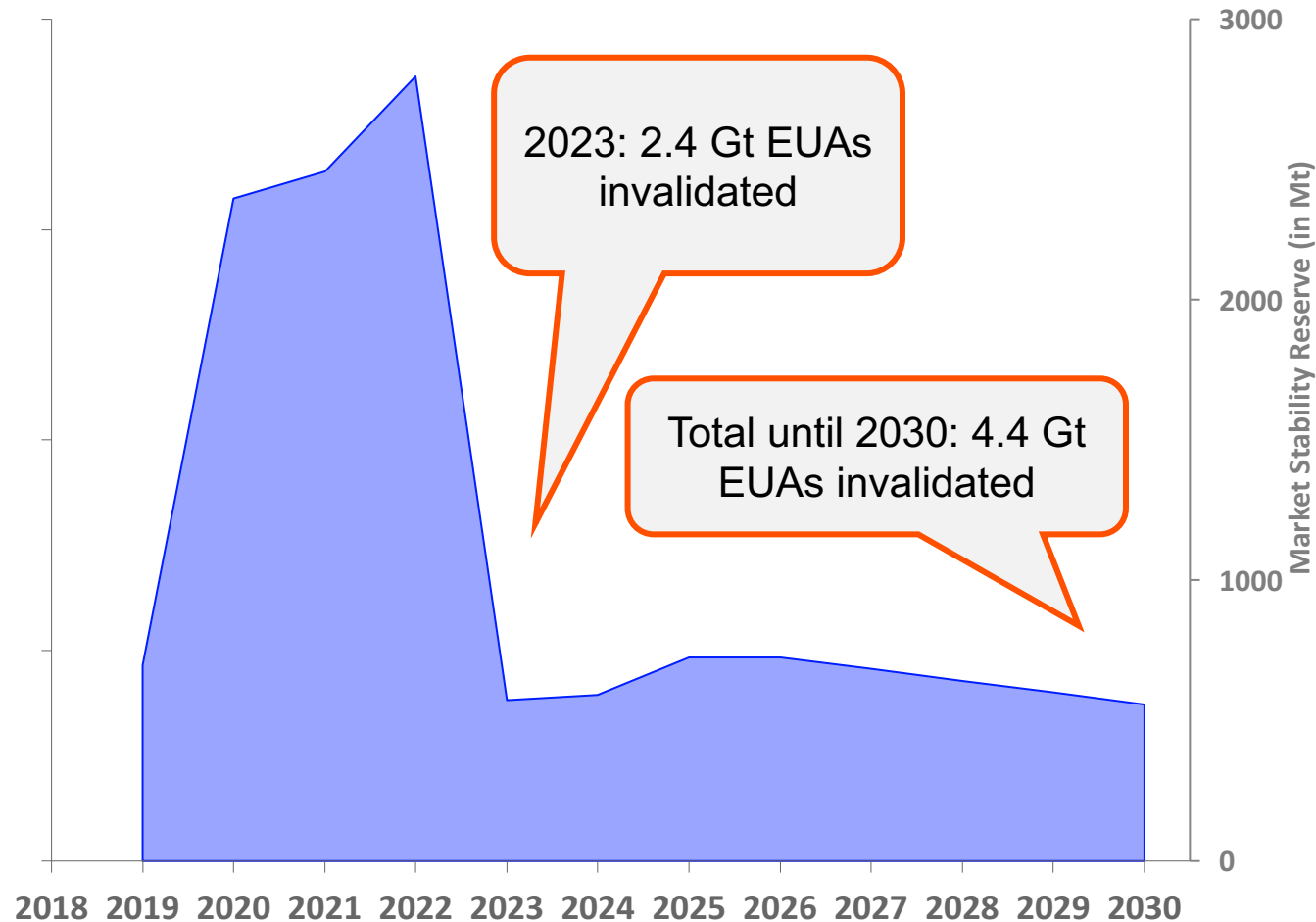
→ The Market Stability Reserve will absorb additional surplus and offset some of the effects of lower emissions, but only partially.

# Carbon price outlook revised downwards due to COVID-19, MSR to the rescue?



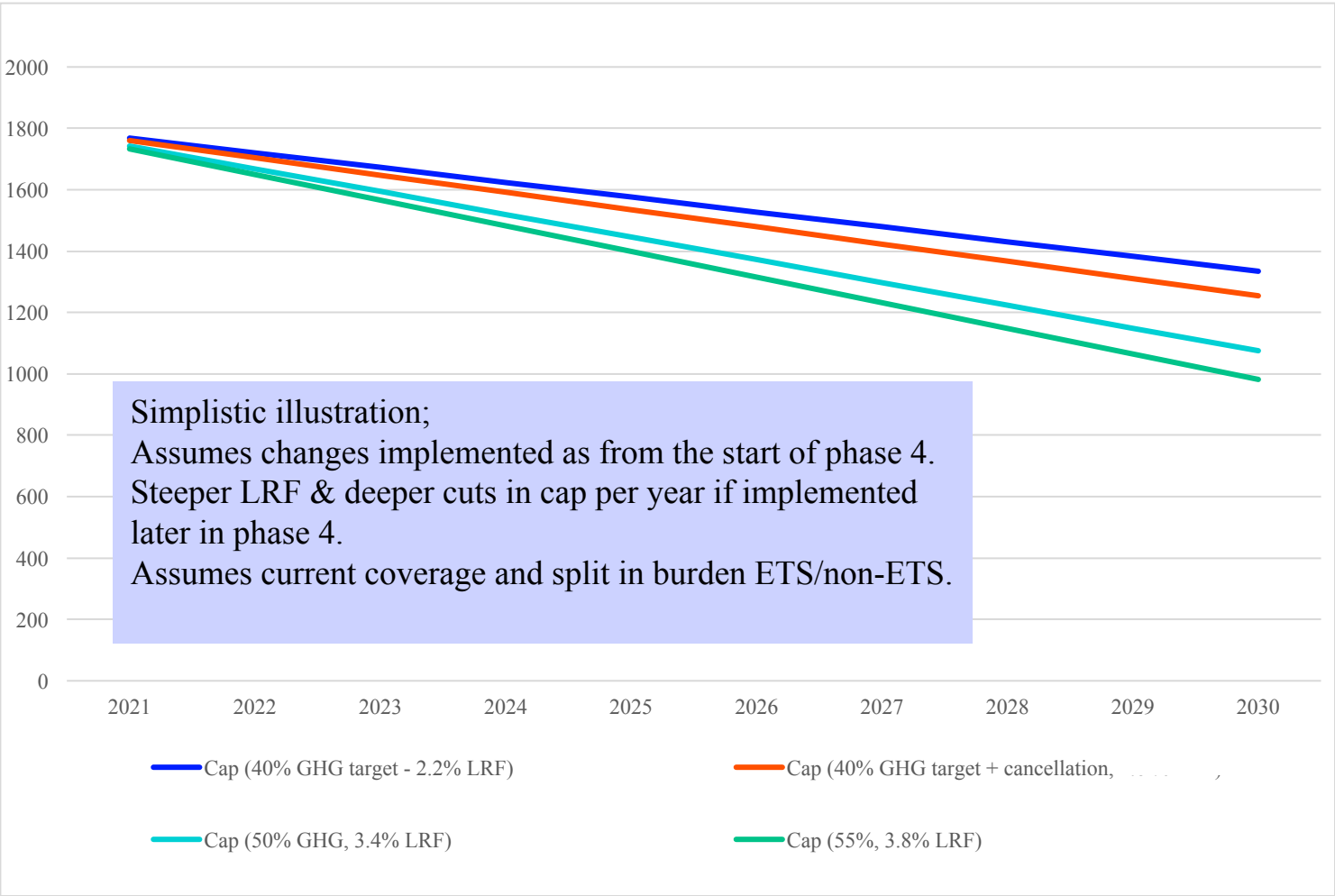
- Lowered EUA expectation by on annual 10€ for the first three years of phase 4 due to **elimination of supply squeeze**.
- Overall for the period 2021-2030, we expect EUA price to **average €20/t**, ~7€/t lower than our previous price forecast.
- MSR revision to the rescue?

# The MSR: From cap neutral to vehicle for higher ambition



- New provision in 2018 ETS review: From 2023 onwards, allowances in the MSR beyond previous years' auction volume are **invalidated**.
- MSR originally designed as a **cap neutral mechanism**; what comes in, must go back!
- But with allowances removed from the market balance for good, **higher long-term ambition** is embedded in the current policy framework.

# Invalidation from the MSR veils higher long term ambition



- 40% emissions reduction target: 2.2% Linear Reduction Factor (LRF) from 2021 onwards (48 Mt/yr).
- 50% emission reduction target: 3.4% LRF from 2021 onwards (74 Mt/yr).
- 55% emission reduction target: 3.8% LRF from 2021 onwards (83 Mt/yr).
- The hidden gem? Invalidation of 4.4Gt from Market Stability Reserve spells increased ambition.

## More questions than answers

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- The MSR is a **powerful tool** to balance the market. But with a tighter overall cap reduction factor aligned with higher 2030 ambition and in an environment of carbon prices holding up even during the COVID-19 crisis, **how much room for manoeuvre** will there actually be to tighten the MSR parameters?
- To what degree and how will the **invalidation of allowances from the MSR** be addressed in the 2030 ambition discussion and «counted» towards a tighter LRF?
- And procedurally; to what degree will the MSR discussion be embedded in the 2030 ambition proposal in September, rather than in the ETS review proposal June 2021?



# Thank you!

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