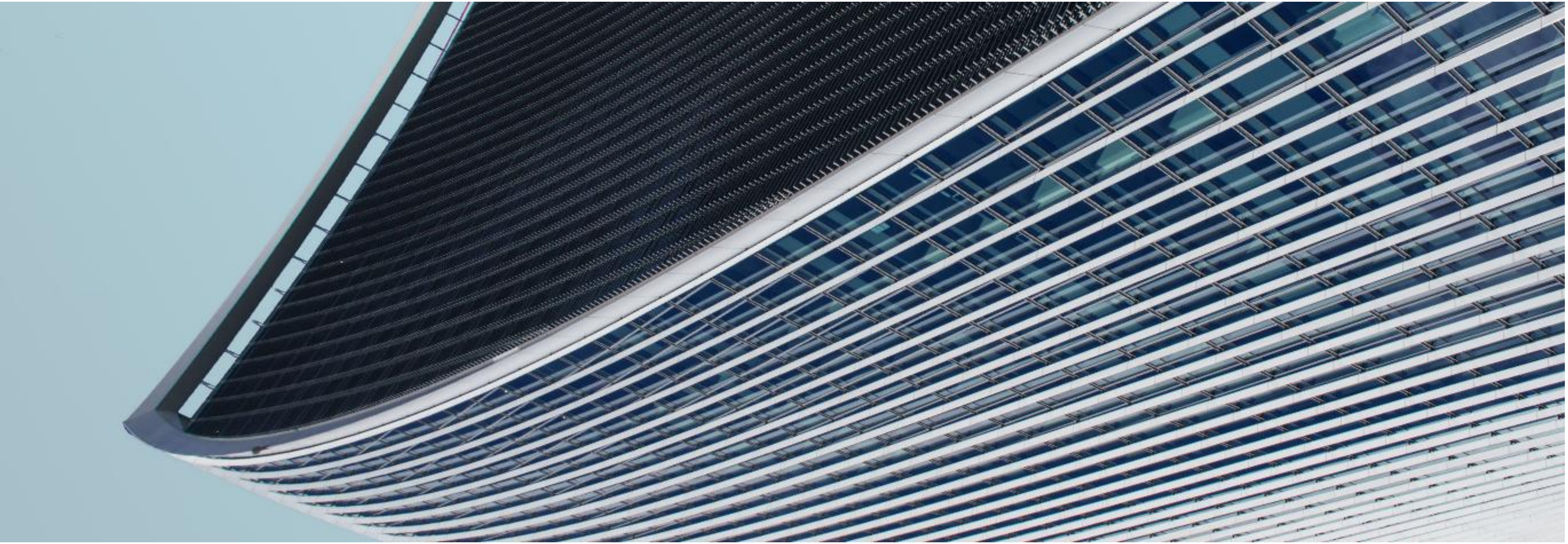
EMISSIONS

Emissions | December 2020

MSR workshop: market participants and the importance of surplus



MSR is a tool to manage the level of surplus in the EU ETS

- Surplus is important for the derivatives market to function orderly.
- Market-held surplus is what provides the market with a cushion in responding to demand or supply shocks.
- The market has many natural buyers, but only one natural seller (which is only in the spot market).

Utility hedging

Compliance Participants

Industrial hedging

Proprietary trading

Allows companies to manage risks related to future carbon prices / other price exposures

Allows companies to express proprietary views on future of carbon prices

Provides liquidity and intermediation

Allows investors to invest in carbon

Enhances price discovery

Utility hedging – policies flexible, but volumes are declining

Utility hedging profiles

% of power portfolio

	Uniper		EnBW	RWE	CEZ	Enel		Engie
	Nordic	C. Europe	Europe	Europe	All	Italy	Spain	CWE
	%	%	%	%	%	%	%	%
Q3 20								
2021	85	95	50-70	90	77	85	96	70
2022	55	80	20-40	90	50	26	43	41
2023				90	21			21
q/q chg								
Y+1	5	10	-	-	6	18	4	6
Y+2	15	10	10	-	8	3	13	6
y/y chg								
Y+1	25	10	(5)	-	(1)	20	6	(6)
Y+2	45	40	5	-	2	26	43	(9)

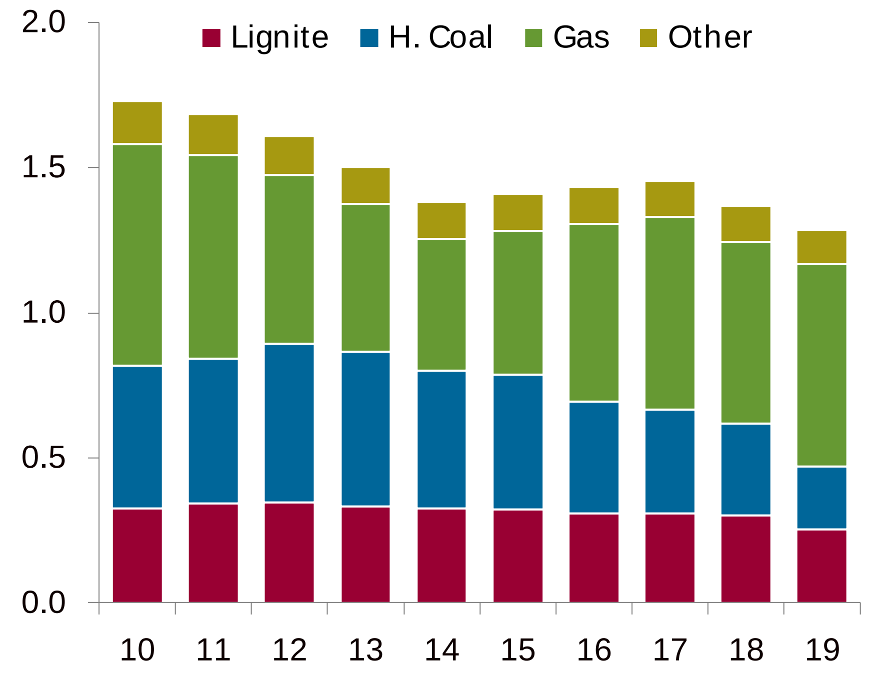
Most utilities are highly hedged for next year (Y+1) (data as of end-Q3 20).

Greater utility-by-utility variation for Y+2 but there has been a general increase in Y+2 hedging levels in 2020

Hedging profiles tend to be relatively stable, but do show change over time.

Thermal power generation

Thousand TWh



Coal and lignite generation falling, gas gaining. Thermal power assets owned by companies with smaller balance sheets.

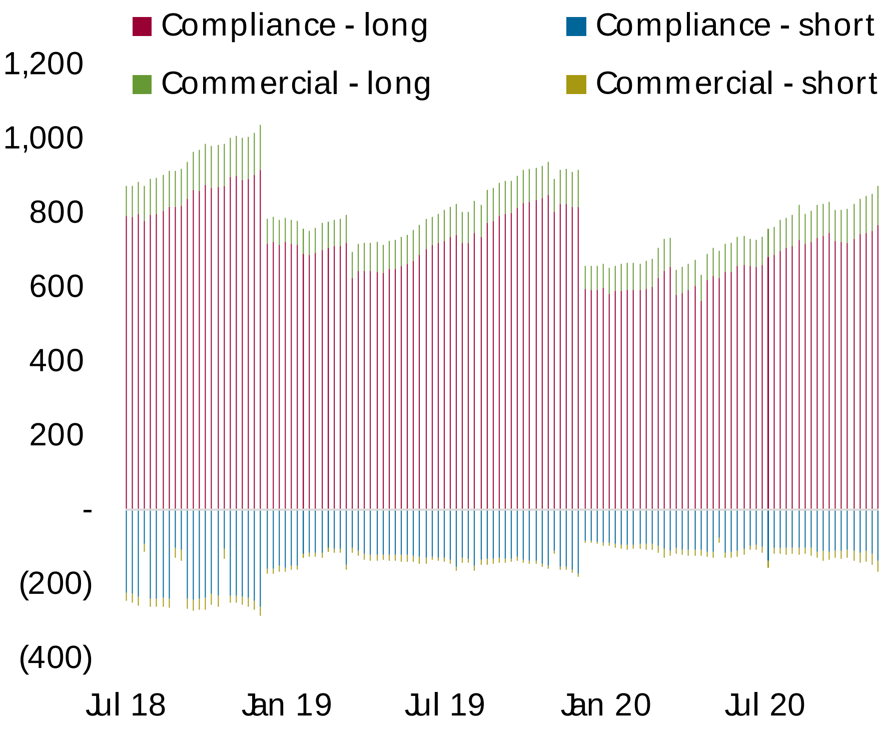
Source: Company websites, Agora, Energy Aspects

Energy Aspects

Derivative positioning – where some of the surplus goes

Derivative positions – compliance and commercial

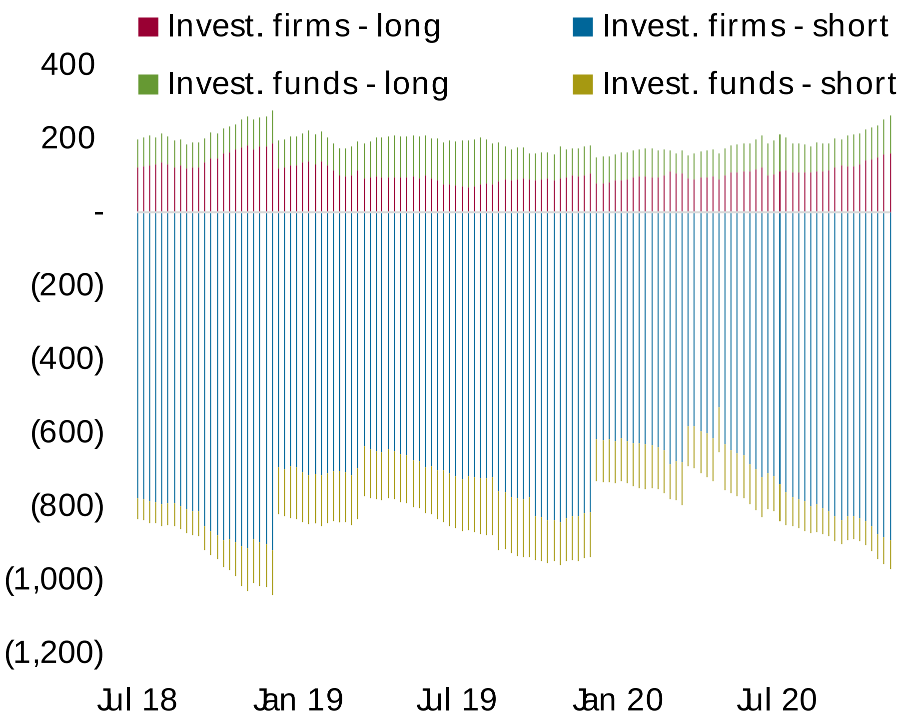
Mt



Hedging requirements for derivatives around 900–1,000 Mt gross, 700 – 800 Mt net in 2020.

Derivative positions – investment firms and funds

Mt



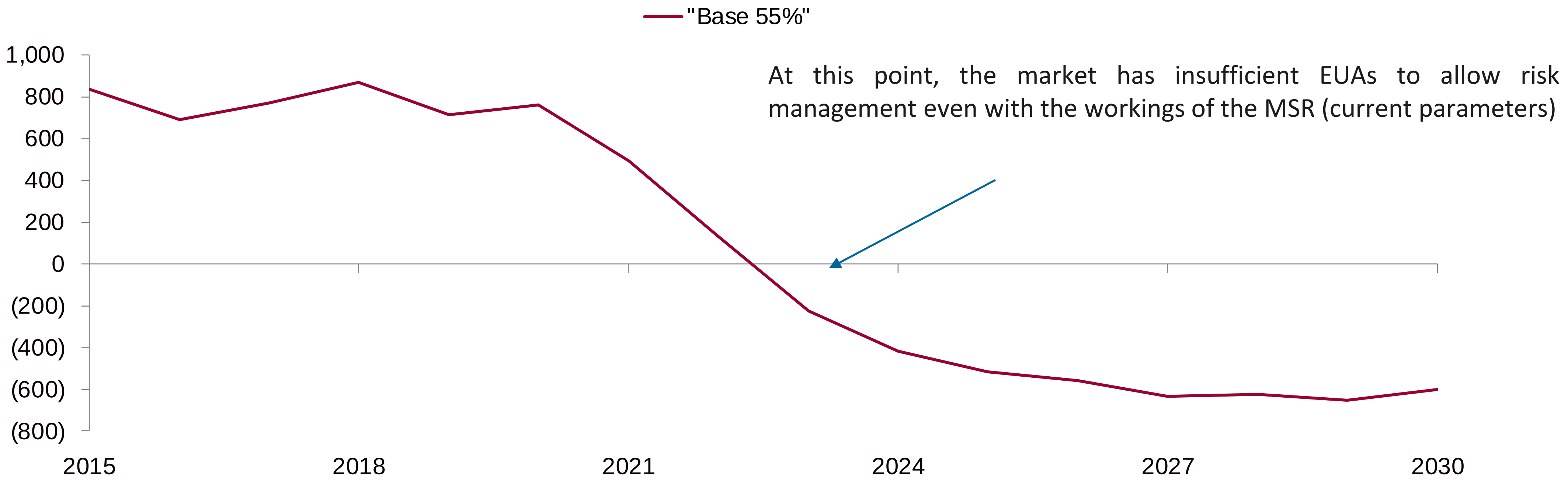
Investment firms net short as they provide intermediation. Funds only moderately long, by around 23 Mt, but could grow.

Source: ICE, Energy Aspects

Derivative positioning – moving pieces

Hedging balance (TNAC minus surplus needed for hedges)

Mt



Hedging balance could become negative far before TNAC hits zero.

Source: EU TL, Energy Aspects

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