ETS evolution & its impact on fuel switching

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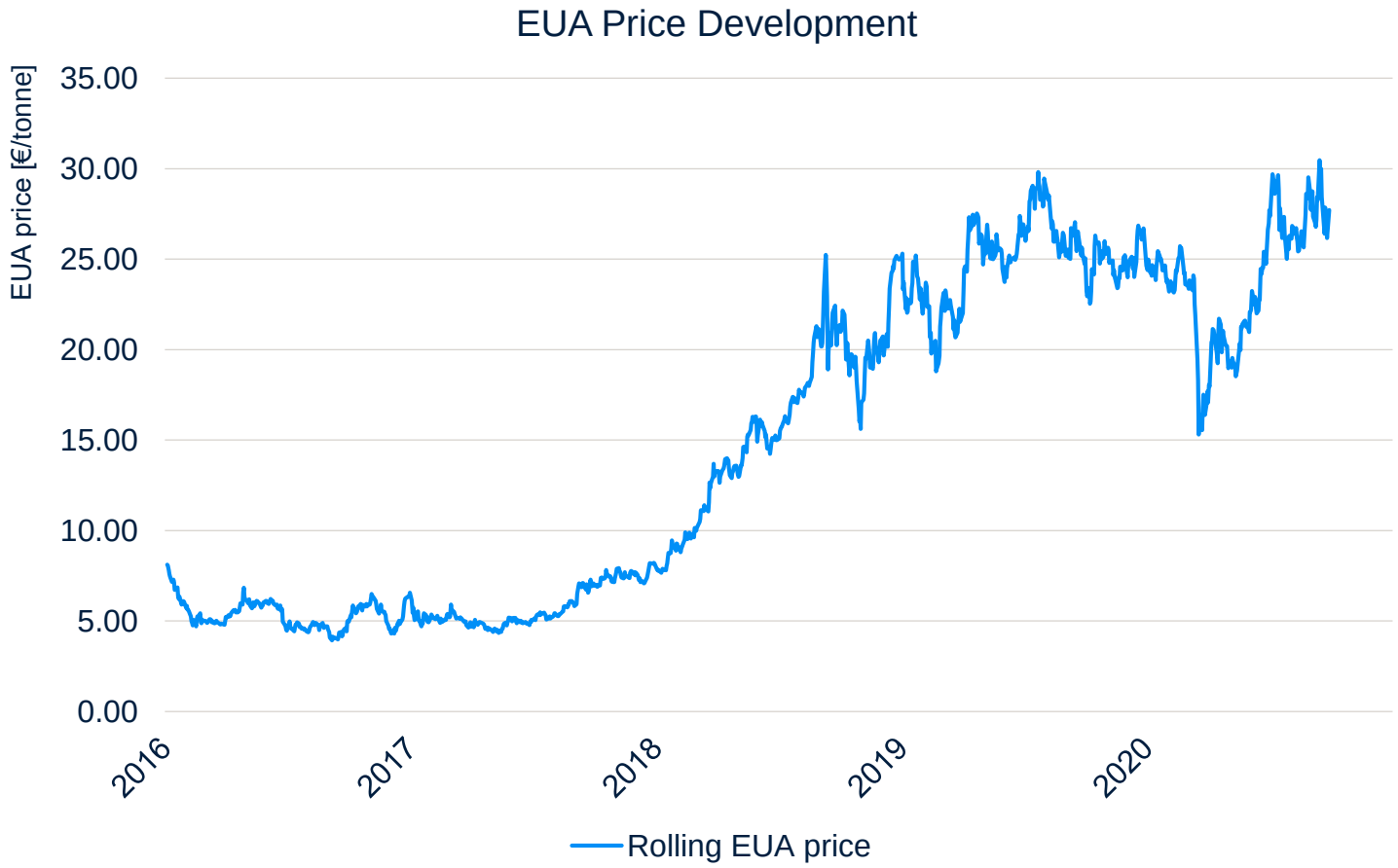
About us

ICIS is the global source of **Independent Commodity Intelligence Services** – connecting data, markets and customers to create a comprehensive, trusted view of global commodities markets, enabling smarter business decisions that help optimise the world’s resources.

Looking Back

The EU ETS in the last 5 years



Source: Intercontinental Exchange (ICE)

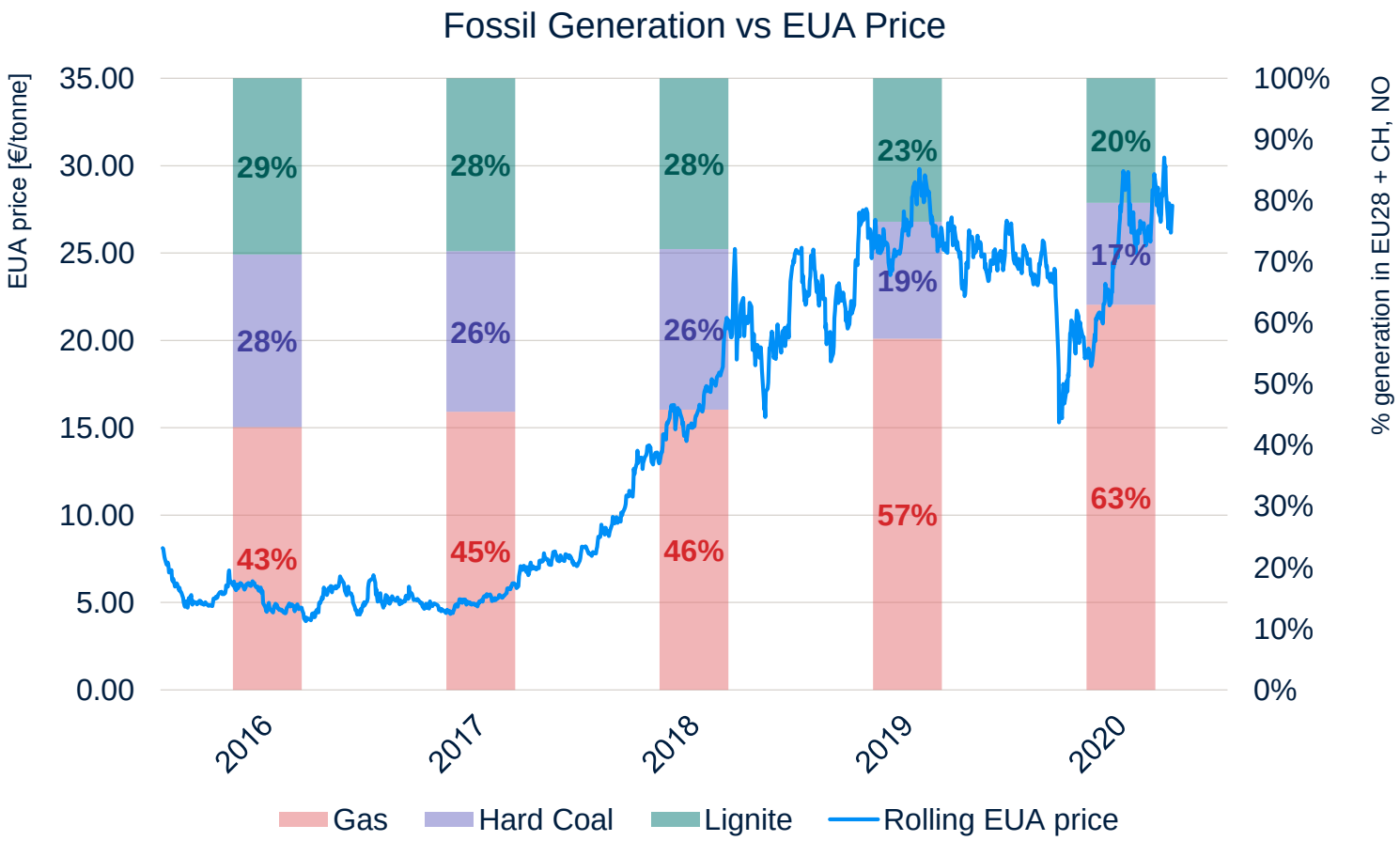
+400%

Increase in prices since 2016

Volatility

Price volatility is very high in last months, but the EU ETS saw a true V-shaped recovery from the initial COVID-19 downturn of prices

The EU ETS in the last 5 years



Source: Intercontinental Exchange (ICE), ENTSO-E

Gas

Gas-fired power generation is taking up a higher share of the total fossil generation.

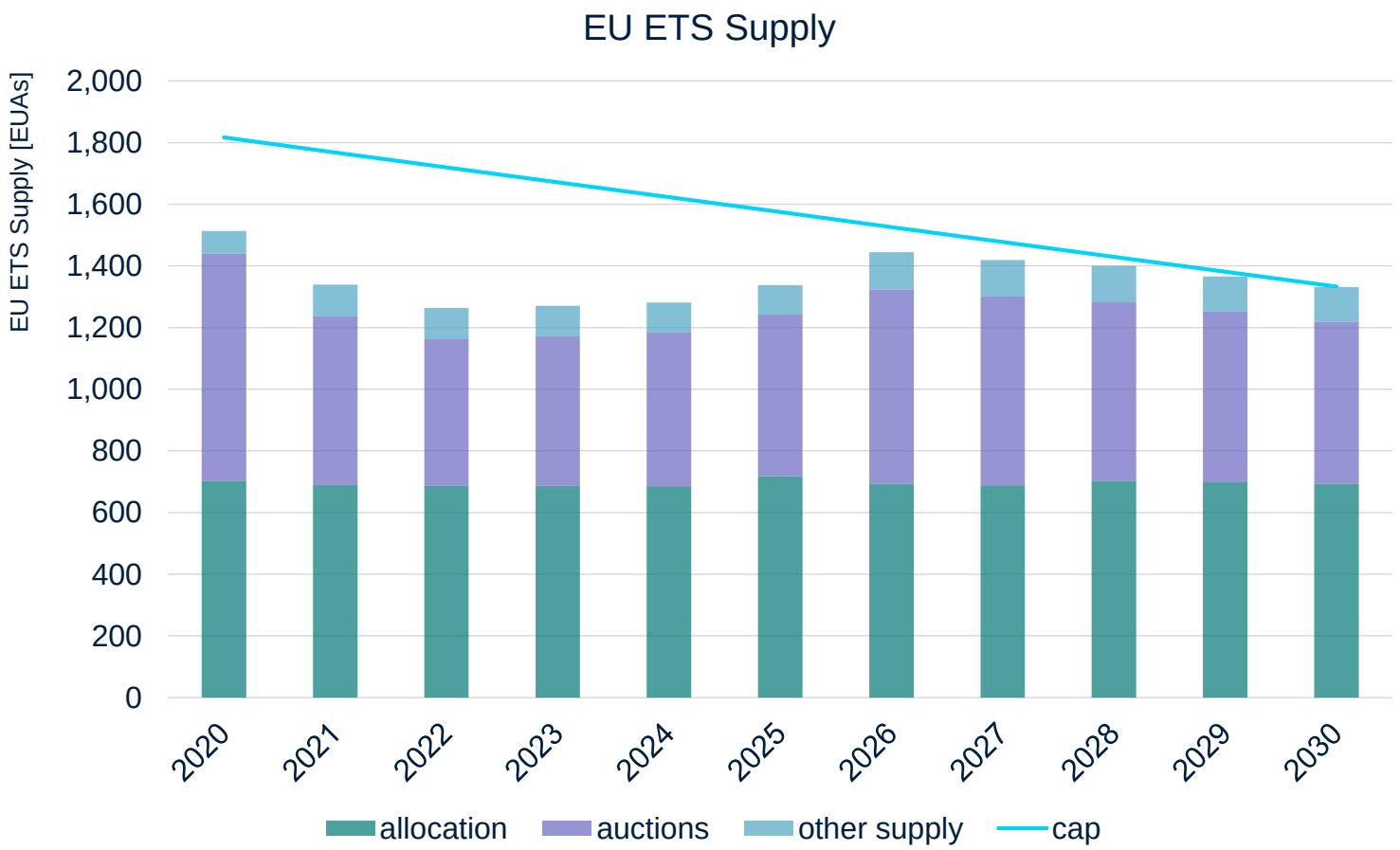
Coal & Lignite

Is losing generation share driven my EUA prices and decommissioning of coal prices

Looking Forward

The Current Legislation

The future supply of the EU ETS



Source: I·C·I·S

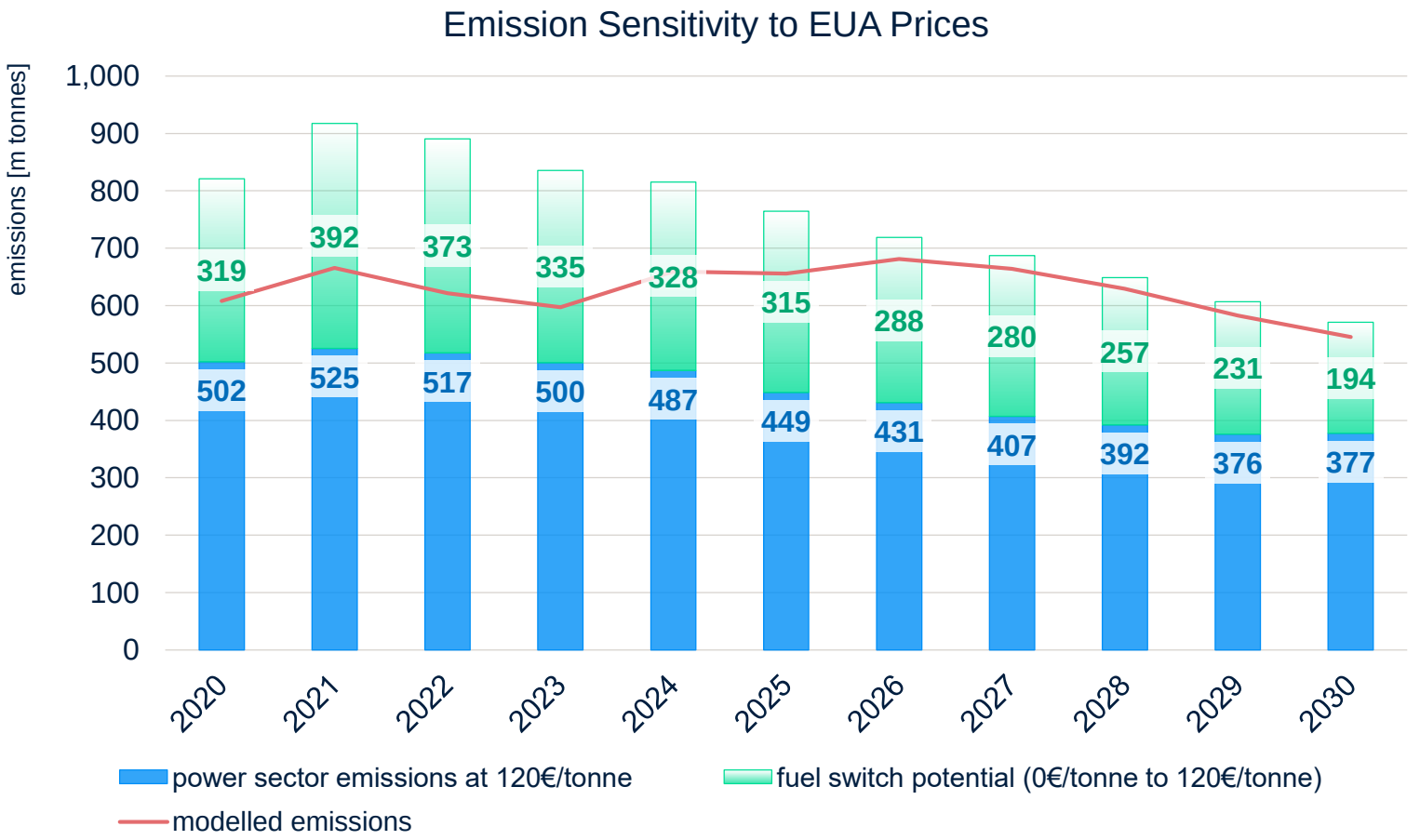
No Brexit

In this scenario, we assume no Brexit from the EU ETS, but the UK being permanently included

MSR Reform

No MSR Reform is included in this scenario and the MSR would go back to the 12% intake rate as of 2024

Fuel Switch Potential in the Power Sector



Source: I·C·I·S

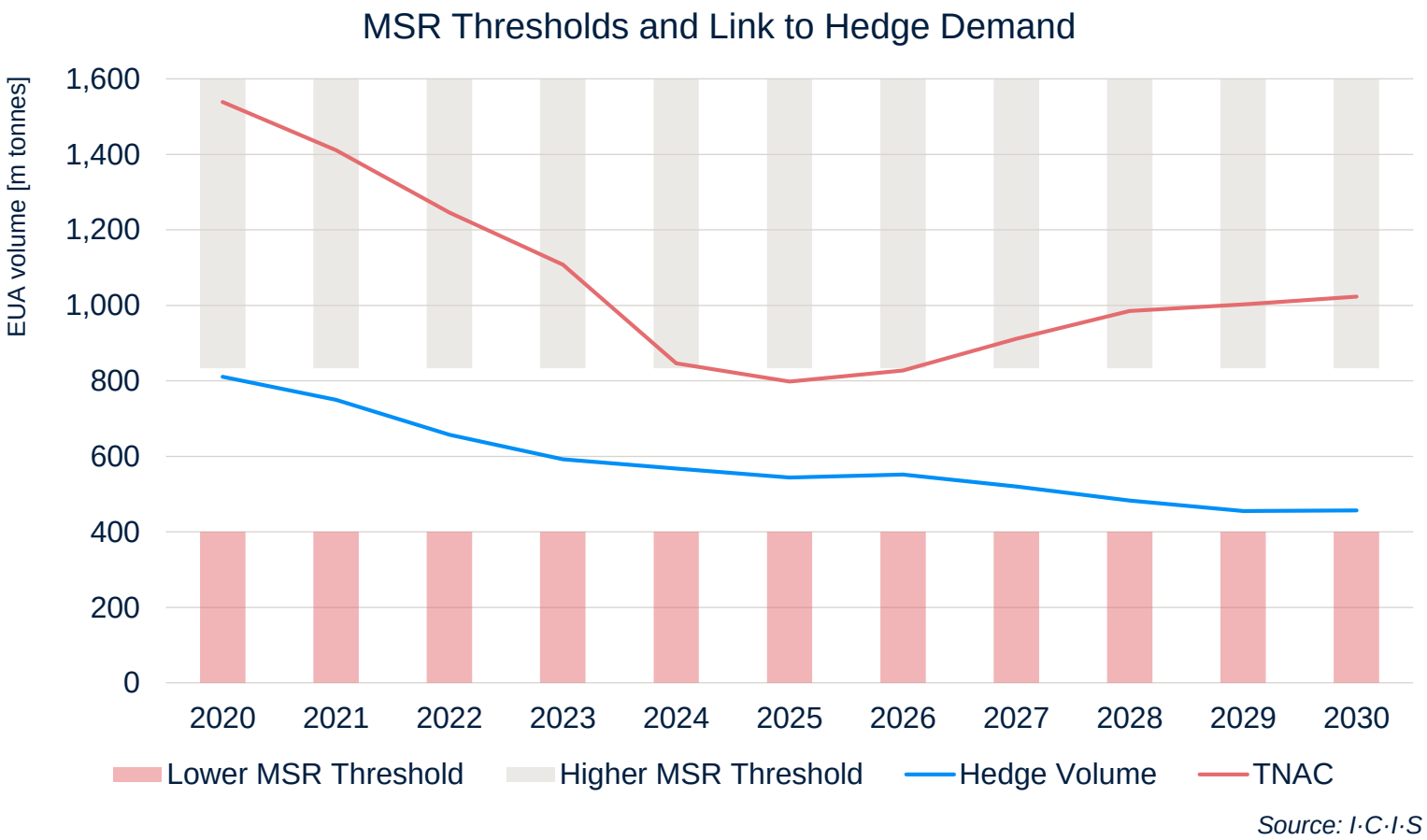
Potential

The fuel switch potential is decreasing significantly over time due to coal phase-out plans all over Europe

Ambition

The current legislation is not ambitious enough to incentivize the utilization of the fuel switch potential, but reductions are driven by overall fossil capacity reductions

Power Sector Hedge Demand compared to MSR Thresholds



Source: I·C·I·S

Hedge Volume

Is decreasing with decreasing fossil generation capacity

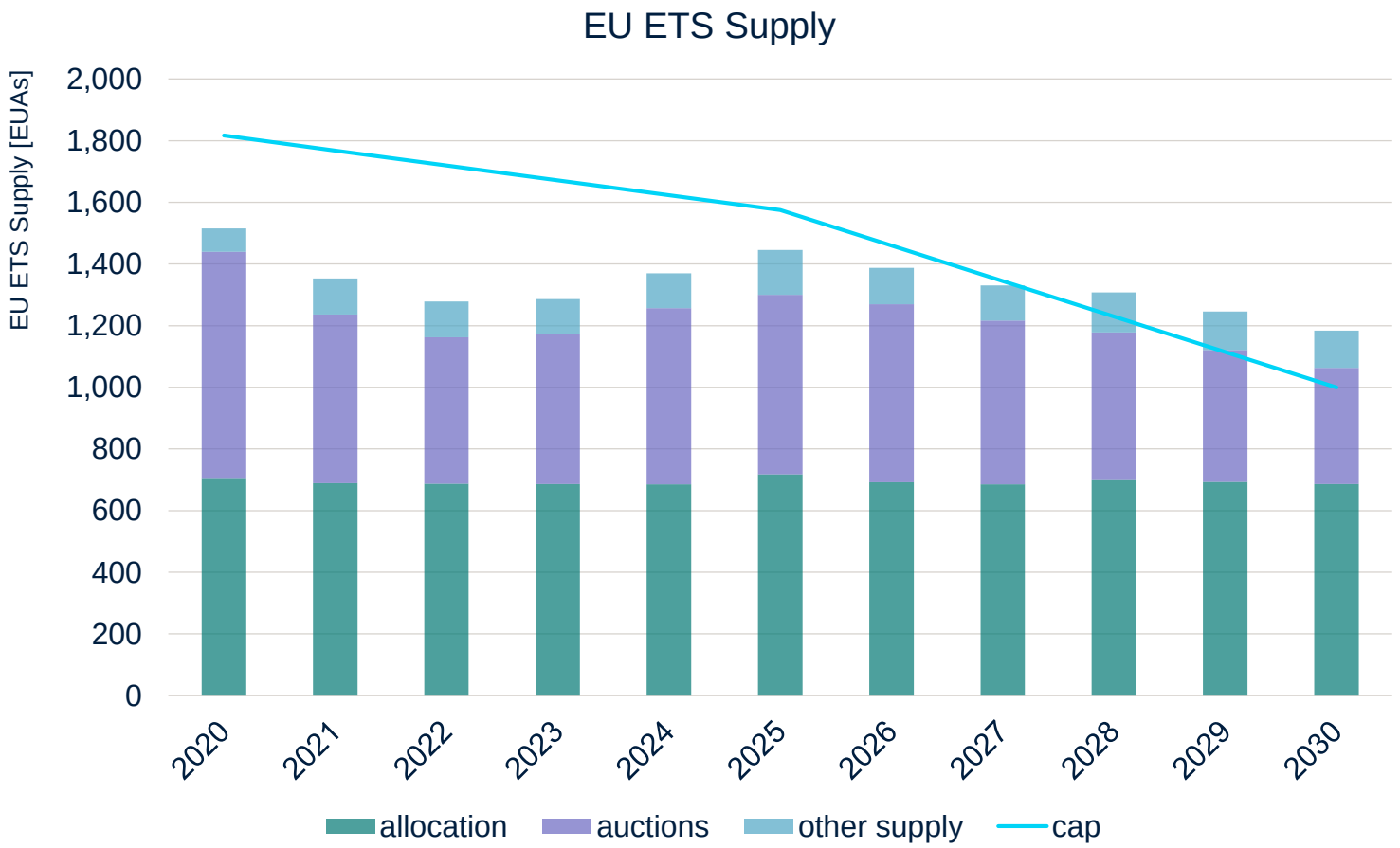
MSR Thresholds

Are not in line with hedging demand in the power sector if no MSR reform materializes

Looking Forward

A Scenario for the European Green Deal

The future supply of the EU ETS



Source: I·C·I·S

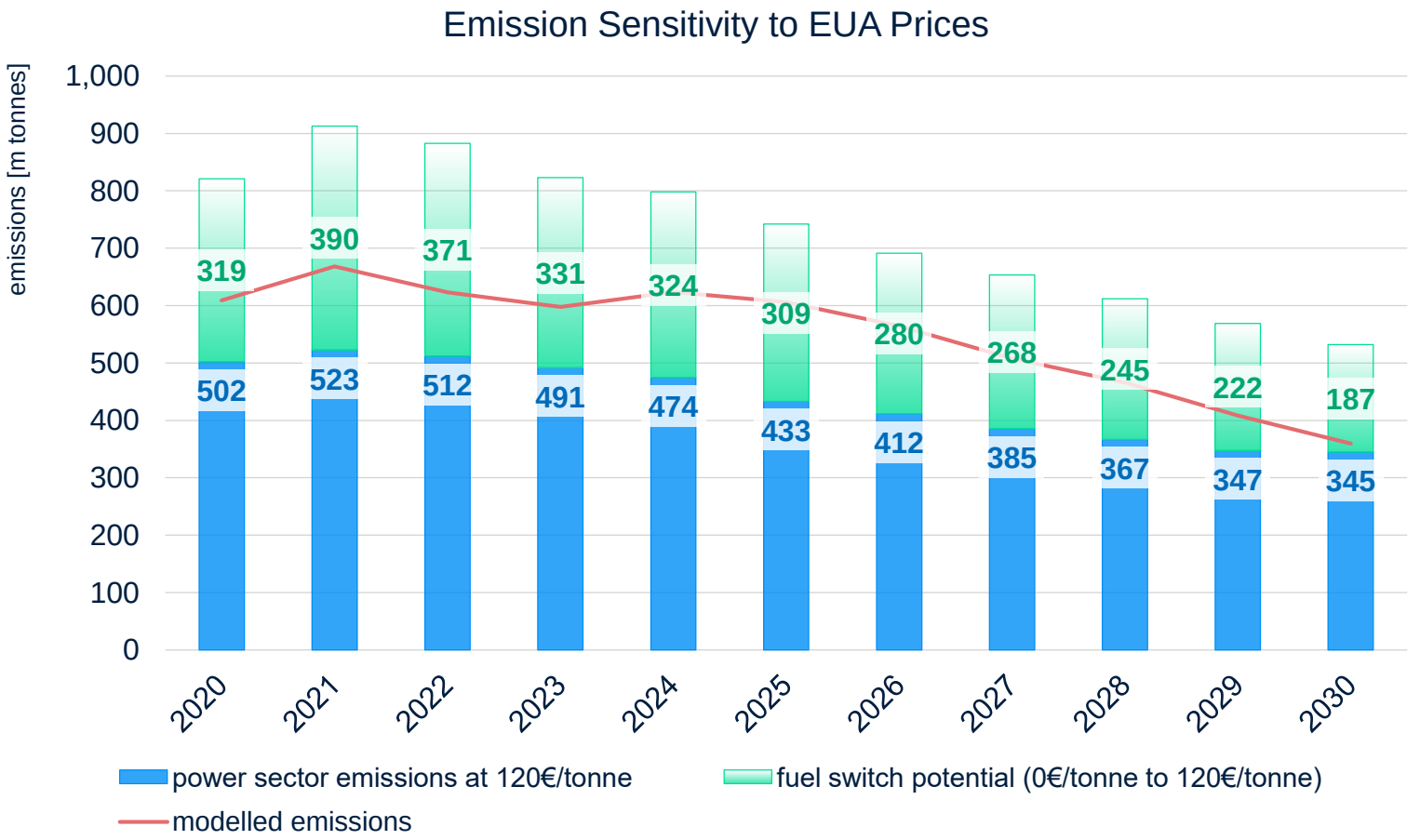
Basics

55% GHG reduction target with 58% ETS target, no Brexit from the system, all other factors stay the same; no consideration of additional sectors, border adjustment mechanisms or other discussed features

MSR Reform

In this scenario we assume an MSR reform with 18% intake rate and 556m/300m thresholds

Fuel Switch Potential in the Power Sector



Source: I·C·I·S

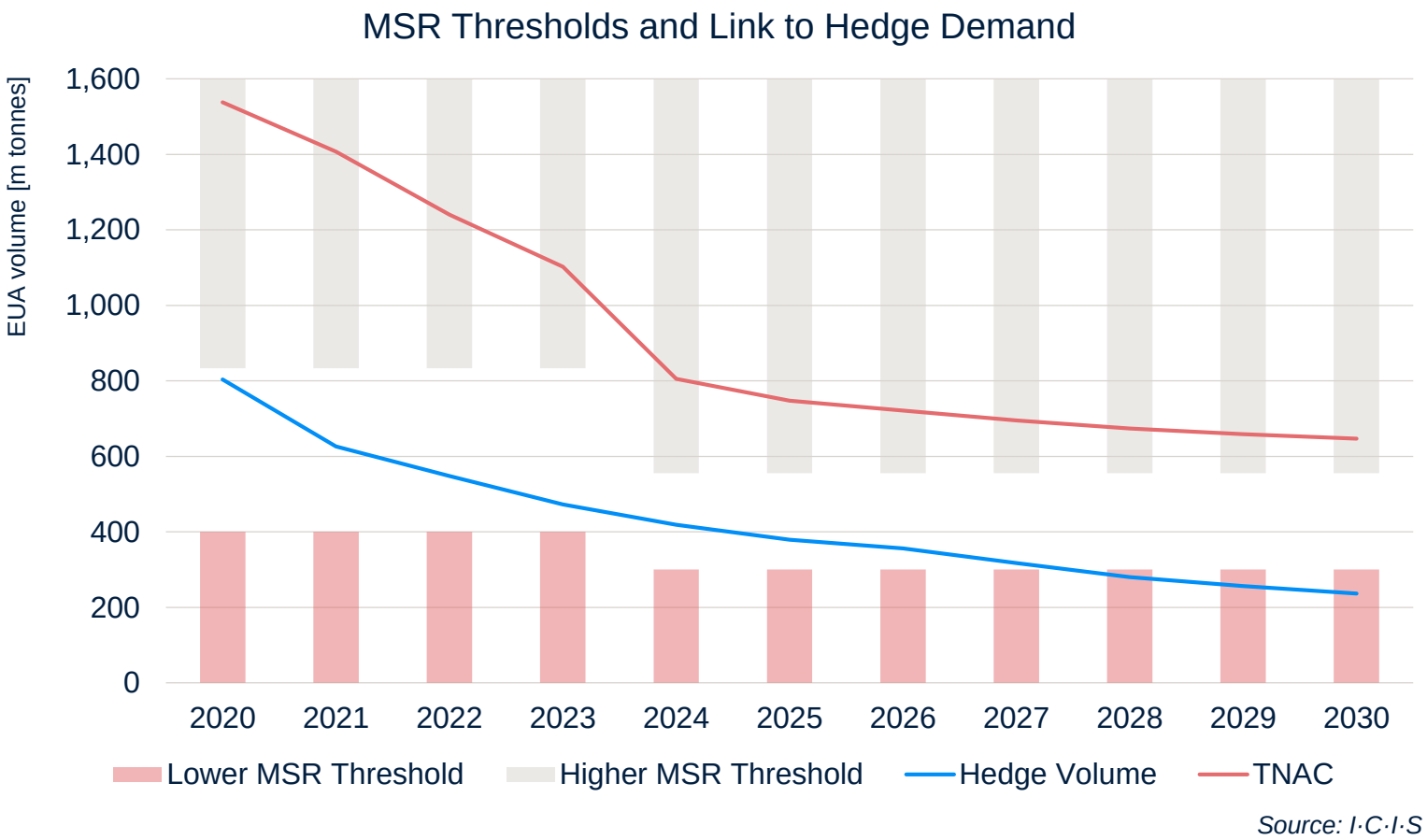
Potential

The fuel switch potential is decreasing significantly over time due to coal phase-out plans all over Europe and increase renewable capacity

Ambition

The modelled Green Deal lifts nearly the entire fuel switch potential in the European power sector and would increase pressure on margins for lignite and coal capacity

Power Sector Hedge Demand compared to MSR Thresholds



Source: I·C·I·S

Hedge Volume

Is decreasing drastically with the reduction in capacity and increase of ambition

MSR Thresholds

Are reduced in line with hedge demand of the European power sector

Thank you

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