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## Utilities | Europe

## Carbon EUAs: 2022 TNAC Reported

We expect a neutral price reaction for Carbon EUA following the annual update for 2022 TNAC, which was broadly in-line with where we believe market expectations reside. We continue to see greater downside risk than upwards momentum to EUA prices in the near term.

**2022 Data reported:** The EU Emissions Trading Scheme annual update ([link](#)) reported TNAC (total number of allowances in circulation) at 1,135m for end-2022, -6% vs MSe (1,204m) and broadly in-line with ICIS forecast (1,127m), which believe is a reasonable reflection of market expectations. 2022 TNAC was down 22% YoY from 2021: 1,449m.

**What is TNAC:** TNAC is calculated as Supply - (Demand + MSR Inventory). Supply being the entirety of EUA credit supply created by the ETS since 'Phase 2' from 2009. Demand being all the emissions certified / credits surrendered over the same period. MSR inventory being the credits held in the Market Stability Reserve that have not been written-off.

**Market Stability Reserve (MSR) action over coming 12 months:** TNAC's importance beyond highlighting 'excess supply' (of legacy free allowances still held by compliance entities) is as the reference point for MSR action that removes credits from the auction volume and thus restricts the supply of new EUA credits. Given the new TNAC number, the MSR will now reduce new EUA auction volumes by a quantum of 272.4m allowances (equivalent to 24% of 2022 TNAC) between Sept 2023-August 2024.

**MSR inventory reduction:** 2.5bn EUAs were invalidated as of 1st Jan 2023 (Vs MSe 2.43bn). This was as indicated given previous legislation to write down the difference between prior year balance (2021: 3,001m EUAs). The follow through on this dynamic should prove reassuring in removing supply held by the MSR that theoretically could have been reintroduced to the market, and was suggested as a funding route for REPowerEU. MSR inventory now stands at 486m and will be capped at 400m from 2024 onwards.

**Next reporting:** The next TNAC indicator is scheduled to be published on 1 June 2024. This will include the amendments made as part of the 'Fit for 55' legislation package which apply from 2024, as well as REPowerEU Regulation which includes using 27m unallocated allowances in the MSR for the Innovation Fund.

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1357	37%	269	42%	20%	599	39%
Equal-weight/Hold	1660	45%	307	47%	18%	721	47%
Not-Rated/Hold	5	0%	1	0%	20%	1	0%
Underweight/Sell	639	17%	70	11%	11%	228	15%
<b>TOTAL</b>	<b>3,661</b>		<b>647</b>			<b>1549</b>	

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<b>Arthur Sitbon, CFA</b>		
CEZ (CEZ.PR)	U (01/06/2023)	CZK 1,150.00
Corporacion Accion Energia Renovables (ANE.MC)	E (11/28/2022)	€32.46
EDF (EDF.PA)	++	€12.00
EDP Energias de Portugal SA (EDP.LS)	++	€4.88
EDP Renovaveis (EDPR.LS)	E (01/20/2021)	€20.54
Enagas SA (ENAG.MC)	U (09/15/2020)	€18.33
ENGIE (ENGIE.PA)	O (10/19/2020)	€14.78
NEL ASA (NEL.OL)	O (02/07/2023)	NKr 14.45
Neoen SA (NEOEN.PA)	E (04/04/2023)	€28.90
Redeia (REDE.MC)	E (04/28/2022)	€16.50
Veolia (VE.PA)	O (10/18/2022)	€27.92
Volitalia SA (MLTSA.PA)	E (07/18/2022)	€14.64
<b>Harrison Williams, CFA</b>		
Centrica (CNAL)	O (12/09/2022)	118p
Drax Group Plc (DRXL)	O (03/25/2022)	606p
Verbund AG (VERB.V)	E (04/03/2023)	€75.95
<b>Robert Pulleyn</b>		
E.ON (EONGn.DE)	U (01/06/2023)	€12.06
Endesa SA (ELE.MC)	U (01/06/2023)	€19.99
ENEL (ENEL.M)	U (01/06/2023)	€6.02
Iberdrola SA (IBE.MC)	E (11/02/2022)	€11.84
National Grid plc (NG.L)	O (01/06/2023)	1,161p
Naturgy (NTGY.MC)	++	€28.34
Orsted A/S (ORSTED.CO)	O (11/10/2020)	DKr 663.60
RWE AG (RWE.G.DE)	O (11/29/2019)	€42.45
SSE (SSE.L)	O (11/03/2020)	1,895p
<b>Sarah E Lester, CFA</b>		
A2A SpA (A2.M)	E (09/08/2022)	€1.70
ERG SpA (ERG.M)	E (04/03/2023)	€27.82
Italgas SpA (IG.M)	E (03/16/2021)	€5.93
Pennon Group (PNN.L)	E (04/03/2023)	853p
Severn Trent (SVT.L)	O (11/04/2022)	2,921p
Snam SpA (SRG.M)	U (03/16/2021)	€5.11
Terna - Rete Elettrica Nazionale SpA (TRN.M)	U (12/06/2022)	€8.05
United Utilities Group PLC (UU.L)	E (11/04/2022)	1,076p

Stock Ratings are subject to change. Please see latest research for each company.  
\* Historical prices are not split adjusted.

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