

Guarantees of Origin market: Outlook for 2023 and 2024

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Agenda

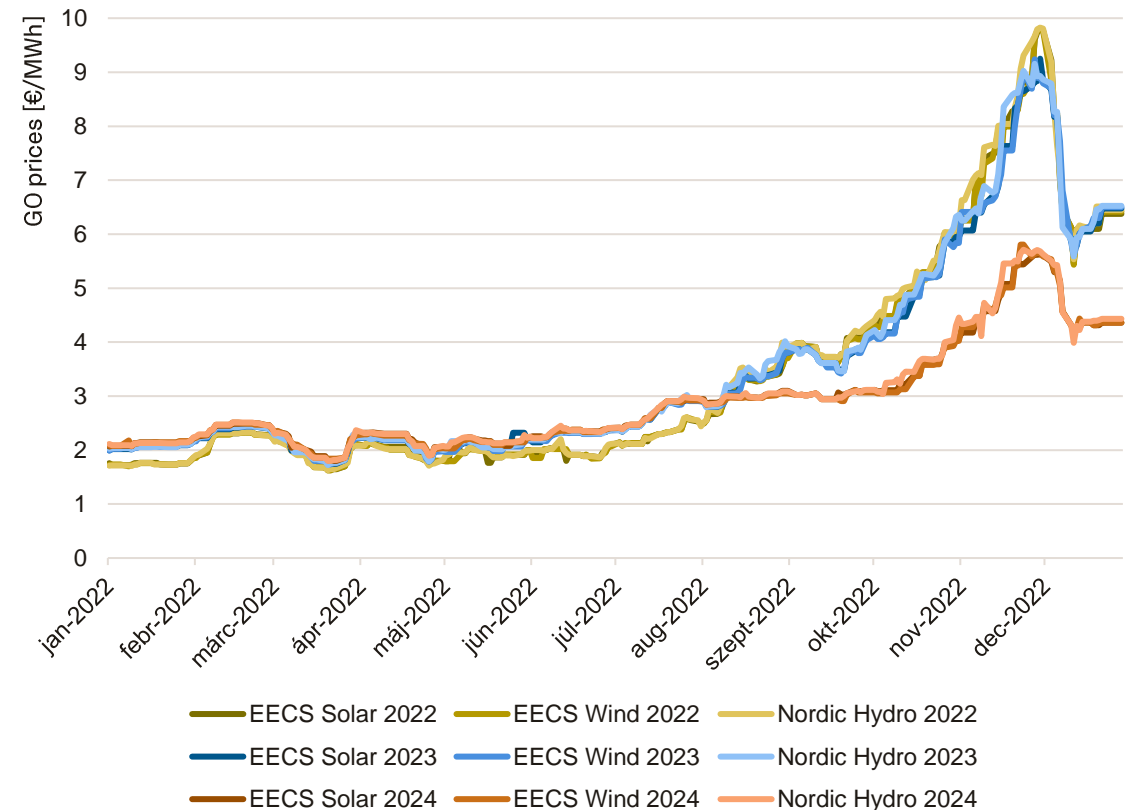
1. Market developments during the last +1 year
2. 2023 market fundamentals
3. Incentives and uncertainties
4. Market outlook

The bulls steered the market in 2022

2022 market drivers

- Lower-than-normal hydrological balance created supply scarcity.
- Hydropower producers were cautioned to conserve water in their reservoirs from May onwards, as a result of the energy price crisis.
- Supply concerns, as the disclosure of suppliers and green power consumption generally is done on a yearly basis.
- Legislative and regulatory incentives have been supporting the role of GOs ahead of and during 2022.

Price development



Source: Veyt

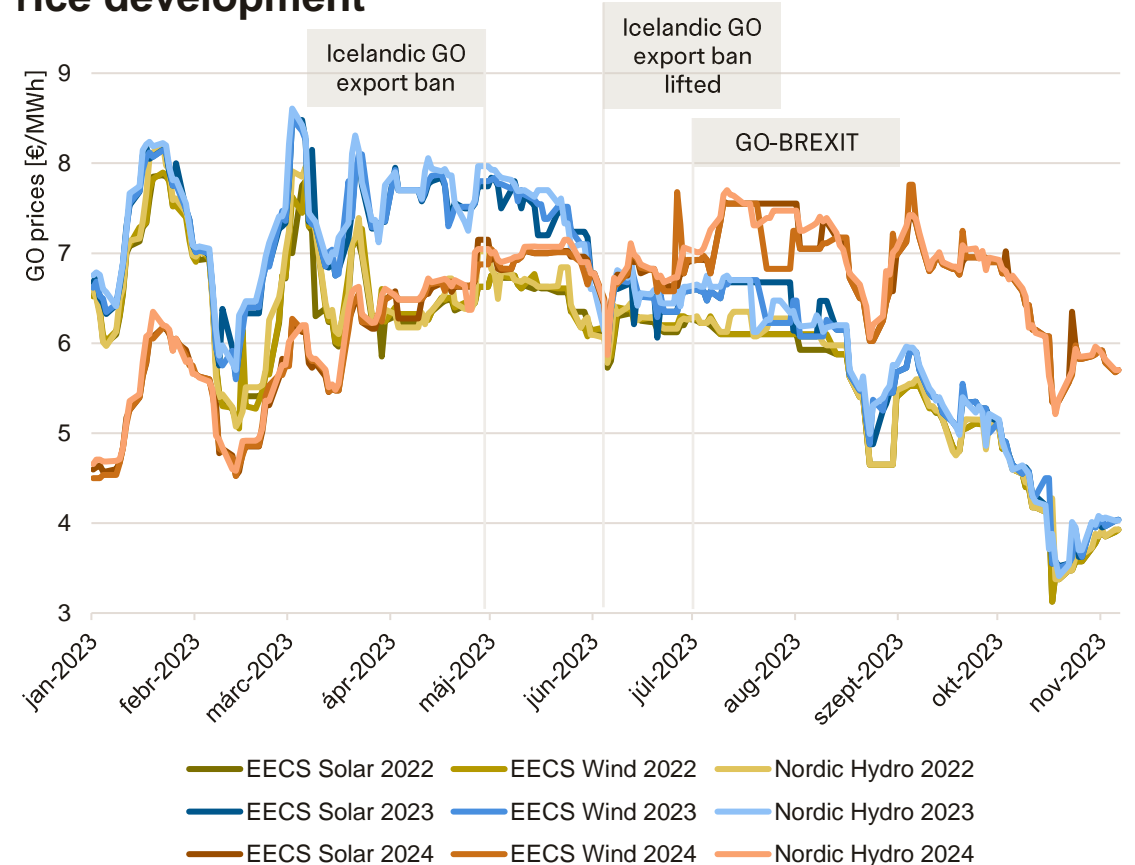
The bears of 2023: price and policy developments

GO demand in the UK

Compliance period	Dates	GO EECS demand (TWh)	EECS GO import restriction
CP17	April 2018 – March 2019	40.9	No
CP18	April 2019 – March 2020	57.9	No
CP19	April 2020 – March 2021	69.2	Interconnector capacity restriction from January 2021
CP20	April 2021 – March 2022	41.9	Interconnector capacity restriction
CP21	April 2022 – March 2023	33.6 (not final)	Interconnector capacity restriction

Source: Ofgem

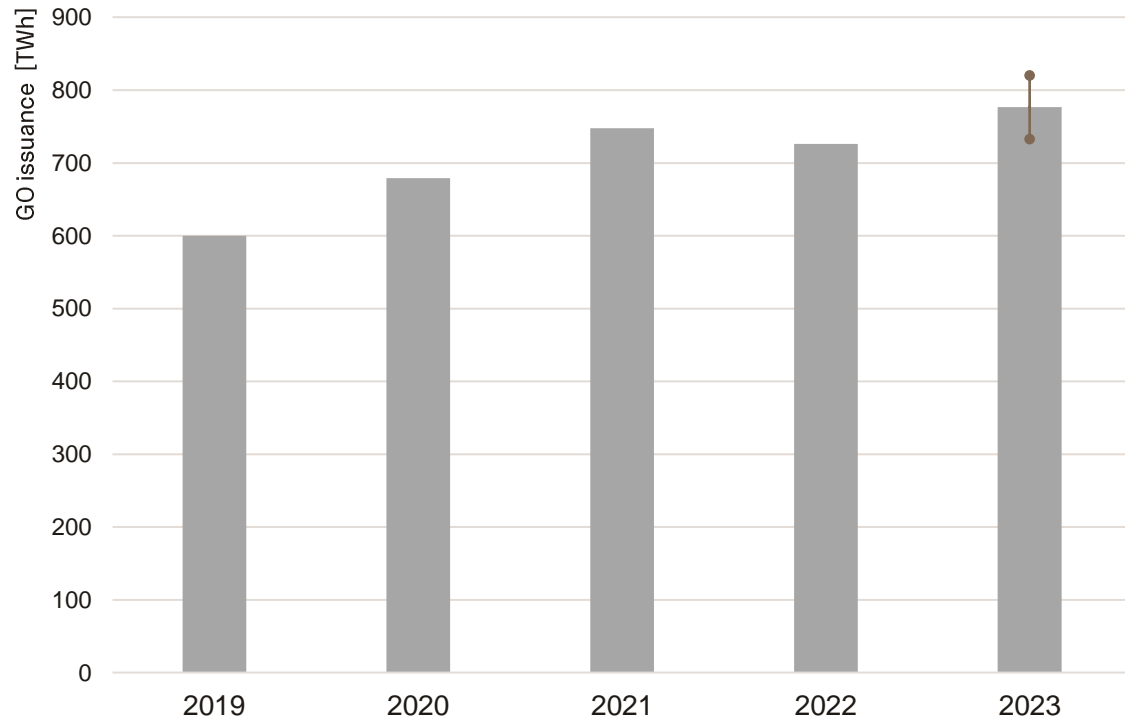
Price development



Source: Veyt

The bears of 2023: supply and demand

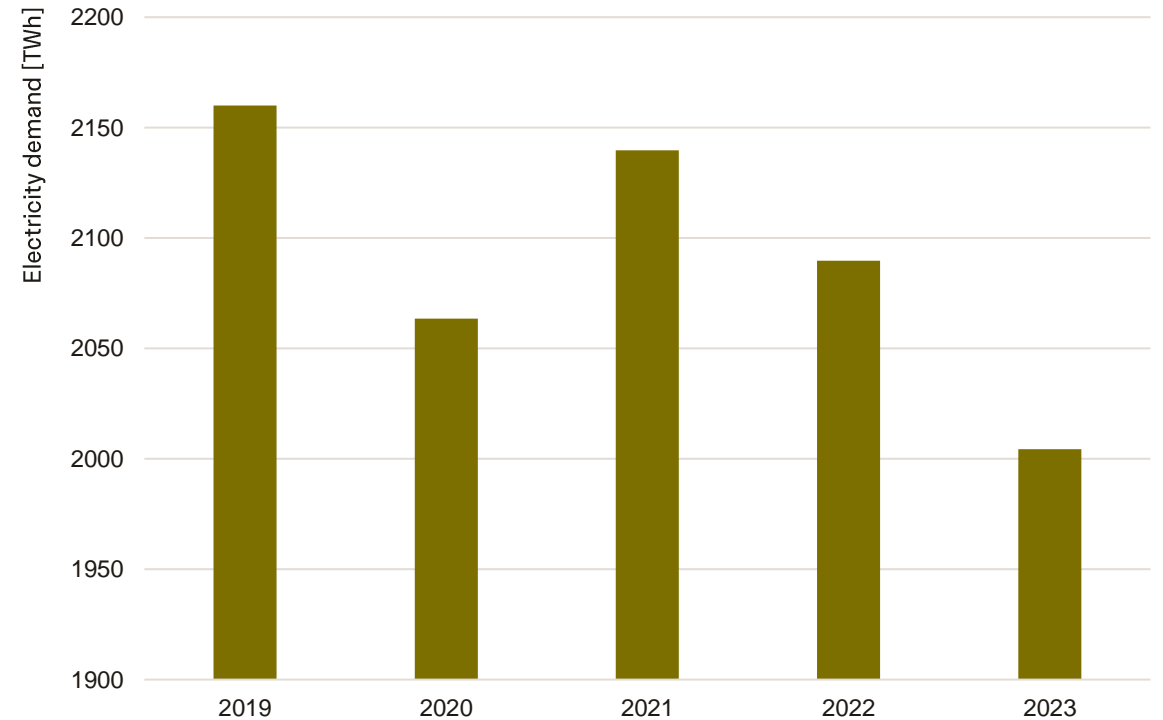
Our 2023 forecast suggests the highest GO supply y-o-y



Source: Veyt

We estimate that the number of GOs issued in 2023 (Biomass, Hydro, Solar & Wind) will be 777 ± 44 TWh, versus 726 TWh in 2022 and 747 TWh in 2021.

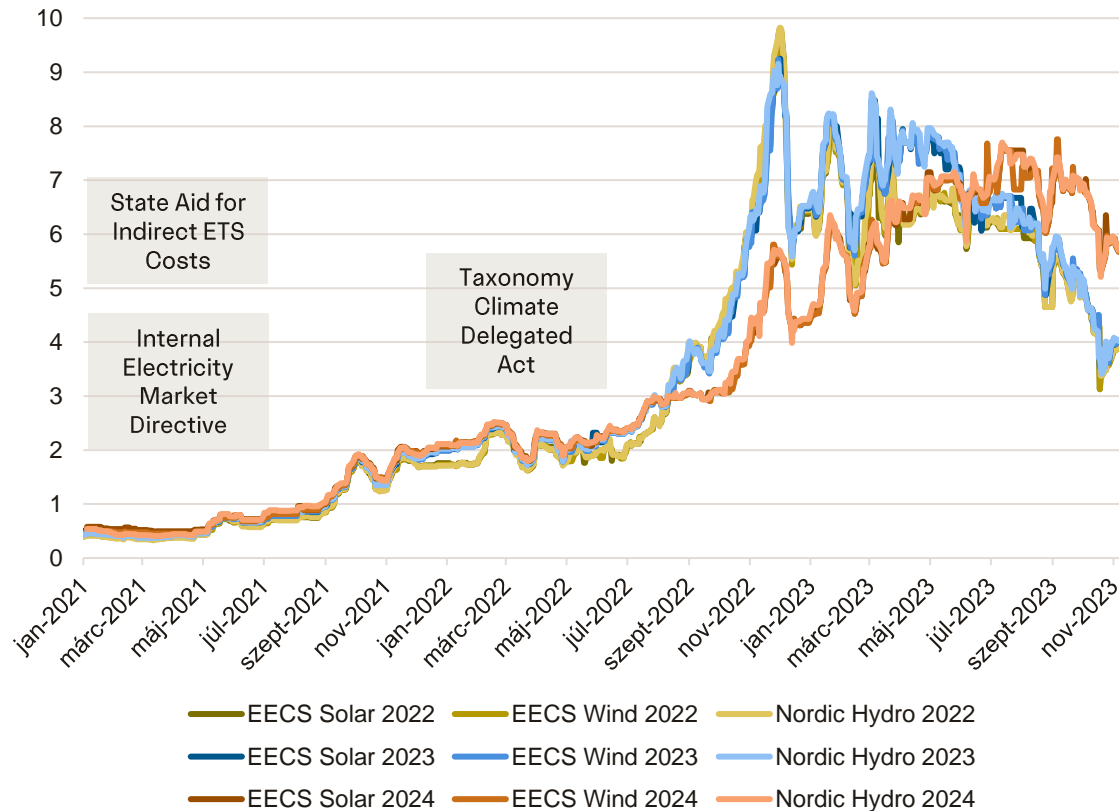
YTD (October) electricity demand is relatively low



Source: Ember.
Note: All AIB members, excluding Iceland

The impact of law and policy

Historical price and policy developments



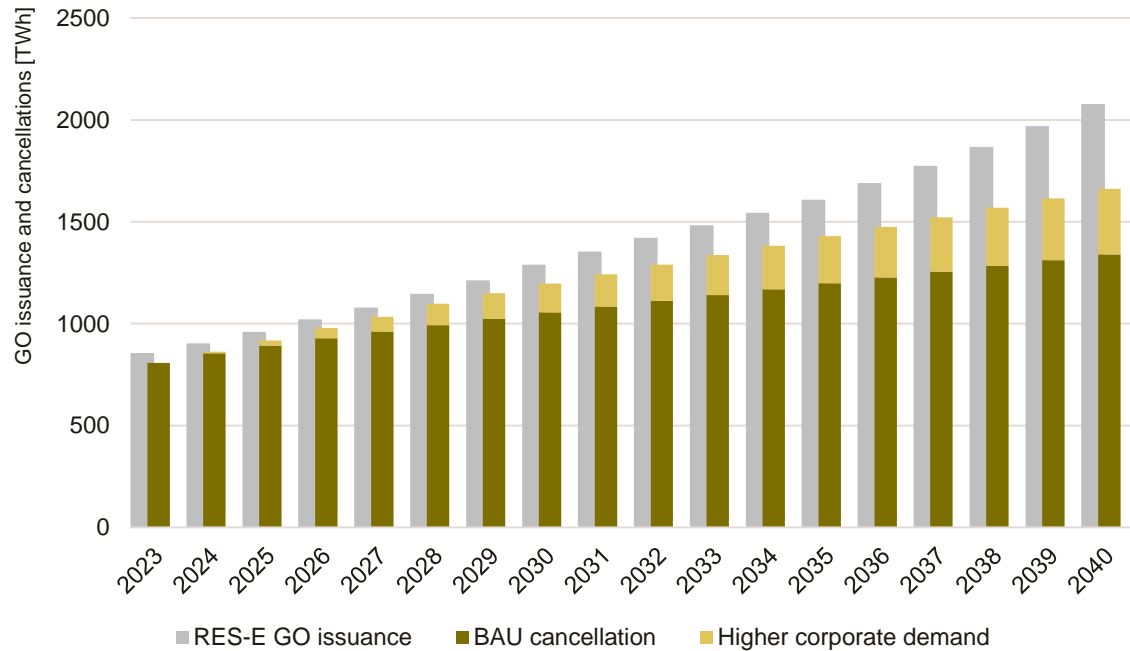
Source: Veyt

Law and policy post-2023: GO bulls and bears

Law and policy	Market impact	Period
RES-E targets	Bear	Imminent
RFNBO (incl. renewable hydrogen) targets	Bull	Imminent
European Sustainability Reporting Standard	Bull	From 2024
Green Claim Directive	Bull?	?
State aid schemes for indirect ETS costs	Bull	From 2021
Carbon Border Adjustment Mechanism	Bull (third countries) and bear (EU/EEA)?	From 2026 (third country) and from 2030 (EU/EEA)?

Our current forecast sees GO prices tapering off after 2030 due to oversupply

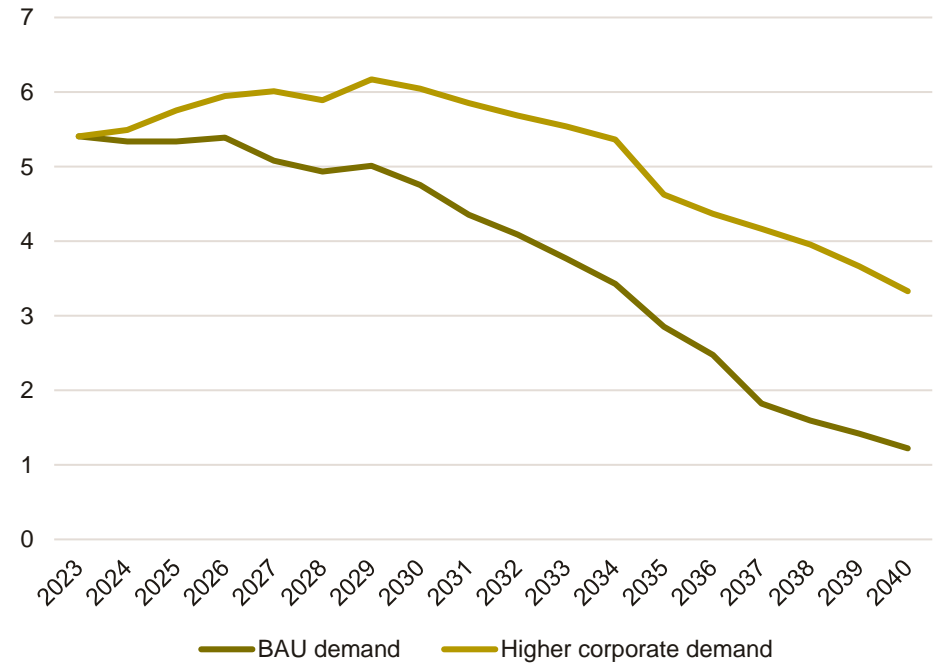
Demand can grow with legislative incentives



Source: Veyt

- Legislative and regulatory incentives could increase GO demand of corporate buyers and improve the supply and demand balance.

Price movements based on different policy scenarios



Source: Veyt

- Prices are declining towards 2040 because if high renewable capacity build-out and corresponding GO issuance, reflecting EU's net-zero emission target by 2050 and National Energy and Climate Plans.

Outlook for 2023 and 2024

- Amid the heavy rain and lower electricity demand, the market has broken 4 EUR/MWh for 2023 vintage.
- Next resistance level will be dependent on increasing electricity demand, in particular from businesses and sectors that are subject to regulatory incentives.
- The move from a backwardation to a contango market in June 2023 provides a bullish pull.
- We expect 2023 vintage to trade around 3–4 EUR/MWh in the coming months, but weather conditions can affect developments.
- 2024 vintage has fallen under 5 EUR/MWh where we expect it to stay in the short term, with a bearish pull from 2023 price levels due to 23/24 swapping possibilities, and the energy stored in reservoirs.
- Bullish signals for 2024 will be dependent on weather conditions, the general health of the economy, RE capacity build out, and corporate alignment with legislative and regulatory incentives.

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