EDFT – involvement in the global emissions market

Latin American carbon forum
Quito 22–24 March

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EDF Trading
The EU Emission Trading Scheme

- Approx. 2.2 Billion EUAs allocated each year (inc. Auctions / Reserves) – the global European target is 8% reduction from the annual baseline.

- Only about 30 firms actively trading emissions vs 6,000+ firms covered by ETS – with a daily average of 2 Million t. EUAs traded OTC and on various exchanges (Major players from oil, utility and bank sectors).

- CO2 trading is becoming part of power utilities core business.
Carbon constrained industry has a problem

How do we meet our emissions reduction obligations?

• Abate?
  – New equipment installation
  – Alternative production
  – Switch off

• Buy EUAs?

• Buy CDM or JI credits?
  – BUT….not many projects coming to market at the moment
What are CDM credits?

- The Clean Development mechanism is a device created by the United Nations Framework Convention on Climate Change (UNFCCC)
- Created out of the Kyoto Protocol, to encourage Annex 1 countries to invest in clean & sustainable projects in the developing world, in return for which they receive credits for the GHG amount abated – covers all the 5 main GHGs – CO$_2$, CH$_4$, O$_3$, HCFCs and N$_2$O
- Credits can be used in Period 1 or Period 2 – they have an advantage over period 1 EUAs which can only be used for 05–07 compliance
- Typically they cost about €10 less than EUAs
- The process from project inception to delivery of CERs is tortuous and complex
Why CERs prices shall be lower than EUAs?

• In a portfolio having EUAs or CERs is not risk neutral when you must comply to the EU’s rules with a risk of high penalties in case of short position.

• Uncertainties in delivery of emissions reductions issued by CDM Projects lead to a number of risks which imply a substantial discount from EUAs prices’ level.
EDF Trading Overview

- 1999 EDF / Louis Dreyfuss joint venture signed
- Principal Role to optimise French assets
- Aug 2003 EDF became sole owner
- Asset backed trading model with portfolio of flexible assets
- Structured transactions creating ongoing trading business
- Multi-commodity physical & financial trading (oil, power, gas, coal, freight, emissions allowances)

- **TRADING VOLUMES 2005:**
  - Power 1,060 TWh
  - Coal & freight 245 Mt
  - Gas 56 bn therms
  - Emissions allowances 60.3 Mt to date

- Total shareholders equity €681mio, Moodys triple A rating – best power company rating in Europe
EDF-Group CO₂ Allocations

**EDF Energy - UK**
- 4GW Coal / 0.8GW Gas
- ~17 Mt p.a. Allocation

**EDF S.A. - France**
- 63GW Nuclear / 17.5GW Thermal / 20.6GW Hydro
- ~24 Mt p.a. Allocation

**EnBW - Germany**
- 4GW Coal
- ~10 Mt p.a. Allocation

**Various - Poland**
- 2GW Coal
- 1GW Gas (CHP)
- ~15 Mt p.a. Allocation

**Various - Hungary**
- 0.3GW
- ~1.5 Mt p.a. Allocation

**Dalkia - Europe**
- 17.5GW CHP
- ~19 Mt p.a. Allocation

**Edison - Italy**
- 4.3GW Thermal
- ~11 Mt p.a. Allocation

**120 GW installed capacity**
**Near 100 Mt p.a. Allocation**

EDF Trading Limited
EDFT Emissions Overview

- An early and significant player in CO2 market
  - From November 2004, management of a large portfolio of CO\textsubscript{2} positions generated from the optimisation of EDF assets, the hedging products provided to industrial customers and the proprietary trading activity
  - Market-maker on the Nordpool Exchange, member of ECX and very active in the OTC market with over 30 counterparts
  - Written the only option seen in the market so far
  - During 2006, EDFT will become the market interface for all EDF group companies

- Involvement in the CDM market since mid 2004
  - CER Purchase Agreements already signed and others under negotiations with a variety of counterparts principally in Asia and Latin America
What we can do for CDM projects

• Offtake Certified Emissions Reductions from any projects, with a pricing structure to fit the individual project developer's risk profile
• Writing Project Design Documents (PDDs) and Project Idea Note (PINs)
• Assist in power related projects through relationship with EDF parent
• Assist in project investment and finding funding partners
• Managing the registration process with the Clean Development Mechanism Executive Board
## Why EDFT for your CDM projects?

<table>
<thead>
<tr>
<th>Your needs</th>
<th>Because...</th>
<th>We propose...</th>
</tr>
</thead>
<tbody>
<tr>
<td>A long term partner with good credit profile</td>
<td>CDM projects last up to 21 years</td>
<td>...the strength of an international company funded in 1946 the biggest power utility in Europe</td>
</tr>
<tr>
<td>An experienced partner</td>
<td>CDM projects process are complex</td>
<td>...the experience of a team dedicated to CDM projects with a significant track record</td>
</tr>
<tr>
<td>A complementary partner with a strong compliance position</td>
<td>You don’t want to pay middle men unnecessary fees</td>
<td>...EDF Group has permits requirements in excess of 100 mt per year</td>
</tr>
<tr>
<td>A flexible and creative partner</td>
<td>Every CDM project developer is different</td>
<td>...our ability to structure customized solution to deliver value to your project</td>
</tr>
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*EDF Trading Limited*
Some last thoughts

• Be careful in your choice of DOE – difficult to get the right balance between those available, but lacking in experience against those with experience – but very overworked. Some claiming premature accreditation

• When choosing counterparts, check the status of their host country DNA – wide variety in quality at the moment

• What will happen to CER (and EUA) prices if Russian / Ukrainian ‘hot air’ comes to the market without restriction?

• Will Canada stay in the KP? And if they don’t what will happen to CER prices?

• When is COP/MOP likely to agree on a post 2012 regime – and what will it look like?

• May be prudent to take advantage of high prices sooner rather than later
Gracias!

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