Trading Emissions PLC

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Why are Buyers Buying?

- For compliance with a national Kyoto target (e.g. Annex 1 government)
- For compliance with an EU ETS obligation (e.g. EU power generator)
- As an agent for one/both of the above (e.g. multilateral bank / aggregation pool)
- As a speculator / market maker / liquidity provider (e.g. commercial fund)
About Trading Emissions PLC (TEP)

- TEP is an investment vehicle formed to invest a range of emission assets, including:
  - EU carbon, US carbon and US sulphur instruments
  - Focus on Kyoto compliant project credits such as CERs & ERUs

- TEP is a publicly quoted company listed on the Alternative Investment Market (AIM) of the London Stock Exchange

- The company raised £135MM (~US$240MM) through its listing

- Investors include Invesco Perpetual, Goldman Sachs, Credit Suisse Asset Management, Gartmore Asset Management, Jupiter Asset Management, F & C Unit Management and Moore Capital

- Current market cap is approximately £170m
EEA Fund Management: Investment Advisor to TEP

- EEA Fund Management Limited is the exclusive investment advisor to TEP.

- EEA team members have experience of
  - Closing CDM and JI carbon finance deals
  - Writing and appraising project methodologies
  - Writing project documentation
  - Validation and verification
  - Contract preparation and negotiation
  - Project finance
  - Private equity
  & have worked in South America, Asia, Africa and Central Europe.

- EEA manages a number of equity funds including Climate Exchange PLC, the major shareholder in the Chicago Climate Exchange and European Climate Exchange, the leading carbon exchanges in Europe and North America.
TEP’s position in the carbon market

- TEP has enormous flexibility in the manner in which it may deploy its capital.

- TEP will take a long position in environmental commodities, particularly Kyoto Protocol compliance units. TEP is not a compliance buyer, a trader or an intermediary.

- This position is achieved through:
  - Purchase of CERs / ERUs under ERPA contracts
  - Investment – debt or equity - in project opportunities and companies to leverage CERs/ERUs

- TEP is designed to take certain commercial risks and can engage with project developers from an early stage in project development.

- TEP seeks to design contracting structures that offer value to all parties involved.
Using future carbon flows to add value

ERPA contracts

- A fixed or floor price ERPA contract will demonstrate an additional cash flow to potential investors and boost project internal rate of return. This may help offset technology or country risk.

- Can upfront project finance be procured on the back of an ERPA contract?

CER backed project finance

- Would leveraging project finance through future carbon flows help your project reach financial close?

- Using CER linked financing may enhance additionality arguments

- These kind of contracts with TEP offers risk sharing in early stages of project development and access to expertise in CDM project development
Transaction structures

- ERPA transactions – bankable contract with payment on delivery, fixed or floor + upside pricing, with flexibility on delivery guarantees.

- Debt - TEP provides upfront debt financing to the project which is repaid in carbon credits.

- Equity participation – TEP becomes an owner in an SPV to develop the project and thus owns a portion of the carbon credits as part of the return on equity.
Some examples

- TEP set up a financing facility for a series of agricultural biogas projects in South-East Asia and has a local Joint Venture partner that will develop the projects

- Investment in an African bio-fuel company that will grow energy crops which will be used as a substitute fuel for local industry

- Investor and shareholder in a Brazilian based project development company

- TEP has closed various ERPA based deals around the world

- Contracts so far will leverage ~ 20 M tonnes of CERs / ERUs.
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