

Essent Trading

A Merchant Energy Trading Company, Part of the RWE Group

A compliance buyer's perspective on post 2012 CERs

Natalia Gorina, Emissions Portfolio Manager, 28 January 2010

Secondary market

- Level of demand of CERs by EU companies and governments vs level of supply
- EUA prices: strong correlation between guaranteed CER price and EUA price so far
- Timing of CER supply

Primary market

- The marginal abatement cost is not the main factor!
 - Past experience of seller
 - Stage of operational project development
 - Stage in the CDM/JI cycle
 - Level of risk sharing between buyer and seller
Coverage of CDM/JI documentation costs
 - Level of Chinese price floor

Future trend

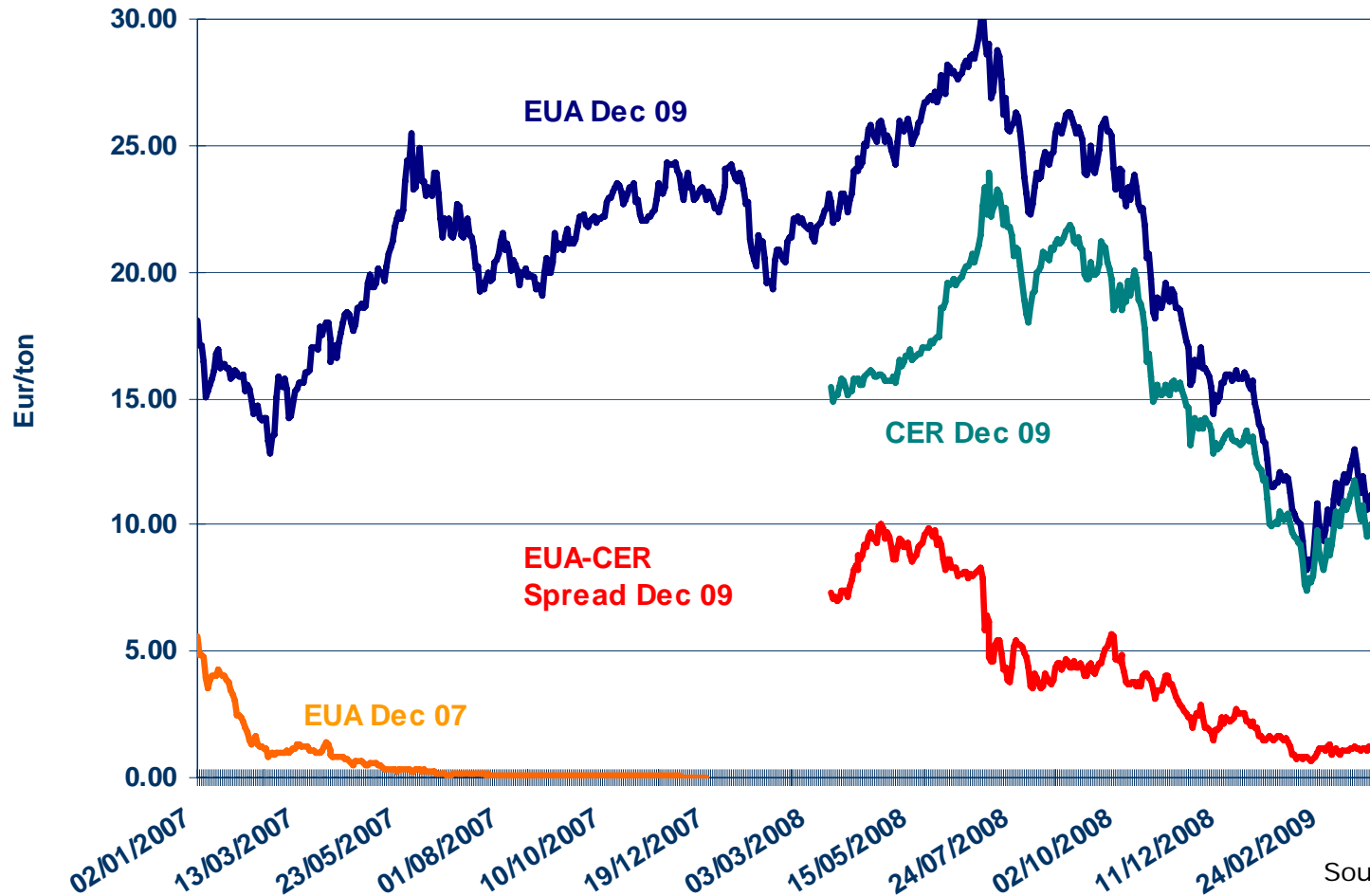
- The long term trend of CER market prices is unclear, e.g.:
 - Bullish: less CER supply towards 2012, stricter UN registration process, increased demand outside EU (Australia, NZ, voluntary market)
 - Bearish: lack of certainty about post 2012 framework, no additional demand from EU and other countries after 2012

- Current import potential 1.8 to 2.0 Gt (2008-2020)
- Operators' cap of min 11% of Phase II allocation (if cap is already higher it remains)
- If agreement is reached, cap up to 50% of the additional EU reduction effort
- Specific project types might be excluded from 2013 (e.g. no HFC, preference for Gold Standard?)

	Registration	Generated	Countries	CERs exchangeability for EUAs	Qualitative limitations
Without international agreement	Before 1 Jan 2013	Before 1 Jan 2013	Any current CDM/JI countries	Before 31 March 2015	No
	Before 1 Jan 2013	From 1 Jan 2013 till 31 Dec 2020	Any current CDM/JI countries	Before 31 Dec 2020	Possible
	After 1 Jan 2013	After 1 Jan 2013	Only countries with bilateral treaties with EU or LDC	Before 31 March 2015	Possible
With international agreement	Any time	After 1 Jan 2013	Only countries that signed agreement	Before 31 March 2015. Or as specified by agreement	Possible

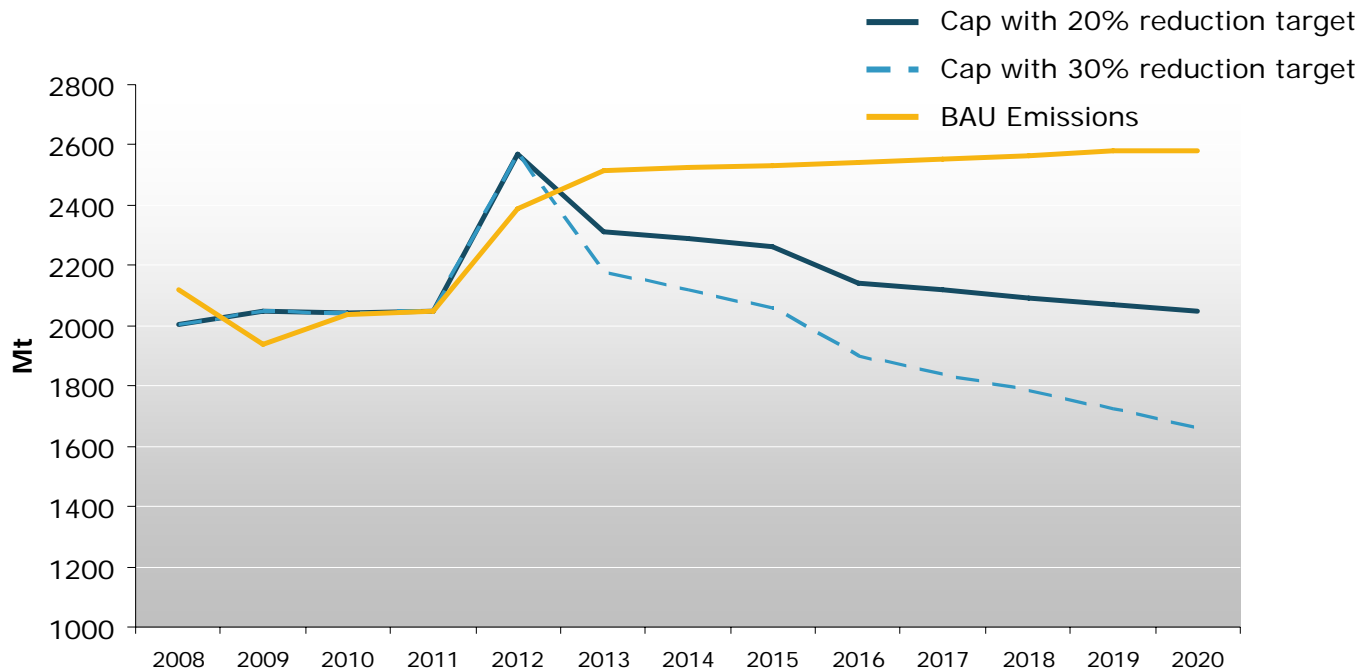
- Buying firm post 2012 CERs at prices similar to pre-2012 for “low risk CERs”
- Option on purchases of post 2012 CERs to be exercised at end 2011 for “high risk CERs”
- Gold Standard CERs as a mitigation of country/technology risk

Registration Date	Generated	Countries	Technologies	Risk for compliance use
Before 1 Jan 2013	Between 1 Jan 2013 and 31 March 2015	LDCs and other less represented CDM countries	Methane-related, very new techs, techs involving clear sustainable development benefits	Low
Before 1 Jan 2013	Between 1 Jan 2013 and 31 March 2015	All except China, India, Brazil, Mexico, South Korea, South Africa, Israel	Energy efficiency and renewable energy	Medium
After 1 Jan 2013	After 31 March 2015	China, India, Brazil, Mexico, South Korea, South Africa, Israel	HFC, N2O, power sector projects	High



Source: European Climate Exchange

- When the EUA price decreases the CER-EUA spread decreases as well



Analyst	EUA Price forecast for 2020 €
Deutsche Bank	25-30
Barclays Capital	40
New Carbon Finance	40
UBS	20
Point Carbon	35-40

- It is expected that EU emissions will be higher than EUA allocation sometime in 2011:
 - Phase 2 Shortfall expected before economic slowdown: 1000 Mt in 08-12
 - Phase 2 Shortfall expected taking into account economic slowdown: +/-50 Mt in 08-12
- Analysts' price forecasts for EUA Phase 3 range between 20 and 40 Eur

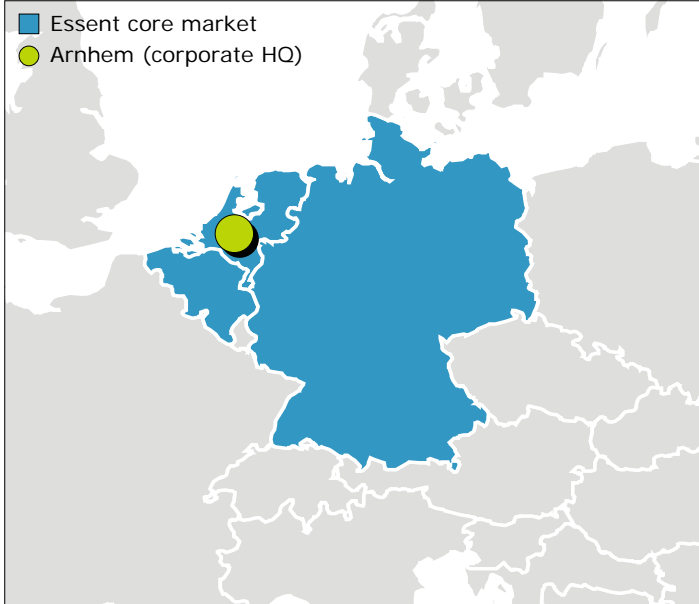
Assets 2008

- Production capacity:
362 mcm
- Gas storage volume:
6,460 MW

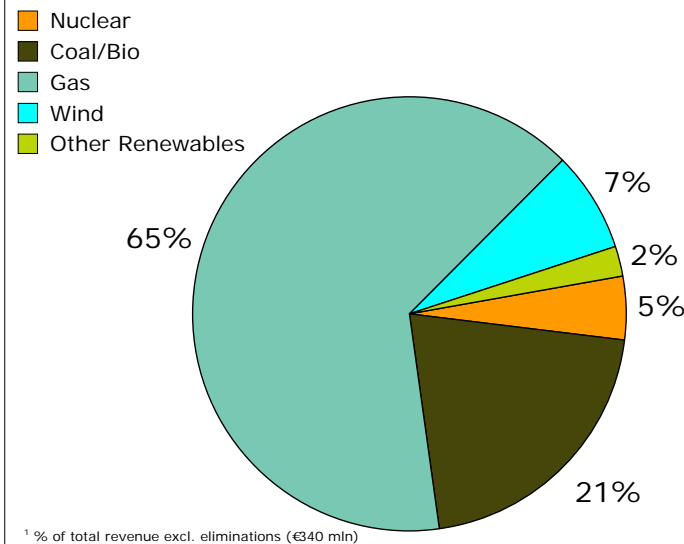
Sales 2008

- Electricity:
43.7 TWh
- Gas:
9.4 bcm
- End users:
4.6 million

Shareholder 2009



Generation Capacity 2008



Compliance Position

- Annual emissions of our power plants: about 13Mt/year
- Annual EUA allocation of about 10Mt/year
- Maximum cap of 5 Mt (over 2008-2012) of CERs/ERUs for compliance

Carbon Trading Experience

- We use CERs and ERUs for our power plants' compliance with the EU ETS and for trading with other counterparties, mainly in Europe
- Concluded contracts with > 40 projects and volume > 20 Mt
- So far focused on China (wind, biomass, small hydro and energy efficiency projects)
- Now diversifying technology and countries
- We are active on the voluntary and US carbon markets

Natalia Gorina

Emissions Portfolio Manager

Essent Trading International S.A.
Glacis-de-Rive 12-14
1207 Geneva
Switzerland

+41 (0) 229 183 156

Natalia.Gorina@essenttrading.com

For more information,
please click here



... or go to

www.essenttrading.com