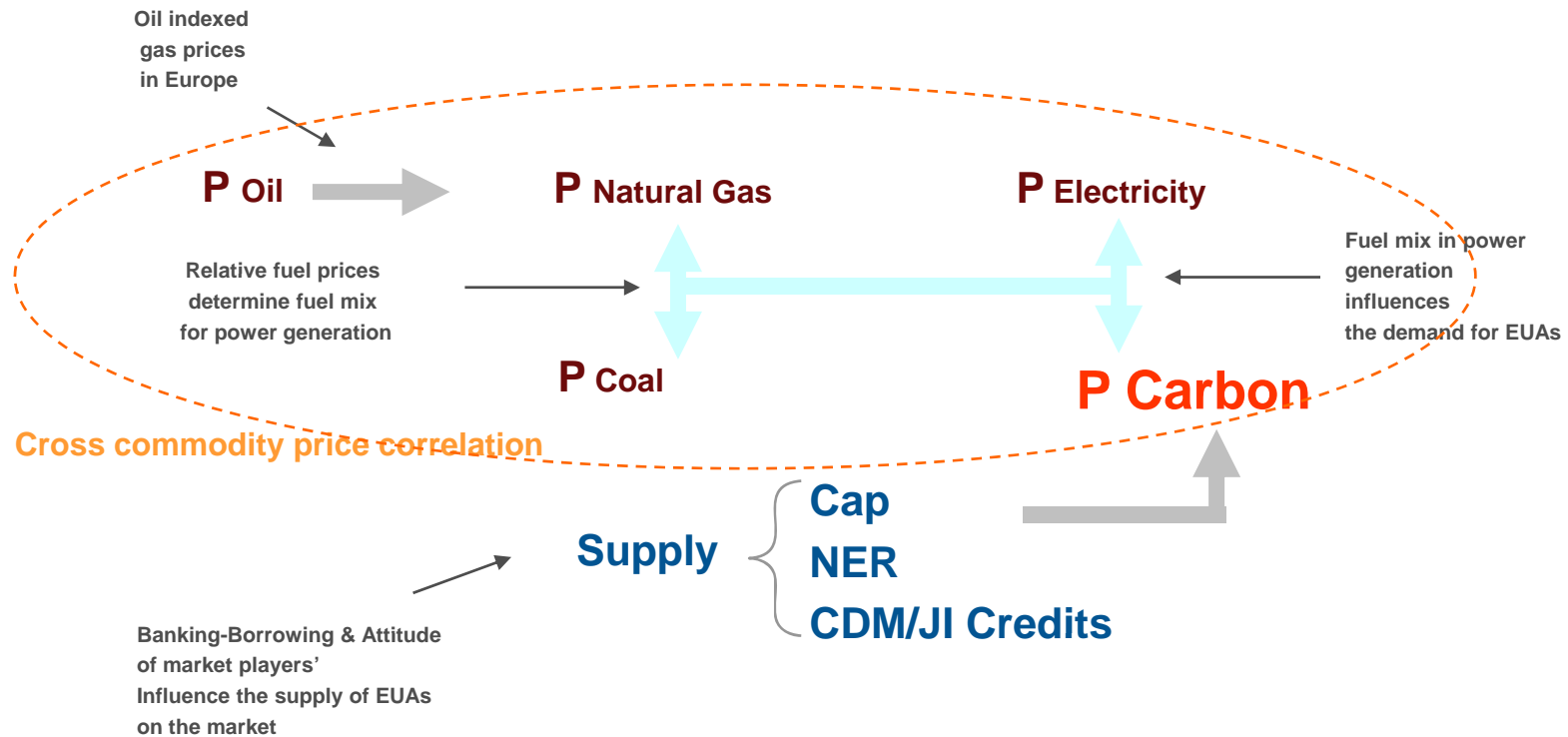


Cross commodity pricing dynamics and sectoral hedging strategies

CARBON EXPO, 3rd May 2007

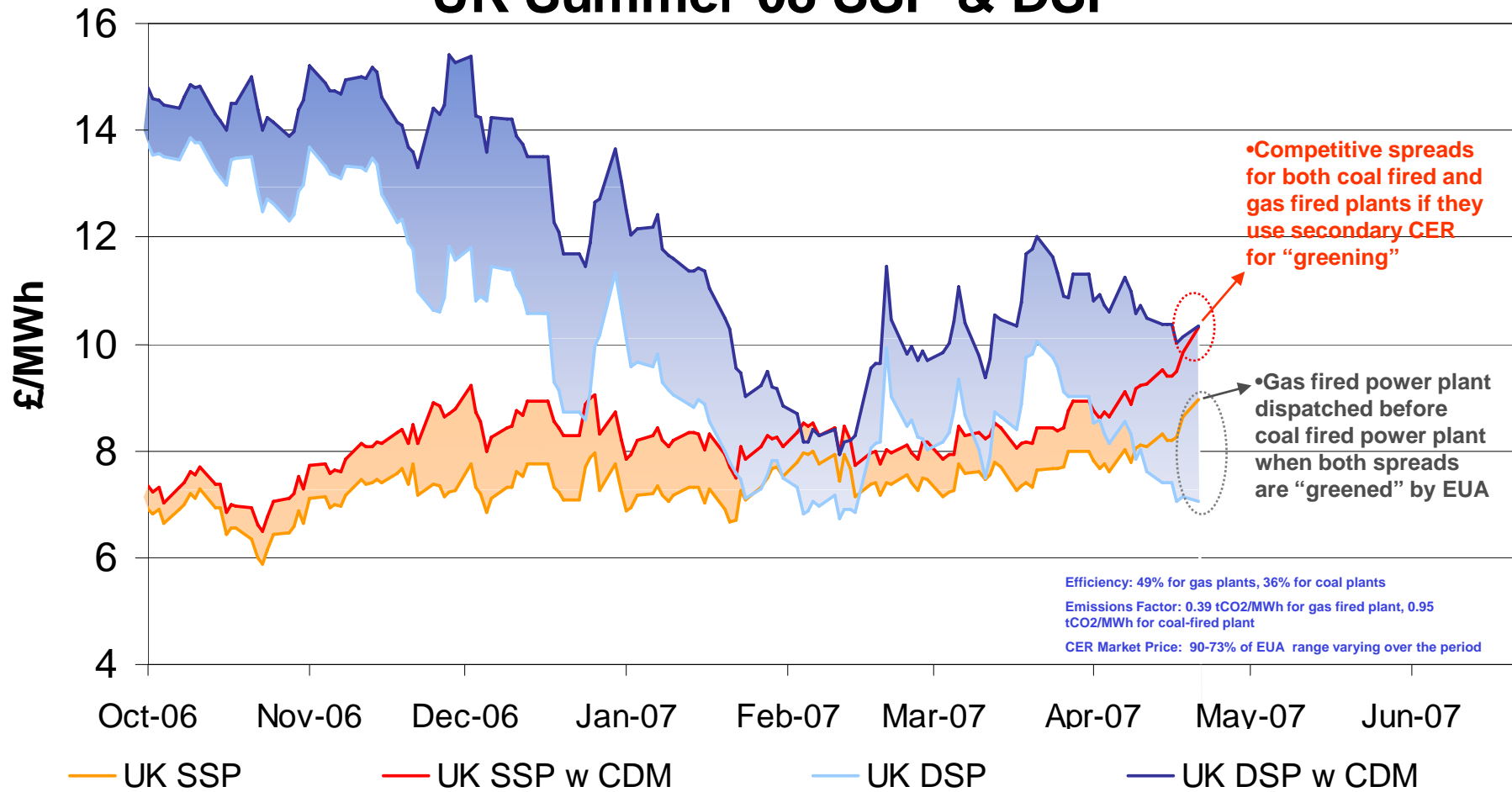


Cross Commodity Price Correlation



- Emissions Prices impact power generation dispatch decisions: Green Spark Spread > 0, Green Dark Spread > 0
- Which carbon certificate is used to “green” spark & dark spreads? Primary CER/ERU? Secondary CER/ERU? EUA?

UK Summer 08 SSP & DSP



Hedging Strategies in different sectors across Europe

▶ Will there be enough CDM/JI credits to cover EUA shortage of Europe?

- Project delivery risks
- Attitudes of CDM/JI Project Owners
- Buying interest from outside the EU ETS

▶ Will industrials actively manage their CO2 position?

- Attitude versus EUAs
- Attitude versus a potential “Phase II-Phase III banking”

▶ Will industrials use their allowance for the use of Kyoto credits?

- Quality of the Project, Credit of the counterparty
- Use of allowance limited to compliance purposes ?

▶ Conclusion:

Phase I was a volatile “learning phase” for participants in the EU ETS

Phase II appears to be the next learning phase.... this time for CDM/JI credits

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Questions

- Has all the compliance buying for Phase I been completed and is a price of €0.50 sufficient to bring the sellers to market?
- What is the relationship between UK gas prices and the price of Phase II EUAs?
- Do German power prices drive EUA prices or EUA prices drive German power prices?
- Will the CER/ERU market become detached from the EU ETS?