
Trade Simulation - Testing your compliance strategy

4th Master Class, Amsterdam

14. February 2008

Richard Steiner (ÖEKV)

Jan-Marten Krebs (Climex)



Topics

- Background
- Objective
- What to do
- The winner

- Trading
- Evaluation and results

Background

- You are the CO2 manager of e.g. the Beer 'n Cheese Inc.
- Emissions and allocation overview of Beer 'n Cheese

	2008	2009	2010	2011	2012	Sum 08-12
Emissions in t CO2	35,000	37,000	39,000	42,000	47,000	200,000
Allocation in t CO2	20,000	20,000	20,000	20,000	20,000	100,000

- Optimise your company's compliance situation and test your compliance strategy

Compliance Strategy

- New allocation methods and compliance instruments apply in 2008-2012
- CER/ERUs can be used as compliance instruments
- Differentiation between primary CER/ERUs (pCER/ERUs) and secondary CER/ERUs (sCER/ERUs)
- sCERs can now be traded Spot and do not contain any delivery risks, therefore sCERs are more interesting for risk adverse companies
- 17% of allocation (EU average) can be covered with CER/ERUs

Overview allocation EU

Member State	2005 verified emissions	Cap allowed 2008-2012	Use of CER/ERU of annual allocation
	Mt CO ₂	Mt CO ₂	
Austria	33,4	30,7	20%
Belgium	55,6	58,5	4-24%
Czech Republic	82,5	86,8	33%
Cyprus	5,1	5,5	10%
Denmark	26,5	24,5	17%
Estonia	12,6	12,7	0%
Finland	33,1	37,6	12-35%
France	131,2	132,8	14%
Germany	474,0	453,1	22%
Greece	71,3	69,1	9%
Hungary	25,7	26,9	10%
Ireland	22,4	21,2	22%
Italy	225,5	195,8	15%
Latvia	2,9	3,3	10%
Lithuania	6,6	8,8	13%
Luxembourg	2,6	2,7	10%
Malta	2,0	2,1	0%
Netherlands	80,4	85,8	10%
Poland	203,1	208,5	25%
Portugal	36,4	34,8	10%
Slovakia	25,2	30,9	7%
Slovenia	8,7	8,3	18%
Spain	182,9	152,3	20%
Sweden	19,3	22,8	10%
UK	242,4	246,2	8%
Annual Sum	2.011	1.962	17%

Suggested Cap:

2.162 Mio. t

CO₂/a

Shortage of -9%

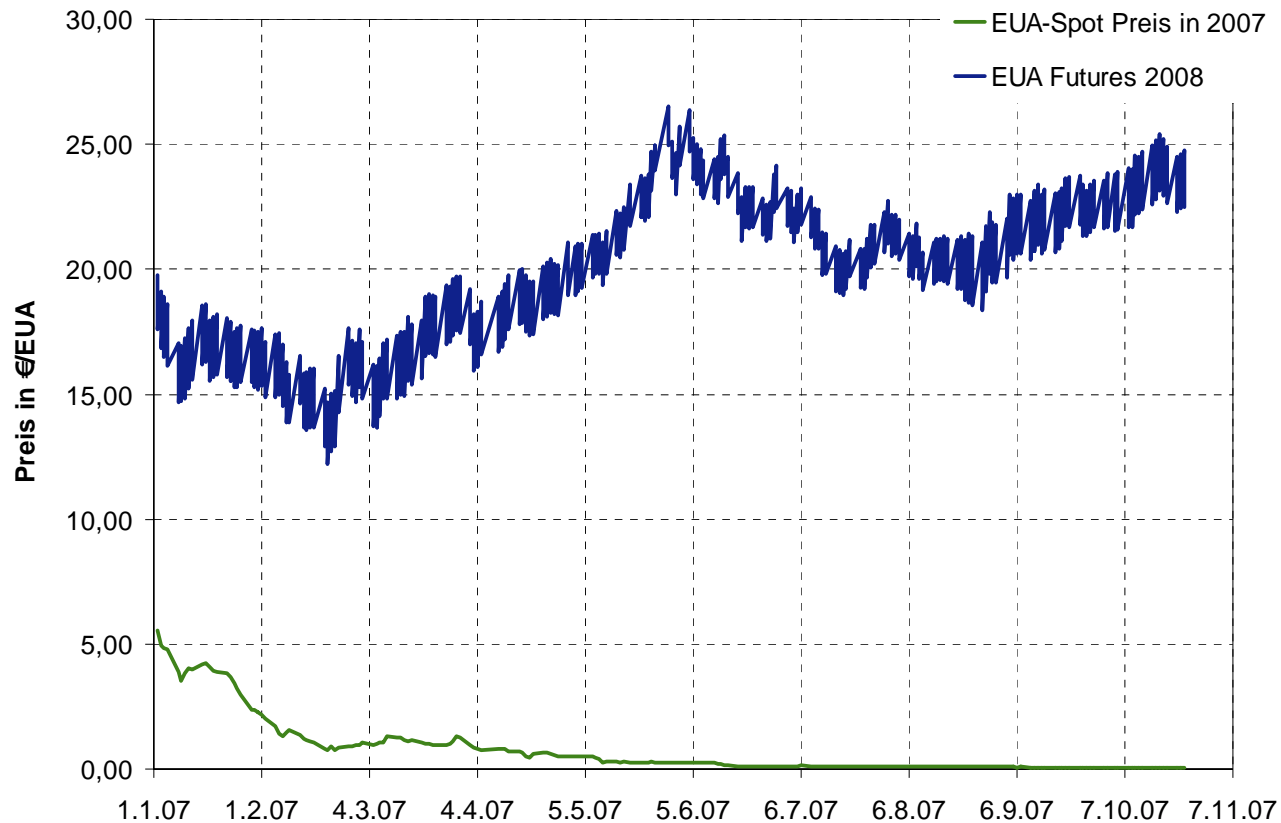
source: European Commission/Point Carbon Dec. 2007

EU ETS - Changes since first commitment period

- More installations participate in the EU ETS
- But overall cap reduced by 9%
- Auctions and selling starting 2008.
 - Sure: Netherlands, Austria, Norway, Sweden, Poland, Germany, UK
- CER + ERU \leq 17% of total annual EU-allocation
 - But maximum varies by country (0% - 35%)
- Norway joined
 - special allocation right: for off-shore industries: complete auctioning
- Banking -> Prices for EUAs cannot fall to zero as in first period

Prices

- Volatility and insecurity of prices will persist
- Current EUA-price: Dec08: about 20€ Forecast 08-12: 15€ - 35€
- Current CER-price (cat. 4): about 14€ Forecast 08-12: 8€ - 27€



Objectives

- Achieve compliance for your Beer 'n Cheese Inc. at the end of the trading simulation, using both auction and trading instruments
- Compliance: 200,000 emission rights on your account within the legal framework to be handed in to your national register
- Follow the market developments and act accordingly

What to do

- Each computer will achieve access to the Climex demo versions of the auction and trading platform
- The simulation consists of 2 rounds
 - Round 1: Auction (2:15pm - 2:45pm)
 - Round 2: Trading (3:15pm - 4:00pm)
- Login to the platforms and find your financial and emission balance at the bottom left corner of the platform screen

What to do

URL auction platform:

URL trading platform:

Login:

User :

The winner

- Simulation ends at 4pm and the results will be evaluated
- The company with the best financial situation wins the simulation, implying the best CO2 management for your Beer 'n Cheese Inc.
- Undercompliance: Each ton below 200,000 will be penalised according EU regulations with 100€/t
- Overcompliance: Each ton above 200,000 will be added to your financial balance accordingly to an average market price
- CER/ERUs above allowed amounts will not be considered

Thank you for your attention
and
Good luck!