



# Forward auctioning volumes in the EU ETS

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1. Demand

2. Supply

3. Balance

# Demand side summary (Mt/year)

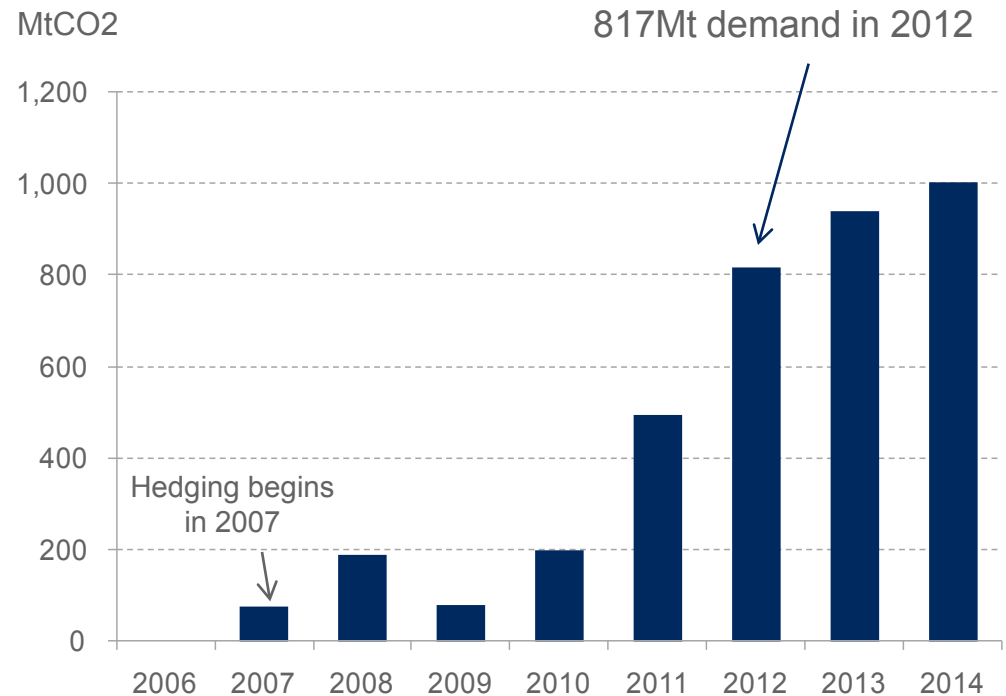
Demand for EUAs in year  $i$  =

projected emissions for short sectors  
(power & aviation) ( $i$ )

- free allocation ( $i$ )
- volume bought ( $i-1, i-2, i-3..$ )
- + volume needed ( $i+1, i+2, i+3..$ )

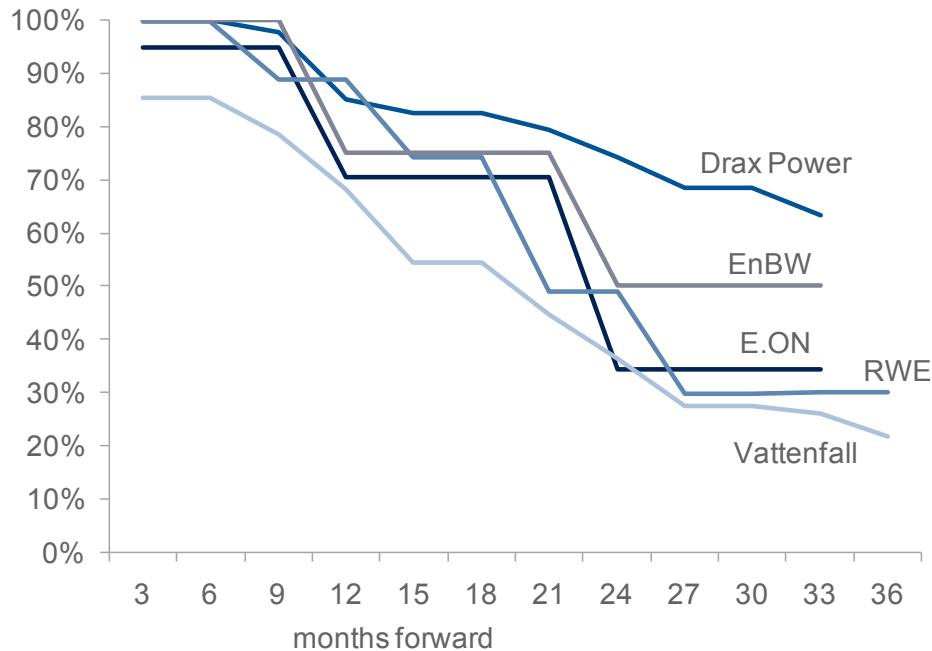
Assume:

- 21% target by 2020
- Current forward curves for fuel prices, including EUAs
- Hedging profiles (see next)

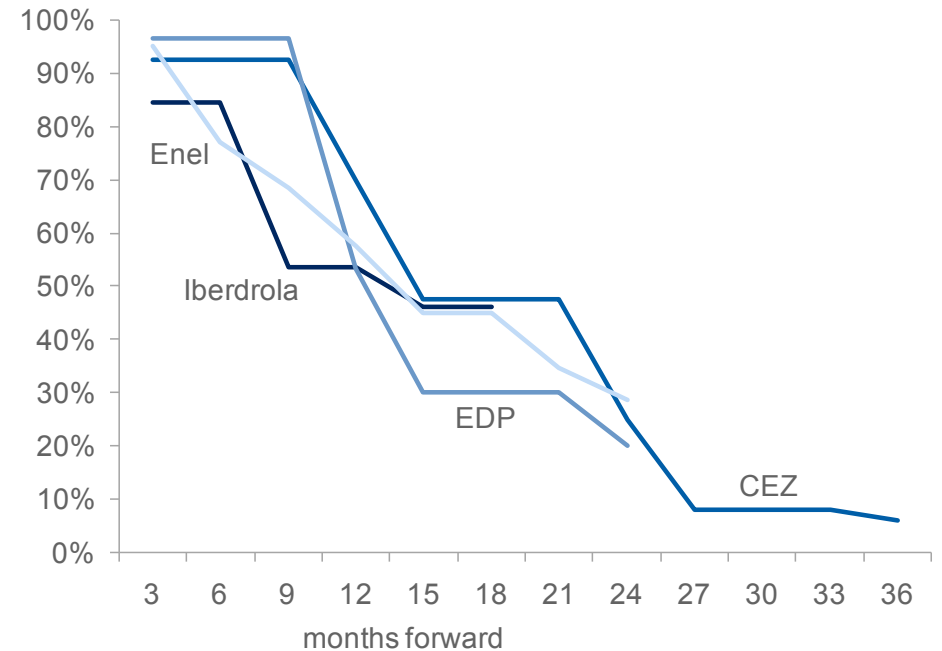


# Hedging profiles (Mt/year)

## Liberalised power sectors



## Semi-liberalised power sectors



- Liberalised power sector = 3 year hedge
- Semi-liberalised power sector = 2.5 year hedge
- Regulated power markets = 2 year hedge
- Industrial/aviation sectors = 2 year hedge

*NB: Hedging profiles taken as of summer 2010 - profiles are likely to have shortened since the summer due to reduced margins on future power sales.*

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# Supply

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1. Surplus EUAs
2. Phase II NER distribution
3. CERs
4. Fixed auction volumes
5. Forward auctioning

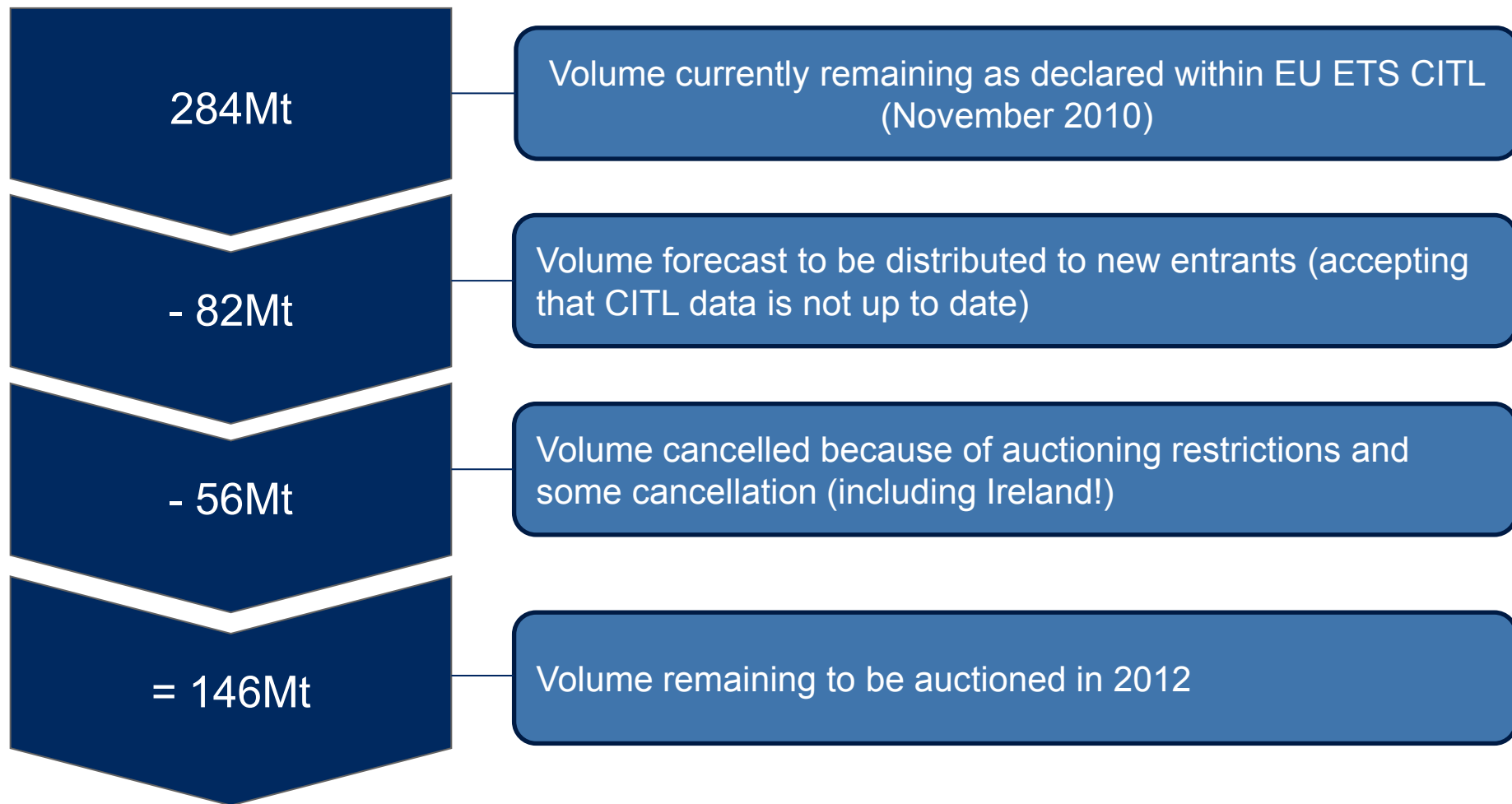
# Surplus EUAs

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- Industrial companies have created 1bnt surplus EUAs throughout Phase II
- c. 240Mt sold to date
  - Cement - > high
  - Steel -> low
  - Other sectors -> medium
- Will the remaining 800Mt be sold and if so when?
  - Cash generation -> yes
  - Reducing free allocation in Phase III due to benchmarks -> no
- Assume:
  - 2009 and 2010 highest years of selling, thereafter reducing volumes sold
  - 44Mt EUA sold in 2012



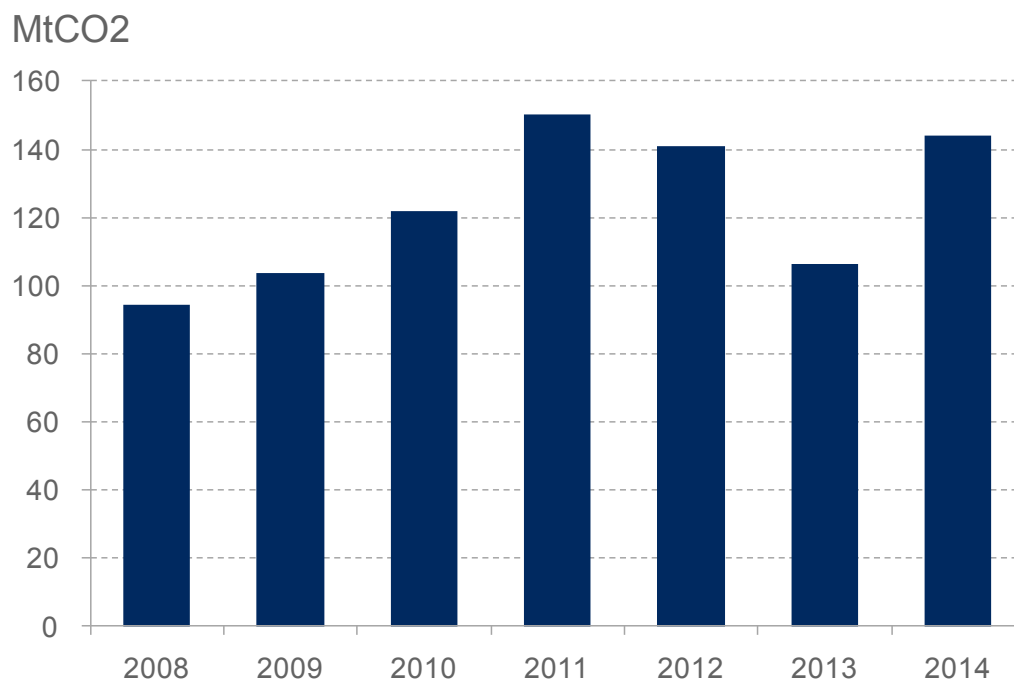
# Phase II NER



# CER supply

- CER volumes are assigned in the year in which they are contracted, not delivered
- Higher percentage of non-HFC/N<sub>2</sub>O volume expected to flow to EU ETS in Phase III, reducing impact of quality restrictions
- Assumption:
  - 611Mt available in Phase II to EU ETS participants
  - 141Mt bought in 2012

CER supply volume bought by EU ETS



# Auctioning volumes

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- NER300:
  - 300Mt of EUAs to be sold in 2012 when registry system up and running
- Forward auctioning:
  - Base case assumption -> 100Mt in 2012.

# Supply side annual summary

|      | CER | Phase II Auctions | Industrial selling | NER | Phase III supply * | Total        |
|------|-----|-------------------|--------------------|-----|--------------------|--------------|
| 2008 | 94  | 44                | 28                 | 0   | 0                  | <b>167</b>   |
| 2009 | 104 | 71                | 112                | 0   | 0                  | <b>287</b>   |
| 2010 | 122 | 91                | 116                | 0   | 0                  | <b>329</b>   |
| 2011 | 150 | 69                | 71                 | 0   | 0                  | <b>290</b>   |
| 2012 | 141 | 96                | 44                 | 146 | 300                | <b>726</b>   |
| 2013 | 106 | 0                 | 3                  | 0   | 929                | <b>1,039</b> |
| 2014 | 144 | 0                 | 0                  | 0   | 1,057              | <b>1,202</b> |

\* Excluding any early auctioning

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# Supply and demand balance (Mt/year)

2012 without early auctioning:

Demand = 817Mt

Supply = 726Mt

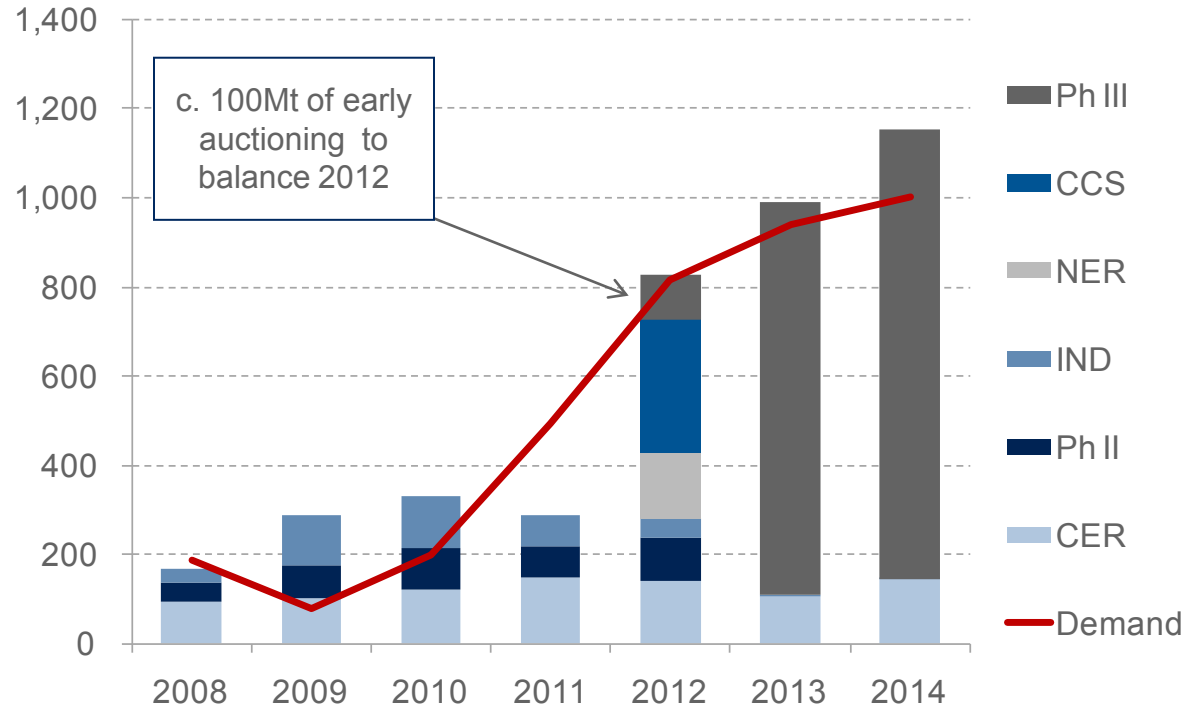
Unmet demand = 91Mt

NB: cumulative surplus at start of 2012 = 45Mt

where is this?

will it come to market?

Cumulative surplus in 2012 = 45Mt



# Some final thoughts

more early

arket to

ooks long  
ard

more  
nd 2014.  
a slightly  
e years.

Arguments  
auctioning

- Creates fir  
term
- Risk of hig  
size of pot
- Some rese  
by interme  
companies

# Forward auctioning

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