

# EU-ETS Phase I

## The Story

### Statkraft

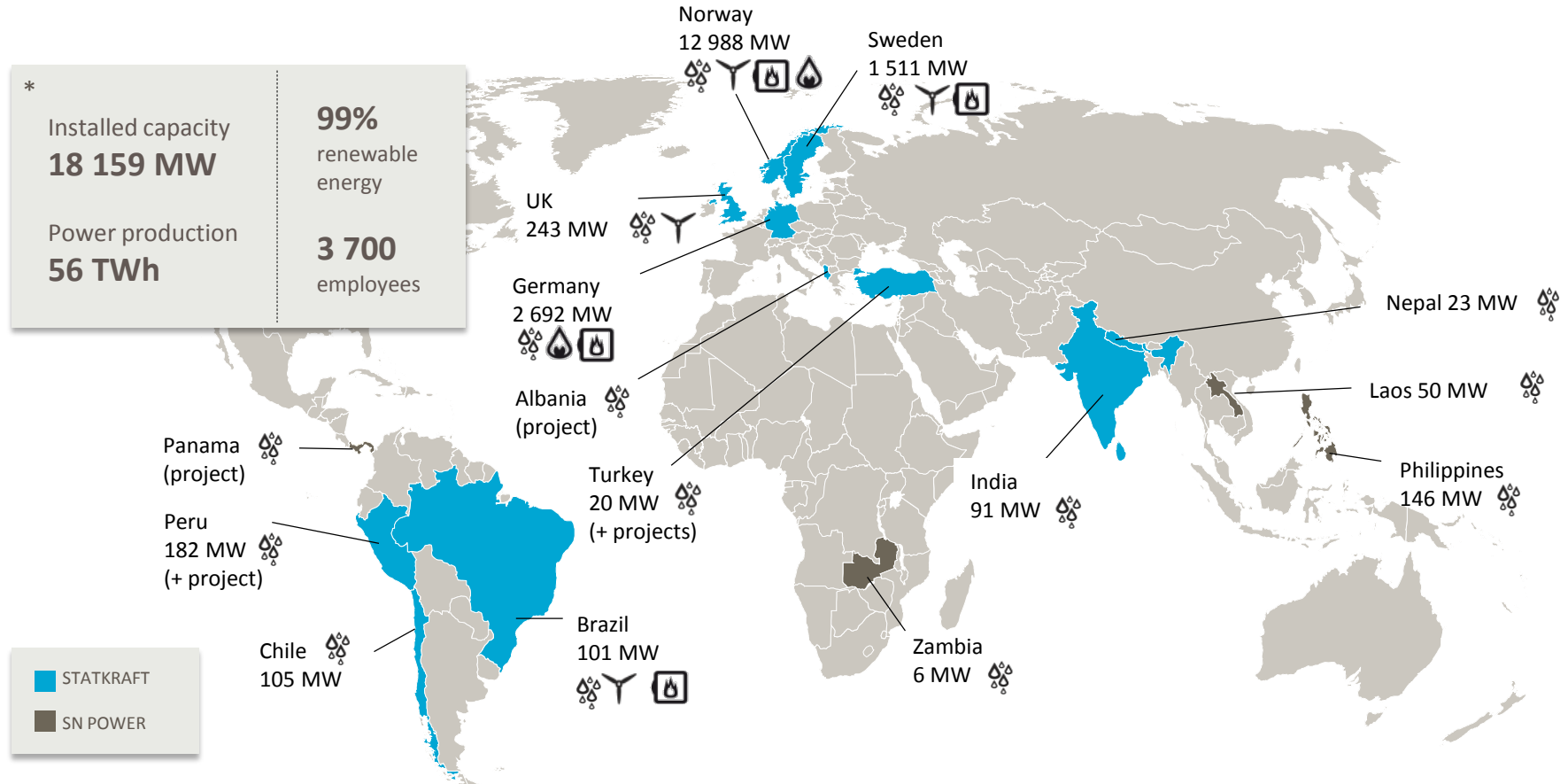
Eric Boonman

Head of Carbon Origination, Global Environmental Markets  
Statkraft Markets GmbH

Seoul, March 2014



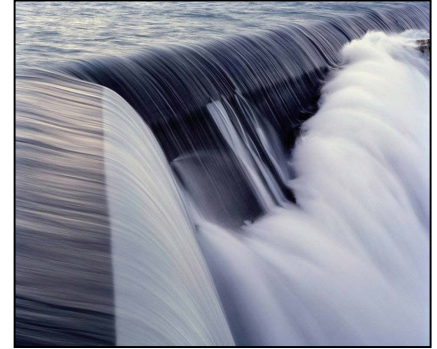
# Statkraft: No.1 Renewable Energy Producer in Europe



\* 2014 figures. Includes: - Statkraft/SN Power's share of installed capacity

# Statkraft and EU-ETS

- ▶ **Direct exposure** of gas-fired assets in Europe
- ▶ **Indirect exposure** of renewable power assets through power price
- ▶ **Carbon portfolio management and trading** by *Global Environmental Market* business unit



# Statkraft in the EU-ETS Today



## Upstream Project Offsets

- Participate in carbon funds (e.g. World Bank and KfW)
- Offset projects



## Midstream Trading & Portfolio Management

- Match upstream and downstream positions
- Balance positions according to market and regulatory changes



## Downstream Client Business

- Manage Statkraft's exposure
- Client exposure management
- Provide market access

*Active across the entire value chain globally*

# Key Developments in Phase I

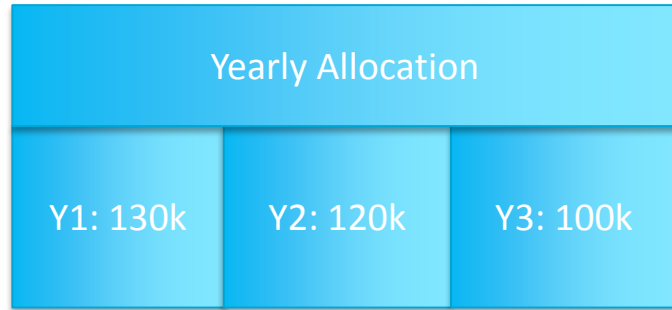
Key issues every EU-ETS company faced:

1. Corporate governance, roles & responsibilities and decision making
2. What is our carbon position (*MRV*)? How to manage it?
3. Internal Abatement Costs?
4. Allowances versus offsets?

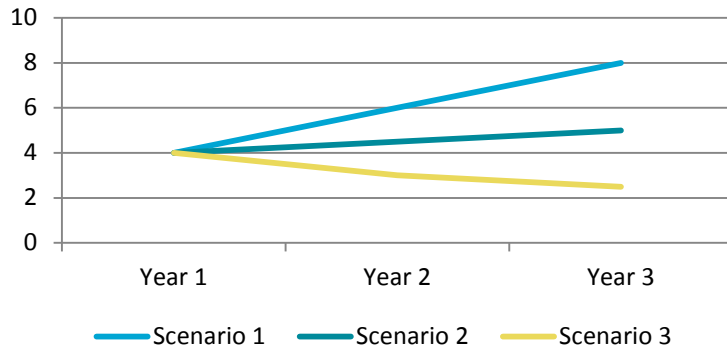
Trading activities:

1. OTC Forwards via brokers
2. Standardized contracts (IETA, EFET and ISDA)
3. Exchange trading (ECX ICE, EEX and Nordpool)
4. Derivatives

# Borrow vs. Buy & Bank vs. Sell



## Carbon Price Expectations

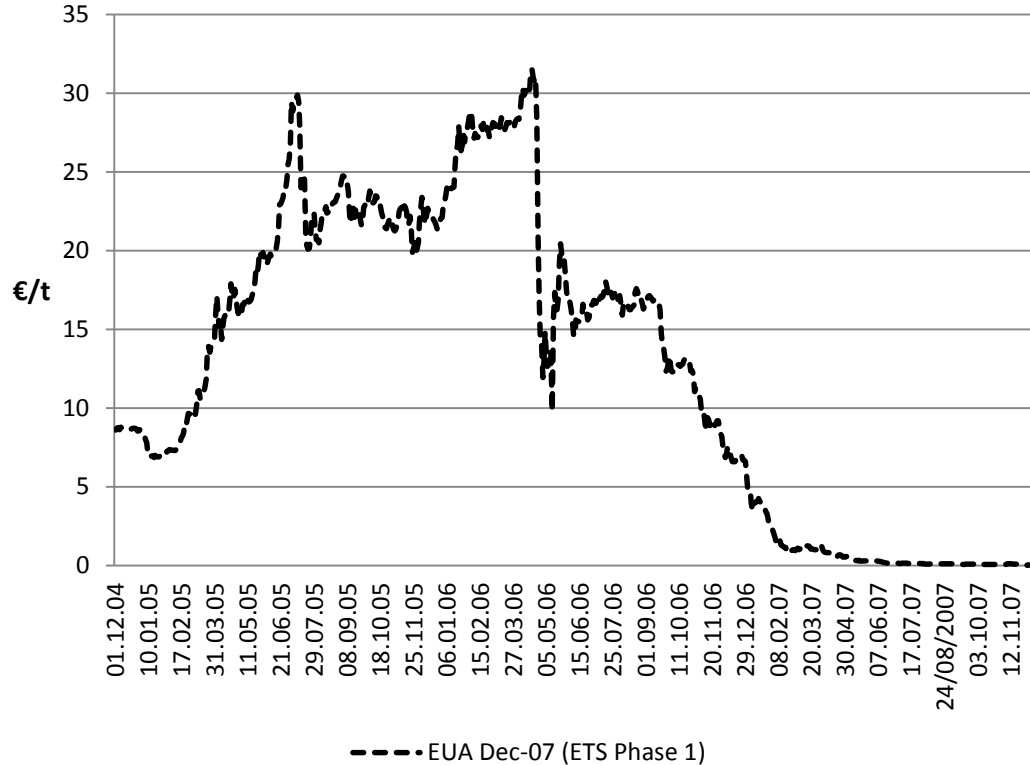


- ▶ Actions today depends on the view on the future



*A liquid market of future/forward contracts enables companies to compare expectations and reduces risk*

# Price Developments & Milestones



- ▶ 2003: The first “OTC” EUA trade reported
- ▶ 2004: IETA, ISDA and EFET
- ▶ 2005: Exchanges to offer EUA futures
- ▶ 2006: Phase 1 price crash
- ▶ 2007: Exchanges to offer CER futures

# Lessons Learned & Conclusions

- ▶ Addressing key issues early provides competitive advantage
- ▶ Gain experience by trial and error
- ▶ Liquid market provides price discovery and reduces risks
- ▶ Market benefits from liquidity providers and good information disclosure
- ▶ Don't let opportunities slip by; not deciding is also taking a position on the future

## ***Conclusion:***

***Carbon is more than a policy tool; it is also a source of opportunities***



# THANK YOU

**Eric Boonman**

Head of Carbon Origination, Statkraft Global Environmental Markets  
Amsterdam, the Netherlands

DIRECT +31 20 7957 830

MOBILE +31 627 876 617

EMAIL [eric.boonman@statkraft.com](mailto:eric.boonman@statkraft.com)



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[www.statkraft.com](http://www.statkraft.com)

# Evolution of financial products in the EU ETS

- ▶ •OTC forward trades
- ▶ •Spot trades (these came *after* forwards!)
- ▶ •Centrally cleared exchanges
- ▶ •Derivatives (options)
- ▶ •Simple “Repo” trades
- ▶ •Investor financing of repo trades
- ▶ •Collateralised forward trades