EU-ETS Phase I

The Story

Statkraft

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Statkraft: No.1 Renewable Energy Producer in Europe

- **Installed capacity**: 18,159 MW
- **Power production**: 56 TWh
- **99% renewable energy
- **3,700 employees**

*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

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**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

Actions today depends on the view on the future

Yearly Allocation

Y1: 130k  Y2: 120k  Y3: 100k

Carbon Price Expectations

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

Market benefits from liquidity providers and good information disclosure
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

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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