The EU ETS

"A tale told by an idiot, full of sound and fury, signifying….?"

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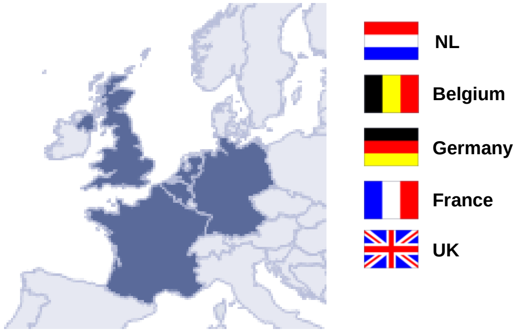
Eneco is a company focused on transition towards sustainable energy

Leading North Western European sustainable energy company

- Eneco Group is a leading North Western European sustainable energy company, active in the production, transportation, trade and supply of power, gas and heat
- Eneco serves 2.2m customers
- Eneco Group has approximately 7,000 employees, several hundred of whom work outside the Netherlands
- The company is a leading energy company in the Northwest part of Europe whose goal for its customers is fully sustainable energy supply

Eneco presence in Europe



Eneco's focus on a sustainable energy strategy

1. Fossil fuels run out and make us dependent on other countries outside Europe
2. Global warming challenges us to find cleaner and smarter solutions for future generations
3. Sustainable energy offers the best guarantee for ensuring the continuity of energy supply from a business economic, social and ecological point of view
4. Sustainable energy is clean and can be generated everywhere and by everyone

Eneco is one of the cleanest energy companies in North Western Europe and is committed to retaining this position by playing a pioneering role in improving the sustainability of energy supply

Eneco

Neronuff to the truth?

State of play

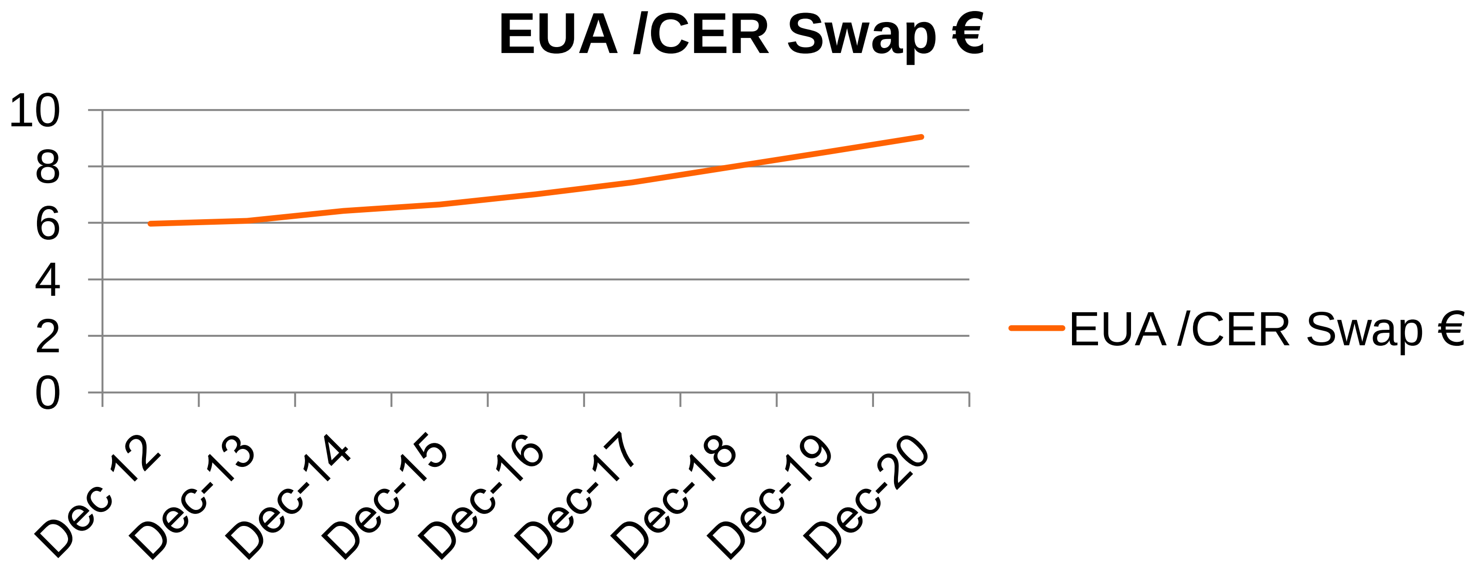
- **There are too many allowances in the market to permit any meaningful abatement activity – depending on your favoured analyst the amount is anywhere between 1.1 and 2.15 Gt**
- **Too many EU policies are implemented in an unco-ordinated way, with respect to the ETS Directive, thus duplicating abatement drivers and undermining the ETA mechanism**
  - Unilateral initiatives, like the UK's carbon tax and the Dutch's coal tax, or sector specific subsidies are unhelpful and 'unlevel' the playing field
- **Economic weakness of Eurozone also a significant factor**
- **Compliance players who have bought CERs from HFC and adipic acid N2O projects have an interesting decision to make: 'use and lose' in 2012, or 'waive and save' – until 2020**

And Brussels fiddles while their market burns….

- **EUA market has fallen from EUR18.98 in the first week of June last year to EUR7.67**
- **CER market has fallen from EUR 12.77 to EUR 1.78 over the same period.**
  - with the consequence that some project buyers are breaking contractual commitments and very few new projects are viable

Outlook for CERs

- Up to now market focused on pre and post 2012. But this will switch to pre and post 2015
- All CERs banked from this Phase have to be swapped into EUAs by 31/03/15
- BUT, this means losing the option to swap later in the Phase
- Logically the pre 2015 and post 2015 swaps should evolve towards each other – depending on what value you give to retaining the optionality



Aviation and the maritime sectors

- Fierce opposition hasn't helped the market, and it's almost become a test of will
- If airline sector was a country, it would be the 7th largest in the world
- These sectors should have no reason to complain – EU gave them ample time to get their houses in order
- Difficult to see why they think they should be exempt - less exposed than anyone to carbon leakage
- It's ironic that in MoP negotiations some countries, when faced with reduction commitment requests, call for sectoral approaches – yet when the EU comes up with one……
- Airlines have the best ability to pass through charges
- And IMO (3% of global emissions) hasn't learnt anything from IATA – still prevaricating

The Solutions

- **The set-aside alone is a sticking plaster solution and merely evidence of poor policy and lack of political consensus -** *unless it serves as a signal to the market of the willingness and intent of the Commission to propose a package with structural measures in the very near future*
- **Central Bank? Price floor on auctions?**
- **Eneco urges the Commission to transform the back-load proposal into a permanent set-aside of 1200 million allowances**
- **Better solution is more ambitious targets**
  - set an ambitious and binding 2030 CO_2 reduction target . By continuing the 1,74% cap after 2020, a reduction of no more than 37% in 2030 and 72% in 2050 will be reached; far below the set targets. A reduction of at least 45% in 2030 is needed to reach the 2050 reduction targets of 80-95%.
  - To reach the above mentioned 45% CO_2 the rate needs to be at least 2.2% from 2013 - otherwise if the rate is altered ONLY at the beginning of 2021, an adjustment of 2.6% will be needed to reach the 2030 target

Thank you!

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