

Emissions Daily

Monday, July 20, 2009

Carbon market group calls on EC to fix rules amid alleged VAT fraud

London — The Carbon Markets and Investors Association July 16 called on the European Commission to harmonize the treatment of VAT across EU member states, following recent allegations of VAT fraud in the EU Emissions Trading Scheme.

The international trade association representing service providers to the global carbon market said a number of approaches could be taken to help prevent so-called “carousel fraud,” which involves a seller charging VAT on goods but disappearing or being declared bankrupt before paying the VAT to the relevant government, and the buyer claiming the VAT back from the government.

“Whichever direction the EU decides to take, CMIA would emphasize the need for EU-wide regulation that could be implemented with expedience,” a CMIA spokeswoman said July 16.

In a briefing note released July 15, UK-based CMIA noted that France announced in late May that it had exempted emissions trading from VAT, a move the group regards as in conflict with the position of the EC. “The French authorities have acted on their suspicions of VAT fraud in the carbon market by declaring the trading of carbon credits VAT-exempt, as a

(continued on page 2)

EUAs fall on lack of buyers, weaker gas

EUA MARKET

EU Allowances came under heavy selling pressure Friday, as what appeared to be recent speculatively-driven gains evaporated, traders said.

December 2009 EUAs opened a little higher than the previous day’s close of €14.55, but immediately fell in early deals.

Prices held for a while at around €14.40 but succumbed to further pressure as the selling continued throughout the rest of the morning session.

“It’s not really a surprise when you see last week the fundamentally unjustified move higher,” said one trader.

“Financials are playing technical levels, and both financials and utilities are selling today,” he said.

“Gas is extremely weak and coal strengthened with oil,” he said, noting that both those factors were bearish for carbon prices. Lower gas prices compared to coal prompt power generators with flexible fuel options to switch from coal to gas,

(continued on page 2)

Platts daily EUA assessments, Jul 17 (€/mt)

Delivery	Assessment	Midpoint	Change
Phase 2			
EUA 2009 Dec	14.080-14.120	14.100	-0.450
EUA 2010 Dec	14.540-14.580	14.560	-0.475
EUA 2011 Dec	15.330-15.370	15.350	-0.475
EUA 2012 Dec	16.460-16.500	16.480	-0.495

Monthly Rolling Average

EUA 2009 Dec	Jul-09	13.756	0.029
--------------	--------	--------	-------

Forward market daily assessments: The low end of the range reflects prices for larger parcels, while the upper end reflects prices for smaller parcels. The typical size range is 5,000 to 50,000 mt. Monthly Rolling Average: This is a mathematical average of assessments for the most actively traded contract each month, usually the next December contract.

Platts daily CER assessments, Jul 17 (€/mt)

Delivery	Assessment	Midpoint	Change
CER 2009 Dec	12.760-12.860	12.810	-0.240
CER 2010 Dec	12.610-12.710	12.660	-0.200
CER 2011 Dec	12.670-12.770	12.720	-0.205
CER 2012 Dec	13.050-13.150	13.100	-0.200

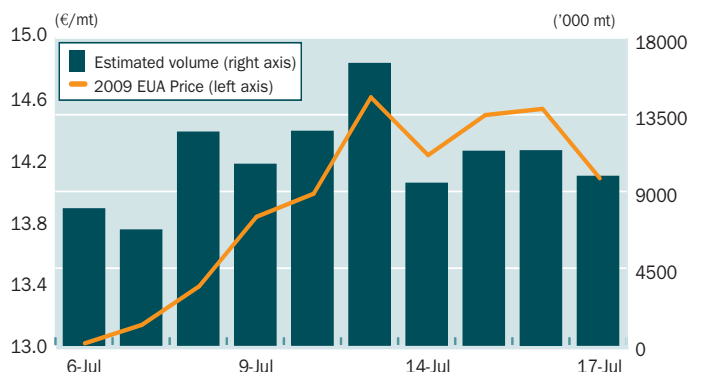
Monthly Rolling Average

CER 2009 Dec	Jul-09	12.242	0.048
--------------	--------	--------	-------

Platts daily EUA/CER spread, Jul 17 (€/mt)

Delivery	Spread	Change
2009 Dec	1.290	-0.210

EU CO₂ volume and price



Source: Platts (Volume = exchanges only: ECX, Nord Pool, EEX, BlueNext)

cutting demand for EUAs.

One trader said the weakness in carbon was dragging German power prices lower Friday, in an absence of other driving factors.

A broker said prices had briefly tested the €14.00 level with bids heard below that level for a brief period early in the afternoon session. Prices staged a modest bounce to €14.30 before settling down again toward the close.

December 2009 EUAs were quoted at €14.10 at the close, down €0.45 on the previous day.

CERs drift as EUAs fall, spread narrows

CER MARKET

Certified Emission Reductions drifted Friday in relatively quiet conditions, traders said.

CERs came under modest pressure as EUA prices fell around €0.45 as recent speculatively-driven gains were unwound, traders said.

December 2009 CERs were pegged at €12.81 at the close, down €0.24 on the previous day.

Traders said carbon prices were under pressure Friday due to a lack of buy-side support, allowing recent gains to dissolve. Gas prices were quoted lower Friday and strength on coal was also cited as a bearish input for carbon.

The December 2009 EUA-CER spread narrowed again Friday, to close at €1.29, compared with €1.50 Thursday.

July has been relatively slow on CER issuances by the UN's Clean Development Mechanism Executive Board. The week ending July 17 saw a total of just over 2.1 million CERs issued. That followed the previous week in which the board issued only 357,000 CERs.

Slower than expected issuance of CERs this year has been cited as one factor in the backwardation seen on the CER forward curve, with the front-year 2009 contact trading at a premium to the later maturities for delivery in 2010 and 2011.

EUROPE

Anti-fraud measures ... from page 1

financial service," it said.

"The impact of this measure is to remove the capacity of sellers to engage in VAT fraud by removing the necessity of sellers to charge VAT to their buyers. This affects the entire supply chain. However, another implication is that traders will no longer be able to recover VAT that they incur in overhead costs."

CMIA added that, "Legally, France is governed (as all EU member states) by the European VAT Directive. Thereby, they cannot take unilateral measures on the VAT treatment of carbon credits. However, France has chosen to interpret the supply of carbon credits as equivalent to a financial security.

Generating fuel cost comparisons, Europe (Jul 17)

Fuel	/MWh	Plus CO ₂	Total /MWh	Profit/Loss		
				in £	in €	in \$
UK Baseload (£)						
Gas						
Next month	14.11	4.66	18.77	12.43	14.47	20.41
Next Q	25.06		29.72	9.53	11.09	15.64

Coal						
Next month	17.52	12.29	29.81	1.39	1.61	2.28
Next Q	17.65		29.94	9.31	10.84	15.28

NW Europe Baseload (€)

Fuel	/MWh	Plus CO ₂	Total /MWh	€	£	\$
Gas						
Next month	15.14	4.89	20.03	12.47	10.72	17.61
Next Q	25.85		30.73	13.67	11.74	19.30

Coal						
Next month	20.38	14.31	34.69	-2.19	-1.88	-3.09
Next Q	20.52		34.84	9.56	8.22	13.51

NW Europe/UK Peak load

Fuel	Oil 1%S	/MWh	Plus CO ₂	Total /MWh	NWE €	UK £
Next month	71.73	10.72	82.45	-40.70	-31.42	
Next Q	72.48		83.20	-24.05	-22.82	

Fuel Oil 3.5%S						
Next month	70.26		80.98	-39.23	-30.16	
Next Q	69.07		79.79	-20.64	-19.89	

Gasoil 0.1%S						
Next month	96.36		107.08	-65.33	-52.58	
Next Q	93.99		104.71	-45.56	-41.30	

Note: Based on typical kg CO₂/mmBtu rates of 101.5 for coal, 55 for natural gas, and 72.5 for oil; and on generating efficiencies of 49% for UK gas plant, 54% for western Europe gas plant, 34% for all coal plant, and 32% for all oil-fired plant. Benchmark coal and distillates are priced at ARA. Details of methodology at www.platts.com

European exchange data, Jul 17

	Settlement (€/unit)	Volume
ECX/ICE		
Futures		
CFI Dec 2009	14.09	5,051,000
CFI Dec 2010	14.55	934,000
CFI Dec 2011	15.34	155,000
CFI Dec 2012	16.47	447,000
CFI Dec 2013	17.68	0
CFI Dec 2014	18.90	0
CER Dec 2009	12.81	312,000
CER Dec 2010	12.68	261,000
CER Dec 2011	12.74	90,000
CER Dec 2012	13.10	412,000

Unfortunately, the re-classification is not aligned with the commercial reality that the supply of a carbon credit is a conveyance of a right. This is the agreed position of the European Commission since the establishment of the EU ETS.”

Concerns about possible VAT fraud also prompted the Dutch government on July 15 to change its own rules on VAT to shift the tax burden from the seller to the buyer — effectively preventing carousel fraud.

These recent developments have prompted the CMIA to call for harmonization of VAT on emissions trading at EU level amid what is currently a patchwork of different policies from one member state to the next.

In the UK, for example, over-the-counter trades of EUAs are treated as VAT-eligible supplies of rights, although trades cleared on London’s European Climate Exchange are covered by the Terminal Markets Order, which effectively taxes the transactions at a zero rate, CMIA said.

The CMIA spokeswoman said that expansion of the UK’s TMO would be “politically difficult,” although the Dutch government’s so-called reverse charge mechanism is one option that could potentially be rolled out across the EU. Whatever form the ultimate solution takes, action needs to happen quickly to help prevent VAT fraud in the carbon markets, she said.

“In the meantime, and as awareness has piqued, firms that could face exposure to fraudulent activity will likely undertake greater care in supplier due diligence. But this is an intermediate solution and one that does not eliminate the necessity for an EU-wide directive.”

Allegations of VAT fraud in the carbon markets will do little to help the EU demonstrate the effectiveness of emissions trading as its flagship mechanism in the fight to cut CO₂ emissions, which is entering a critical phase ahead of crunch UN climate change talks set for Copenhagen in December.

But the CMIA said the success of the EU ETS should be judged on the extent of emissions reductions achieved. “The credibility of the carbon markets are, or course, of concern to CMIA as they are to the EU. The credibility of carbon markets thus far has rested on their ability to measurably reduce emissions, and this has been proven,” the spokeswoman said.

“The market is still imperfect, and policy-makers and participants are still learning lessons from the EU ETS — the first of its kind. Issues of this nature are, or course, unfortunate, but we are confident that they are only temporary. Measures have been taken, and the loophole that some companies have unfortunately exploited, will be corrected. The credibility of the carbon markets as the most cost-effective means by which a country spurs its industry toward a low-carbon economy, however, we do not believe is compromised by the actions of a few.”

The CMIA spokeswoman added, “It was policy-makers who created the carbon market and who continue to see it as a central policy instrument, and we hope very much that a broader global agreement at Copenhagen will set the overall necessary framework to enable a broader carbon market to evolve. Involving private capital and investors, and giving them confidence about the continuity of the market in the post-2012

European exchange data (continued)

	Settlement (€/unit)	Volume
Nord Pool		
EUA spot	14.00	20,000
Forwards		
EUA Dec 2009	14.15	10,000
EUA Dec 2010	14.60	1,000
EUA Dec 2011	15.35	0
EUA Dec 2012	16.50	55,000
EUA Dec 2013	17.70	0
EUA Dec 2014	18.90	0
CER Dec 2009	12.80	0
CER Dec 2010	12.65	0
CER Dec 2011	12.70	0
CER Dec 2012	13.05	0
EEX		
EUA spot	13.98	48,000
EUA auction	14.31	0
Forwards		
EUA 2009	14.19	25,000
EUA 2010	14.65	25,000
EUA 2011	15.45	0
EUA 2012	16.56	0
CER 2009	12.87	0
CER 2010	12.72	0
CER 2011	12.79	0
CER 2012	13.18	0
Bluenext		
EUA spot	14.00	3,104,000
Futures		
EUA 2009	14.16	0
CER spot	12.88	20,000
CER 2009	12.81	0

Subscriber Note

Following reader feedback, Platts has decided to repackage its US carbon market content that is currently published in *Emissions Daily*. As of August 3, Platts will transfer its weekly Regional Greenhouse Gas Initiative market commentary, state-level carbon market news and the US exchange data to *Megawatt Daily*. We will continue publishing US federal carbon market news in *Emissions Daily* as it is relevant to the development of the global carbon market. US emissions news will continue to be carried on Platts Electricity Alert. Please direct any questions to frank_watson@platts.com.

transitional phase will surely be much more important considerations for policy-makers in December.”

The CMIA’s more than 50 members include major banks, insurance companies, law firms, consulting companies and brokerages. The EC’s Directorate-General Environment, which administers the EU ETS, was not immediately available to comment when contacted Friday.

Poland Senate approves bill amendment to enable AAU sales

Warsaw — The Polish Senate has approved an amendment to a greenhouse gas emission bill that would enable the sales of government-level Kyoto Protocol credits, a government official said Friday.

The approval means Poland has taken a further step towards trading of Assigned Amount Units, the sovereign-level GHG emissions credits held by industrialized countries under Kyoto.

“The bill which was amended on Thursday [July 16] deals with all kinds of gas emissions,” said Pawel Muzyk, an official at Kashue, the national office within the Environment Ministry which administers emissions trading in Poland. He said the Senate amended the clause on the procedures dealing with the sale of AAUs, emphasizing the role of an environment minister as the chief decision-maker.

The approval of the amendment, which became more specific than it was in the bill which was approved by the Sejm or the lower house of Parliament on June 22, means that the country may finalize several international transactions dealing with the sale of AAUs.

Kyoto committed 38 industrialized countries to cut emissions of six GHG emissions by 5.2% below 1990 levels by 2008 to 2012. Poland has fulfilled the requirements of Kyoto ahead of schedule and has an estimated surplus of about 500 million metric tons of CO₂ equivalent AAUs.

Polish Environment Minister Maciej Nowicki said that his country has already signed letters of intent with several countries to sell 100 million mt of AAUs for approximately €1.5 billion (\$2.1 billion).

Muzyk also said that another important amendment to the bill rolls back the timescale from 2009 to 2010 for Poland’s 834 emitting installations to report their GHG emissions. “The [plant] managers said that the requirement to report on the amount of emitted gases in 2009 to the National Registry came as a surprise to them and they would not be able to do it,” he said. “The Senate amended the government bill and said the requirement will cover 2010 and the registry should get the data on the emissions by the end of February in 2011.”

The legislation now goes to the lower house for review by the end of August. Polish President Lech Kaczynski will sign it into law within two weeks following that expected approval.

EUA price gains due to speculative play: Italian exchange

Caserta, Italy — Recent movements of EU Allowances prices under the EU Emissions Trading Scheme indicate the market’s relative youth, reflecting speculative factors more than underlying changes to the supply and demand balance, a senior carbon market figure said Friday.

Following the recent G8 commitments to cut greenhouse gas emissions by 50% by 2050, the carbon market revealed its

US exchange data, Jul 16

	Settlement (\$/contract)	Volume		
CCFE				
RGGI Futures				
Jul09 V09	3.21	650		
Aug09 V09	3.22	180		
Sep09 V09	3.22	0		
Oct09 V09	3.23	0		
Nov09 V09	3.23	0		
Dec09 V09	3.24	2,406		
Dec09 V12	3.30	0		
Jan10 V09	3.25	0		
Mar10 V09	3.27	0		
Mar10 V10	3.27	0		
Jun10 V09	3.29	0		
Jun10 V10	3.29	0		
Sep10 V09	3.31	0		
Sep10 V10	3.31	0		
Dec10 V09	3.35	0		
Dec10 V10	3.35	0		
Dec11 V09	3.44	0		
Dec11 V10	3.44	0		
Dec11 V11	3.44	0		
Dec12 V09	3.59	0		
Dec12 V10	3.59	0		
Dec12 V11	3.59	0		
Dec12 V12	3.43	0		
NYMEX GE				
RGGI Futures				
Dec 09	3.24	0		
Jan 10	3.26	0		
Feb 10	3.27	0		
Mar 10	3.27	0		
Apr 10	3.28	0		
May 10	3.28	0		
Jun 10	3.29	0		
Jul 10	3.30	0		
Aug 10	3.31	0		
Sep 10	3.31	0		
Oct 10	3.31	0		
Nov 10	3.31	0		
Dec 10	3.31	0		
Jan 11	3.31	0		
Feb 11	3.32	0		
Mar 11	3.33	0		
Apr 11	3.34	0		
May 11	3.35	0		
Jun 11	3.35	0		
Jul 11	3.36	0		
Aug 11	3.37	0		
Sep 11	3.38	0		
Oct 11	3.39	0		
Nov 11	3.40	0		
Dec 11	3.41	0		
Chicago Climate Exchange – Week ending Jul 16				
CFI Vintage	Close (\$/mt)	Change	Volume (mt)	Change
2003	0.60	0.00	43,200	27,500
2004	0.60	0.00	37,000	-8,900
2005	0.65	0.05	20,700	-480,300
2006	0.60	0.00	92,700	-398,600
2007	0.60	0.00	282,600	44,600
2008	0.60	0.00	346,800	37,800
2009	0.55	-0.05	439,400	49,400
2010	0.55	-0.05	262,000	59,000

relative immaturity after prices rose above €14.00 (\$19.79) per metric ton in early July despite falling oil prices, said Elenia Petrachi, newly appointed managing director at the Mediterranean emissions exchange Sendeco2.

Speculative factors, such as the G8 events or analysts' forecasts on prices, often tend to have a greater impact on the carbon market than the relationship between the allocation of EUAs and companies' verified CO₂ emissions, or than the price of other related commodities such as oil, natural gas and coal, Petrachi said.

These speculative forces can generate either positive or negative sentiment, creating volatility in the EUA price, she said. EUA recorded a bullish move in the week ending July 17, with prices pushing up through €14/mt, resisting the impact of falling oil prices. Crude prices dropped around \$10 per barrel to around \$60/b in the first half of July amid ongoing economic worries. However, carbon prices recorded a rise of more than €1/mt over the same period.

The main reason for such a climb, according to Petrachi, was acquisitions made by financial institutions, such as banks, rather than compliance buyers such as power generators. As a consequence, companies operating within the EU ETS find it very hard, and in some cases impossible, to plan long term strategies in the management of EUAs and in maximizing gains from such an asset which often remains unutilized in the companies' portfolios, she said.

Many Italian small and medium sized companies are not well structured and often lack the know-how and the competent personnel capable of managing their EUAs to their best interest. "These companies do not have a clear idea on how to operate on the market since banks, external consultancy companies and advisors are often interested to make profits out of contrasting information about carbon prices," added Petrachi.

According to Petrachi, since companies do not have a clear idea about carbon prices, traders or consultants can provide their clients with "wrong" prices and in this way, consultancy companies or traders make profits in buying and selling their clients' EUAs.

Massimo Noto, a key account manager at Sendeco2, agreed that EUAs ignored falling oil prices in the first two weeks of July. He said a bullish trend as a consequence of the G8 talks on climate change on July 8-9, is likely to be short-lived. "Many market players perceive the situation as a temporary event, and should be looking to sell their EUAs for profits," he added.

Expert energy, CO₂ MEPs return in new EU Parliament committees

Brussels — The new European Parliament's energy and environment committees include many of the key politicians who helped to shape the EU's third energy market opening and climate protection packages, the EP's website showed Friday.

Familiar faces in the new EP energy committee include Luxembourgish Green MEP Claude Turmes, who as rapporteur led the EP's debate on the EU's 2009 renewable energy directive; UK center-right MEP Giles Chichester, rapporteur for the EU's 2009 regulation setting up a European energy regulatory agency;

and Spanish center-right MEP Alejo Vidal-Quadras, rapporteur for the EU's 2009 regulation on cross-border power trading.

Outgoing chairwoman German center-right MEP Angelika Niebler returns as an ordinary member, while her colleague, German center-right MEP Herbert Reul, returns as the new chairman.

Familiar faces in the new EP environment committee include UK center party MEP Chris Davies, rapporteur for the EU's 2009 carbon capture and storage directive and vocal advocate for supporting CCS with new entrant EU Allowances from the EU Emissions Trading Scheme, as well as Finnish Green MEP Satu Hassi, rapporteur for the EU's 2009 decision to set national 2020 greenhouse gas emission targets. Also returning to the environment committee is German center-right MEP Peter Liese, rapporteur for the EU's 2008 directive to include aviation in the EU ETS.

There are two familiar faces missing: UK center-left MEP Eluned Morgan, rapporteur for the EU's third power market opening directive, stood down after 15 years, while Ireland's center-right MEP Avril Doyle, rapporteur for the EU's 2009 revised ETS directive, retired.

One new face is Nick Griffin, leader of the right-wing British National Party which won its first ever two seats in the EP's June elections. Griffin is a full member of the environment committee and a substitute member of the energy committee. He is not attached to any of the main center, center-right, center-left or green political groups.

The EP held its first session of the 2009-2014 term in Strasbourg July 13-16, during which it elected the heads and deputies of 12 committees, including energy and environment, and confirmed their members.

AMERICAS

US Senate bill passage key to success in Copenhagen: Kerry

Washington — China's participation in a new international agreement to limit global greenhouse gas emissions hinges on having an approved US carbon cap-and-trade bill in hand for the UN-led climate conference in Copenhagen this December, according to Senate Foreign Relations Committee Chairman John Kerry.

"There is absolutely no prayer of getting them to be accountable and part of the solution unless we move to do this now," said Kerry, Democrat-Massachusetts, said in a news conference July 16. "If we move, China and the rest of the world will have move."

The Senate is set to begin committee-level debate of a bill in September, with language introduced September 8. It remains unclear if the Senate will be able to pass a bill this year, although the US House of Representatives was successful in passing its bill (H.R. 2454) in late June but by a very narrow 7-vote margin.

"Copenhagen's success is going to be predicated on our success here," said Kerry. "We're determined to try to pass

something here.”

To that end, Kerry and Senate Environment and Public Works Committee Chairwoman Barbara Boxer, Democrat-California, for several weeks have been working to convince their colleagues to vote for a cap-and-trade bill. Similar to the House, mostly Republican members fear that cap-and-trade would negatively impact their local economies and escalate consumer electricity rates. The Senate has a 60-member Democrat majority, but there is no guarantee that all Democrats will vote for a bill given the range of issues unique to different states.

Kerry and Boxer said they would work off the House bill but tweak it to meet their colleagues' concerns. The senators declined to discuss possible changes yet one key issue expected to be addressed is how carbon allowances are allocated to the electric power sector. The House bill allocates 35% of all allowances to the electric power sector, including 5% to unregulated merchant generators.

Bill sponsors, House Energy and Commerce Committee Chairman Henry Waxman, Democrat-California, and Energy and Environment Subcommittee Chairman Edward Markey, Democrat-Massachusetts, “threaded a very fine needle in a very effective way,” said Kerry. “In our judgment ... there is room for some tweaking. But we’re not going to reinvent the wheel here.”

Boxer and Kerry invited Duke Energy CEO Jim Rogers to a closed-door luncheon to help encourage wary Democrats to support carbon cap-and-trade. Rogers' Charlotte, North Carolina-based utility holding company is the third largest CO₂ emitter in the US.

At a news conference that followed, Rogers, who has spoken for cap-and-trade as part of the US Climate Action Partnership, again pressed his case for a bill this year, with provisions to ease industry concerns and protect consumers during the transition to a low-carbon economy.

“I believe that we need to pass legislation this year,” said Rogers. “We need certainty, we need a roadmap, we need to make investments; we need to make the transition to a low-carbon world. I say that as someone who stands before you with a large carbon footprint.”

Rogers said he talked with Boxer and Kerry about how best to build a bridge toward the carbon reduction targets the senators seek. “We talked about the need to have a price on carbon and cap on emissions,” he said. “We talked about the importance of getting the transition right, but the most important thing we talked about is the importance of getting started now.”

ASIA-PACIFIC

NZ government favors ETS despite report calling for carbon tax

Montréal — New Zealand's National Party-led coalition government prefers a modified carbon trading scheme despite a new report that claims a carbon tax would be the least cost option for the country, a spokesman for Climate Change Issues Minister

Nick Smith said Friday.

“At a very basic level, even if ideologically a carbon tax was the way forward, it would make no sense for New Zealand to choose a carbon tax over an ETS. All its major trading partners are choosing to use emissions trading as the means of adopting a price based measure for carbon in their economies,” the spokesman said.

However, the report released Friday by the Center for Independent Studies said that, “This is the wrong approach. A more flexible, efficient, effective, and transparent approach would be to replace all current efforts with a moderate and revenue-neutral emissions tax.”

An ETS involves fixing the quantity of CO₂ allowances and allowing the market to work out the price, which would thus constrain production decisions while fluctuating carbon prices would create business uncertainty, the report said. Conversely any emissions tax would involve fixing the price of allowances and allowing the market to work out the quantity, the report continued.

An ETS is therefore inflexible, said the report, and is preferred by politicians as it allows more room for making political deals with various interest groups lobbying that their sector would be adversely affected.

A Carbon tax would avoid these problems while raising ongoing and consistent revenue from emitters to government that could be linked with offsetting tax cuts and thereby avoid creating “significant economic damage,” the report argued, rather than “money flows from emitters to organizations that have credits.”

A NZ\$30 (US\$19.34, €13.70) per metric ton tax could help reduce corporate tax rates from the country's current 30% rate to an “internationally competitive 25%,” the report said.

Further examples of emissions tax related fiscal reform could allow for a NZ\$20/mt tax to replace the current fuel tax, reducing the actual environment tax on fuel but applying it instead to a broader base, the report continued. Alternatively, a NZ\$40/mt tax would allow the government to drop the top marginal income tax rate down to 30%, it said.

The opportunity for tax reform was the strongest argument for an emissions tax, the report said, adding that “designed well, it is possible that a revenue-neutral emissions tax could have no net cost to the economy,” the report said.

IN-BRIEF

■ A severe drop in the country's economic activity may be coming to an end, Germany's Economy Ministry said Friday in its latest monthly report based on several economic indicators. “Many signs suggest economic activity might have stabilized in the second quarter [of 2009 after plunging by a record 3.8% in the first quarter],” it said. The comments would undoubtedly raise hopes ahead of the August 13 release of Germany's GDP figure from the period between April and June. Government officials nonetheless still expect Europe's biggest economy to contract by 6% this year, despite the arrival of some good news recently. “Industrial demand has come back to life” and prospects for the key sector “have improved markedly,” the

ministry said. Traditionally thrifty German consumers are also likely to support economic growth, the ministry said, though it remains to be seen if rising unemployment does not end up denting consumer sentiment. Recent so-called hard data on German industrial output and orders have both come out much stronger than analysts expected. The main question hanging over the economy now appears to be the situation on credit markets. Both the finance and economy ministers have warned that tight credit conditions could choke off an eventually timid economic recovery. Carbon market participants will be watching closely for signs that economic growth is returning in the EU. Germany is by far the EU's largest emitter of CO₂ at 472.6 million metric tons, based on 2008 verified data released by the European Commission in May.

■ The Western Climate Initiative announced July 16 that its carbon cap-and-trade design recommendations related to electric providers will retain language related to power flows across the seven US-state and four Canadian province region. In design recommendations released last September, WCI described the point of regulation for electricity imported into a WCI jurisdiction as the first jurisdictional deliverer or "the first entity that delivers... electricity [imported from non-WCI jurisdictions] over which the consuming partner WCI jurisdiction has regulatory authority." Planning to release its final model trading rule in 2010, WCI said that electricity sector stakeholders were concerned about this "individual boundary" approach because the compliance obligation shifts as power flows across WCI jurisdictions. Working with stakeholders, the WCI Electricity Committee crafted alternative "common boundary" approaches that proposed to impose the compliance obligation on electricity importers at the first point of entry in any WCI jurisdiction, regardless of where the electricity is consumed in the WCI. "After considering the practical, administrative, regulatory and enforcement aspects of the individual boundary and common boundary approaches to regulating imported

electricity, the WCI Partners have determined that the individual boundary option will be the approach used in the WCI region," it said. In preparation for a meeting of its partners on Tuesday, WCI also on July 16 released final mandatory GHG reporting requirements for various emitting sectors covered under the program.

■ Preparing for the US Senate energy and climate bill debate to heat up in September, another group has been formed by coal-fired generators to ensure that carbon allowances under a national cap-and-trade scheme are allocated to merchant generators as well as regulated local distribution utilities. That position puts the group, Generators for Affordable Power, in line with what other electric trade groups — namely the Edison Electric Institute and the Electric Power Supply Association — have been advocating, but it will differ in that the group will only focus on the allowance issue, GAP spokesman Chris Matthews said last week. GAP members are Pennsylvania-based Allegheny Energy, Missouri-based Ameren, Maryland-based Constellation Energy Group, Virginia-based Dominion, Texas-based Energy Future Holdings, Ohio-based FirstEnergy, Texas-based Dynegy, California-based Edison International, Texas-based RRI, Georgia-based Mirant and Pennsylvania-based PPL. "There are a lot of different provisions within this bill [that is set to be addressed by the Senate after its unveiling in early September]," Matthews said. EPSA CEO John Shelk said last week his group will work with GAP on legislative concerns and that GAP includes some EPSA members, including companies whose plants may be shut down if allowances are not given to merchant generators. Allowance allocation was one heavily negotiated issue before the House of Representatives approved its bill (H.R. 2454) in June, with final language allocating some allowances to LDCs and merchant generators in order to ensure a smoother financial transition for utility customers subject to cap-and-trade's costs.



32nd Annual

Coal Marketing Days

Prices, Politics, and the Economy

October 1–2, 2009 • Doubletree Hotel & Suites • Pittsburgh, Pennsylvania

Register by August 21, 2009 and SAVE \$300

Topics for 2009:

- Gas and coal at the bus bar
 - economic modeling to establish the displacement point
- Eastern coal — Capital availability and M&A approaches
- Wind power — Can it squeeze coal power portfolios?
- Economics of emissions controls — Retrofit, retire, or buy allowances?
 - risk analysis — cap-and-trade for SO₂, NO_x, Hg, and CO₂
- Coal power/CO₂ storage investment amid regulatory and capital constraints
- Sourcing coal/fuels — Waste coal blends, the “sweet spot” for scrubbers
 - reselling coal to utility, industrial, and municipal users
 - use opportunity fuels for controlling fouling, slagging, and PM 2.5
- Marketability of high chlorine Illinois Basin coal moving east/southeast

Panelists and Speakers from:

American Electric Power
Alpha Natural Resources
CONSOL Energy
DPL Inc.
PPL Corp.
TVA
E.ON U.S.
Reliant Energy
Foundation Energy Sales
Allegheny Energy

Dairyland Power Cooperative
National Mining Association
FBR Capital Markets
Stifel Nicolaus
Hellerworx Inc.
John T. Boyd Company
CSX Transportation
AEP River Operations
West Virginia Coal Association
Duke University

Sponsored by:



For a complete agenda or to register and SAVE \$300, please visit us online at coalmarketingdays.com or call us at 866-355-2930 (toll-free in the US) or 781-430-2100 (direct).

For more information and speaking opportunities, contact:

James Gillies
Tel: 781-430-2110
james_gillies@platts.com

For sponsorship opportunities, contact:

Joshua Vernon
Tel: 781-430-2113
joshua_ernon@platts.com

For media inquiries, contact:

Gina Herlihy
Tel: 781-430-2109
gina_herlihy@platts.com

Registration Code: PC926-NLI