

Mr. Stavros Dimas
Commissioner for the Environment
European Commission
Rue de Loi, 200
B-1049 Brussels

19th October, 2005

Preparations for Emissions Delivery in December 2005

Dear Mr. Dimas,

In line with Commission Regulation 2216/2004 of 21 December 2004, member states are obliged to have in place an operational National Registry for EU allowances and Kyoto units by 31 March 2005. December 1st 2005 will be the first occasion when, due to contractual obligations accrued from forward trading transactions until now, need to be settled. EU emission allowances will be transferred in large quantities on that day.

Looking at the closeness of this settlement date, the European Federation of Energy Traders (EFET) has to express concerns on the current situation and would like to make the following initial **observations**:

- 1. We have been made aware by market participants that some international transfers are taking up to 3 days to complete. Any extended transfer delays around December 1st would cause widespread disruption to the emissions market.**
- 2. Only 14 of the 25 registries are operational at the mailing date of this letter. Moreover, some of the 14 operational registries have yet to finish the allocation of the allowances to the installations. Consequently, operators who have committed to make deliveries on December 1st, and whose registries are not operational, will have to make alternative arrangements in order to avoid default.**
- 3. We are not aware of any proof that the technical infrastructure of the national registries and/or ITL/CITL is sufficiently robust or indeed prepared to support the unprecedented level of usage our members foresee.**

In response to these very concerning observations EFET is making to their members and to other organisations involved in emission trading the following **recommendations and proposals** which are aimed to mitigate, but which cannot eliminate the risks that are apparent to the sector:

- I. organisations involved in trading of emissions agree to a common practice of bilateral netting out of physical positions for the 1 December 2005 delivery date.
- II. organisations will conduct a “position matching” double checking of actual trades entered into until October 31st, 2005. This reconciliation is aimed to be conducted within the first 10 BD’s (Business Days) in November.
- III. the next netting date to be defined as D-5 (BDs). This means the date of 24th Nov 2005 in the case of deliveries for the 1st Dec 2005).
- IV. organisations involved in trading of emissions agree to a common practice of daily reconciliation for D-5 to D-1 inclusive.
- V. organisations involved in trading of emissions agree to transfer net positions as early as possible. It is recommended to start a few days before the 1 December deadline, in order to avoid problems identified by observation 1 above, occurring.
- VI. organisations involved in trading of emissions agree on the common business practice of interpreting 'next business day' as the date of delivery for purposes of confirmation - in the case of different national holidays take the next BD after the holiday concerned.

Furthermore we would like to see that:

- VII. registry operators demonstrate the effectiveness of their registries for large volume transfers, and for international transfers;
- VIII. registry operators of the member States have to issue all the allocated allowances onto the operator holding accounts. Often, even in countries where there are allocation plans and a register, there are delays, because of technical or legislative problems. Encouragement from your side will be appreciated.

We also suggest considering:

- IX. a meeting between senior executives of organisations involved in emission trading and representatives of the EU to discuss at short notice the impact and implications of failures in the technical infrastructure affecting fulfillment of obligations as a matter of urgency.

We trust that the Commission shares our view to make this first year of EU emissions trading to remain a success, without disruptions in December. We are aware that much of what we propose and suggest may not be in your discretion, but you can have an important influence and we would like to stimulate and support you in your efforts to encourage that the necessary measures are taken.

EFET represents 80 companies active in energy trading, including players in electricity and fuel commodities, while majority of members are active in emission trading. Our members have extensive experience in the commodity markets that

considerably resemble the CO2 allowance market. We would like to state again that EFET offers support to further automate the electronic data exchange between the registries and the customers. EFET and EFETnet have practical experience in this field and we think it will be in the interest of the industry and the success of the EU Emissions Trading Scheme. Your support to stimulate electronic data exchange, between the registries and especially between the registries and the users, will be appreciated.

If your organisation would like to have additional information on above mentioned points, we are more than willing to discuss these points.

Looking forward to your reaction,

Sincerely yours,
On behalf members of EFET

Jan van Aken
Secretary General

Cc: Artur Runge-Metzger, Olivia Hartridge (DG Environment)
Registry managers of the 25 member states