

## Editorial Jean-François Conil-Lacoste, CEO Powernext SA

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### Powernext Carbon : Year 2

On 24 June 2005, Powernext launched Powernext Carbon, the CO2 allowance spot market, in partnership with Caisse des Depots, which manages the real time delivery and payment mechanisms, and Euronext.

One year later, this French initiative, in accordance with Directive 2003/87/CE dealing with the application of the Kyoto Protocol, has placed itself on top of all European spot markets with 2.7 Million tonnes of CO2 traded just for the month of May alone, or more than 60% of the market share.

Powernext Carbon's progression highlights the pertinence of the "cap and trade" trading system implemented on 1st January 2005. The increase of the volumes traded on ECX, the London-based futures market, and on the OTC market in general, also proves this point. In trader's memory, it is very rare that new markets reach this level of maturity in one year of existence. Let us note that this young market successfully passed a major test last April/May 2006, when CO2 prices dropped brutally because of an inopportune leak of results regarding emissions allowance excess in a few Member states. In this chaotic context, the markets were always open for negotiation, and registered record volumes. However, the strong volatility of prices could have been lessened by a better regulation.

How do you convert a try? By reinforcing the regulation of the market on several points.

First, establish a calendar for the release of crucial market information such as the results of annual verifications during the compliance period. Broadcast the statistics pertaining to the European Union as a whole before releasing the details for each member state or for each economic sector in order to eventually benefit from a statistical consolidation effect. After all, the market currently has a European dimension, and will become international starting in 2008, thus far from a strictly national focus.

Broaden the economic and geographical range. The National Allocation Plan for the second phase 2008/2012 (NAP II) includes new sectors: the production of glass wool and chemistry for N2O. In this respect, it would be interesting to introduce the airline and the forest industries who are calling for it. It would contribute to the reinforcement of market liquidity by multiplying and diversifying the interests of the buyers and the sellers.

Promote product fungibility. In this respect, the matter of the CER (Certified Emissions Reductions) needs to be raised. According to NAP II, an industrial site will be able to use for its compliance credits resulting from projects activities (CDM/JI) up to an amount equal to 10% of its allocation. Considering the large number of projects and the absence of standards, could a specific CER market be contemplated? What would be the price of the CER compared to that of an allowance? Is it justified considering an absence of visibility beyond 2012 while the majority of projects have a long-term perspective? On this last point, it is urgent to remove the uncertainty of what will happen after 2012 if the trading system is to stay for some time.

These are many points on which the regulation needs to advance, and many subjects which are examined by the Powernext teams in order to bring constructive improvements to the market model. The latter has already evolved with, among others, the extension of the trading hours starting at 09:00 AM and ending at 05:00 PM, and the implementation of a registration facility of OTC transactions next autumn.

We would like to thank our 50 members for their trust and support. We assure them, and

### Powernext Newsletter

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those who will join us in the future, of our determination and enthusiasm to serve them to the best of our expertise in order to meet the noble challenge which is the fight against climate change.

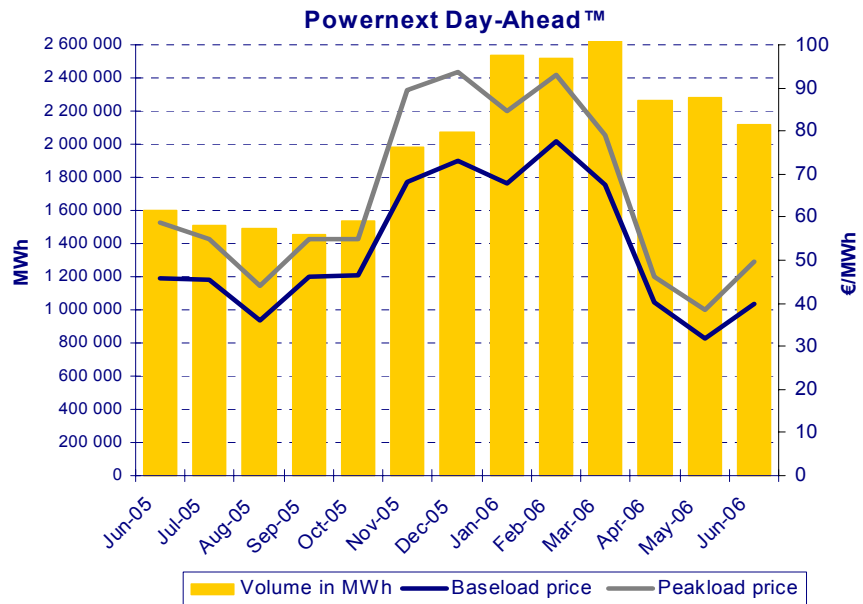
Best regards,

Jean-François Conil-Lacoste  
Chief Executive Officer



## Powernext Day-Ahead™

After an increase in the beginning of the year, volumes remained stable during the last three months with an average of 73 251 MWh traded daily on Powernext Day-Ahead™. On the whole first semester, 14 478 300 MWh were traded versus 9 621 613 MWh during the first semester of 2005, which represented a 50% rise. Prices increased in June after the drop engaged in March.



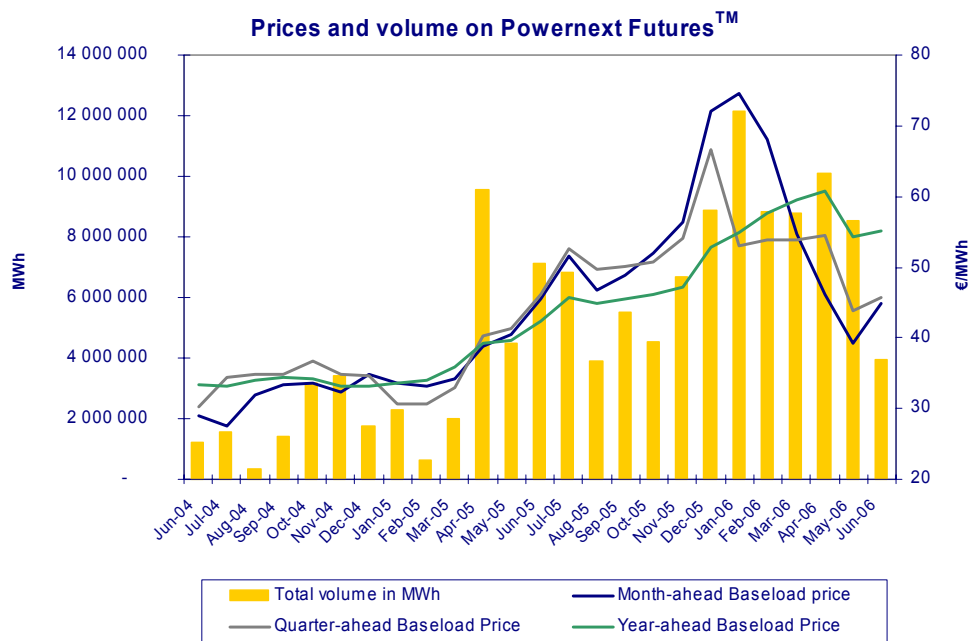
	Total volume in MWh		Baseload 00h-24h		Peakload 08h-20h	
April 2006	2 262 157	-18%	40,037	-41%	46,169	-42%
May 2006	2 283 152	1%	31,778	-21%	38,621	-16%
June 2006	2 120 502	-7%	39,816	+25%	49,688	+29%

For more information on the prices and volumes traded on Powernext Day-Ahead™, you can [download the monthly statistics](#) from our web site.



## Powernext Futures™

After several months of sustained activity, the volume fell in June on Powernext Futures™ like on other European futures markets with only 3 932 562 MWh traded. The prices continued to fall in May but rose again in June.



	Total volume in MWh		Open interest in MWh	
	Volume	% Change	Volume	% Change
April 2006	10 075 140	+15%	14 665 231	+2%
May 2006	8 547 321	-15%	15 289 912	+4%
June 2006	3 932 562	-54%	14 818 839	-3%

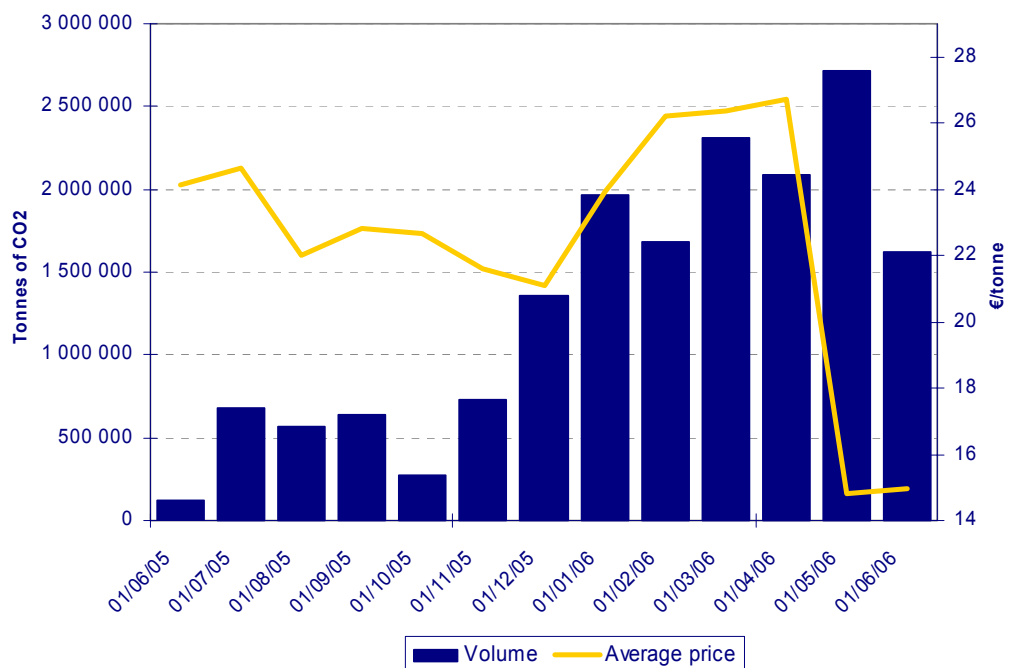
Settlement prices at the end of April 2006 for the following deliveries:	Baseload in €/MWh	Peakload in €/MWh
	May 2006	44,26
Quarter 3 2006	47,13	69,1
Calendar 2007	55,5	85
Calendar 2008	57,1	84,85

For more information on the prices and volumes traded on Powernext Futures™, you can [download the monthly statistics](#) from our web site.



## Powernext Carbon

A new monthly volume record was registered with 2 720 000 tonnes of CO<sub>2</sub> traded during the month of May 2006, representing a daily average of 143 158 tonnes. Since the beginning of the year, 12 383 000 tonnes have been traded on Powernext Carbon. Prices stabilized in June after a drop in April and May.



	Total volume in tonnes of CO <sub>2</sub>		Average closing price in €/tonne	
	Volume	% Change	Price	% Change
April 2006	2 084 000	-10%	26,71	+1%
May 2006	2 720 000	+31%	14,81	-45%
June 2006	1 619 000	-6%	14,96	+1%

For more information on the prices and volumes traded on Powernext Carbon, you can [download the monthly statistics](#) from our web site.

## New EIWeb

Powernext Day-Ahead™'s trading system will be very soon updated with a new version of the EIWeb software. Using a Java technology, the new EIWeb offers important advantages in terms of ergonomics, of bids' visualisation and an easier access to market results.

Hourly Bid	00:01	01:00	02:00	03:00	04:00	05:00	06:00	07:00	08:00	09:00	10:00	11:00	12:00	13:00	14:00	15:00	16:00	17:00	18:00	19:00	20:00	21:00	22:00	23:00	24:00	Sum
00:01	12																									
01:02	0	0	-50																							
02:03	0	0	-50																							
03:04	0	0	-50																							
04:05	0	0	-50																							
05:06	0	0	-50																							
06:07	0	0	-50																							
07:08	0	0	-50																							
08:09	0			0	-50																					
09:10	0					0	-50																			
10:11	0																									
11:12	0																									
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19:20	0																									
20:21	0																									
21:22	0																									
22:23	0																									
23:24	0																									
Sum	12	0	-350	0	-50	0	-150	-800	-350	-150	-150															

## Conferences

Powernext will be at the **Global Emissions** congress in Geneva on 25-26 September 2006 and at the **CO2 Expo** exhibition in Rome on 28-30 September 2006.

Consult the programs  
[Global Emissions Congress](#)  
[CO2 Expo](#)

Powernext and Météo France support the **Weather Risk Management Association (WRMA)** conference which will take place in Toulouse from October 3 until October 5 2006 and entitled « Take a New Look at the Weather, Impact on Business and the Economy ».

[Consult the program](#)

## Publication of the CRE's Observatory

The CRE has published the Electricity and Gaz Market Observatory of the first 2006 quarter.

[Download the Observatory](#)

## Offer-demand balance for the summer 2006.

The available generation capacity in France should be sufficient to cover the electricity consumption, except in case of exceptional heat wave and drought.

[Download the report \(in French\)](#)

## France - Spain Interconnection: implementation of the joint REE-RTE explicit auctions on the 1st June 2006.

RTE and REE present the new joint explicit auctions system for the allocation of capacity on the France-Spain interconnection on the 1st June 2006.

[Consult the IFE Capacity Allocation rules](#)

## RTE has published a new version of the Rules on Programming, the Balancing Mechanism and the Balance Responsible Entity system, to take effect on 1st July 2006

RTE has worked with market players to obtain feedback on the system introduced on 1st July 2004, acting under the aegis of the Governance Committee responsible for overseeing the reconstitution of flows and the calculation of balance responsible entities' imbalances, a sub-commission of the CURTE (Transmission System Users Committee).

On the basis of the feedback obtained, RTE has drafted a new version of the rules governing the way this mechanism works. The main change concerns the temporal reconciliation process.

Moreover, after the approval of the updated draft by the Commission de Régulation de l'Energie (CRE) on the 22nd June, RTE publishes the Section 1 of the Rules relative to Programming, the Balancing Mechanism and the Balance Responsible Entity System, which comes in force as on the 1st July 2006.

Main points : the integration into the average weighted balancing prices of exceptional offers and exchange contracts with other TSOs called by RTE, the decreasing of the 'k' factor from 0,15 to 0,05, the evolution of the rescue modes and availability target for the information system, and the publishing of additional information on the Internet site. In the first quarter of 2007, 24 intra day gate closures for balancing and programming will be implemented.

RTE publishes also the updated Section 3 related to the



Block Exchange service, which comes in force as on the 1st July 2006.

Main point: the publishing of the service rate of availability and, soon the cancellation of the delay between the gate closure time and the beginning of the delivery period in intra-day (applicable at latest on the 14th September, after adaptation of the actors' IT systems).

[Consult the Rules.](#)

#### **The report of the "Facteur 4" taskforce was released**

Nelly OLIN, the French Ministry in charge of Environment and Sustainable Development and François LOOS, the French Ministry in charge of Industry, have received on July 3rd 2006 the conclusions of the taskforce chaired by Christian de BOISSIEU regarding "The division by four of greenhouse gas emissions in France in 2050",.

[Download the report \(in French only\)](#)