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As we have announced since October 2014, the Emission Newsletter will be a paid subscription service from March 2015 onwards.

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Emission News 07-2015

Practical Information for Emission Trading

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A branch comparison of allocations indicates potential raises of individual claims due to technical modifications

After two years of free allocations for German plant operators within the third trading period it seems to be possible for the first time that a reliable comparison of allocations within one industry branch or one activity can be made.

Not many plant operators might have taken notice of the DEHSt report (VET report 2014) end of May 2014 which offers a larger set of data after the two reporting years 2013 and 2014.

However, this conclusive report should first of all be interesting for plant operators of the industry because comparative figures that are listed show the quantity of their free allocations and, above all, of their own industry branch.

The paper shows a comparison by means of a so-called "equipment level" calculated by the DEHSt. The "equipment level" is the percent product of free allocations of a branch (activity) and the calculated annual emissions (VET).

Emissionshändler.com® analyses in its present **Emission News 07-2015** the data and enables operators to realize conclusions in the context of special lawful rules, if and under which circumstances a supplementary increase of allocations could be made possible.

Comparison of sectors and branches (activities) among themselves

In case of a comparison between free allocations and demand by which the equipment level of the

branches (activities) among themselves is meant, it is seen that:

- with 977 operation plants in total and an allocation of 31,062 million certificates for an annual emission of 337,932 tons, the **sector energy conversion** shows a very high discrepancy between allocation and demand (equipment level 9.4%) because no allocation is given during the third market period for the electricity produced within this time
- The **industry sector** reveals big differences between particular branches (activities). While a partially considerable surplus in allocation for the production of steel, **energy conversion** can be observed, the allocation values of nearly all other branches are laid 8 to 15% below the demand. Especially the high allocation figures of the branches glass, **energy conversion** are concerned. Contrarily to these values, however, the paper industry achieves the best allocation by far with an equipment level of 127.5% (average value).

The sectors energy conversion and industry are not comparable because of the electricity and heat production on the one hand and CL appropriation of most industrial companies on the other hand.

However, it is in fact amazing to consider the extraordinary different equipment levels of the branches (activities) within the industrial sector. A branch variety of most operation plants in Germany (glass, **energy conversion** incineration) and their equipment levels of free certificates are listed in

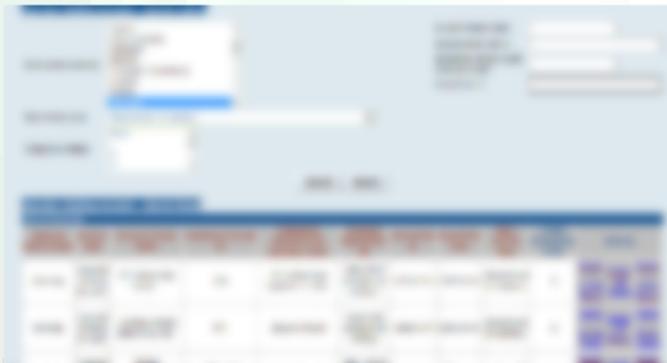


our info box on the right. See the complete DEHSt list [click here](#).

The exciting comparison of operating plants among themselves within the same branch (activity)

As all above-mentioned DEHSt figures are average values, single operation plants of the same branch might produce considerable deviations.

This is confirmed in any case if the plants are compared individually. The data concerned are publicly available in the [EU Register](#) since May 2015 if a re-arrangement according to branches takes place within Germany.



Considering individual enterprises, considerable deviations of the average equipment level occur within one and the same branch. Even an external observer like Emissionshändler.com® can see that, independent from less efficient plants in some cases, either an

took place at that time, too, or that former optimizing opportunities might not have been exploited.

The above-mentioned assessment of Emissionshändler.com® might be strengthened by the fact that also DEHSt found **considerable deviations within** one branch under detailed inspection. See a choice of high deviations of branches below.

- **Ceramics** according to DEHSt: " of 152 operating plants will exhaust emissions from which per cent on average will not be covered by free allocation" (total average error amount is 6.5%)
- **Paper** according to DEHSt: "While for operating plants the allocation exceeds the emissions for totally 3.1 million tons which

means that allocations for 2014 are more than three times higher than the emissions of 2014, a shortfall of totally 1.7 million entitlements exists for 69 operating plants" (total average superset is 27.5%).

Infobox

Free allocation - equipment level of branches in 2014 (choice)

- The **Chemicals** (branch) lists operating plants obtaining a free allocation of 3,205 million EUA totally. The VET quantity (Verified Emission Table) by which the emissions to be settled is meant, amounted to 3,792 millions in 2014. An **equipment level of 84.4%** arises from this calculation. As a result, 15.6% of certificates on average are missing and have to be bought.
- The **Food** (branch) lists 65 operating plants obtaining a free allocation of 3,205 million EUA totally. The VET quantity (Verified Emission Table) by which the emissions to be settled is meant, amounted to 9,372 millions in 2014. An equipment level of 84.3% arises from this calculation. As a result, 15.7% of certificates on average are missing and have to be bought.
- The **Iron and steel** (branch) lists 152 operating plants obtaining a free allocation of 1,971 million EUA totally. The VET quantity (Verified Emission Table) by which the emissions to be settled is meant, amounted to 2,061 millions in 2014. An **equipment level of 93.5%** arises from this calculation. As a result, 6.5% of certificates on average are missing and have to be bought.
- The **paper activity** (branch) lists operating plants obtaining a free allocation of 6,715 million EUA totally. The VET quantity (Verified Emission Table) by which the emissions to be settled is meant, amounted to millions in 2014. An equipment level of 127.5% arises from this calculation. As a result, a surplus in certificates of 27.5% on average shows up! (certificates that need not to be bought).
- The **incineration/heating plants activity** (branch) lists 73 operating plants obtaining a free allocation of million EUA totally. The VET quantity (Verified Emission Table) by which the emissions to be settled is meant, amounted to 2,085 millions in 2014. An equipment level of 99.8% arises from this calculation. As a result, 0.2% of certificates on average are missing and have to be bought.
- The **energy conversion to electricity > 50 MW megawatt FWL activity** (branch) lists 492 operating plants obtaining a free allocation of 25,740 million EUA totally. The VET quantity (Verified Emission Table) by which the emissions to be settled is meant, amounted to in 2014. An equipment level of only arises from this calculation. As a result, of certificates on average are missing and have to be bought.



- 83 plants of **glass production** having an equipment level of 84.5% on average, the real equipment levels are even fluctuating between 56.5% and 109.8%. Even between 56.5% and 115.1% in the comparable subfield "Production of glass bottles and glass vessels of 10 l".
- **Lime** including sugar industry according to DEHSt: "While a shortfall of emission allowances totally exists for the production of lime (this complies with a need in purchase of emission allowances amounting to approx. 100 per cent of the 2014 emissions), the sugar industry shows a shortfall of 100% emission allowances. Thus the proportional need in purchase amounting to 100 per cent of the annual emissions of 2014 is considerably higher."

If the responsible decision-makers of an enterprise find out after studying the figures published by DEHSt that the average value of the own plant's equipment deviates stronger downwards within the own branch, the reasons for such a development should be found immediately which, in many cases, could lead to success still in 2015.

Above all it will have to be considered if the present production level is in conformity with the one from 2012, if the manufactured products (still) correspond to standard benchmarks and if the "installed start capacity" reported

Criteria influencing the free allocation - during the allocation request and within the running period 2013-2020

Following rules and principles have been applied and are still applicable for allocation requests having been made in January 2012 as well as for new operation plants. In this context, however, every operation plant can check out if its free allocation is still in conformity with the present production mass. If this is not the case, it would be worth to find out if the following rules can offer a solution.

Benchmarks

Products of operating plants achieve an allocation in accordance with the so-called bench mark values. These indicate the quantity of emission rights in the year 2012 / 2013. The chart of

annex 1 of EU regulation dated 27th April 2011 shows these values for all in all 53 different industry products. Other special charts about refinery products and flavourings can be found there, too.

The Fall back Method

The above-mentioned charts for benchmark values could not include all kinds of products. To calculate the allocation for the other products, values for the so-called fall back feasibilities for allocation have been established. If the fall back method is applied, the allocation amount calculated by means of the fall back values for the respective product will be used as the allocation amount for the fuel consumed. The emissions of a CO₂ process are determined by calculation of the mass balances of the used

Infobox

External assistance in improvement of a free allocation

Plant operators who might assume after the DEHSt branch comparison that they come off badly in the free allocation compared to their competitors or believe that they have to buy too many certificates at present, are welcome to address themselves to Emissionshaendler.com®. Emissionshaendler.com® will be able to give free and without obligation if a chance for increased allocation exists or not after a first rough verification. The only prerequisite is the sending of the xml version of the allocation request as well as the latest annual report. Contact and questions under info@emissionshaendler.com and free call 0800-590 600 02.

Carbon-Leakage

Carbon-leakage makes a difference between products risking to be transferred abroad (carbon leakage CL) and those being allied to the national country (Non CL). The allocation for CL products will remain the same for the whole third trading period, while Non-CL-products will suffer a drastic reduction of the allocations year after year.

The Activity Rates

The calculation for allocations is basing on the so-called decisive activity rates, for example the annual production in t/year. Activity rates of existing plants had been found out by measuring benchmark values, either from the year 2005 until 2008 or



and 2010. Operating plants which experienced a considerable production increase by means of better use of existing capacities since then will not really take a profit from this kind of calculation. However, an allocation increase is not planned if no physical modifications

New Operating Plants

No historical data are available for new operating plants and the allocation is realised on another base. It would be too simple, however, to work on the basis of operatively installed capacity (this cannot be taken in a lot of cases as long as the connected consumer is the "bottle-neck"), so a new term has been created: the installed initial capacity.

The Installed Initial Capacity

The installed initial capacity is detected basing on achieved (production amount per 30 days cycle) within a certain period, this after commissioning of a plant or a new part of it. The installed initial capacity will be in order to calculate the allocation amount.

The Significant Load Factor

According to the commission's conclusion for the standard load factor dated 5th September 2013, these factors for 52 industrial branches are prescribed in annex 1 to be considered for the calculation of free allocations all over Europe.

The objective for Allocation calculation

On fixing the above-mentioned rules and acting methods the EU commission's target was a Europe-wide harmonization of allocations in order to achieve a certain justice among the countries. Values for benchmarks and significant load factor have been won by experience values of modern operating plants. According to the new rules for the third trading period, for example a very old plant with high specific emissions will obtain as much emission rights as a new plant with correspondingly lower emissions. This means a kind of pressure is created to modernize old plants because otherwise emission rights would have to be re-bought continuously. Plant operators who obtained insufficient allocations or had an

in the years 2012-2014 (and probably also in 2015) will receive some information in the following chapter, showing perspectives of a possible allocation increase.

Exceptions of regular calculation and proposals to receive a higher free allocation

In accordance with the slogan "No rule without exception", the rules prescribed before include to a very small extent possibilities for a different approach. Some examples are listed below:

- a) In fact there is a **product benchmark** for the fabrication of glass. Origin of this benchmark are plants for mass production. But if a plant produces low quantities of special goods, this product benchmark cannot be employed. In such a case the method has to find application.
- b) The paper industry prescribes in fact **standardized load factors**. But if a plant intends an expansion of production capacities, the calculation of additional allocation can also base on the detectable load factor of the former business of the existing plant. In other words: Positive results due to proven over years
- c) A considerable shortfall in allocation due to a **production increase** of a company should be a reason to find out immediately if technical modifications have been realized within the past years. Depending on the time when these modifications took place, an additional allocation can be applied for even retroactively.
- d) The allocation refers always to an authorized plant and its defined **balance limits**. In some cases an increase in allocation can be possible if balance limits are shifted. This requires a modification of the regulatory approval, however, that is why such a request is rarely made. Among the cases which make such a procedure necessary is one as an example where a provider being obliged to emission trading covers the need in. Neither DEHSt prescriptions nor European prescriptions provide such a case that is why the provider's heat balance presents the refrigeration cycle as a positive heat flow



because the refrigerant at a slightly higher temperature exceeds the balance limits again on its back flow. The present prescriptions do not approve that the temperature cannot have any utility value due to its lowness. A **boiler efficiency** is the only remedy in this case.

- e) If a plant claimed allocation with the aid of **fall back** value for measurable heat while tracing the activity rate by means of corresponding ZuV 2020 §6 point (4) with **boiler efficiency**, the heat activity rate taken for the allocation request was much too low. Modern boilers ensure an efficiency of approx. **90%**. Methods being developed by Emissionshaendler.com can prove this individually even if no direct measurements of this value are available.

The above-mentioned exceptions and possibilities have to be considered as examples and show only a few of many chances to obtain an increased allocation in the future and even a backdated one in some cases.

As interim conclusion it is obvious that in any case nearly always considerable knowledge of the possibilities and of the EU laws as well as a large experience in the way how to approach to such projects will be necessary in order to profit from the present potential and optimising opportunities. See also info box on the right for external assistance.

Allocation increases can only be made if the increase is **directly connected** (even if this connection is indirect, for example on a peripherally plant part which entails a higher efficiency of the main plant) and the application for it is submitted within one year after the additional capacities have been extended to **2013**. Exact observations to the day might be of utmost importance under certain circumstances!!!

After using such exceptions and possibilities a search will have to be made where

- too few certificates had been allotted after the beginning allocation in 2013
- too few certificates had been allotted for a later and no longer sufficient allocation due

to production **increased** **allocation**

Infobox CDM-Projects for Aviation

The aviation sector is, according to plans of the UN World Panel on Climate Change, UNFCCC (United Nations Framework Convention on Climate Change), foreseen to be included into the Clean Development Mechanism (CDM). Aviation accounts for about 2% of total global CO2 emissions and about 12% of the CO2 emissions from all transportation sources.

The UNFCCC sees with the inclusion of aviation in the CDM mechanism an opportunity to assess and reward efficiency and reduction projects by airlines with respect to GHG by providing CER certificates.

The prerequisite will be the creation of a baseline and the determination of a monitoring methodology.

All these topics are currently being addressed in the CDM Board, with the aim of including Aviation and CDM as part of the UNFCCC Climate Change Conference Agreement in Paris, in December.

In Germany, the CDM Board is supported in the design and the development of appropriate

Conclusion to the aim to obtain a sufficient allocation

Plant operators who applied the standard prescriptions uncritically when claiming for free allocation beginning 2012 will appreciate after studying the comparative figures in how far an optimization potential for allocation increase is available.

Allocation if the previous allocation can be increased later or only from the beginning **of 2013** or not at all. In any case deadlines will have to be observed because technical modifications lying too far in the past will lead to expiration of a demand.

Plant operators who still disposed of sufficient allocations in 2013 and 2014 but will need to buy certificates to a disproportionately extent should think thoroughly in how far what kind of a change in production and **allocation** could lead to a demand for a higher allocation within this and the coming year.

External advisers with a big survey will play the role to detect for individual companies the opportunities for exceptions and possible allocation increases. This is meant especially when investments are planned **within 2013**



...ability to a higher production capacity. This is especially true when a single company might not be able to find optimum solutions without external expert knowledge because of many possible internal obstacles.

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Please contact us without obligation at +49 (0)30-398 8721-10 or info@emissionshaendler.com as well as via mail or find out more about the Internet services under www.emissionshaendler.com.

Kind emission regards



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