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The web of policy, technology, and market developments taking place within the energy sector across the world will converge profoundly with the current round of climate negotiations. Energy Edge is preparing a series of client briefings based on its involvement at the climate talks culminating in Copenhagen this December. These briefings will outline some of the most prospective scenarios for how climate policy will impact investment opportunities for energy providers.

The first briefing preceded the Copenhagen Summit and summarizes the key issues being debated, outlines a few potential outcomes, and considers how these will impact the prospects for different energy investments going forward. In this second briefing, Energy Edge's Karl Schultz who has been attending the talks considers both the substance being debated and how the process may unfold towards an agreement and what this might mean for the global energy economy.

Well into the first week of Copenhagen's fortnight of frenzied activity, there is no clarity on what targets and enabling processes will win out, if any. Several documents have been released that outline paths forward. The Danish delegation's paper (which reportedly was agreed upon by a variety of wealthy countries' delegations) is seen as evidence of how the formal negotiations may be being "circumvented" in an attempt to shut out developing countries. But the Chinese delegation was quick to produce its own document shortly thereafter, and other delegations, most notably the small island state of Tuvalu, have prepared their own proposal on long term commitments. This proposal led to divisions between the developing countries and a suspension of the UN Framework Convention conference part of the meetings. So negotiations are indeed going in roughly the way one would expect at this point in the talks.

Several countries have clarified the proposed commitments while the developing countries are doing their best to strengthen the general level of commitments by wealthy countries. Several countries have outlined the conditions for increasing or decreasing their targets, and even the U.S., whose delegation arguably has less flexibility without passage by Congress of climate legislation, has indicated some ability to up commitments from its 17% below 2005 starting point (but not much). The EU is being called by many to go for the 30% (versus 20%) below 1990 target and some think this is feasible. Russia has upped its target (but the issue of what happens to its massive stock of surplus allowances remains a big issue). So, no ultimate clarity but a largely productive dialogue is underway.

In negotiations on mechanisms to reduce and adapt to climate change the debates are heated. The existing Kyoto Protocol, under which existing commitments are set (except for by the U.S., as it didn't ratify Kyoto) is something developing countries are very adamant must be retained. They feel that the U.S. along with the EU and other rich countries may be getting a "free pass" if Kyoto is abandoned and no other legally binding agreement is on the table.

The role of the CDM, the project based credit mechanism to finance emission reduction projects in developing countries, is another hot topic. Governance of the CDM has been facing heated criticism from all sides for

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lacking transparency and for decisions on projects that some feel are arbitrary or set out to malign national policies.

Broadly speaking, the question of who is going to pay, how much, and through what mechanisms for the \$100 to \$300 billion that different parties think is needed EACH YEAR for climate change projects in developing countries is another extremely hot topic.

So, as noted in Energy Edge's first Copenhagen policy brief, national interests are playing out in what is possible to agree on in Copenhagen. But most participants were cautiously optimistic. The parties are bringing serious offers to the table. Differences over mechanisms to reduce emissions are being frankly debated but with real options also on the table. All of the scenarios Energy Edge presented remain potential outcomes, but it remains our view that the most likely is that a political deal will be cut and a treaty worked out next year. This deal could be cut before or once the at least 110 heads of state descend on the talks towards the end of next week.

As noted earlier, stay tuned.....

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