

Deceptive stability

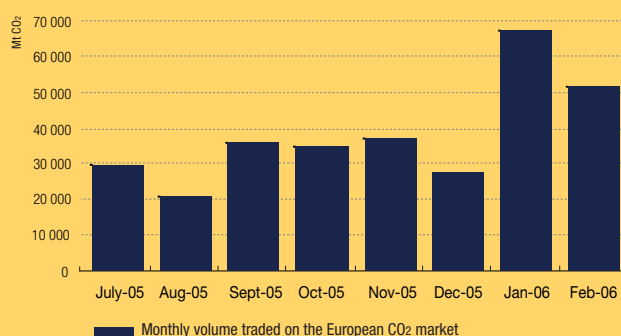
In February, the closing spot price of the European Union Allowance (EUA) reached €26.19, the highest monthly average ever. The fluctuations around this average were very limited, suggesting a rather stable market equilibrium.

In the short term, this price is not expected to change much, as suggested by a reading of the four screens of the dashboard now published monthly by the Caisse des dépôts and Powernext Carbon: the warmer weather after four months of a very hard winter comes too late to significantly reduce heating demand, and the spring rains will be insufficient to rapidly offset the rainfall deficits that have crippled hydroelectric potential. Industrial activity in the Euro Zone will continue to increase, especially in Germany, which has the most installations subject to allowances. The decrease of the spread between the price of natural gas and coal is not sufficient to reduce the preference of electrical power producers for coal at a CO₂ price of 26 euros. Finally, the negotiations that are under way for the allocation of allowances for the second period (2008-2012) provide no impetus for companies that have excess allowances to put them on the market.

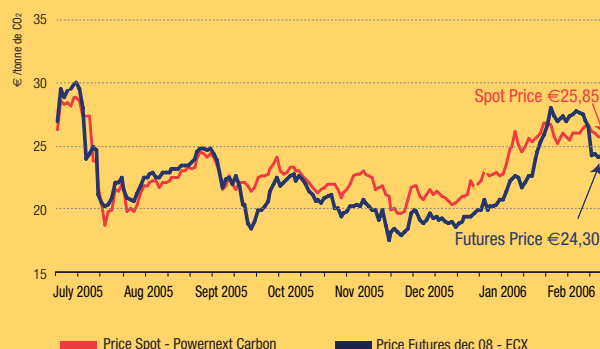
Nonetheless, current allowance prices should not be considered an indication of long-term market equilibrium. Rather, a forward-looking analysis leads to the expectation of wider movements by the end of 2007, as a result of the near impossibility for companies to retain their unused allowances from 2005-2007 in 2008-2012. This so-called "non-bankability" rule has been adopted by the large majority of States. It provides no incentive for industries that are subject to allowances to take action to reduce emissions before 2008, which is unfortunate from an environmental point of view. It will also cause severe tremors in the prices for the first period, which are not linked to prices for the second period.

As the end of 2007 approaches, traders will have more information on the effective emissions by industrial operations and will be able to compare them to the allowances that were allocated for the first period. If the installations as a whole are long over the three-year period 2005-2007, the price of the EUA will collapse and tend toward zero. Conversely, if the industries are short, the price will tend toward the price projected for the second period, plus the penalty cost of 40 euros per tonne.

Monthly trading volume on the European carbon market



Carbon prices:
spot price – 1st period 2005-07
futures price – 2nd period 2008-2012



Over the first two months of 2006, nearly 120 million EUA have been traded on the European market for a total of 3 billion euros, i.e. an amount that equals 41% of all the trades for the full year 2005. In February, the closing spot price of the allowance fluctuated in a narrow trading range from €25.25 to €26.97. The price of December 2008 contract, the first year of the second period of the market, reflected greater volatility.

The yo-yo fluctuations between the prices for the first and the second period that occurred in February are only a forerunner of the ups and downs that will occur in the market, that is, unless the member states relent on the non-bankability rule. If the companies cannot perform arbitrage operations among themselves between the two periods regarding the quotas, they will however be able to do so regarding the credits obtained under the clean development mechanism. Hence the strategic importance of being able to increase quickly such credits on the European market, as the recent Rhodia operation, announced at the end of February, clearly illustrated.

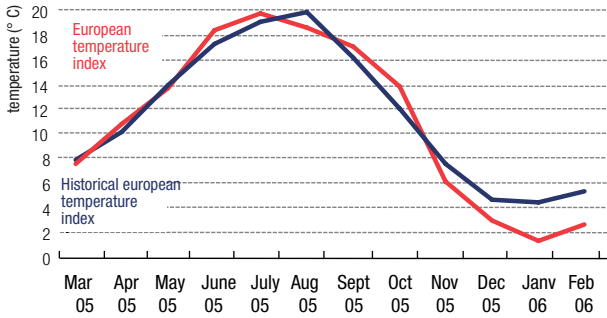
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European temperature index (°C)

Average of Powernext Weather indices* – France, Germany, UK and Spain – weighted by the allowances allocated to each country.

	Jan	Feb
Monthly average (°C) - 2006	2.0	3.3
Monthly average (°C) - 1996-2005	4.9	5.9
Monthly maximum (°C) - 2006	5.8	6.9
Monthly minimum (°C) - 2006	- 1.7	0.4

Source : Climate Task Force of Caisse des Dépôts

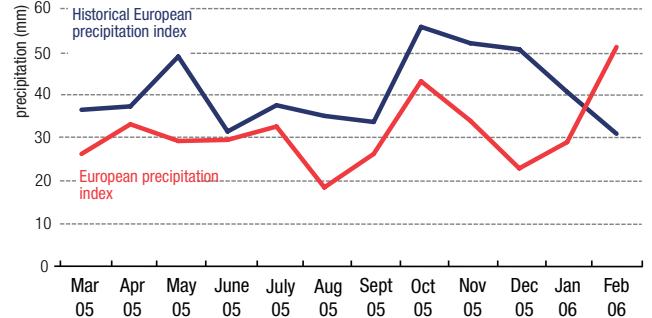


European precipitation index (mm)

Average of precipitation indices for Paris, Berlin, London and Madrid, weighted by the hydroelectric share in each country's electric power mix.

	Jan	Feb
Monthly precipitation - 2006	29	51
Monthly precipitation - 1996-2005	41	31
Cumulative over 12 months	357	375
Cumulative over 12 months 1996-2005	494	491

Source : Climate Task Force of Caisse des Dépôts



Our European temperature indicator remained stubbornly below normal in January and February. The severe winter affected all the continental countries, especially Germany where temperatures were 2.7°C below seasonal normals in January, which placed severe strains on the electricity market. Although the situation eased somewhat in March, the impact on heating demand will be limited from here on out. In terms of precipitation, the month of February put an end to a period of 12 consecutive months of below-average precipitation. With the exception of Berlin (-1.3 mm), London (+ 1.9 mm), Paris (+ 24.8 mm) and Madrid (+ 8.2 mm) all had a wetter February than normal, which will help to restock waterways and reservoirs. Nevertheless, total cumulative annual rainfall remains well below average in Spain and France.

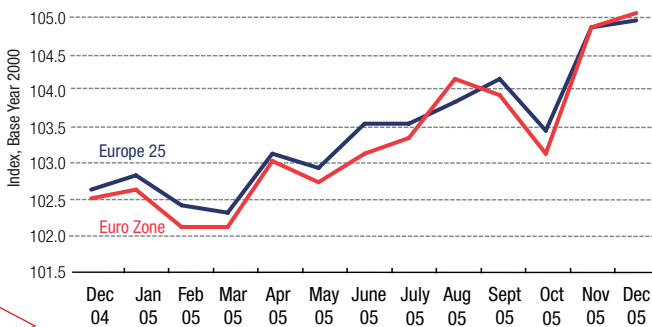
* The Powernext Weather indices are modelled on the basis of average temperatures to take into account the economic activity in the various regions of the country as represented by each region's population.

European industry production index

Index of production of all industries, excluding construction (Base Year 2000)

	December index 2005	Monthly variation (%)	Variation/12 months (%)
Europe 25	105.0	+ 0.3	+ 2.5
Euro zone	104.9	+ 0.1	+ 2.5

Source : Eurostat

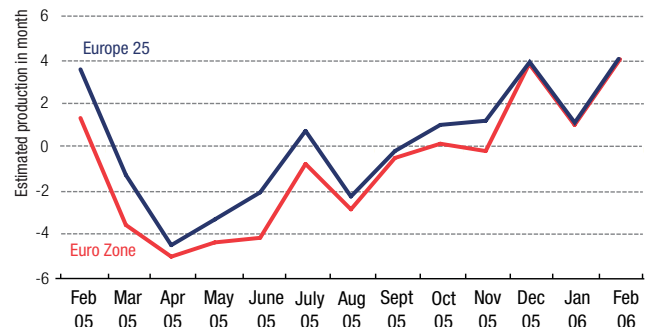


Opinion of Business Leaders

Industrial Confidence Indicator
Balance of responses (difference from the long-term average)

	Jan 2006	Feb 2006
Europe 25		
- Estimated production	+ 1	+ 4
- Projected production	+ 9	+ 10
Euro zone		
- Estimated production	+ 1	+ 4
- Projected production	+ 9	+ 10

Source : Eurostat



The initial estimate of + 0.3% growth of the GDP of the European Union during the fourth quarter of 2005 was disappointing and reflects the past rather than the future. More recent indicators show an acceleration of industrial production which is expected to continue for the next few months. In February, the industrial confidence indicator in the Euro Zone reached its highest level in 6 years. In Germany, "business sentiment" measured by the IFO revealed a level of optimism not seen since reunification. This rebound will necessarily have an effect on the equilibrium in the carbon market. German industry as a whole accounts for one-quarter (22.7%) of allocated EUAs, and 8% excluding the electric power sector.

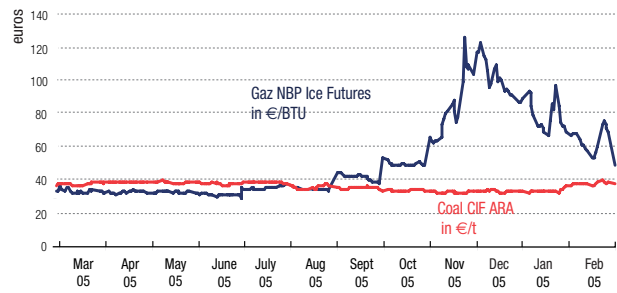
Energy prices

	Jan 2006	Feb 2006
Average closing price		
British natural gas NBP ICE Futures Month Ahead	€30.63/MWh	€24.75/MWh
Amsterdam coal CIF ARA Month Ahead	€45.29/tonne	€50.79/tonne
Powernext Futures™ month ahead	Base	€74.94/MWh
	Peak	€109.50/MWh
Difference between the price of electricity and the price of natural gas used in the power plant corrected for the price of CO ₂ : clean spark spread	€42.85/MWh	€65.89/MWh
Difference between the price of electricity and the price of coal used in the power plant, corrected for the price of CO ₂ : clean dark spread	€84.70/MWh	€38.45/MWh

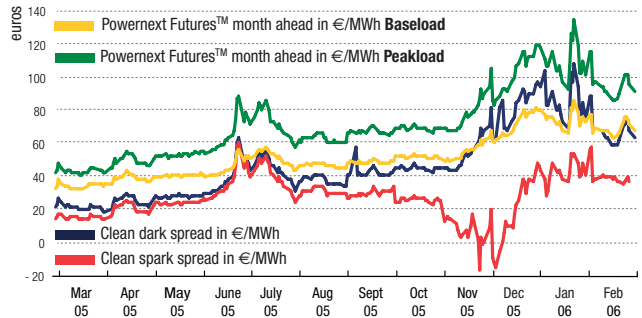
Source: Reuters, Powernext, Climate Task Force of Caisse des Dépôts

In spite of the upheavals caused by the supply problems from the Russian Federation, the price of natural gas was down sharply in January and February. Simultaneously, the price of imported coal in Northern European ports rose by almost 10 euros a tonne. The differential between the price of natural gas and the price of coal that persisted throughout the winter was therefore almost completely erased. This relaxation has had no effect on the price of carbon. An observation of the spreads shows that with carbon prices slightly higher than 26 euros, the gross margin (calculated solely on the basis of the prices of energy and carbon) obtained by burning coal remains higher than that resulting from the use of natural gas. Considering the intensity of the electric power demand generated by the cold wave, the demand for quotas from electric power producers therefore remained especially high.

Primary energy prices



Price of electricity and price difference between electricity and primary energy prices



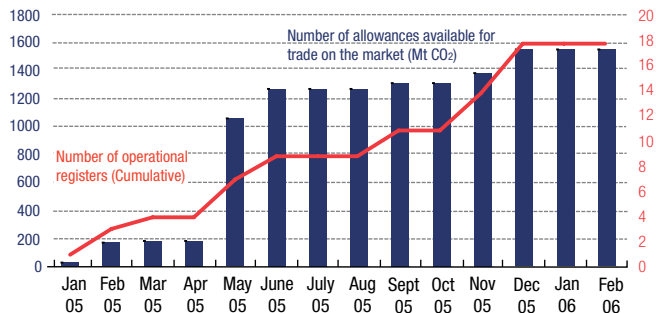
European Union:
National Allocation Plans, National Registries
and CO₂ Allowances

28 Feb 2006

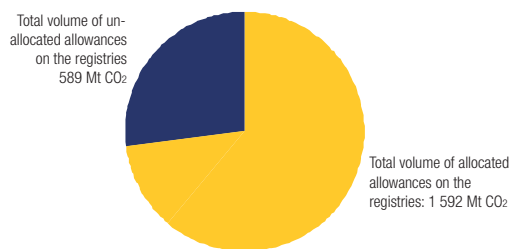
Number of countries that have a National Allocation Plan validated by the European Commission	25
Number of countries that have finalized the allocation of allowances to industrial facilities	23
Number of countries that have an operational national registry	18
Number of allowances corresponding to the operational registries (MtCO ₂)	1,592.0
Number of allowances up for auction (Mt CO ₂)	0.25
Total volume of organized trades of CO ₂ allowances and over-the-counter trades since 1 January 2005 (Mt CO ₂)	382

Source: European Commission, Point Carbon

Trend of the volume of allowances placed on the European market and the number of operational registries in February 2006



CO₂ allowances on the European market in February 2006



In February, Italy received final European Commission approval for the list of industrial installations subject to allowances for the first period and Poland selected its registration system. The inclusion of these two States will represent a 21.5% increase in the underlying market. April is the final month to bring the installations into compliance in terms of their emissions in 2005, which will give an initial portrait of the general equilibrium between supply and demand. This portrait will be taken while the negotiations for the allocation of allowances for the second period are in full swing, and the results of these negotiations will make it possible to refine expectations for 2008. The uncertainty regarding the results of these negotiations, along with uncertainty about the credits that will be available for project mechanisms, will cause a certain volatility of prices in the second period.

Dashboard

CO₂ Markets

			Sept - 05	Oct - 05	Nov - 05	Dec - 05	Jan - 06	Feb - 06	
Spot market (Powernext carbon)	Average closing price in €	Low price traded	21.40	21.35	19.70	19.80	21.77	25.25	
		Average price traded	22.82	22.68	21.59	21.11	23.92	26.19	
		High price traded	24.65	24.00	23.20	22.40	26.23	26.97	
	Volume	Daily average	29 227	13 550	36 500	64 810	89 364	84 350	
		Total monthly	643 000	271 000	730 000	1 361 000	1 966 000	1 687 000	
Futures market (ECX)	Dec 2006	Average closing price in €	Low price traded	21.50	21.35	19.70	20.35	-	-
			Average price traded	22.88	22.56	21.57	21.66	-	-
			High price traded	24.55	23.65	22.85	22.80	-	-
	Dec 2007	Average closing price in €	Low price traded	21.60	21.40	19.90	20.55	22.75	27.15
			Average price traded	22.99	22.63	21.65	22.07	25.34	27.80
			High price traded	24.75	23.80	23.15	22.90	27.55	28.85
	Dec 2008	Average closing price in €	Low price traded	19.05	20.55	18.05	18.25	19.70	24.20
			Average price traded	22.11	21.75	19.61	19.24	21.58	26.60
			High price traded	24.95	22.85	20.90	20.10	24.65	28.15
	Volume	Daily average	809 045	954 619	876 364	615 400	1 648 619	1 331 900	
		Total monthly	17 799 000	20 047 000	18 735 000	12 308 000	33 991 000	26 638 000	
	Total european market volume (Point carbon)			35 898 000	35 019 000	37 093 000	27 900 000	67 851 000	51 598 000

Source : Powernext Carbon, ECX

Climate

> Temperatures (°C)	Mar-05	Apr-05	May-05	June-05	July-05	Aug-05	Sept-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Germany - monthly average	4.9	10.3	13.7	17.4	19.3	16.9	16.3	12.1	5.0	1.4	- 1.6	0.6
Germany - decennial average	5.7	9.4	14.0	17.1	18.4	19.2	14.8	10.3	5.1	1.7	1.1	2.7
Spain - monthly average	12.6	15.6	19.4	24.0	25.2	24.7	21.6	18.5	12.2	9.1	8.4	9.2
Spain - decennial average	13.3	14.9	18.0	22.5	24.2	24.7	21.7	18.1	12.9	10.4	10.0	10.7
France - monthly average	8.0	11.5	15.2	20.1	20.9	19.3	18.0	15.7	7.3	3.4	3.4	3.8
France - decennial average	8.9	11.1	15.3	18.8	20.1	20.9	17.1	13.4	7.9	5.3	4.9	5.8
UK - monthly average	7.3	9.2	11.6	15.9	17.0	16.5	15.6	12.6	6.1	4.5	4.4	4.0
UK - decennial average	7.2	9.0	12.1	15.0	16.8	17.4	14.8	11.2	7.5	5.1	5.0	5.6

Source : Powernext Weather

> Precipitations (mm)	Mar-05	Apr-05	May-05	June-05	July-05	Aug-05	Sept-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Berlin - monthly precipitation	13.4	12.1	78.0	29.0	142.9	57.1	55.0	35.0	21.8	49.5	20.4	43.8
Berlin - decennial precipitation	40.8	30.3	49.8	49.9	62.9	60.4	45.5	51.1	37.1	39.9	43.0	45.1
Madrid - monthly precipitation	7.6	16.3	5.9	13.1	0.0	0.4	4.3	64.4	45.1	10.2	37.4	35.0
Madrid - decennial precipitation	33.0	41.7	43.7	14.4	10.1	12.3	22.6	45.1	50.2	45.1	31.8	26.8
Paris - monthly precipitation	49.2	59.4	42.4	48.0	35.8	23.2	39.9	17.8	25.2	25.8	28.8	62.2
Paris - decennial precipitation	39.8	32.4	55.9	42.0	61.8	51.7	41.3	68.2	57.0	59.8	43.1	27.4
London - monthly precipitation	42.8	30.4	19.2	31.6	40.6	48.4	46.8	70.8	29.8	45.4	16.4	40.4
London - decennial precipitation	33.8	51.0	43.8	59.3	35.5	50.9	43.8	73.6	68.5	53.8	48.8	38.5

Source : WeatherOnline UK

Economic activity

	Mar-05	Apr-05	May-05	June-05	July-05	Aug-05	Sept-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Total industry production index (excluding construction and seasonally adjusted), base = 2000												
Europe 25	102.3	103.1	102.9	103.5	103.5	103.8	104.1	103.4	104.8	104.9	-	-
Euro zone	102.1	103.0	102.7	103.1	103.3	104.1	103.9	103.1	104.8	105.0	-	-
Industry confidence indicator Production trend observed												
Europe 25	-1	-5	-3	-2	1	-2	0	1	1	4	1	4
Euro zone	-4	-5	-4	-4	-1	-3	-1	0	0	4	1	4
Industry confidence indicator Production expectations												
Europe 25	7	5	4	4	5	7	7	9	7	8	9	10
Euro zone	6	4	2	4	4	6	7	8	6	8	9	10

Source : Eurostat

Energy prices

	Mar-05	Apr-05	May-05	June-05	July-05	Aug-05	Sept-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Natural gas, NBP ICE Futures, 1 st maturity date, in €/MWh	13.18	12.87	12.91	12.24	13.92	13.84	16.60	19.80	33.85	39.50	30.63	24.75
Coal CIF ARA, 1 st maturity date, in €/tonne	50.50	51.95	51.77	50.76	51.78	47.77	47.14	45.16	43.86	44.42	45.29	50.79
Powernext Futures™ month ahead, in €/MWh	Base	34.12	38.78	40.54	45.42	51.63	46.82	48.88	51.89	56.40	74.94	68.76
	Peak	43.63	49.07	52.84	65.42	72.51	62.67	67.06	69.25	79.50	103.72	109.56
Difference in prices of electricity and of natural gas used, corrected for the price of CO ₂ : clean spark spread in €/MWh	15.12	20.43	23.69	36.92	40.63	31.09	29.53	25.44	5.57	19.86	42.85	38.45
Difference in prices of electricity and of coal used in the plant, corrected for the price of CO ₂ : clean dark spread in €/MWh	21.41	24.69	28.09	39.76	45.25	37.80	42.25	45.15	56.26	81.55	84.70	65.89
Brent crude oil, 1 st maturity, in \$/baril	53.27	53.35	49.62	55.42	57.91	63.62	63.80	59.50	56.23	57.63	63.86	61.14

Source : Reuters, Powernext



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