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Carbon Market Report

AUG Month-End 2007

North America Carbon Wrap-Up

The Global Carbon market came one step closer to seamless integration with the Chicago Climate Exchange's introduction of a financially settled futures contract on a Certified Emission Reduction (CER) credit. The CER is widely viewed as the most fungible asset in the global carbon market. Introduction of an exchange traded derivative product on the CER will allow North American participants to gain exposure to this market without the logistical problems associated with physical settlement. Due to the lack of a compliance based market currently in North American, volume is expected to be initially light. The contract size will be 1,000 CER's, equivalent to 1,000 tons of CO2e's, and will be priced in USD.

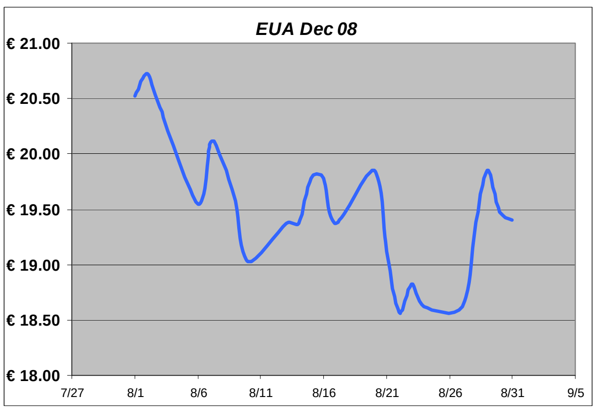
In US regional carbon markets news, the debate in California continues over the most effective way to mandate GHG emissions from the power generating community under the Climate Bill AB32. The California Public Utility Commission (CPUC) initially favored a 'Load based Approach'. This strategy would cap the carbon content of the electricity generation load at the source, holding the retail power provider (Load Serving Entity) responsible for its emissions. More recently, the '1st Seller Approach' is eliciting increasing interest. Under this scheme, the entity that first sells electricity into the market will be responsible for the emissions associated with that power. California imports most of its power from out of state, and so the CPUC is looking to structure a solution that would ensure that regulations cannot be circumnavigated through the purchase of power out of state. This phenomenon is known as carbon 'leakage'. From the regulators perspective, tracking emission would be easier under the 1st seller approach. This is because contracts for power are purchased and re-sold multiple times, and so it is difficult to keep track of who is responsible for emissions associated with the energy generation.
The downside of the 1st seller approach is that it may cause a spike in electricity prices. Wholesale electricity prices could go up as a result of the purchase of resulting carbon credits, and this cost will in all likelihood be passed on to the consumer. The outcome of this debate will be decided when the final rules for the cap and trade scheme are drafted.

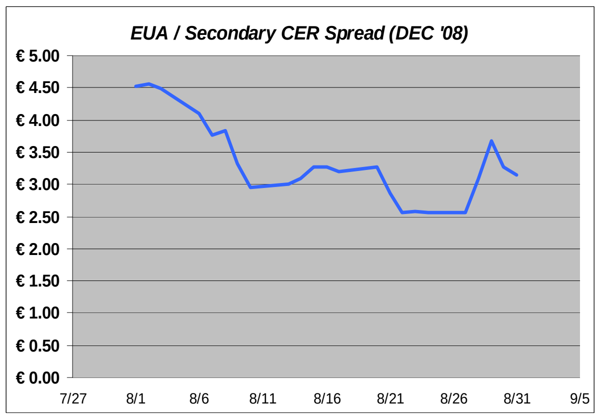
In the voluntary carbon offset (VER) market, TFS is actively marketing 2 international renewable energy projects. A Pre-CDM biomass project in India and a Gold Standard wind energy project in New Zealand. Interest in either of these projects should be directed to: emissions@tfsenergy.com
Buyers in North America continue to look for offset projects with strong sustainability criteria that are verified by an accredited offset verification standard.
On September 12th, Jasmine Haneef will present a discussion detailing 'US Activity in Global Carbon Markets' at the US Carbon Finance Forum in New York City. If you are interested in attending, please see the attached pdf document for details.

Global Market Wrap-Up

The Second half of August saw steadily increasing volumes traded in the Dec 08 EUA. The market hit an intra month low on August 22nd of €18.57 per ton. The Dec 08 contract found some support at this level, thereafter trading up above €19 to come bid €19.35 / 19.45 with 4.9 million tons clearing on the last trading day of the month.

The spread on the Secondary CER for delivery in Dec 08 vs. the Dec 08 EUA continued to tighten through the month of August. News that the much hyped International Transaction Log (ITL) will come on line within 3 months brought this spread as tight as €2.55 wide, before retracing to come in €4.20 wide, bid 79% and offered at 81%. On August 30th, TFS traded a 2008 – 2012 Strip Secondary CER at €16.15 for 200,000 tons a year vs. an Average Strip EUA price of €21.10.
This Secondary CER Strip contract came in bid 75% and offered at 77%.





For any questions / comments, please contact:

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