



Carbon Market Report
DEC Month End 2007

North America Carbon Wrap-Up

The month of December saw the global carbon community come together to attend the UN climate conference in Bali. The conference was viewed as a success as it provided a platform to start negotiations that will ultimately result in an agreement binding large emitting countries in both the developed and developing world to cut carbon emissions. However, the road to consensus was not without its share of drama. The EU contingent stated from the outset that it was vital that there is a commitment from all developed countries to reduce emissions by levels between 25-40% by the year 2020. The US contingent stated that the outcome of the negotiations would be prejudiced if the largest emitting developing nations like India and China were not held to accountable for their actions.

The final result was viewed as disappointment for the EU contingent as the closing text makes no mention of fixed numerical reduction targets. This was a necessary concession made in order to ensure US participation going forward. The only reference to reduction targets can be found in the footnotes of the document, where the most recent IPCC findings are presented. They call for the need for global emissions to fall below 50% by 2050. Under the Bali roadmap, the United Nations is mandated to form a working group to pen international legislation by 2009 to address global greenhouse gas emissions.

Moving to regional markets, the battle in California continues over which approach to adopt when regulating the energy community. Municipal utilities continue to favor a “load based approach”, in which the seller of the power, not the generator, is subject to the cap. Investor Owned Utilities (IOU’s), on the other hand, favor a “source based approach” in which the generator of the electricity is bound to the cap. Municipal Utilities argue that because so much of California’s power is imported from out-of-state, this would encourage a greater push toward energy purchases from out-of-state, a phenomenon known as leakage. In a bid to appease all affected parties, the CPUC has proposed a hybrid solution known as the “first seller approach”. In this instance, GHG emissions from instate generation would be capped, while out-of-state companies that ‘first sell’ power into the state would be responsible for the emissions reductions.

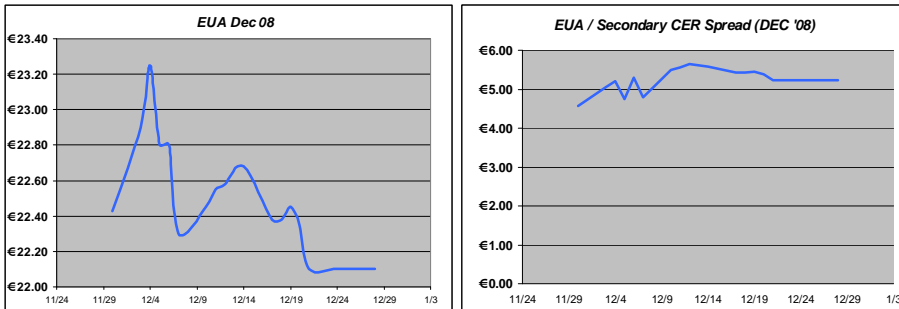
IOU’s oppose a “load based approach” as they feel that measuring and assessing emissions associated with power load is too complex and is subject to manipulation through “contract shuffling”.

Compatibility with prospective neighboring cap and trade programs was also voiced as a concern by IOU’s. Rulemaking will be finalized at the end of the calendar year.

Global Market Wrap-Up

Pricing in the Dec 08 EUA topped out early in the month, with €23.25 proving an effective resistance level. The market trended down through the month on light volume to come in €2.10 at month end. At the close on January 8th, the Dec 08 EUA contract came in €23.65 / 23.75

The spread on the Secondary CER for delivery in Dec 08 vs. the Dec 08 EUA went out to €5.66 mid month, pulling back slightly to €5.23 at month end. At the close on January 8th the Dec 08 Secondary CER was bid 74.3% and offered 75.1%. The 2008-2012 Secondary CER Strip is now bid 71% and offered 73%.



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