



## Carbon Market Report *February Month End 2008*

### **North America Carbon Wrap-Up**

In a recent white paper released by Congressman John Dingell (D-MI), Chairman of the Committee on Energy and Commerce, concerns were raised at the development of regional carbon programs and their potential to supercede a less stringent impending Federal Program. The Energy and Commerce committee is in the midst of drafting a proposed Federal Cap-and-Trade Bill that would compete against the favored Lieberman /Warner bill for Federal coverage. While the RGGI program in the North East / Mid-Atlantic has a 'sunset clause' provision included, other regional programs would function independently of a federal program if the federal program is less stringent in its proposed cuts. The paper notes that the Lieberman/Warner bill will allow for regional programs to co-exist alongside a Federal program, and it is feared that more stringent regional targets will result in regional programs needing fewer allowances relative to the national mandate. This will serve to free up allowances for sources in other states, thus shifting emissions sources as opposed to a decrease in overall emissions. The market eagerly awaits the release of Dingell's proposed legislation.

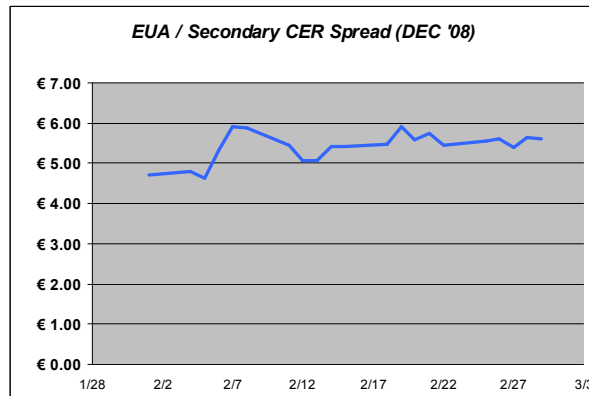
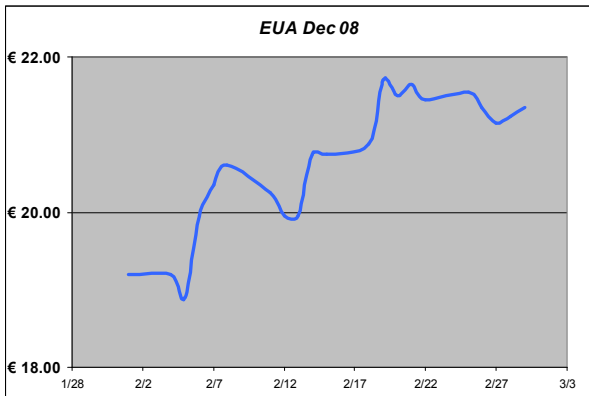
In regional news, the state of Colorado issued an RFP to solicit managers for its newly formed carbon fund. This fund aims to aggregate Voluntary Emission Reduction (VER) offsets in an effort to help the state cut its GHG emissions. Colorado's climate action plan aims to reduce GHG emissions in-state 20% by 2020. Gov. Bill Ritter (D) is a big supporter of renewable energy, helping the state to become one of the leaders in wind energy generation in the US. Colorado emits over 120 million tons of CO<sub>2e</sub> per year, of which 48 million tons comes from electricity consumption. In tandem with these goals, the State's Renewable Portfolio Standard (RPS) mandates that 20% of that electricity will come from renewable resources by 2020. The Governor's Energy Office (GEO) aims to have the carbon fund launched by the early summer.

In the domestic voluntary market, the Chicago Climate Exchange's (CCX) Carbon Financial Instrument rose sharply in the month of February. Results from the US presidential primaries on 'Super Tuesday' served as the catalyst for this move up. On this day, John McCain emerged as the leading Republican candidate in the presidential race. His well publicized progressive approach to environmental policy means that all of the possible presidential candidates support a Federal Cap and Trade program as a tool for reducing carbon emissions. It is important to note that the up-tick in the CFI instrument is on relatively small volumes, and is believed to correct back toward recent lows in the mid to long term.

## **Global Market Wrap-Up**

Pricing in the Dec 08 EUA reached an intra-month high of €21.70 on February 19<sup>th</sup> as market participants bid this contract up on the back of strength in the crude market. The historically high correlation between the EUA contract and German power prices appears to have eased off, with carbon tracking oil more closely of recent. At the close on March 7<sup>th</sup>, the Dec 08 EUA contract came in €21.45 / 21.55

The spread on the Secondary CER for delivery in Dec 08 vs. the Dec 08 EUA went out to €5.90 as the EUA reached an intra month high on February 19<sup>th</sup>. Participants noted that volatility in the Secondary CER decreased relative to that of the corresponding EUA contract. At the close on March 7<sup>th</sup>, the Dec 08 EUA contract came in €15.60 / 15.90 with the 2008-2012 Strip coming in €15.05 / 15.40



### **For any questions / comments, please contact:**

Adam Raphaely	<a href="mailto:araphaely@tfsenergy.com">araphaely@tfsenergy.com</a>	212-943-2883
Eric Klein	<a href="mailto:eklein@tfsenergy.com">eklein@tfsenergy.com</a>	212-943-2883
Jasmine Haneef	<a href="mailto:jhaneef@tfsenergy.com">jhaneef@tfsenergy.com</a>	212-943-2883

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