TFS Energy

Carbon Market Report
March Month End 2008

North America Carbon Wrap-Up

As the Western Climate Initiative (WCI) draws nearer to inception, participating states and provinces have begun to draft the rules that will define the parameters of this much anticipated carbon trading program. The framework dictates that regulators will establish a broad range regional cap that will have coverage over all participating ‘partners’. Thereafter, emission allowances will be distributed to all the participating states / provinces in accordance with their respective emissions profile. The regulators have given the partners the mandate to decide how best to allocate these allowances, be it through free allocation, auctioning or retirement thereof, with the caveat that 25%-75% of the allocations need to be sold through an initial auctioning process.

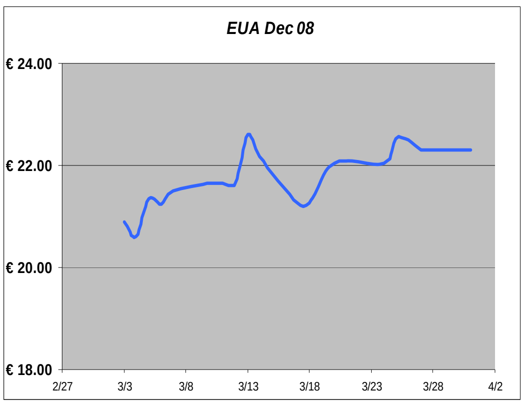
While distribution is forecast to be skewed toward free allocation in the early years of the program, this will shift toward auctioning over time. The program is slated to begin in 2010 and allows for unlimited banking into future compliance periods. Forward borrowing, however, will not be allowed.
Rule makers have also proposed allowing credits from other government run emissions trading systems to be linked with the WCI. This would include both offset and allowance products from programs such as the European Union Emissions Trading System (EU ETS). This was prefaced with the warning that a nothing short of a fully functioning and reliable tracking system is essential in order to safeguard against carbon commodities being used in multiple global compliance programs concurrently. The final framework outlining the trading parameters will be established in August of this year.

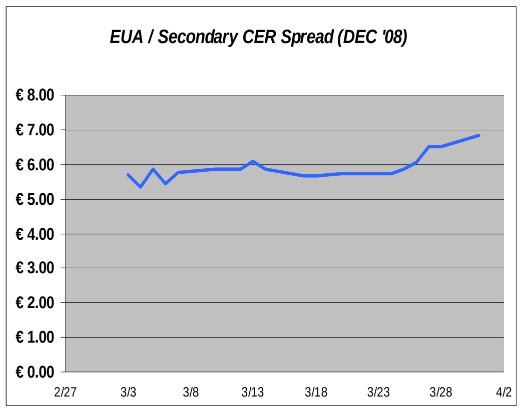
In Regional Greenhouse Gas Initiative (RGGI), the market saw an up-tick in activity ahead of the 1st auction in September. The 1st allowance trade was reported to have traded at a level of $7 per ton for a December 2009 Allowance. TFS Energy is making markets for Dec 09 Allowances market as well as options, both calls and puts, with expirations for December of 2009 and 2010 and strikes ranging from $3 to $7.

Global Market Wrap-Up

Pricing in the Dec 08 EUA reached an intra-month high of €22.60 on March 13th as market participants bid this contract up on the back of continued strength in energy markets. The pricing remained firm as the month progressed to come in €22.30. At the close on April 11th, the Dec 08 EUA contract came in €24.35 / 24.40.

The spread on the Secondary CER for delivery in Dec 08 vs. the Dec 08 EUA went out to €6.83 at month end as the SCER contract pulled back slightly while the corresponding EUA remained firm. At the close on April 11th, the Dec 08 SCER came in €16.15 / 16.25 with the 2008-2012 Strip coming in €16.20 / 16.30





For any questions / comments, please contact:

Adam Raphaely	araphaely@tfsenergy.com	212-943-2883
Eric Klein	eklein@tfsenergy.com	212-943-2883
Jasmine Haneef	jhaneef@tfsenergy.com	212-943-2883