



## Carbon Market Report *OCT Month End 2007*

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

The Lieberman-Warner climate bill came one step closer to being passed with the endorsement of Senator Frank Lautenberg (D-NJ). Sen. Lautenberg represents the swing vote within the EPW sub-committee. This endorsement ensures that the bill will go to the full environmental committee for consideration. Lautenberg proposed the inclusion of a clause that requires the natural gas industry to reduce GHG emissions as well as the creation of a 'look-back' provision that would enable law makers to re-adjust targets in the future, should this be necessary. Lautenberg stated that the inclusion of the Natural Gas industry will allow participants to reduce emissions by up to 20% by 2020. This exceeds the current mandated target of 15% by 2020. The proposed amendments would also give lawmakers much needed flexibility to reset targets if scientific developments progress at a rate to support deeper cuts. Senator Max Baucus (D-MT) also expressed support for the bill. This was pending a provision to help Montana's coal industry to remain competitive in this impending carbon constrained economy.

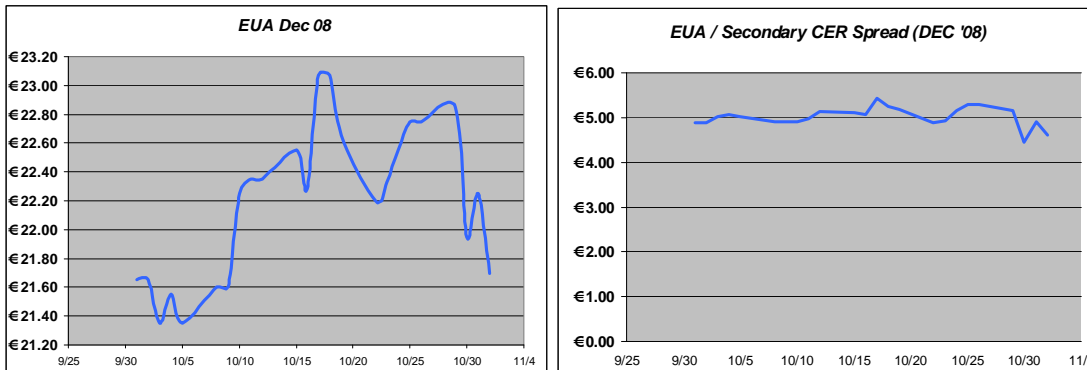
Moving to a regional focus, rumors continue circulate that the Regional Greenhouse Gas Initiative (RGGI) is oversupplied. The scheme's overall emissions cap is set at 188 Million short tons, however an unprecedented drop in recorded emissions over the 2005/2006 of over 20 million tons have left the scheme theoretically over allocated by 24 million short tons, or 13% of the cap in 2009. This has served as a catalyst for stakeholders in the NGO community to call for an adjustment of the 'cap level' by amending the RGGI memorandum of agreement. This would require each of the 10 participating states to revise their program implementation rules. In addressing outstanding issues regarding the impending initial auction of allowances, the incorporation of a reserve price is getting some attention. It is felt that the incorporation of a reserve price at the time of auction would help to ensure that auctions do not contribute to price volatility.

At a local level, Michael Bloomberg, mayor of New York City proposed the implementation of a carbon tax in lieu of a cap and trade program. At the US mayors summit in Seattle, Mayor Bloomberg declared his support for a carbon tax regime, owing to the fact that it is easier to apply and enforce than a cap and trade program. Bloomberg stated that a cap and trade program could only be successful if allowances were allocated to emitting entities for free, and if all industries are covered. Mayor Bloomberg proposed that the proceeds from this tax be funneled toward an 'innovation fund' that would consequently create tax credits for companies that reduce their emissions.

## Global Market Wrap-Up

Pricing in the Dec 08 EUA reached an intra-month high on October 17<sup>th</sup>, before retreating in the back end of the month. This correction is contra to the recent strength in crude market. In keeping with recent trends, pricing in the Dec 08 contract closely tracked German baseload power pricing. At the backend of the carbon curve, the market continues to be cotango'ed with the 2008/2009 spread trading at €0.55 and the 2008/2012 spread trading at €2.25. At cob on November 5, 2007 the Dec 08 contract closed at €21.71

The spread on the Secondary CER for delivery in Dec 08 vs. the Dec 08 EUA stayed in a tight range for the month of October. This spread remained in the € range for the majority of the month before tightening slightly to come in at €4.60 at month end. The Dec 08 Secondary CER is now bid 78% and offered 79%. The 2008 – 2012 Secondary CER Strip contract is bid 73% and offered at 75%.



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