



Carbon Market Report *SEP Month- End 2007*

North America Carbon Wrap-Up

The last week of September saw political leaders from around the world converge on the UN headquarters in New York for the annual UN Global Summit. President George W Bush saw this as an opportunity to invite leaders from the biggest industrialized emitting nations to attend a two-day Major Economies' Climate Change Meeting in Washington. At this meeting, the president outlined a plan for the creation of a clean technology fund to facilitate the transfer of renewable energy technologies to developing countries. This fund would be overseen by US Treasury Secretary Hank Paulson, former Chief Executive of Goldman Sachs. Yves de Boer, executive director of the UNFCCC welcomed this announcement, stating that this would be a landmark fund, owing to the lack of any existing structure encompassing global participation. Some delegates however were not as supportive of this proposed plan. Opponents feel that the Clean Development Mechanism (CDM) was structured for the facilitation of this clean technology transfer to the developing world, and that the launching of this fund would threaten the integrity of this existing structure. The launch date for this proposed fund is yet undecided.

In domestic policy news, John Dingell, the leader of the Energy and Commerce Comity of the US House of Representatives proposed new legislation to introduce a carbon based fuel tax covering coal, petroleum and natural gas industries. In comparison to other carbon tax proposal, Dingell's is unique in that he foresees this tax being implemented alongside a robust carbon cap and trade program. The level of taxation is slated for \$50 (€35.46) per ton, phased in over a 5 year period, and adjusted for inflation thereafter. This would translate to a \$0.50 per gallon tax on gasoline products, with diesel and biofuels being exempt. The subsequent revenues from the tax would be used to fund mass transit programs and road maintenance. Dingell stressed that the introduction of this tax would serve more to compliment than replace any impending carbon cap and trade program.

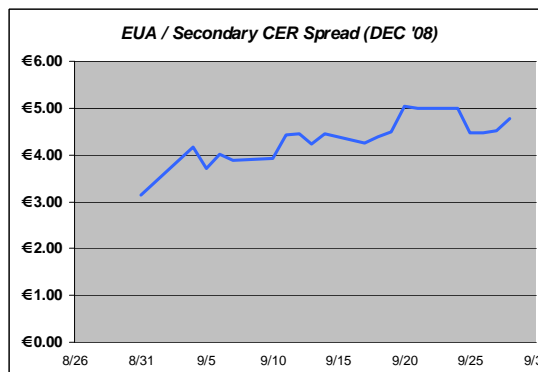
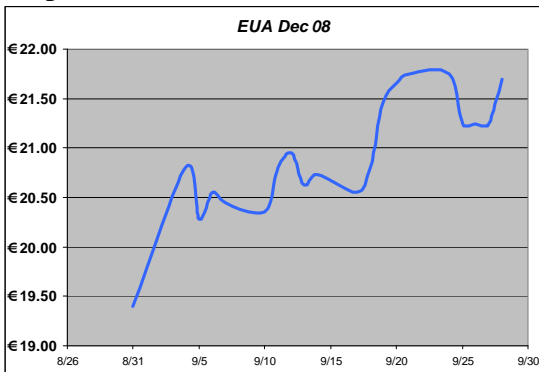
In the voluntary carbon market, the organizations responsible for the formation of the voluntary carbon standard (VCS) announced that they will release a new global standard for voluntary carbon credits in the middle of November. This will create a common standard for projects worldwide that are not regulated by the UN or national governments. This standard will be developed with an accompanying global registry and project database, housing project documentation for all approved projects. On the contentious topic of qualifying methodologies, the VCS states that they are neutral with respect to projects' contributions to sustainable development, however they must comply with local environmental laws.

Global Market Wrap-Up

Pricing in the Dec 08 EUA contract for the back-half of September sustained its strength from the mid-month highs. The market came in €1.70 for the month on the back of strong buying from German utilities. The 2008 / 2009 EUA Roll traded at €0.50 while the 2008 / 2012 EUA Roll traded at €2.18. These levels indicate that there is a steepening in the back end of the curve, signifying increasing interest in ownership of 2012 EUA's relative to previous calendar years.

The spread on the Secondary CER for delivery in Dec 08 vs. the Dec 08 EUA continued to widen due to the move up in the Dec 08 EUA. This spread started out at €3.15, but has moved out to €5.08 wide, as the correlation between products continues to show inconsistencies.

In the secondary CER market, TFS traded a Dec 08 Secondary at a price of €16.60 vs. €21.60 Dec 08 EUA. The Dec 08 Secondary CER is now bid 76% and offered 77%. The 2008 – 2012 Secondary CER Strip contract is bid 71% and offered at 75.5%.



For any questions / comments, please contact:

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

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