



A New Day: Washington Gets Behind a Carbon Market

The political winds have shifted, and the U.S. is full ahead with the creation of their own carbon market and looking beyond Kyoto. Evolution Markets' head of Carbon Markets for the Americas, **Lenny Hochschild**, provides an update.

After years of disengagement from the international community on the issue of climate change, the U.S. is suddenly moving forward at a quick pace to institute a national carbon cap and trade program. The U.S. will also likely and show up in Copenhagen with a constructive approach to a post-Kyoto regime to control greenhouse gas emissions. Activity is taking place at both the Federal and State Levels, and trading activity is picking up. The U.S. could end up hosting the world's largest carbon market, but as always the opportunities are in the details. This Executive Brief takes a snapshot of where we stand today – with an eye toward near- and long-term trading opportunities.

Obama Administration

President Barack Obama has made it clear that he plans on making a quick and dramatic departure from the Bush Administration when it comes to energy policy, and he considers getting a Climate Bill passed this year a high priority.

In a joint address to Congress on Feb 24th, Obama requested that "...this Congress send me legislation that places a market-based cap on carbon pollution." This statement was of particular note as we believe it was the first time a sitting U.S. President has called specifically for a cap-and-trade program in a joint address to Congress.

In addition, Obama's first proposed budget released at the end of February included a commitment to seek legislation to reduce greenhouse gas emissions by 14% below 2005 levels by 2020, and approximately 83% below 2005 levels by 2050. The budget recommended implementation of a carbon cap-and-trade system that would include auctioning of 100% of allowances. The auction, the budget forecasted, would generate revenue of \$645 billion between 2012-2019. Back of the envelope calculations indicate the Administration projects an average carbon price between US\$ 13.00 and \$15.00, depending on the start of the program.

Taking on cap and trade in the U.S. is no small task, and Obama is staffing his Administration accordingly. He will be aided by the following key players within his Administration:

- Energy Department Secretary **Steven Chu**, who was the former director of the Lawrence Berkeley National Laboratory, bringing a science-based approach to climate change;
- Environment Protection Agency (EPA) Administrator **Lisa P. Jackson**, who was previously New Jersey's commissioner of environmental protection and an early proponent of the Regional Greenhouse Gas Initiative (RGGI) (*see below*);
- Head of the White House Council on Environmental Quality **Nancy Sutley**, who was previously deputy mayor of Los Angeles for energy and environment and a leader in the development of California's climate law, AB32 (*see below*);
- Head of the White House Economic Council **Lawrence Summers**, who was Treasury Secretary under President Clinton;
- Secretary of State **Hillary Clinton**, who is supported by Special Envoy on Climate Change **Todd Stern**, who has worked as a senior advisor in the Clinton White House and coordinated the administration's overall efforts on climate change;

and coordinating the entire group...

- "Energy Czar" **Carol M. Browner**, who was the former E.P.A. administrator under President Bill Clinton.

Post-Kyoto Regime

In addition to devoting resources to craft a national cap-and-trade program, the Obama Administration will part ways from the Bush years regarding an international commitment to reduce greenhouse gas emissions. The U.S. never ratified the Kyoto Protocol, and the Bush Administration never fully engaged in international talks for extending climate change commitments beyond 2012.

However, Obama promises to take a more constructive approach to post-Kyoto international climate talks. The State Department's Mr. Stern was the senior White House representative at the United Nations climate negotiations



tion was \$3.38 per allowance, but as of this writing, allowances are trading for just under \$4.00. Average daily volume in RGGI allowance futures and forwards is more than 330,000 tons.

California continues to make steady progress on implementation of AB32, which established greenhouse gas emissions caps. California regulatory authorities are moving ahead with market mechanisms under this program, including a cap-and-trade program with offsets. California's Climate Action Reserve (CAR, recently renamed and formerly known as CCAR) offsets continue to trade in the \$6.00 - \$10.00 range depending on the project type and location. The quantity of CAR offsets continues to grow as more U.S. pre-compliance buyers continue the process of educating themselves and taking initial steps to purchase offsets or allowances that they need under RGGI or believe they will need under a regional or federal program.

Other programs that have not yet seen any trading such as the Western Climate Initiative (WCI) and the Midwestern Greenhouse Gas Accords (MGGA) continue to make slow progress forward.

Outlook for Trading

Below, please find a list of the bids/offers for the various U.S. products that are currently trading:

U.S. Carbon Products (March 10, 2009)

Product	Term	Bid	Offer	Settle
RGGI Allowances	Dec. '09	\$3.75	\$3.80	\$3.77
CAR Ag Methane	2009	\$6.50	\$8.50	n/a
CAR LFG	2009	\$5.50	\$7.50	n/a
CAR Forestry	2009	\$8.50	\$12.00	n/a
CCFE CRTs*	Dec. '09	\$6.12	\$6.18	\$6.15
CCFE "Federal"*	Dec. '13	\$11.50	\$12.50	\$12.00
CCX CFIs*	2009	\$2.00	\$2.10	\$2.04
VCS 2007 (industrial)	2009	\$1.25	\$1.75	n/a
VCS 2007 (renewable)	2009	\$2.00	\$4.00	n/a

*: source CCFE, CCX

Should you have any questions regarding the development of U.S. carbon markets or wish to transact, we encourage you to contact Evolution Markets' U.S. Carbon Markets Group at: +1 914.323.0265.

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