

Carbon Market North America

PointCarbon
NEWS

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Obama vows to act on climate change at UN summit

US President Barack Obama said his administration is determined to act on climate change at a UN climate summit in New York this week, while also stressing developing nations must commit to strong measures at home and agree to stand behind those commitments.

Nearly 100 world leaders discussed how to address climate change ahead of crunch climate talks in Copenhagen in December.

The meeting ended without leaders committing to either specific, binding greenhouse gas reduction targets or a financing package to help poor countries adapt to climate change – two issues considered essential to a successful agreement.

But UN Secretary General Ban Ki-moon expressed optimism a global climate deal can be achieved in Copenhagen at the conclusion of the talks, claiming the summit had put a “fresh wind in the sails” of international climate negotiations.

“We focused the attention of world leaders on the urgent need to act. I am sure that without this summit we would not pass the finish line in Copenhagen,” said Ban.

Obama told delegates during the summit’s opening session the US has done more to promote clean energy and reduce carbon pollution in the past eight months than at any other time in the country’s history.

Perhaps sensing that the Senate will not have passed a bill mandating US emissions reductions in time for UN climate talks in Copenhagen, Obama has begun building a case to the international community that the US is addressing climate change in other ways.

Obama said that while rapidly growing developing nations that will produce nearly all the growth in global carbon emissions in the decades, rich countries like the US must do their part as well.

The president cited the US government’s largest ever investment in renewable energy, aimed at doubling wind and other renewable energy sources in three years, as an example of the its commitments to reducing greenhouse gases.

Obama also said he would work with colleagues at the G20 meeting in Pittsburgh on 24-25 September to phase out fossil fuel subsidies.

He is expected to propose a gradual elimination of government funding to oil, coal and other fossil fuel industries, with a time frame to be determined.

This week, the US Environmental Protection Agency (EPA) also finalised a reporting rule, which requires entities that emit more than 25,000 tonnes of carbon dioxide equivalent or more a year to disclose their greenhouse gas output.

While Obama sought to reassure world leaders the US is committed to acting on climate change, China’s president, Hu Jintao, announced his country would cut carbon dioxide per unit of gross domestic product by a “notable margin” below 2005 levels by 2020.

The world’s largest emitter of greenhouse gases previously set a goal of cutting energy intensity by 20 per cent over five years to 2010, but had resisted efforts to curb its rapidly increasing pollution levels.

China had been reluctant to take such steps because it felt developed countries should shoulder the burden of cutting emissions of climate-changing gases.

Todd Stern, the US’s special envoy on climate change, said the Chinese president’s announcement failed to contain new “initiatives”, pointing out the Chinese president did not specify how much it would reduce its carbon intensity.

Still, some observers praised the move by China.

Alden Meyer, director of strategy and policy for the Union of Concerned Scientists, said China’s pledge to cut carbon intensity per unit of GDP instead of its energy intensity per unit of GDP is “politically significant”.

Asian countries’ moves to address climate change, such as China’s announcement and Japan’s commitment to cut emissions by 25 per cent below 1990 levels by 2020 were adding energy to the negotiations, he added.

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RGGI exchange snapshot (\$)

Exchange	Contract	Settle	Change
CCFE	Dec 09	2.51	0.01
CCFE	Dec 10	2.61	0.01
Nymex	Dec 09	2.49	-0.02

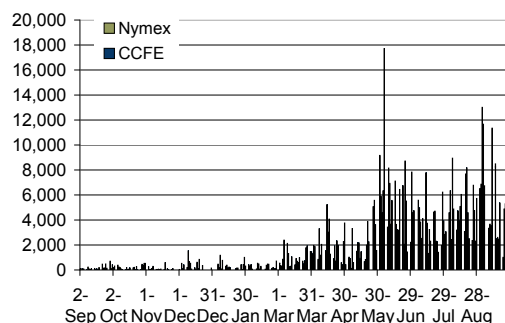
Point Carbon RGGI OTC assessment (\$)

Contract	Best bid	Best offer	Close	Change
Dec 09	2.50	2.52	2.50	-0.01

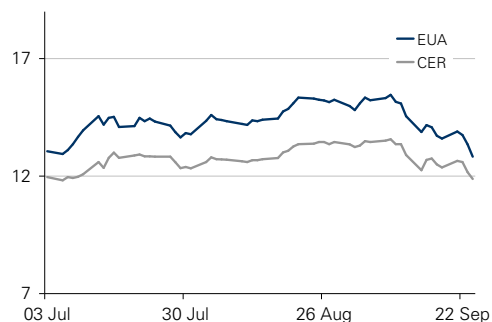
Source: Evolution Markets, Icap and TFS.

Quoted prices are \$US per short ton of at close of market each Thursday as per Point Carbon's RGGI assessment methodology. Changes refer to the last issue of Carbon Market North America.

For methodology, see www.pointcarbon.com/news/methodology

Exchange volumes ('000) all RGGI contracts

Source: CCFE and Nymex

2009 European and CER prices (€)**Market comment**

RGGI benchmark allowances have come off their lows to settle in the mid-\$2 area.

The December 2009 allowances closed Thursday at \$2.51 on the Chicago Climate Futures Exchange, barely changed from a week ago.

The contract's brokered bid and offer were \$2.50 and \$2.52, respectively.

Some market observers predict the contract may stay in this price range for several weeks, barring a dramatic economic recovery that boosts energy demand and drives prices higher.

Current prices reflect where the market is predicting the cap-and-trade programme's average auction price will be for 2009 based on provisions in the Waxman-Markey climate bill.

The bill allows holders of RGGI emissions permits issued before 31 December 2011 to trade them in for federal allowances based on their average auction price in a given year.

One market estimate for the average auction price for 2009 allowances is \$2.69.

This is based on the assumption 2009 allowances will clear at the next quarterly auction in December close to the minimum bid price of \$1.86.

But one trader estimates the average auction price could be higher. He said that on a volume weighted basis, which takes into account the likely number of total allowances sold at all four quarterly auctions this year, the average auction price for 2009 allowances would be around \$2.87.

"There is definitely an auction premium built into RGGI prices," said a trader.

Market participants are also looking toward the release of the draft Senate bill, which some say could be revealed as early as next week.

Allowance prices could swing out of their current range if the Senate bill contains language on the fungibility of RGGI allowances in a national cap-and-trade scheme that differs from the Waxman-Markey bill.

It is unclear whether the Senate bill will treat RGGI allowances differently from Waxman-Markey.

In the over-the-counter market, brokers noted volumes have picked up over the past week, though trading activity is still small. Blocks of 50,000 to 100,000 allowances have traded daily OTC over the past week, said a broker.

He did not know the reason for the uptick, adding it is too early to see if this means the OTC market will be revived in the medium term.

White House upbeat on climate bill

White House officials said they are encouraged by Congress's progress on climate legislation.

Speaking to reporters in New York on 22 September, White House energy and climate coordinator Carol Browner said the Senate environment committee will produce a draft of its bill soon. It is expected on 30 September.

"So the Senate is doing the work they have to do," Browner said.

Browner and US climate change envoy Todd Stern tried to quell concerns that Congress and the White House have brushed the climate bill debate aside due to the prolonged fight over health-care legislation.

"At the end of the day, (Senate Majority Leader) Harry Reid does set the schedule for the Senate, and we have to be mindful of that," Browner said. "But he has given me, the president, all of us, every indication that this is very, very important to him."

Browner noted that in March, few believed the House's Waxman-Markey climate and energy bill would pass out of that chamber, which it did in June.

She also noted that the Senate energy committee passed a bill in June requiring utilities to generate 15 per cent of their electricity from renewable energy sources or energy efficiency improvements by 2021.

Stern reiterated that although passage of a climate bill before crunch talks in Copenhagen would be preferable, it was not an absolute necessity.

"In the event that there's not domestic legislation done by the time of Copenhagen, we will negotiate with that in mind," Stern said.

They both pointed toward recent actions, like the EPA finalising its greenhouse gas reporting rule and a court decision saying it is acceptable to sue an emitter of GHGs for causing a nuisance, as positive steps.

"I think whether it's the Supreme Court case of several years ago, this more recent decision, everything is moving towards getting legislation done because it is the best way to do it," Browner said.

She said the White House did not support a proposal by Alaska Republican Senator Lisa Murkowski that would block the EPA from regulating GHGs, something the EPA has said it would do if Congress failed to act.

That amendment failed to pass, but Murkowski said her efforts to stop EPA regulation were not through.

"We don't think the amendment is a good idea," Browner said. "The best way to address the issue of climate change is to use comprehensive legislation to put together a package of all of the committee bills."

US senator fails to block GHG regulation

An amendment to prevent the US EPA from regulating GHGs for one year was defeated.

Democrats were successful in blocking debate on the amendment, which was authored by Alaska Republican Senator Lisa Murkowski.

In a speech on a Senate floor, Murkowski said EPA regulation of greenhouse gas emissions from stationary sources would be a "train wreck for our fragile economy".

The Supreme Court has ruled the EPA has the authority to regulate US GHG emissions, something the agency says it will do if Congress fails to enact meaningful carbon-capping legislation.

The EPA has sent some draft plans on how it plans to proceed to the White House, but those documents have not yet been made public.

Murkowski said the one year regulatory "time out" would provide the Senate with time to craft legislation to reduce emissions, be it a carbon tax or a cap-and-trade system.

"We will not hinder climate legislation," she said.

But Democrats disagreed. California Senator Dianne Feinstein said that if Republicans don't want the EPA to take action, then the only alternative is passage of cap-and-trade legislation.

"We can't afford to bury our heads in the sand on climate change," she said.

The EPA said Murkowski amendment was fraught with unintended consequences.

EPA Administrator Lisa Jackson said the amendment would make it impossible for the EPA to implement its recently finalised fuel standards for cars and light trucks, an assertion Murkowski disputes.

The White House has said that the vehicle standards, which would require auto industry's fleet of new passenger cars and light trucks to average 35.5 miles per gallon by 2016, will cut US emissions by 950 million tonnes.

"Enactment of Senator Murkowski's amendment would pull the plug on those extraordinary accomplishments," Jackson said.

EPA reporting rule to cover 80% of US emissions

The US's largest emitters will have to disclose their GHG output starting in 2011.

The US Environmental Protection Agency (EPA) on Tuesday finalised its reporting rule, which will apply to about 10,000 large emitters, which account for about 80 per cent of the nation's overall inventory of heat-trapping gases.

The EPA rule will apply to any entity that emits 25,000 tonnes of carbon dioxide equivalent or more a year.

The GHGs covered include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, and other fluorinated gases.

Data collection will begin January 1, 2010, with disclosure required in the first quarter of 2011.

Many companies and states already report their emissions voluntarily or under the federal Clean Air Act.

Green groups cheered the rule, saying the data will help the US avoid overallocating pollution permits, a problem that has plagued other cap-and-trade programmes.

"As the US Congress forges federal legislation, the new US law will be implemented on the basis of a firm foundation anchored in reliable data," the Environmental Defense Fund said in a statement.

But not everyone was pleased.

The right-wing organisation the National Association of Manufacturers (NAM) protested the move, saying the registry didn't provide enough "flexibility".

NAM had recommended a reporting threshold at 100,000 tonnes per year and giving exemptions to more than 6,000 facilities from mandatory reporting.

US carbon market could reach \$300bn

A cap-and-trade market in the US could see annual turnover of \$300 billion, according to Point Carbon analysts.

They predict an economy-wide carbon market in the US would see annual trade growing from \$45 billion per year in the first two years to \$100 billion by 2014 and \$200 billion in 2016.

"Given a turnover rate of 10, the market could trade \$300 billion annually in 2018-2026," the analysts said in a research report.

In June, the US House of Representatives passed a climate change bill that proposes a cap-and-trade programme for greenhouse gases.

The bill, known after its authors' names Waxman-Markey, aims to cut the country's emissions 17 per cent below 2005 levels by 2020.

However, the Senate is drafting an equivalent bill, which will contain important changes, notably to the allocation provision, the role of coal and nuclear energy and cost containment.

The bill calls for the cap-and-trade programme to start on 1 January 2012, with some 4.6 billion allowances issued in the first year and gradually declining thereafter to just over 1 billion in 2050.

At least 76 per cent of emission allowances are expected to be issued free of charge.

However, Point Carbon analysts expect 35-45 per cent of allowances to be eventually auctioned, which is 10-20 per cent higher than the bill mandates.

"Looking at the large new commodity market this bill creates, the allocation structure may have some unforeseen consequences on market dynamics because it draws third parties who are not 'natural' market participants into the market," said the report.

These third parties have the option of consigning their allowances to the federal government for auction and receiving the cash equivalent instead.

"We expect a number of them will simply choose to have the government sell the allowances on their behalf," the research report said.

The analysts reckoned the allocation of allowances could create a short-term supply squeeze in the market, because of a potential lag of allowances entering the market.

"This could lead to a temporary price hike in the first year of the programme," the analysts said.

In June, the Environmental Protection Agency forecast the value of allowances at \$13 per tonne and rising linearly to \$26 by 2030.

California governor race crucial for AB 32

California's gubernatorial race could decide the fate of the state's emissions reduction law.

Last week, a Republican candidate for the office, Meg Whitman, wrote an Op-Ed in the San Jose Mercury News that said if elected, she would issue an executive order to halt the law on her "first day as governor".

The law, known as AB 32, mandates the state reduce its GHG emissions to 1990 levels by 2020, a 25 per cent reduction, through a regional cap-and-trade programme and other clean energy provisions.

AB 32 was signed into law by Republican Governor Arnold Schwarzenegger in 2006.

"Right now, the clock is ticking as new job-killing regulations will go into effect in 2010," Whitman wrote. "In January, the first AB32 mandates take effect and will lead to higher energy costs at a time when we can least afford them."

The cap-and-trade system is not expected to begin fully operating until January 2012, however.

Despite a massive state budget deficit, Schwarzenegger has not backed down from his support of the law, saying that it will help grow the economy and create jobs.

Schwarzenegger, who is serving out his second term, is unable to run in the state's November 2010 election due to term limits.

Whitman was president and chief executive officer of eBay from 1998 to 2008, but has never held a public office.

She is expected to face off in the state's Republican primary against state Insurance Commissioner Steve Poizner and former Congressman Tom Campbell, neither of whom have officially entered the race yet.

State Democrats have so far fielded two candidates, both of whom strongly support AB 32.

San Francisco Mayor Gavin Newsom is the early front-runner for the Democratic nomination. The primary will be held on 8 June.

Newsom prides himself on his environmental record. He also recently received an endorsement from former President Bill Clinton, a move that experts say could help him win the support of moderates and independent voters in the state.

State Attorney General Jerry Brown is also running. Brown is a former two-time California governor, having served from 1975 to 1983. Because of the time lapse, he is eligible to run for the office again.

Brown recently joined four other state attorneys general in writing a letter to federal lawmakers urging them to strengthen the federal legislation.

Many are watching to see whether Democratic Senator Dianne Feinstein, who has represented the state in Washington DC since 1992, will enter the race, a move that could throw Newsom's front-runner status into question.

She made an unsuccessful run for the governor's office in 1990.

US power companies could face lawsuits

US states can sue power firms to force emission cuts, a US federal appeals court has ruled.

Cinergy Corp., American Electric Power Co., Xcel Energy Inc., Southern Co. and the Tennessee Valley Authority must defend a lawsuit by eight states seeking a reduction in CO2 emissions, according to the US Court of Appeals for the 2nd Circuit in New York.

The court on 21 September reinstated the lawsuits after a lower court judge rejected the actions brought in 2004 by California, Connecticut, Iowa, New Jersey, New York, Rhode Island, Vermont and Wisconsin.

The appeals court disagreed with the lower court's decision that the dispute is political in nature and should be avoided by the courts.

The states assert the five firms are responsible for 25 per cent of the US electric power sector's CO2 emissions and around 10 per cent of the nation's total emissions.

RECENT GLOBAL CARBON POLITICS

Poland and **Estonia** won appeals at a European court over their national allocation plans. The Court of First Instance annulled decisions by the European Commission (EC) on limiting the number of EU allowances (EUAs) the two countries receive between 2008 and 2012. The ruling could result in 7.2 per cent additional EUAs in the cap-and-trade scheme. The countries said they will not ask to renegotiate the caps until after the December UN climate summit.

The EC meanwhile rejected a request by **Italy** to renegotiate its CO2 emissions cap. "All countries have national allocations plans adopted by the commission. There is no ex-post facto adjustment," a spokeswoman for the commission said.

The UK's electricity production fell 7.2 per

cent from April to June when compared to a year ago. But the generators' demand for carbon allowances in the EU emissions trading scheme may not have declined to the same extent as they favoured the dirtiest form of power output.

Germany urged the US and Russia to step up their climate efforts at the UN climate change summit in New York. German Environment Minister Sigmar Gabriel said industrialised countries should urgently deliver political momentum to help stalled international climate negotiations advance.

New Zealand's carbon scheme got 63 votes against 58 in its first reading in parliament. The new legislation proposes to remove the absolute cap on emissions from the industry sector. Industrial companies will see their

allocation increase or decrease in line with their production numbers

Japan will design its carbon scheme with an eye on international links, the prime minister said. Prime Minister Hatoyama also vowed to cut Japan's greenhouse gas emissions by 25 per cent by 2020 from 1990 levels during his speech at the UN summit in New York.

The first projects to benefit from **Brazil's** Amazon Fund should receive money by November. Brazil's development bank, which is managing the fund, is evaluating 83 projects aimed at reducing greenhouse gas emissions from deforestation.

JP Morgan increased its bid for Ecoscurities, a London-listed developer of greenhouse gas emission reduction projects, to \$211 million.

GUEST COMMENTARY

Offset verification: lessons learned from the European experience

By Tim Stumhofer, programme associate of the GHG Management Institute

Earlier this month, the CDM Executive Board suspended the accreditation of a GHG verification body for the second time. Less than a year after the November 2008 suspension of auditor DNV, the EB suspended UK-based SGS for six non-conformities, a number of which focused on human resource deficiencies.

Much has been made of these disciplinary actions in and around the industry. Surveying the news and commentary surrounding the suspensions, three distinct trends can be observed.

In the United States, the timing of the EB's announcement has provided a soapbox for carbon trading proponents and detractors to restate their positions on the success or failure of the CDM and the efficacy of carbon trading more broadly.

Meanwhile, in Europe and beyond, financial news has focused on the suspension's impact on the project pipeline and, in turn, supply of credits to the EU ETS. Finally, some analysts have considered the risk of future verifier suspensions and the potential market impacts.

While all compelling, if predictable, storylines, these suspensions also provide a window to a more fundamental problem within GHG offset markets. Before the United States and other countries agree to expand GHG policies, it is essential they consider the implications of this growth on infrastructure needs. Indeed this week's release of a mandatory GHG emissions reporting rule by the EPA makes this evaluation all the more timely.

Underlying this discussion are two fundamental issues that warrant

deeper consideration: technical capacity and quality assurance.

In the recent CDM EB suspension decision, human resource and competency concerns were at the root of many problems.

At face value, the above non-conformities underscore a trend we have witnessed at the Greenhouse Gas Management Institute, as starkly documented in our 2009 Workforce Needs Assessment Survey.

There is a dangerous shortage of well-qualified personnel available to support carbon markets and the implementation of climate change policies. Moreover, there is a frightening absence of institutions and programmes able to train and equip new personnel with the skills necessary to relieve this shortage.

Currently the onus for addressing this competency gap in the offset auditing industry falls on already overstretched verification firms. The UN's primary enforcement mechanism for assuring the quality of a verifier's work is the threat of suspending an entity's accreditation, a particularly blunt tool given the level of staff turnover at these firms.

Emerging North American climate policy, with offset and broader carbon markets growing enormously, portends to further strain the limited verification capacity in the marketplace.

The latest manifestation of this competency gap, in the EB's suspension, highlights both the limited number of qualified practitioners and the unwieldiness of a system solely reliant on organisation-wide accreditation.

In addition to focusing on the

verification organisation, an obvious approach to assure the quality of verification work and address the issue of competency would be a rigorous professional certification program for GHG auditors.

Robust individual certification would provide:

- a clear professional path for career-minded individuals to enter the field, thereby increasing the supply of personnel
- greater clarity for GHG auditing firms and other service providers regarding their human resource decisions
- an added layer of quality assurance for regulators and programme administrators, with the guarantee of a minimum level of competency and ethical practice amongst practitioners; and
- a complementary system of oversight focused on the individuals actually performing GHG audit work.

In sum, individual professional certification supported by intensive comprehensive training is a nimble, cost-effective policy mechanism that meets the dual goals of ensuring technical competency and enhancing quality assurance.

As the United States and Canada develop and expand their GHG programmes, policymakers should heed the latest practical lesson from the CDM before it is too late.

Point Carbon is happy to consider your proposals for commentaries in Carbon Market North America Please submit ideas to: news@pointcarbon.

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