
The New Essentials for Managing Carbon Risk Using Derivatives to Manage Risks

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June 23, 2010

Point Carbon


Point Carbon: a Market Intelligence Provider

News

Domestic policy


22 Jun 2010 10:41 AM EST

Kerry open to cap-and-trade alternatives



Senator John Kerry said he is open to "alternative ways" to price carbon other than his bill. [Read more...](#)

CDM/JI/AAU




22 Jun 2010 09:14 AM EST

Investors take Ukraine to court over JI projects

Two funds will next month start legal action against the Ukraine for nationalising JI projects. [Read more...](#)

Domestic policy



22 Jun 2010 05:52 PM EST

Alberta eyes carbon levy hike

Alberta may raise its carbon tax rate above C\$15 to better reflect the cost of deploying CCS. [Read more...](#)

Thomson Reuters has acquired Point Carbon AS

[Click here to read more](#)

Launch of NEW WEB Power Market Trader EEX & Nord Pool

[Click here for more info](#)

Carbon 2010 - free

Carbon 2010 - free download

"Carbon 2010 - Return of the sovereign", our annual report on the state of the carbon market, was launched at Carbon Market Insights 2010. [Download the report](#)

Carbon 2009
Carbon 2008
Carbon 2007
Carbon 2006

Prices

Point Carbon's OTC price assessments

		Close	+/-
EUA	Dec 2010	15.34	-0.50
sCER	Dec 2010	13.10	-0.33

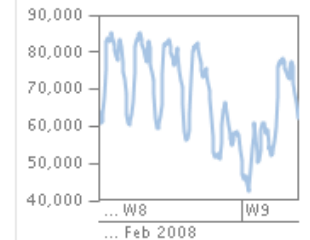
EUA last 30 days



— Dec 2010

Trading analytics

Models and forecasting

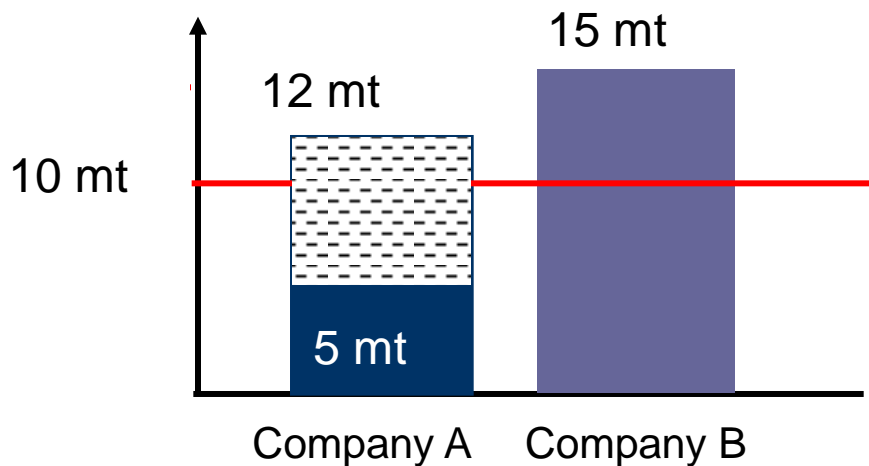


- News, Conferences & Training courses
- Advisory services

- Research & Trading Analytics:
 - Carbon
 - Power
 - Natural Gas

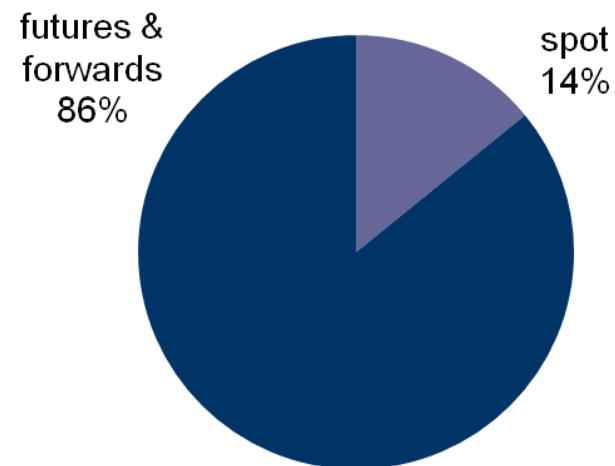
The theory: spot and futures

- **Spot trading:** cap-and-trade 101



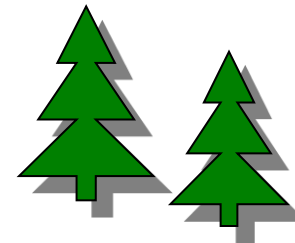
- Pay now, receive allowances now.

- **Futures & forward trading:** vast majority of transactions in Europe
- Agree to buy/sell allowances in the future
- Avoids 'locking down' capital for months at a time



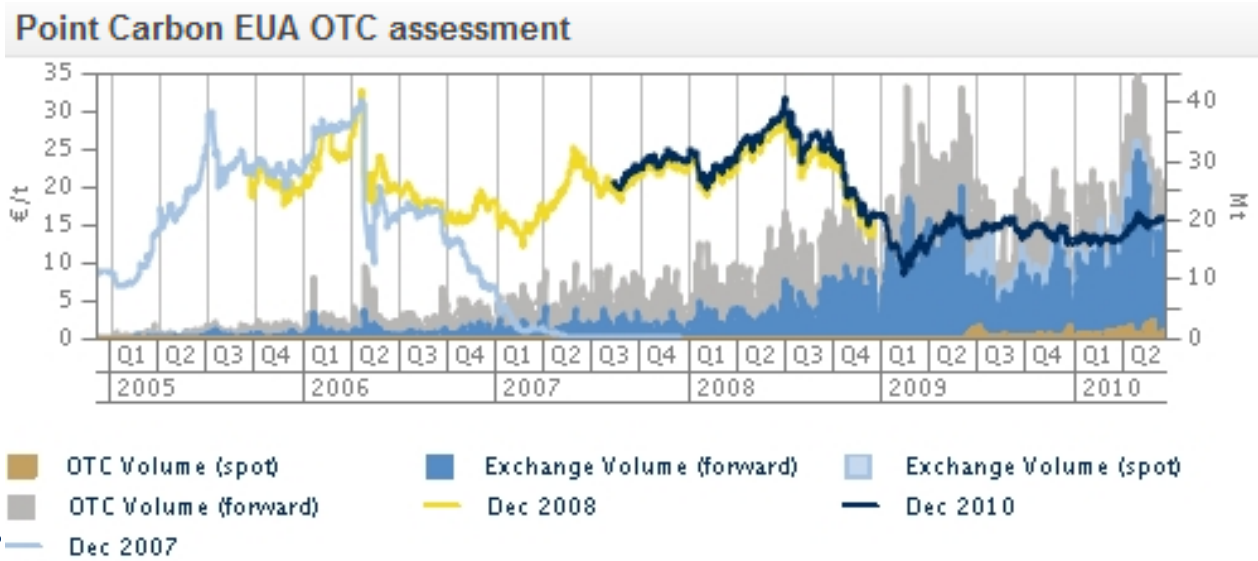
The theory: over-the-counter transactions

- Why transact over-the-counter?
 - Tailored-made transactions (“structured” deals)
 - Longer timeframe
- Power company is planning to build a gas power plant in California
 - Will help secure financing by forward-selling power (long term contract)
 - Will also hedge regulatory risk by buying forward allowances to comply with CA’s future cap-and-trade program
 - May buy 10 or 15 years into the future: standardized contracts on exchange don’t go that far
 - Could also make a deal with project developer to buy stream of credits from forestry projects 20 years into the future



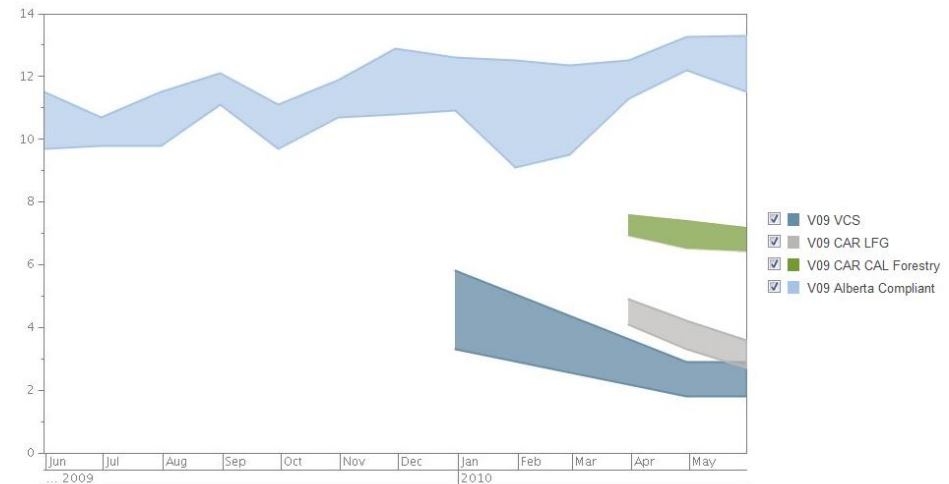
The theory: options and swaps

- Options: hedging futures contracts and liabilities
- Pay a premium for a chance to buy at a lower price in the future
- Lock in stable profits over future sales of allowances
- Swaps: offsets and allowances are not always interchangeable
- Pay extra ('spread') for allowances instead of offsets limited by quota



The practice: North American carbon markets

- In North America, 'pre-compliance' market essentially focused on offsets
- Market volumes and prices negatively impacted by policy uncertainty



- Rules of the game for a federal market?
- Financial regulatory reform will transform commodities and derivatives markets going forward
- Carbon markets may be subject to further restriction
- How to find the balance between the need for more oversight and the need leave enough flexibility for emitters to hedge their exposure?

Thank you!

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THOMSON REUTERS

