

Purchasing Offsets:

A Broker's View of Transacting in the Pre-compliance Carbon Market

Presented by:

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Introduction

Overview of Evolution Markets, Inc.

Evolution Markets Overview



Evolution Markets provides strategic advisory and introductory brokerage services to participants in the global environmental and energy commodity markets

- **Founded in 2000**
- **Headquarters: White Plains, NY**
- **Offices: New York – London – San Francisco – Beijing**
- **World's Largest Environmental Brokerage**
 - More than 80 Professionals Worldwide
 - Structured over \$75 billion in energy & environmental transactions
- **Merchant Banking: *Evolution Markets Financial Services LLC***

Award Winning Brokerage Platform



Evolution Markets is a market leading commodities brokerage firm focused on all environmental and clean energy markets

ENVIRONMENTAL MARKETS

- Carbon Credits & Allowances
- Renewable Energy Credits
- SO₂ Emissions Allowances
- NO_x Emissions Allowances
 - Houston/Galveston NO_x
 - RECLAIM (L.A. NO_x & SO₂)
- Weather Derivatives
- Catastrophic Risk Derivatives

ENERGY MARKETS

- Green Power Transactions
- Biofuels
 - Ethanol
 - Biodiesel
- OTC Physical Coal
- OTC Coal Derivatives
- Natural Gas
- Nuclear Fuels

- Merchant Banking, Carbon and Renewable Energy teams work together to provide complementary services to project developers; enhance market insight and leverage; "EvoFinance"
- Integrated services create a seamless transaction process

Evolution Markets – Carbon



Evolution Markets has 25 carbon team members located in San Francisco, New York, London, Beijing and New Delhi originating and brokering every global carbon commodity

- Origination of carbon offset projects, globally
- Broker the sale of credits through the New York, London and San Francisco desks
- Markets and product groups:
 - **North America:** VERs, RGGI Allowances, Alberta-based offsets, CCX, California/WCI pre-compliance offsets, Options
 - **Europe:** Primary CERs, gCERs, ERUs, AAUs, EUAs, VERs, Options and other financial products

Role of a Broker

Using a broker to transact



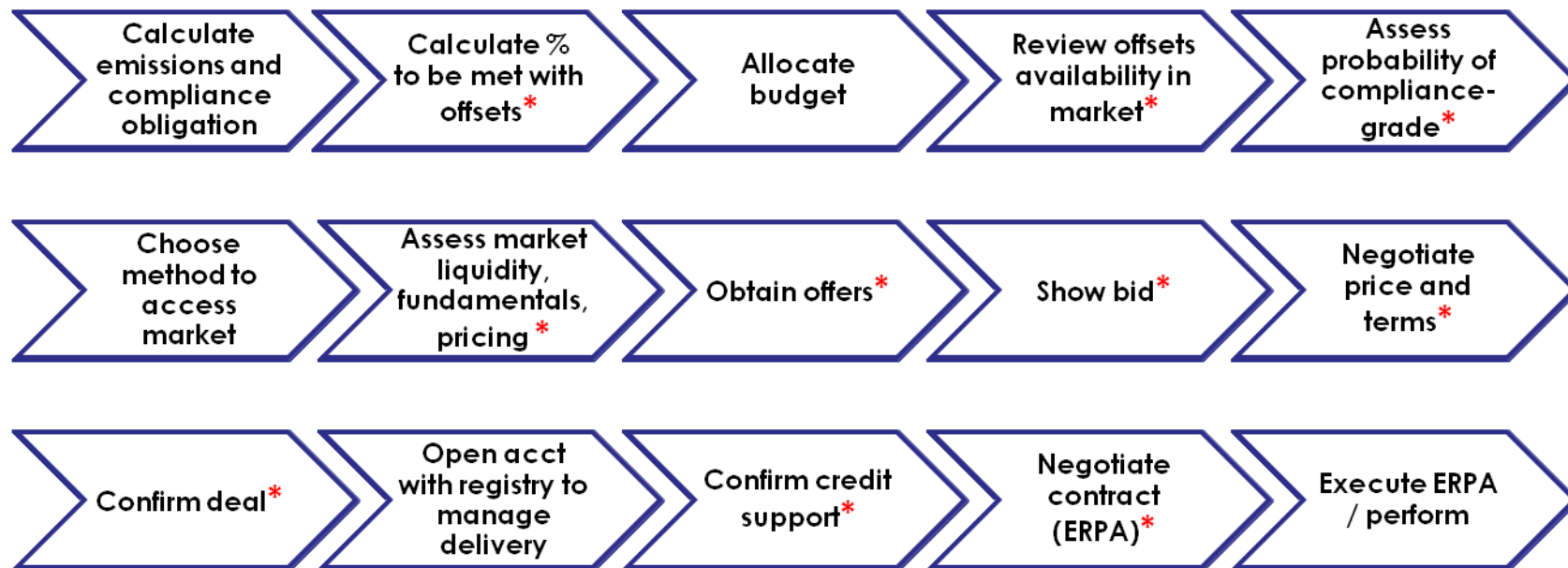
- Price transparency in illiquid and liquid markets
- Market knowledge and structured products experience
- Can create an OTC reverse auction for buyers – seller's compete to sell offsets to buyer
- Access to network of creditworthy counterparties
- **Not a trader OR broker-dealer – we don't take proprietary market positions... therefore, we're not biased**

Transacting

Overview of an OTC offsets deal



Offset Transaction Overview



*Steps at which a broker would assist

Emission Reduction Purchase Agreement (ERPA)



Deal structures

- Plain vanilla, fixed price forward contract with physical delivery
- Term: longer term (5-10 year strips) are getting done
- Primary, over-the-counter market trading most common
- Spot, immediate delivery on the Reserve
- Floating price structure where payment price is tied to an index at time of delivery (CCFE CRT)
- Call and Put Options
- Forward contract with embedded call option

Standard Terms

Delivery:

Unit Contingent vs. Guaranteed; Schedule

Payment:

Upon Delivery, Prepayment

Costs:

Seller to Pay Verification, Issuance and other related CAR Fees

Transacting

Primary vs. Secondary Market

Primary market accounts for the most volume transacted in pre-compliance market



- **Primary market**
 - Project-specific offsets
 - Deal between the primary owner (project developer) and the buyer
 - Executed via the over-the-counter market
- **Why OTC? -> not all CRTs or offsets are created equal**
 - Certain offsets have a higher probability of acceptance for compliance than others, i.e. Livestock / Forestry CRTs
 - ARB will likely not accept all CAR project types; this is why buyers want project-specific CRTs
- **Secondary market**
 - Exchange-based contracts
 - CCFE CRT contract guarantees delivery of generic CRTs, not project specific

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