

# Trading in California's Carbon Market:

*A summary of trading activity, products and drivers*



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**Prepared for:**  
Northwest Power and Conservation Council



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# Evolution Markets – Leadership



Since Evolution Markets was founded in 2000, we have received more than 130 awards for excellence in brokerage. Below you will find a sample of our most recent awards from 2012. For the full list our awards, please visit [www.evomarkets.com](http://www.evomarkets.com)



*Annual Customer Survey*





2012

- Best Broker, Options (EUAs, CERs) 
- Best Broker, Spot & Futures (EUAs, CERs) 
- Best Broker, Secondary Market Kyoto Project Credits 
- Best Broker, North American Markets (California) 
- Best Broker, North American Markets (RGGI) 
- Best Broker, Renewable Energy Certificates, North America 
- Best Broker, SO<sub>2</sub> 
- Best Broker, NOx (Reclaim) 
- Best Broker, Nox 
- Best Broker ERCs 
- Best Broker, Weather Risk Management, North America \*
- Best Broker, Weather Risk Management, Europe 
- Best Broker, Weather Risk Management, Asia 



*Annual Commodity Rankings*

2012

- Best Broker, U.S. Coal 
- Best Broker, Asia-Pacific Coal \*
- Best Broker, Weather Derivatives 
- Best Broker, Emissions \*



*Annual Awards*

- House of the Year: U.S. Coal (2010)*
- Specialist Broker of the Year (2008)*
- House of the Year: European Emissions (2007)*
- House of the Year: Weather / Emissions (2004)*

\*category runner-up

# California Carbon Market Activity



## **2013 Year to Date Average ICE CCA Daily Volume for Allowances**

Futures: 226,000

Options: 142,000

Total: 368,000

## **2013 Spot Market Pricing**

2013 Vintage \$12.80

2015 Vintage \$12.10

2016 Vintage \$12.00

2013 Offsets: \$9 - \$11 range depending on offset type and delivery period

## **Market Psychology**

- Recent market activity reflective of sentiment that CA Cap & Trade program is here to stay
- First retirements to take place in Nov '14 which likely means increased liquidity next year

# Carbon Price Drivers



## Hedging Behavior

- Many power entities hedge carbon when they sell wholesale power providing price support
- Will Transportation fuels begin hedging significant volumes in 2014?

## Structural

- \$10 price floor + 5% escalator and CPI provides price support
- IPP's and Refiners Transportation Fuels receive no allocations
- Other sectors receiving on average 90% allocations
- Holding limits could adversely impact liquidity
- Auction/ICE/Bilateral Markets

## Events

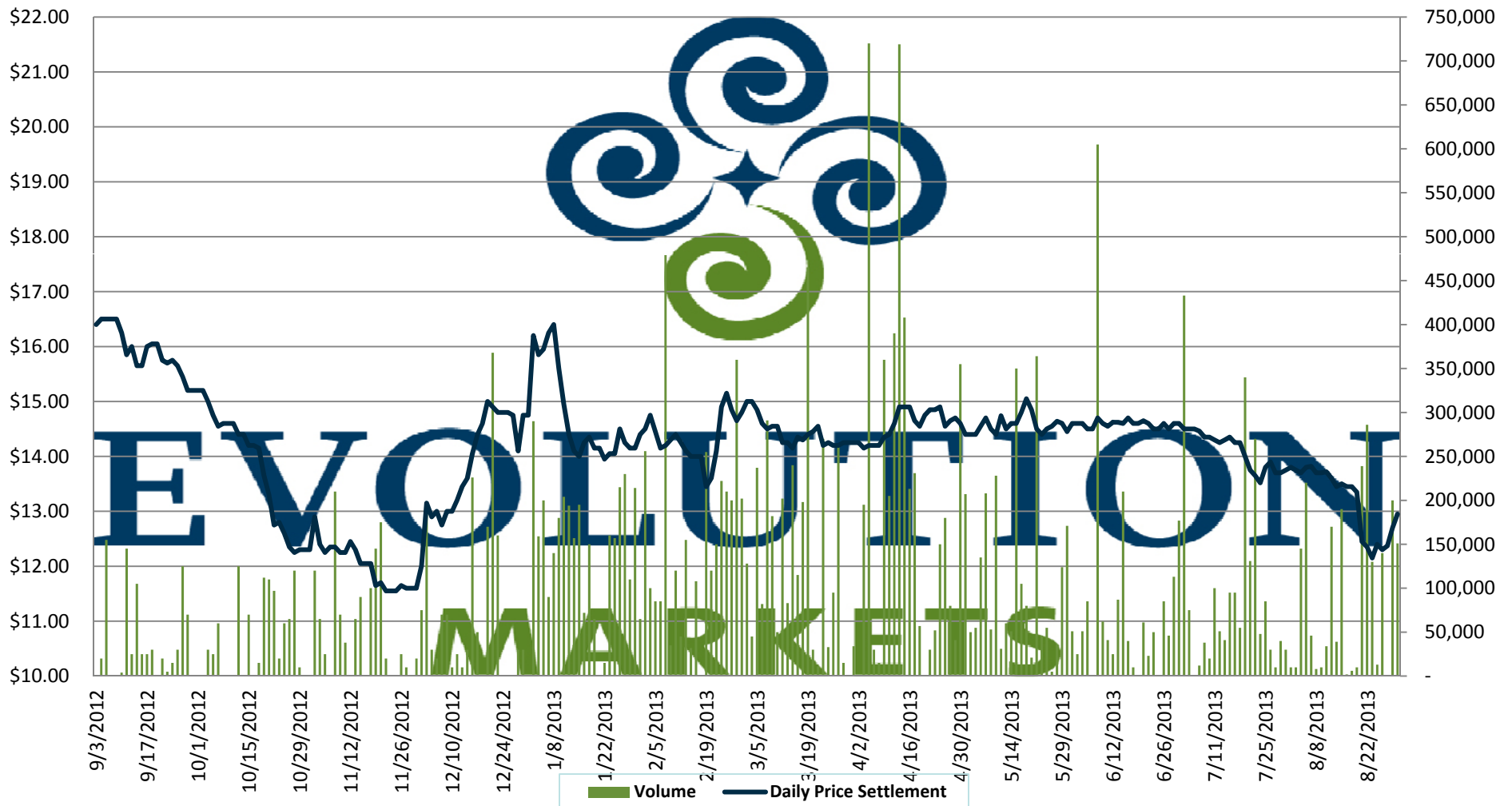
- Quebec Linkage
- November 2013 Auction
- First Offset issuances

# Carbon/Power Relationship



- 1H 2013: Average CCA Price: \$14.57/mtCO<sub>2</sub>e (CAL ISO DMM – August 2013 p 41)
- Cal ISO's Department of Market Monitoring estimates that the average wholesale electricity price impact is about \$6.00/MWh for 1H 2013. This is consistent with the emissions costs for gas units typically setting prices in the ISO market.
- Given the importers unspecified emissions default rate as established by CARB of 0.428 tonnes/MWh, the above numbers make sense.

# Benchmark California Carbon Contract: ICE CCA V13 Dec '13

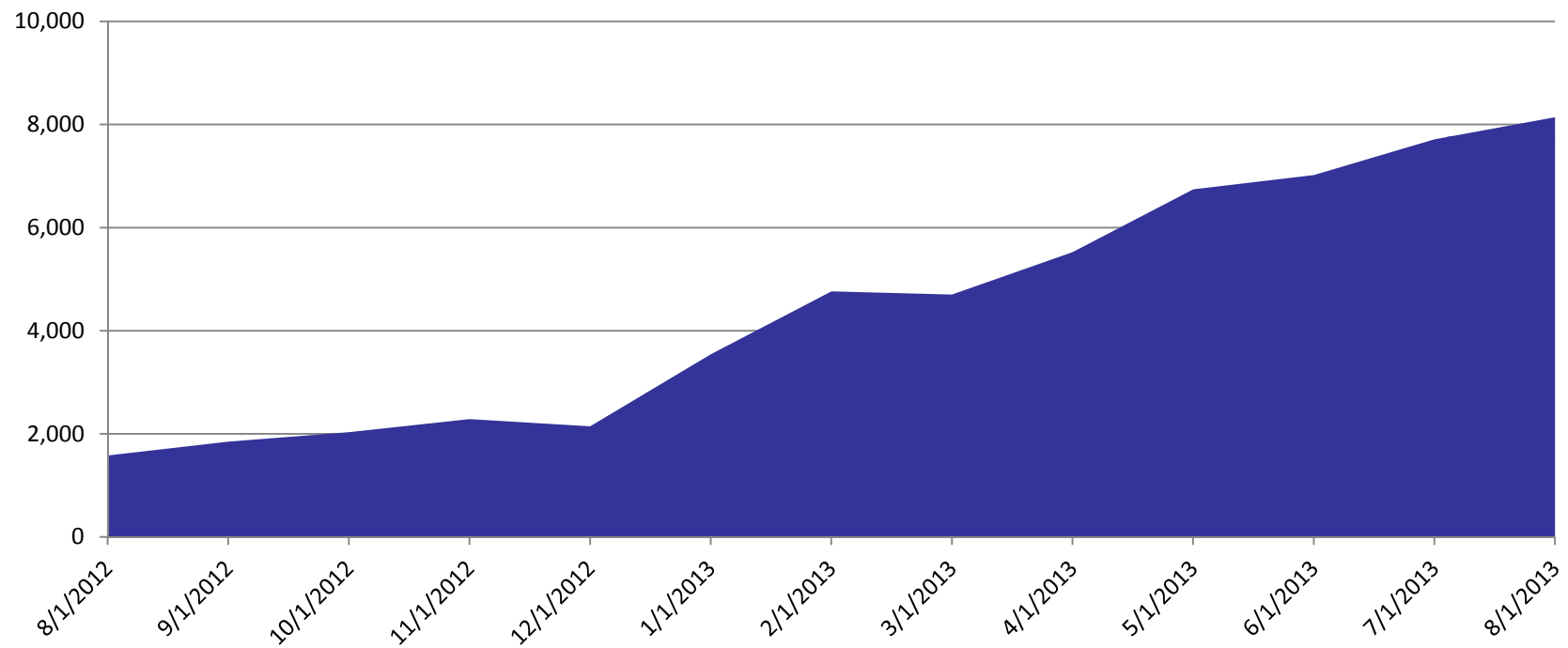


Source: Intercontinental Exchange

# Open Interest (millions)



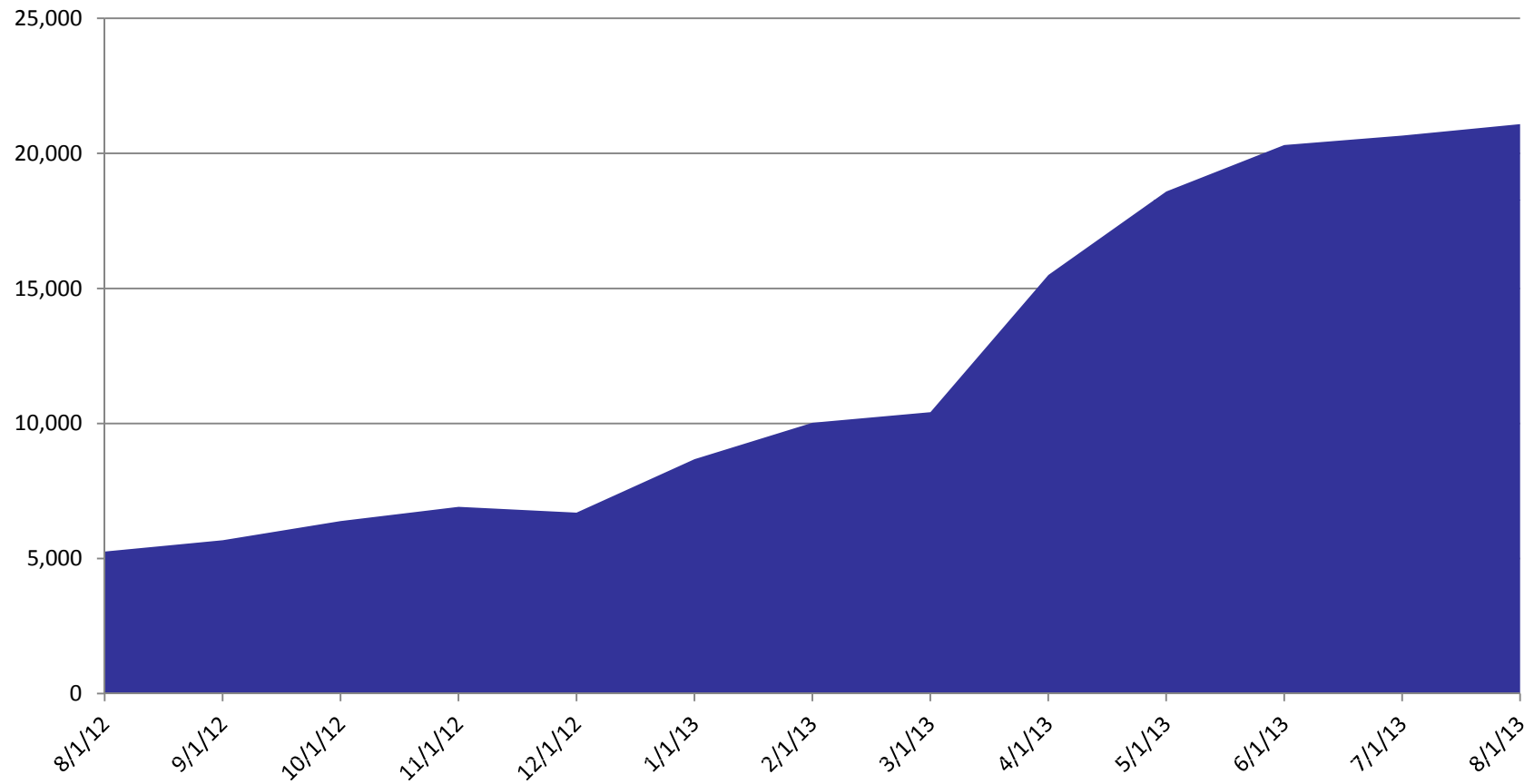
## V13 CCA Open Interest (Futures)



# Open Interest (millions)



## Total V13 OI (Futures & Options)

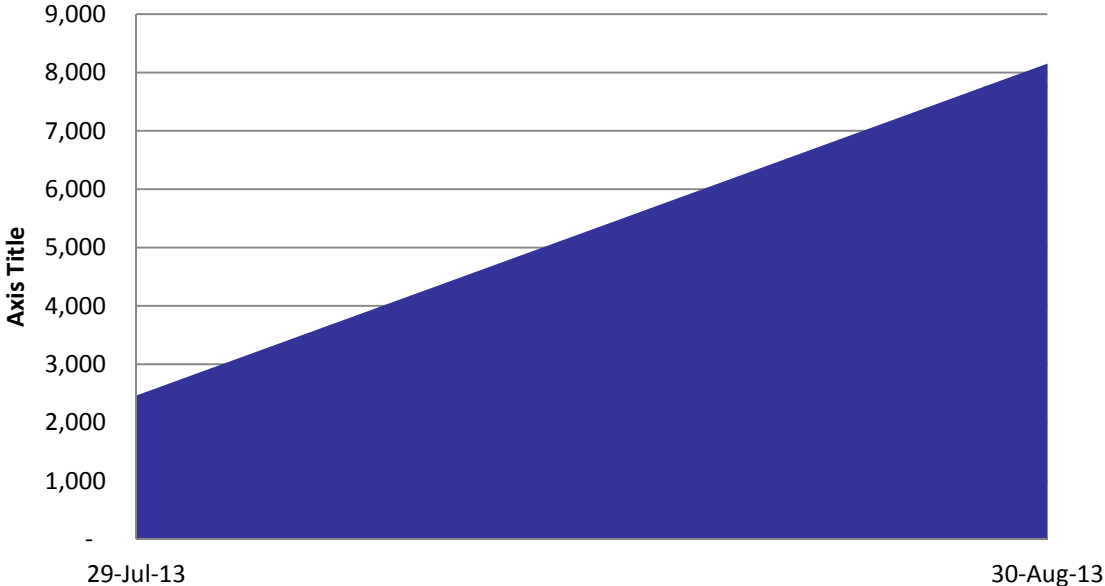




# Open Interest V16 CCA Futures



### Open Interest V16 CCA Futures



# Closing Comments



- **All types of compliance entities and liquidity providers are actively transacting in the California Carbon markets today**
- **Volumes and liquidity are relatively healthy w/ more participants trading since the start of compliance this year**
- **Pricing appears to be reflective of the fundamentals**
- **The offset market is moving forward slowly and will likely increase activity once the first CARB approved offsets are issued**

# Contact Information



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