

# CCX MARKET REPORT

VOLUME iii, NUMBER 10  
October 2006

## CCX Carbon Market October 2006 Trading Summary

### CFI Prices Gain Momentum

October market activity saw the price of CCX Carbon Financial Instrument™ contracts (CFI™) close at some of the highest prices since August. The highest close was seen in the 2003 vintage, at \$4.30/metric ton, followed by the Phase II 2007-2010 vintage contracts at \$4.25 and the 2004 & 2005 and 2006 vintages at \$4.20. The 2003 vintage month-end prices have been at a premium to the other vintages since August of this year. The 2004 and 2009 vintages showed the largest price changes from September, with the 2004 vintage rising 7.7% above the September close and the 2009 vintage rising 7.6% above the September close. See Table I, Figure 1.

### Monthly Volume Surpasses 1 Million Metric Tons CO<sub>2e</sub>

Trading volume was concentrated in the 2007-2010 vintages, led by the 2010 and 2009 CFI with 304,900 and 249,400 metric tons CO<sub>2</sub> traded respectively. This is a reversal of September, when the Phase II vintages saw sparse trading. Total October volume on the CCX CFI market was 1,167,000 metric tons CO<sub>2</sub>, the highest monthly volume since June 2006. Average daily volume was 53,045 metric tons CO<sub>2</sub>.

## CCX TRADING ACTIVITY

October 2006

Table 1

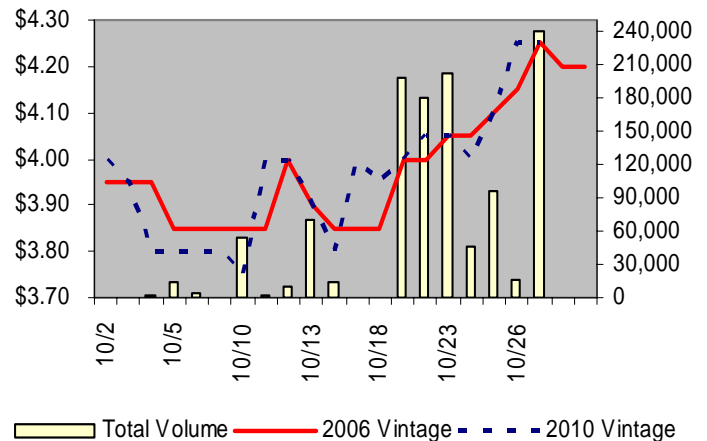
CFI Contract	VOLUME (metric tons)		CLOSING PRICES (\$ per metric ton)	
	Oct. '06	Program to Date	Sept. 29 '06	Oct. 31 '06
2003 Vintage	47,400	1,325,000	\$4.10	\$4.30
2004 Vintage	71,500	1,604,900	\$3.90	\$4.20
2005 Vintage	107,400	2,173,400	\$4.05	\$4.20
2006 Vintage	59,100	2,248,600	\$3.95	\$4.20
2007 Vintage	123,400	1,393,700	\$4.00	\$4.25
2008 Vintage	203,900	1,370,000	\$4.00	\$4.25
2009 Vintage	249,400	1,455,900	\$3.95	\$4.25
2010 Vintage	304,900	1,598,300	\$4.00	\$4.25
<b>Total</b>	<b>1,167,000</b>	<b>13,169,800</b>		

The figures above represent all trades posted to the CCX trading platform.

October Volume, 2006 & 2010 CCX CFI Prices

Price (US\$/metric ton), Volume (metric ton)

Figure 1



CCX market data and news: [www.chicagoclimateexchange.com](http://www.chicagoclimateexchange.com)

## October 2006 Carbon News

### U.S. News

- Governor Rod Blagojevich launched the State of Illinois "Global Warming Initiative" on October 6 by signing an executive order that will make Illinois the second state Member of the Chicago Climate Exchange and creates a climate change advisory group on reducing state GHG emissions.

- On October 10, the Lancaster County Solid Waste Management Authority (LCSWMA) announced that it is the first public environmental services organization to become a Member of the Chicago Climate Exchange. LCSWMA operates an integrated solid waste management system which primarily serves Lancaster County, Pennsylvania and is recognized throughout North America as a leader in the field of solid waste management.

- Senator John Kerry (D-MA) along with Senator Olympia Snowe (R-ME) have introduced bipartisan climate change legislature to the US Senate. The legislation seeks to stabilize US GHG emissions by 2010 and then reduce GHG emissions 65% below 2000 levels by 2050 through a cap-and-trade system. The bill also calls on the Bush Administration to re-engage in international discussions on climate change and includes a provision to increase renewable energy to 20% of total demand by 2020.

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## U.S. News *continued*

- Carbon Market Solutions, a leading New Zealand carbon brokerage and trading company, joined the Chicago Climate Exchange in October as an Offset Aggregator. Under the arrangement, Carbon Market Solutions will be able to list and sell CCX CFIs from GHG emission reduction projects that meet CCX criteria.
- Lawyers for the Bush Administration, several industry groups and nine state attorneys general including those of Michigan, Kansas, Nebraska, North Dakota, Ohio, South Dakota and Texas, urged the U.S. Supreme Court to dismiss a lawsuit, filed by several states including Massachusetts, aimed at forcing the Environmental Protection Agency (EPA) to regulate GHG emissions on the federal level. The briefing to dismiss the lawsuit was submitted to the Supreme Court on Oct. 24.
- Morgan Stanley announced on October 26 that it intends to expand its carbon trading business with a \$3 billion investment in the carbon market over the next five years. It is reported that a majority of the investment represents an increased commitment to buy credits from GHG mitigation projects.

## Global Carbon Market News

- The European Climate Exchange (ECX) launched options trading on its electronic trading platform on October 13. All trades will be cleared by LCH.Clearnet. A put option for ten contracts, representing 10,000 allowances, was traded on the ECX during the first day of trading.
- On October 30, the secretariat of the UN Framework Convention on Climate Change (UNFCCC) announced that GHGs from industrialized nations have increased by 2.4% from 2000 to 2004. In spite of the increase in recent years, GHG emissions from industrialized nations are 3.3% below 1990 levels.
- The European Environment Agency (EEA) released a report on October 27 stating that seven member states were not on track to achieve their targets under the Kyoto Protocol. The report estimates that without additional measures Austria, Belgium, Denmark, Ireland, Italy, Portugal and Spain will need to purchase €2.8 billion worth of Kyoto credits to meet their obligations.
- On October 19, Nippon Electric Glass, Japan's second largest glass maker, and Funai Soken, a consulting firm, announced the first trade under the Japanese Voluntary Emissions Trading Scheme. The transaction involved 200 credits sold by NEG for a reported €12 per metric ton. The Trading Scheme is set to run from April 06 to March 07.
- A survey of all EU ETS covered facilities conducted by consultants New Carbon Finance and brokers CO2e revealed that 63% of surplus emissions will very likely be sold and an additional 33% of surplus emissions will possibly be sold in the upcoming year. Only 4% of surplus emissions will definitely be held back.

## Emissions Market News

### Petroleum Prices Continue to Fall, Natural Gas Spikes

- Light sweet crude oil spot prices continued to decline in October, closing at \$58.73 per barrel on Oct. 31, down 6.6% from the September close. U.S. crude stocks were 332 million barrels at the end of October, up 1.3% from September and 5% from October 2005.
- U.S. heating oil prices also continued to decline in October, hitting the lowest price of the year on Oct. 31 (\$1.59/gallon). This is 10.2% below the Oct. 31, 2005 price. U.S. distillate oil stocks are up 22.9% from the October 2005 level.
- Cold weather across the United States brought a spike in natural gas prices, with Henry Hub futures prices closing at \$7.53 per MMBtu on Oct. 31, a full third above the September close. Natural gas inventories remained high at 3,461 Bcf towards the end of the month, 10% above the 5-year average.
- Coal prices were mixed in October, with spot prices rising mid-month from mid-September levels in the Northern Appalachia, Illinois Basin and Powder River Basin (PRB) coals. The largest price movement was in low-sulfur PRB coal which saw a 4.6% increase from mid-September to mid-October. Total October 2006 coal stocks are 2.6% above the October 2005 level.

## Energy Stocks & Trends

Table 2

	U.S. Stocks		Change From	
	Oct. 20, 2006		Week	Year
Crude Oil	332.3		↓ 3.3%	↑ 15.9%
Gasoline	207.4		↓ 2.8%	↑ 11.5%
Distillate	144.0		↓ 1.4%	↑ 22.9%
Propane	71.96		↓ 0.04%	↑ 3.86%

All units in million barrels

Source: Energy Information Administration (EIA)

- According to the U.S. Energy Information Administration (EIA), the increase in natural gas prices, despite the relatively large stock, can be attributed to a combination of cold weather and uncertainty regarding winter weather. Nationwide, 58% of households rely on natural gas as their primary heating source. Crude oil stocks, while above medium-term average stocks, fell during October.

## ENERGY PRICES

Table 3

Natural Gas & Oil front month contract	Sept. '06 Avg. Close	Oct. '06 Avg. Close	Average % Change	Oct. 31 '06 Close
Henry Hub Nat Gas	\$5.22	\$6.59	↑ 26.2%	\$7.53
WTI Light Sweet Crude	\$63.90	\$59.02	↓ 7.6%	\$58.73

Source: WTRG Economics