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Key Summary

A. Trading Report

- Prices dipped from throughout the week reaching **\$14.75** for the front and **\$14.86** for the benchmark
- OCA Dec 17 benchmark prices close at **CAD 18.80 (USD 14.82)**
- OI saw a positive net change of **3,044,000** contracts
- Volume traded saw a high increase to **14,344,000** tons

B. Price Expectations

- Despite active trading, CCAs price continued to decline throughout the last week as auction approaches
- V2020, witnessed trading activities for the first times across delivery months.
- **Expected V17 ranges:** \$14.70- \$14.78 (Front); \$14.80- \$14.88 (2017 Benchmark)

C. CCO Tracker

- **762,826** ARBOCs issued across 3 forestry projects
- **23.2 million** CCO-3s brought online through **Passamaquoddy Tribe IFM (CAR1175)**
- Two Livestock projects and one MMC project gain new ROCs
- CCO-8 prices fall as lower risk options hold value

D. Policy Tracker

- AB 398- (Garcia, De León) Extension of Cap-and-Trade from 2020 – 2030 with the introduction of a price ceiling, price containment points, reduced offset usage and revisions of industry assistance factors.
- SB 100- (Kevin de León) The California Renewables Portfolio Standard Program would double up California's renewable energy ambition, mandating 100% RE procurement by 2045.
- SB 498- (Skinner) Beginning no later than 2024-2025 fiscal year, at least 50% of the light-duty vehicles purchased for the state vehicle fleet each year must be zero emission vehicles.

E. Key Dates

- **Aug 15**– California Air Resources Board and Quebec's MDELCC will conduct its 12th Joint Auction for Carbon allowances and will offer year 2017 vintage allowances in the Current Auction and year 2020 future vintage allowances in the Advance Auction.

Section A. Trading Report

Trading activity steps up ahead of Tuesday's Auction

CCA prices fell further last week ahead of Tuesday's next Joint Auction. Having enjoyed a spike in mid-July prices have been on the decline, falling a further 0.87% last week to close at USD 14.75 on the current front (Aug 17) contract. Given the sell side demand observed over the past few weeks, CC.info expects the upcoming auction to clear between USD 14.50 and USD 14.00.

An impressive 14.3 million tons of trade cleared in total over the week, almost double the previous week's traded volume. The current 2017 contract took the largest slice of the pie, accounting for over 55% of the total volume with 7.9 million tons traded. A further 21% of the weekly volume (3 million tons) was focused on the V2020, available for purchase at this year's future vintage auction. With the current compliance period approaching its close, market participants appear to be looking further ahead than seen previously.

2018 Vintages also saw healthy trading activity. 3.4 million V2018s were traded, 23.6% of the overall volume. In terms of deliveries, the current Dec 17 benchmark contract saw the highest amount of trade with a contribution of 45%. The current front (Aug 17) and the Sep 17 contracts also saw high volumes with a respective 2.4 million and 2 million exchanging hands.

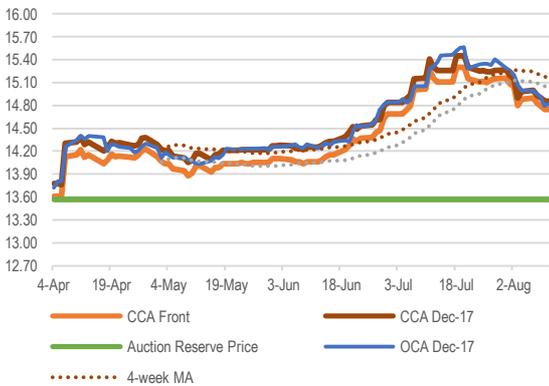
The increased appetite for the future allowance was accompanied by a positive net change of 3 million in Open Interest for the V2020. V2017s meanwhile saw an overall dilution as 1.3 million contracts came to a close whilst V2018s saw a positive net change of more than 1.3 million contracts.

Yet another week passed on the Ontario carbon market without a single trade taking place. OCA prices continued to decline with the CCA, however, closing the week at CAD 18.8, or USD 14.82 given Friday's exchange rate.

ICE Price Movements		
ICE CCA	Wk Close	Wk Δ
V17 Front	14.75	-0.13
V17 Dec 17	14.86	-0.12
V15 Dec 17	14.87	-0.12
V16 Dec 17	14.87	-0.12
V18 Dec 17	14.85	-0.08
V19 Dec 17	14.75	-0.11
V20Dec 17	14.75	-0.11
V17 Jun 18	15.05	-0.12
V17 Dec 18	15.24	-0.12
V17 Dec 19	15.66	-0.12
V17 Dec 20	16.09	-0.12
OCAV17 Dec 17	14.82	-0.17
ICE Traded Volumes		
ICE CCA	Delivery	Vol. ('000)
V17	Aug 17	2,405
	Sep 17	955
	Dec 17	4,294
	Mar 18	300
V18	Sep 18	2,000
	Dec 18	1,390
V20	Sep 17	500
	Dec 17	2,200
	Mar 18	300
Total		14,344
4-week average		7,002
CCO Price Movements		
OTC	Wk Close	WkΔ
Golden '16	13.13	-0.02
CCO-3 '16	11.89	-0.02
CCO-8 '16	11.38	-0.04

Section B. Price Expectations

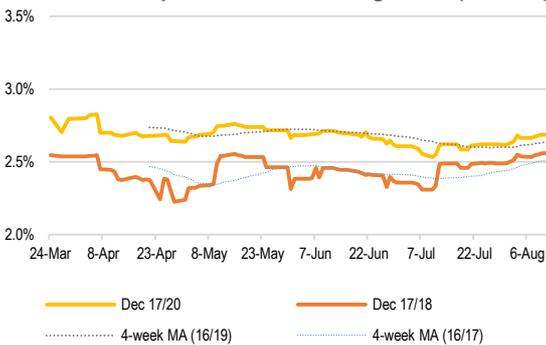
CCA Instrument Prices



Prices continued to deflate for a third straight week as fears of a negative price discovery in the next auction begin to materialize further. The current front contract (Aug 17, V17) lost USD 0.15 across the week, closing on Friday at USD 14.75. The rise in trading activity coupled with a continuous decline in price over the past few weeks suggests that participants have recognized the exaggerated prices observed in the wake of the extension bill and Supreme Court ruling. A period of stabilization is expected.

A quick analysis of the open interest creation last week speaks a lot about the sentiments of the market participants as they gear up for tomorrow's joint auction. Open interest creation on the current vintage has declined from 46,509,000 last Thursday to 45,218,000 this Thursday indicating the termination of 1,291,000 contracts. This could be because of expectations that the Dec17 prices will fall after the auction results are announced, thus making it feasible to liquidate positions now and buy back at a lower price.

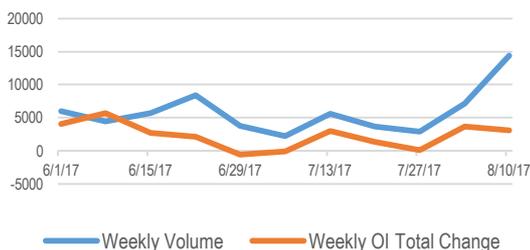
Implied Annual Funding Rates (Current)



At the same time V2020 contracts finally witnessed some activity on the secondary market with 3,000,000 contracts traded across various delivery months. This bodes well for the future vintage auction wherein xxxx V2020 allowances will be sold.

The front-to-year-end implied funding rate has improved compared to the previous week's level of 2.03%, to 2.25% this week as the spread between front and benchmark loosened by USD 0.01 from USD 0.10 cents last week to USD 0.11 cents. However, the year ahead funding rates (Dec 17 to Dec 18 delivery) 2.56%, showed little change compared to the previous week's level of 2.54% with the vintage spreads remaining unchanged at USD 0.38.

Weekly Volume and OI creation



As pointed out in the last edition of the outlook, similar increase in trading activity and open interest creation accompanied by a fall in CCA's prices were observed during the first week of May 2017, just before the previous joint auction. A fully subscribed auction this week, will bring 63.88 million of current vintage-V2017 and 9.72 million future vintage V2020s into the market. Given this volume, there may well be a sell side pressure in the secondary market which will lead to prices falling to next year's expected reserve price of USD 14.52, still USD 0.23 below the last week's closing price for the current front. This may also be a factor behind participants opting out of V2017, Dec 17 deliveries as observed and purchasing back at a lower post-auction price.

Price Expectation:

Expected V17 ranges: \$14.70- \$14.78 (Front); \$14.80 - \$14.88 (2017 Benchmark)
Volumetric assumption: 3-4 million on V17 contracts; 5-6 million overall

Section C. CCO Tracker

Last issuance date: August 8, 2017

Issued CCO total: 67,723,438

Next issuance date: August 23, 2017

Quebec offsets: 550,342

Last ARB issuance total: 762,826

WCI offsets eligible for future compliance:

CCO-0s: 9,535,400

38,907,648

762,826 ARBOCs were issued last week in ARB's bi-monthly offset issuances. Having missed out on issuances the previous month, Forest Carbon was responsible for all of the latest volume with three projects scoring new credits. Quebec's Ministry of Climate Change also issued offsets this week, awarding two Landfill Methane Destruction projects credits for subsequent reporting periods.

Blue Source's **Bishop IFM (CAR973)** was the most noteworthy issuances, gaining **450K** for the project's fourth reporting period. The project has generated a total **3.1 million** credits to date, claiming fourth for the highest all time scoring projects. Finite Carbon, the market leaders for offset credits, added a further **123K** to their portfolio through the second reporting period of **Passamaquoddy Tribe IFM (CAR1175)**. The rotation of verifiers brought **4.1 million** CCO-3s online from the project's previous reporting period. **Passamaquoddy Tribe IFM (CAR1175)** is now the single largest source of CCO-3s with **23.2 million** lower risk offsets.

Willits Woods IFM (CAR1140) was the only Californian based project to receive credits this week. The project has generated an overall **406K** credits from two reporting periods and remains the sole credited project of Coastal Ridges LLC.

In terms of registry activity, **309K** ROCs were issued over the course of the week. **Grotegut Dairy Farm (CAR1135)** and **George DeRuyter and Sons Dairy (CAR1080)** were issued **28K** and **10K** respectively by the Climate Action Reserve. **Marshall County VAM Abatement Project (ACR226)** picked up a heftier **271K** credits. The project is the second largest Mine Methane Capture projects credited with offsets and has been developed by Verdeo Sindicatum.

CCO-8 prices declined across the week, mirroring the losses on the CCA market. Prices fell from USD 11.42 to **USD 11.37** according to a pooled average of broker quoted prices. The lower risk CCO-3s and Golden CCOs remained relatively unchanged, however, closing the week at **USD 11.90** and **USD 13.13**.

Based on *CaliforniaCarbon.info*'s emissions forecast and historical offset utilization, an estimated **51.1 million** offsets will be needed to satisfy demand for Compliance Period 2. At present **38.9 million** offsets are available for compliance. Combined with the backlog of **29.8 million** ROCs awaiting ARB approval as well as the high number of forestry projects expected to come online over the next few years, CC.info analysts expect supply to meet demand in the short term.

Section D. Policy Tracker

Bill	Author	Brief	Status	Momentum Indicator
AB 398	Assembly Members Eduardo Garcia, Senator De León	An act to extend Cap-and-Trade program beyond 2020 till 31 st Dec 2030. It requires the state board to include specified price ceilings, price containment points, offset credit compliance limits, and industry assistance factors.	Passed with Super Majority	Positive
SB100	Senate President Pro Tem Kevin de León	An act to amend Sections 399.11, 399.15, and 399.30 of, and to add Section 454.53 to the Public Utilities Code, relating to energy. It requires California to generate all its electricity from renewable.	Amended in Senate on May 26	Neutral
SB 498	Senator Skinner	An act to add Section 43018.8 to the Health and Safety Code, and to add Section 25724 to the Public Resources Code, relating to vehicular air pollution.	Amended in Assembly on June 22, 207	Neutral

Section E. Key Dates

Date	Item	Observations
August 15	Joint Auction 12	California Air Resources Board and Quebec's MDDELCC will conduct its Joint Auction for Carbon allowances and will offer year 2017 vintage allowances in the Current Auction and year 2020 future vintage allowances in the Advance Auction.

Section F. Back Matter

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