

## **Federal Markets: US EPA SO<sub>2</sub> Acid Rain Trading Program and NO<sub>x</sub> SIP Call Market**

### **Overview**

Our core US focus is in the Federal SO<sub>2</sub> and NO<sub>x</sub> Allowance trading programs. TFS Energy's strength in these markets has been recognized by a first place for best US NO<sub>x</sub> broker in *Environmental Finance* 2005-2006 and a second place as best overall US emissions broker in *Energy Risk* 2005. TFS was also awarded the 'Silver Award for Emissions Markets' by *Commodities Now* 2005, the only broker to be recognized. The proposed revisions to the NO<sub>x</sub> and SO<sub>2</sub> compliance obligations under the Clean Air Interstate Rule (CAIR) and the introduction of mercury trading under the Clean Air Mercury Rule (CAMR) should prove to be the driving force for domestic trading over the balance of the decade. The SO<sub>2</sub> proposals have already spurred considerable activity in the previously dormant Vintage 2010 and later allowances. TFS specializes in devising hedging structures to assist clients in optimizing their emissions portfolios under these new and evolving frameworks.

### **SO<sub>2</sub>**

The SO<sub>2</sub> allowance program was established under the 1990 revisions to the Clean Air Act. The cap and trade program has created a liquid market that allows market participants to fulfill their compliance and hedging requirements. The SO<sub>2</sub> market is fully developed with spot, forward, option and swap transactions all commonplace. Allowances are allocated to facilities in Vintage Years on a 30 year forward basis. This enables generators to do adequate cost benefit analysis on the relative value of a long term allowance purchase versus a major emissions control project at a facility. The CAIR proposals require eastern states to surrender 2 allowances for every 1 ton of emissions for Vintage Years 2010 to 2014 and 2.86 allowances for every 1 ton of emissions for Vintage Years 2015 and later. The CAIR proposals have led to a period of unprecedented volatility in the SO<sub>2</sub> market as affected companies have utilized the marketplace for their long term hedging requirements

### **SIP Call NO<sub>x</sub>**

An outgrowth of the Ozone Transport Commission (OTC), the NO<sub>x</sub> SIP Call budget trading program controls the transfer of ozone pollution among 20 Midwest, Northeastern, and Southeastern states. The program establishes a cap for a predetermined timeframe known as the "ozone season" which is in effect for the period of May 1st – September 30th. Major sources include utility generators, steel producers, paper mills, cement kilns, chemical plants and oil refineries.

The Progressive Flow Control (PFC) mechanism mandates banking restrictions unique to the SIP Call NO<sub>x</sub> market. PFC fosters numerous Vintage Swap transactions that drive much of the trading in NO<sub>x</sub>. TFS is expert in structuring Vintage Swaps to maximize emissions portfolios in this banking constrained market.

The TFS US environmental products group is a diverse team of energy market and regulatory policy veterans. Our team is dedicated to providing comprehensive client support, which includes structuring customized physical and financial hedging structures in the spot, option and forward markets to meet the increasing needs of our diverse client base. TFS has the capability to assist in all post-transaction logistics, including contracting, clearing and escrow services.

For more information, please call toll-free in the US +1.866.AIR.3590 or +1.212.943.2883, or email [tfs-coal-emissions@tfsenergy.com](mailto:tfs-coal-emissions@tfsenergy.com).