

DYNAMICS OF TRADING IN THE NO_x ALLOWANCE MARKET

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Allowance trading has become a key feature of environmental compliance programs in the US and around the world. The US Acid Rain Program is still the flagship effort of this type, the NO_x Budget Trading program has also proved quite successful in improving flexibility in compliance the emissions cap. The emissions markets show several unique features relative to other commodity markets. In addition, specific provisions of the NO_x trading program give the market several further unique characteristics that market participants will be well served to understand.

Allowance price drivers in the NO_x market will be discussed. Particular focus will be applied to the impact of Progressive Flow Control, seasonality, and conversion from the OTC to the SIP Call program.

To further familiarize the audience with the NO_x allowance market, this presentation will discuss market conventions such as quoted structures, volumes and Bid-Ask spreads they should expect to see. The presentation will then progress into a discussion of historical price volatility, trading volume, and trading frequency and how these impact the market.

The presentation will conclude with a discussion of option structures and how they may be used to minimize risk and cost of compliance with the NO_x program requirements.