

New Carbon Finance's Voluntary Carbon Index (VCI) First Edition

Following on the comprehensive annual survey we do in partnership with the Ecosystem Marketplace, "The State of the Voluntary Carbon Markets", we are pleased to launch the first-ever regular price index for the over-the-counter (OTC) voluntary market: the NCF Voluntary Carbon Index (VCI).

Rather than a full market survey this index was created to give a snapshot of a representative selection of transactions in order to track intra-annual price developments in the OTC market – at the project origination and wholesale distribution levels i.e. the 'secondary' VER market.¹ The data for the index is collected monthly, but for the moment the results will be displayed bi-monthly due to limited market activity. As soon as transactions increase the index will be published monthly. The VCI conveys VER prices for offsets varying by standard and type and although surveyed suppliers are based across the world there is a significant bias towards US-based transactions. All prices are volume-weighted and are only shown when multiple data points are available.

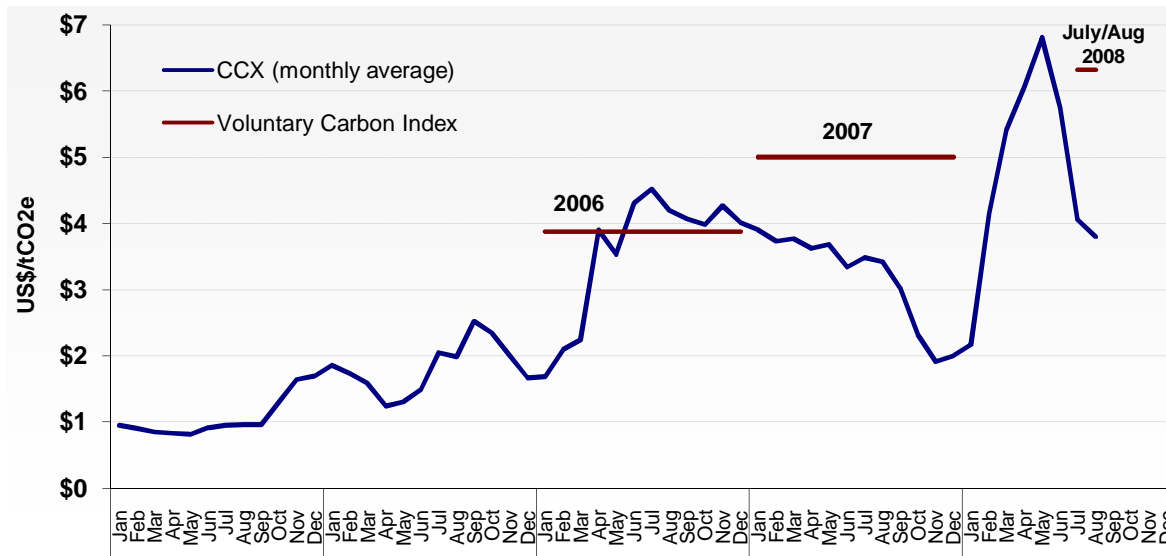
US\$/tCO ₂ e	Year 2007	July/August 2008
VCI	\$5.00 ¹	\$6.32

Source: New Carbon Finance. Note 1: for comparison we have used the 2007 sample from our "State of the Voluntary Carbon Markets 2008", New Carbon Finance & Ecosystem Marketplace. In following editions the last month's value will be used.

The average secondary VER price increased by 26% from an average of \$5.00/t during 2007 to \$6.32/t in July/August 2008, tracking close to 3MtCO₂ secondary VER transactions worth around \$18.9 million for the initial launch of the Voluntary Carbon Index. Note that the figure for 2007 represents similar project developer/aggregator-level data obtained from our 2007 State of the Voluntary Carbon Market data.

We attribute the observed price increase to a number of different factors including the following: increased demand for voluntary offsets coupled with a higher willingness to pay, the contraction of low-cost industrial gas projects, US dollar devaluation relative to other currencies, greater use of independent standards and third party verification. Particularly, the increasing emphasis on third-party verification and standards plays a critical role in the observed price increases as project developers typically shoulder the cost burden of verifying their projects to a specific standard.

Historical Prices for NCF's Voluntary Carbon Index (OTC market) and the Chicago Climate Exchange

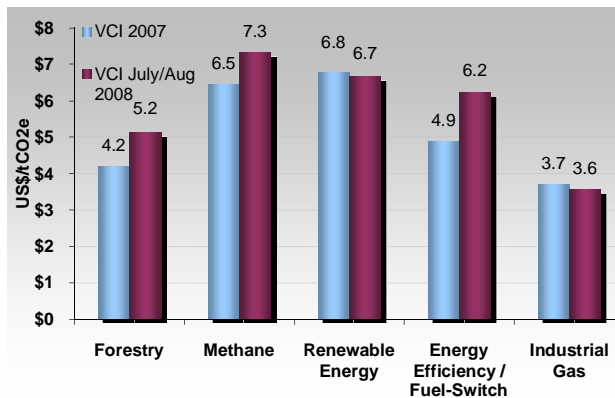


Notes: prices shown are the average closing prices (averaged across vintages) for the quarter and volumes are total traded CFIs in metric tonnes of CO₂e. Source: New Carbon Finance based on CCX data

¹ For more details on methodology see page 3

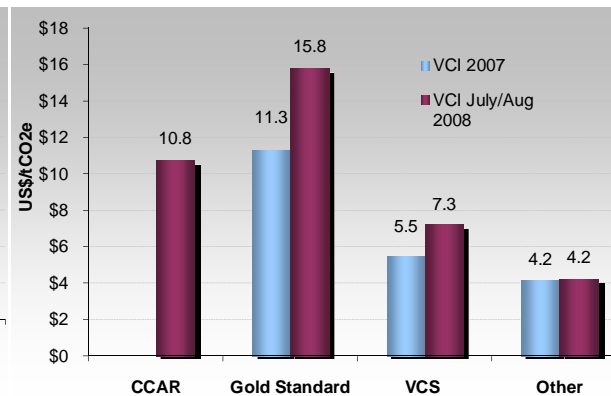
The Chicago Climate Exchange (CCX) has shown a more volatile trend as it declined from highs of \$7.4/t in March to June of this year to a \$3.8/t average in August, the level it had during most of 2006 and 2007. CFI prices continue to decline, closing at \$2.5/t on 8 September. The reason behind the sharp peak was the nomination of presidential candidates that all back cap-and-trade and the trough was precipitated by a significant increase in CCX offset credits combined with the fading importance of climate change legislation in the Congress and negative media coverage questioning the additionality of CCX offsets.

Prices by Type, 2007 and July/August 2008



Source: New Carbon Finance. Only those types shown for which multiple data points were available.

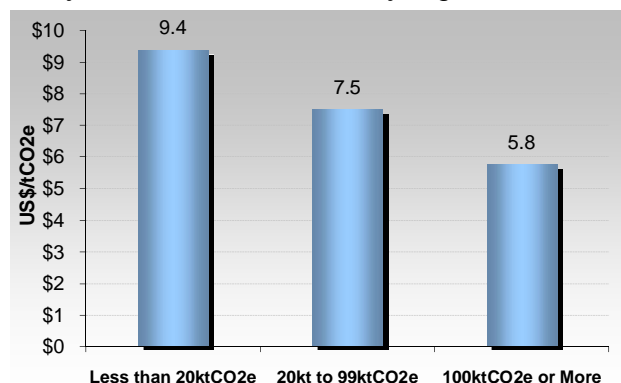
Prices by Standard, 2007 and July/August 2008



Source: New Carbon Finance. Only those standards shown for which multiple data points were available.

- The ascent of the **Voluntary Carbon Standard (VCS)** as the most popular and dominant standard in voluntary markets has become obvious and has had substantial price implications. According to our initial results, prices for VCS credits are approximately 73% higher than 'other' standards (DOE 1605b, ISO 14064, EPA Climate Leaders, CCX), \$7.3/t relative to \$4.2/t, and have seen a 33% increase compared to their 2007 average value.
- **Gold Standard VERs (GS VERs)** continue to fetch premium prices (at \$15.8/t), 116% higher than the average VCU price, up 40% from their 2007 average price. **The price of CCAR Certified Reduction Tons (CRTs) is 48% higher (at \$10.8/t) than the average VCU price**, likely due to demand from pre-compliance buyers willing to pay above average prices.
- Our data indicates that reported purchases/sales volumes of **less than 100ktCO₂e are 31% more expensive** than purchases/sales of 100ktCO₂e or more, regardless of project type.
- **Prices have increased for most project types although industrial gas and renewable energy credits have remained comparatively flat** (decrease of only 2.7% and 1.5%). Surprisingly RE VCUs are trading at \$6.3/t (6% below the average RE VER).
- **Forestry prices increased by 24% (at \$5.2/t) from their 2007 price of \$4.2/t.** The higher price is likely attributed to increased use of standards such as the CCB, CCAR, and the VCS. Forestry credits verified to those standards are 135% more expensive (at \$8/t) than forestry credits verified to 'other' standards (ISO 14064, DOE1605b) valued at \$3.4/t.

VCI by Size of Purchases/Sales, July/August 2008



Source: New Carbon Finance

- Often described as the “low hanging fruit” in voluntary markets, **methane projects accounted for the majority of offsets transacted** in July and August 2008. The value of methane VCUs is 13% higher (at \$6.9/t) than credits verified to the ‘other’ standards (CCX, Climate Leaders) valued at \$6.1/t and have increased by 12% from their 2007 value. Offset suppliers are increasingly verifying methane projects to the VCS (69% of tracked methane credits). The value of premium methane offsets (Gold Standard, CCAR), however, is 83% higher (at \$12.6/t) than the average methane VCU.

Voluntary Carbon Index (VCI) July/August 2008

All in US\$/tCO _{2e}	VERs (all)	VCS	Other ^a
All project types	6.32	7.25	4.24
Forestry	5.15	7.05	3.38
Renewable Energy	6.69	6.31	-
Methane	7.64	6.87	6.08
Energy Efficiency & Fuel Switching	6.24	-	-
Industrial Gas	3.57	-	-

Source: New Carbon Finance. Notes: (a) ISO 1604, EPA Climate Leaders, DOE 1605b, CCX

Methodology

Each month NCF collects price, volume, standards, and project type data from a wide range of participants in the voluntary carbon market. Although surveyed suppliers are based across the world there is a significant bias towards US-based transactions. Project developers and aggregators report *sales prices*, wholesalers and retailers report *purchase prices* (from project developers and aggregators), and brokers report *bid prices*. All prices are volume-weighted and are only shown when multiple data points are available. Essentially, the VCI tracks the price of carbon credits before offset suppliers accrue *economic* profits, thus tracking the “market value” of voluntary carbon credits i.e. the so-called “Secondary VER Market”.

About New Carbon Finance

New Carbon Finance is the leading provider of fundamental carbon markets analysis and global carbon price forecasting. The company was created in May 2006 as a service of New Energy Finance, which publishes financial information and analysis on global investment in clean energy.

Markets and Models

New Carbon Finance offers detailed analysis of the EU ETS, global Kyoto and North American carbon markets. Much of our research makes use of our proprietary Carbon Balances Model, which has been specifically developed to provide highly sophisticated analysis of future carbon flows and carbon prices in the EU ETS. For the Kyoto market, our global model builds up detailed projections of greenhouse gas emissions in all Annex 1 countries and complete supply cost curves for CDM and JI projects. For North America, we offer in-depth analysis of emerging markets at the federal and state/province levels in the US and Canada. Market analysis is supported by a team of researchers based in the US, the UK, India, Brasil and China.

Services

We offer multiple **subscription services** through our online portal, the New Carbon Finance Desktop. The Desktop provides access to our Carbon Industry Intelligence Database and our Knowledge Centres focusing on the EU ETS, Kyoto and North American carbon markets. Our Industry Intelligence contains comprehensive records of all organisations, funds and people involved in trading and investing in carbon markets together with financial information on carbon deals and CDM/JI projects. Our suite of Insight Service streams, disseminated through regular reports and analyst briefings, provides the most robust analysis available of emerging carbon markets world-wide. We also **license** our Carbon Balances and Global Carbon Balances Models and provide **consulting** services on an *ad hoc* basis.

Subscription details

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415 Madison Avenue
15th floor, suite 1518
New York, NY 10017
USA

Tel: +1 212 744 1988

info@newcarbonfinance.com

www.newcarbonfinance.com

1940 Duke Street
2nd floor
Alexandria, VA 22314
USA

Tel: +1 703 486 5666

info@newcarbonfinance.com

www.newcarbonfinance.com

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