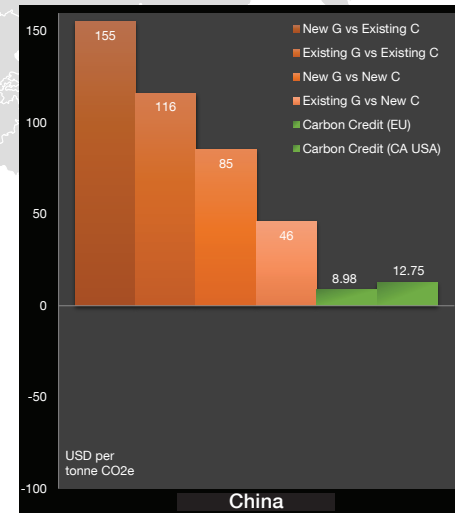
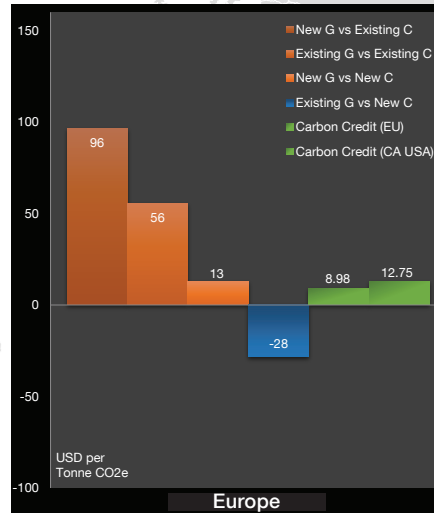
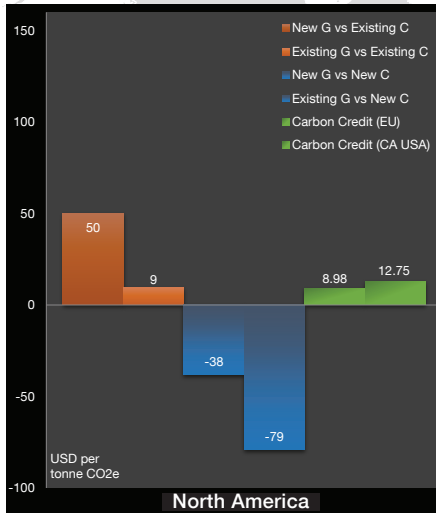


Implied Breakeven CO₂ Value to Make Coal to Gas Switching Economic



Based on Q3 2015

One Size Does Not Fit All

Coal to Gas Fuel Switching: Why US and European Experience Is Irrelevant in Asia

Current market estimates for the cost of carbon reduction range widely. Hundreds of organizations offer, or have offered, carbon credits at various prices, with the current modal estimate appearing to be in the low to mid teens (USD). Prices in the leading CO₂ trading markets in Europe and California fall in the same range, currently.

Of course, these market-based CO₂ prices are kept low by a variety of subsidies that increase the number of zero emitting options that are pursued. Also, most carbon markets involve management of carbon credit quantities to keep credit prices within tolerable bounds. To date, traded CO₂ prices have been well below the levels thought to be required based on academic research. Arguably, efforts to manage these markets have made them both less attractive and less effective than they might otherwise have been.

Companies seeking to integrate carbon prices into their risk management strategies face a quandary. Which price to use?

Market-based prices offer the advantages of being transparent and accessible. Alternatively, one could use theoretical prices in planning and strategy, but such theoretical prices lack commercial significance beyond that. Calculating a theoretical carbon liability has no sensible value unless matched to equally theoretical adjustments to expected revenues. Carbon policies affect both sides of the economic equation.

At the end of the day, markets exist and have value. They also illuminate the costs associated with ad hoc local policies. Consider the implied CO₂ cost associated with switching from coal to gas around the world. The regional differences are dramatic. Gas prices and coal-to-gas switching experience in the US has no relevance to policy-making in Asia. Linkages across CO₂ markets can help corporates and governments make better decisions regarding the value of decarbonisation options and the potential cost of associated policies. Such linkages can create significant value even as most countries continue to pursue highly localised solutions to an otherwise global problem.

What price carbon?

Contact Mike Thomas

Switch +852 2521 5501
Mobile +852 9226 2513
Email mthomas@lantaugroup.com

Or visit us at

www.lantaugroup.com
www.facebook.com/pages/The-Lantau-Group/125678200824679
www.linkedin.com/company/1590456

