Strategic Air Compliance Planning Using Emission Banking and Trading: Case Studies

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Louisiana A&WMA 2018 Annual Conference
Best Management Practices: 8 Key Elements

- An informed stakeholder that participates in the emission markets balances:
  - Technical Understanding
  - Regulatory Understanding
  - Capital Project Horizon (not just your company)
  - Internal Reductions
  - Portfolio Optimization
  - Risk Tolerance
  - The Emissions Market(s)
  - Transactions
Best Management Practices: The Basics

Step 1) Warehousing Analysis + Portfolio/Procurement Optimization

Step 2) Educate your company
   - EHS, Engineering, Procurement, Accounting, Legal, & Management

Step 3) Delegate the person(s) responsible for engaging the market

Step 4) Organize the team for transaction

Step 5) Pull the trigger when timing is right
Warehousing + Portfolio Optimization

• Identify All Existing NOx and VOC Sources
• Identify Source Types for Future Projects
• Evaluate Control Technologies for All Sources
• Evaluate Control Technology Cost Scenarios
• Compare Portfolio Versus Future ProjectUses
  • Credits + Control Ops., Future Ops./Needs, & Market Expectations
The Basics - Process

1. Define Need
2. Engage Broker
3. Set Transaction Boundaries
4. Engage Counterparties
5. Agreement in Principal
6. Purchase Sale Agreement
7. Payment and Transfer

Timing Expectation is 60-180 Days
A Market Update Available ERCs

[Graph showing NOx and VOC volume over time from 8/15/08 to 9/15/18. The graph indicates a significant decrease in NOx volume, with a peak of 6,839 tons in 8/15/08 and a low of 355 tons in 9/15/18. The VOC volume shows a less pronounced decrease, with a peak of 3,257 tons in 8/15/15 and a low of 355 tons in 9/15/18.]
Regularly, some company in Baton Rouge is making an announcement about considering an expansion of some kind…

- “Shell considering $1.2 billion expansion in Geismar; here are next steps” – The Advocate 9/25/2018

- “ExxonMobil request for tax break for Baton Rouge plant expansion now in hands of local agencies” – The Advocate 9/12/2018

- “Shintech to make major investment in Plaquemine expansion, create 100-plus new jobs” – The Advocate 7/24/2018
Capital Spending

Capital Spending By Industry

- Pulp, Paper & Wood: $80,000,000.00
- Power: $1,000,000,000.00
- Petroleum Refining (HPI): $50,000,000.00
- Industrial Manufacturing: $167,000,000.00
- Chemical Processing (CPI): $7,206,000,000.00

Total Invested Value (TIV) = $8.5 Billion

*Source: Industrial Info Resources
Gearing Up for Transactions

1) Appropriately use market data to set expectations

2) Understand all stakeholders in organization

3) Timing, timing, timing

4) Don’t say anything to market except through proper channels

5) Keep messaging consistent, especially if in the leveraged position

6) Truly evaluate the cost of credits vs. alternatives
Getting it Wrong

1) Generation
   • Running out of time to apply for credits
     • March 31 Deadline
     • Changes to Parishes Applicable to Offset Requirements (AQ380)
   • Running out of time to sell credits
     • Closer to Expiration = Potentially Lower Value

2) Use
   • Holding or not using credits timely
   • Be wary of credits with <2 years

3) Buy/Seller Fundamentals
   • Understand Internal Opportunities for Reductions
   • Understand Market
     • Embrace Interpollutant Trading (IPT)
Getting it Correct

• A sophisticated confidential client
  • Organized a team
  • Understood the market,
  • Knew their cost to control,
  • Evaluated regulatory environment,
  • Controlled messaging, and
  • Moved when timing was right.

• The team executed $100MM in commodity transactions.

• The purchase accomplished
  • Cemented credit certainty for future projects
  • Credits costs were lower than cost to control
THANK YOU

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