Introducing Risk Management Products to the LCFS Market
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SCB Group Introduction

• Global Commodity Brokering Firm
  • Chicago, New York, Puerto Rico, Geneva, London, Singapore
• Registered Member of the National Futures Association
• World’s Largest Biofuels Broker
  • Market Leaders in RINS, LCFS, Physical & Listed Agricultural Commodities
• Numerous Awards and Firsts
  • Voted Energy Risk Magazine’s #1 Broker 2011-2016
• Invested in the future of our markets
  • Member of the Low Carbon Fuels Coalition
LCFS Transactions - Monthly Volumes

Data thanks to Prima Markets
Current LCFS Market Overview

• Legislative Stability & Support
  • Legal Hurdles in the Near Term
• Growth in Activity Continues
  • Q1 2017 Doubles Q1 2016
• Supported Credit Values
  • Driving Low Carbon Biofuels into California

• Financial Challenges
  • Credit and Counterparty Risk
  • High Transaction Costs
  • Limited Market Participation
  • Illiquidity
Issues in LCFS market

• Credit and Counterparty Risk
• High Transaction Costs
• Limited Market Participation
• Illiquidity

Value a future provides

• Reduction of Risks
  • Counterparty & Credit
• Decreased Costs to Industry
  • Frictional & Capital
• Increased Returns on Capital
• Increased Market Participation
  • Liquidity Benefits
• Decreased Risk Scores
  • Creditors, Investors & Counterparties
• Improved Risk Management
  • New Tools & Strategies
What makes a good LCFS future?

- Proper Specifications
  - Small Lot Size (e.g. 100 MT)
  - Flexible Price Fluctuation ($0.25/MT)
- Index pricing
  - Monthly Average Settlement
  - Industry Recognized PRA
- Financially settled contract
  - Improved Market Participation
  - Avoid Counterparty and Invalidation Risk
- Viable derivatives
  - Options
Scenario One – Bullish Obligated Party

- Best market offer at $80/MT
  - Not set up with Offering Party
  - Offered at $82/MT from Cleared Counterparty

- Without a Futures Contract in Place
  - Pay through the Market
  - Get Behind on your Ratability

- With a Futures Contract
  - Lift an $80 future
  - Stay Ratable
  - Fill your needs to roll out when a proper party matches with the futures value

*Trading involves risk of loss, scenario above is hypothetical*
Scenario Two – Bullish Ethanol Producer

- Looking to Lock in Profitable Production Margin
- Buy out-of-the-money Puts
  - $5/MT Premium & $70/MT Strike Price
  - Hold LCFS Credits until Q4
- Market Rises to $95
  - Sell Credits to Lock in Net Value of $90/MT
- Market Falls to $55
  - Exercise the Put Option to Lock in Net Value of $65/MT
  - Minimum Net Value is Guaranteed

Trading involves risk of loss, scenario above is hypothetical
Scenario Three: Municipal Transit Authority

- Rail Service Generating Credits Quarterly
  - Desire to Maximize Value
  - Neutral Price Outlook
- Sell out-of-the-money Calls
  - $5/MT Premium & $100/MT Strike Price
  - Hold LCFS Credits until Q4
- Market Trades Sideways to $78
  - Sell at Market & Keep Option Premium
  - Receive Net Value of $83/MT
- Market Rises to $110
  - Options are Exercised
  - Receive Net Value of $105/MT sale

Trading involves risk of loss, scenario above is hypothetical
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