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Sent: Monday, August 25, 2008 10:25 PM (GMT)
To: Coreth, Maximilian <maximilian.coreth@lehman.com>; Hamdan, Kamal <kamal.hamdan@lehman.com>
Subject: SO2 Calls

Prices came off a bit today and I know there is a seller in the market that might be looking to unload some size in V09 allowances (these are less liquid but could potentially be picked up at attractive pricing).

Using today's spot close of $140/ton,
Dec08 $200 call is currently worth ~$15/ton (100% vol)
Dec09 $300 call is currently worth ~$30/ton (90% vol)
Dec10 $300 call is currently worth ~$25/ton (80% vol) - what I like about this one is that it hedges some of our existing delta in later vintages

Note that delta will be difficult to manage as prices are likely to gap dramatically, and I would therefore suggest that we over-hedge.

Initial delta limits when I set up the business were prescribed to be 15,000 tons of SO2; note that this was set when SO2 prices were in the $350 range, and was intended as an initial guideline to be revisited as necessary. Should I arrange that discussion with risk?

Thanks

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