

NO_x Markets March 2005

evomark	END OF MONTH SETTLE	MONTHLY AVERAGE
2005	\$3425.00	\$3411.82
2006	\$3525.00	\$3538.64

In response to requests from market participants for a monthly market index, Evolution Markets publishes the EvoMark, a price index that gives the settle price for the last day of the month as well as a monthly average of all the daily settle prices.

Market Activity » Allowances

March saw very stable NO_x prices, with Vintage 2005 NO_x prices starting at \$3450, trading down to \$3375 during the mid month, and closing at \$3425 by the end of the month. Trading was light this month, with a total of approximately 3500 tons trading in all vintages. The 2006—2005 vintage price spread, which traded as high as \$275 in February, started at \$150 in March and drifted down to \$100 by the end of the month. Vintage 2007 Allowances closed \$2925, and Vintage 2008 NO_x Allowances traded up to \$2600. The EPA has unfrozen the vintage 2004 allowances and has announced Progressive Flow Control (PFC) to be 0.25. This is a slight decrease to the market estimated PFC of 0.26, but not significant enough to have a market affect.

In general, NO_x trading activity was outshined by SO₂ this month, as market participants were focused on the March EPA SO₂ auction. There has been limited 2005 season compliance buying, most likely due to the significant number of banked 2003 and 2004 allowances being carried forward (estimated to be around 190,000). In addition it is still early in the year, and participants are looking for better information regarding summer weather forecasts and fuel cost differentials for the ozone season. Typically Buyers begin to hedge their summer NO_x position in April, a month before the season starts on May 1.

▼ TERM	▼ BID	▼ OFFER	▼ LAST	▼ DATE
2004	\$2,375	\$2,450	\$2,400	3/30/05
2005	\$3,400	\$3,450	\$3,425	3/28/05
2006	\$3,500	\$3,550	\$3,525	3/23/05
2007	\$2,875	\$2,950	\$2,925	3/23/05
2008	\$2,500	\$2,700	\$2,600	3/21/05

Market Activity » Options

March option activity remained on par with the previous month. Focus was mostly on shorter dated calls and puts on '05, '06, and '07 vintage. There was also interest in an end-of-season out-of-the-money call option for vintage '05. Option volatility for shorter-term one-to-three month options moved lower about 3 - 5 volatility points to a range from 27% to 30%, from 30% - 35%.

▼ TYPE	▼ TERM	▼ STRIKE	▼ EXPIRY	▼ BID	▼ OFFER
call	2005	\$3500	9/15/05	\$250.00	\$300.00
call	2007	\$3200	7/15/05	\$50.00	\$150.00

