

SO₂ Markets March 2005

evomark	END OF MONTH SETTLE	MONTHLY AVERAGE
3/31/05	\$725.00	\$687.72
2/28/05	\$660.00	\$653.42

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

Spot SO₂ started the month trading \$670, having recovered from a February selloff which brought the market to interim lows of \$620-\$625. The trend in March was clearly bullish as the market rallied steady to \$695 on March 22nd, the date that bids were due for the annual EPA SO₂ auction. Surprisingly, the market continued to rally after the bid submittal date and reached \$705 on the date prior to the EPA's announcement of the auction results. This is a reflection of participant's expectations that the auction would be well bid and that some buyers may be reaching to get larger quantities in the auction. And the auction was indeed well participated, as almost 500,000 tons of bids were received from 29 different companies. There was 356,000 tons worth of bids at \$650 and above, showing the strong support in the \$650 to \$700 price range. Weighted average price for the 125,000 sold in the spot auction was \$702.51, with a clearing (minimum successful) price of \$690. Ameren Energy, Man Financial and Morgan Stanley were the big spot winners, taking more than 70% of the spot auction. The advance 2012 vintage auction had fewer participants, with only 10 bidders, and 327,000 tons of bids as buyers hoped to scoop up bargains in the \$100 to \$200 range. The 2012 vintage auction had a weighted average of \$297.49 and a clearing price of \$260. AEP, CSFB, Aquila and Detroit Edison essentially took the entire advance auction.

The OTC market immediately rallied on news of the EPA auction results, with price trading up to \$730 on March 29th, the date results were disclosed, and closing the month at \$725. OTC volume for the month was 150,000 tons (not including the EPA auction), respectable given recent volumes and the fact that the market is traditionally quiet during March as participants wait on the EPA auction. The finalization of the CAIR legislation and EPA's release of the Mercury Rule in March provided no major surprises and, if anything, supported SO₂ prices as sources have more regulatory certainty to complete their compliance planning for future years. The strong auction results and deep support in the high \$600s should continue to fuel a bullish SO₂ market.

▼ TERM	▼ BID	▼ OFFER	▼ LAST	▼ DATE
2005	\$715.00	\$730.00	\$725.00	3/31/05
2006	\$710.00	\$720.00		
2007	\$705.00	\$715.00		

Market Activity » Options

Option trading activity was almost non-existent with only a handful of out-of-the-money near-term put options trading earlier in March. Reasonable offers in volatility have been hard to locate with Buyers not yet willing to pay into the 50% volatility level to secure options.

▼ TYPE	▼ TERM	▼ STRIKE	▼ EXPIRY	▼ BID	▼ OFFER
call	2005	\$750.00	6/15/05	\$50.00	\$65.00
put	2005	\$650.00	6/15/05	\$15.00	\$28.00

