

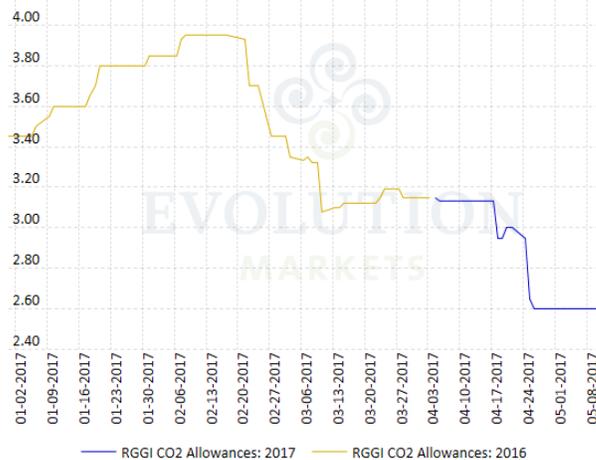
Regional Greenhouse Gas Initiative (RGGI)

Market Status

RGGI Prices have held steady around \$2.60 for the last few weeks, \$0.40 lower than the clearing price for the last Auction held on March 8. Prices stayed within a range of \$3.10 and \$3.20 for about a month after the Auction, but then moved down sharply to the current levels when a seller came in to move approximately one million allowances. In April, RGGI held its 2016 Stakeholder Program Review. Market participants anticipate a 3%–4% cut in post-2020 allowance allocation and a new market mechanism called the Emissions Containment Reserve (ECR). The proposed ECR will reduce the amount of RGGI allowances for sale if the auction price is below a set level. However, the stakeholder meeting failed to spark the market, as specific details on the continuing process are not yet known.

Term	Bid	Offer
Spot	\$2.50	\$2.65
Dec 16 Cleared	\$2.60	\$2.70

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Future Outlook

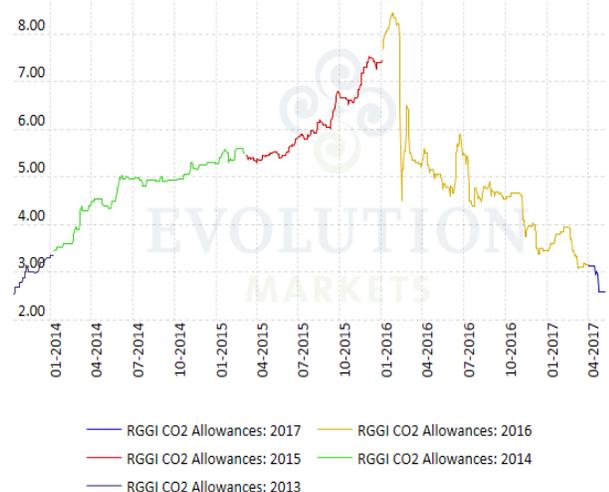
RGGI's 2016 Program Review – with the proposed allocation cut, a bank adjustment, and the possibility of an ECR – will be a large factor on where prices go in the future. It was anticipated that RGGI would finalize the Program Review by the end of 2016 or the first quarter of 2017. The longer the review takes, the more uncertainty lingers in the market and the potential for prices to stagnate at current levels.

Fundamentals

Based on the RGGI 2016 Annual Market Report, the bank of allowances is still quite large at approximately 114 million. Of course, this bank will be drawn down. How fast the bank gets drawn down depends on the specifics of the Model Rule and actual emissions.

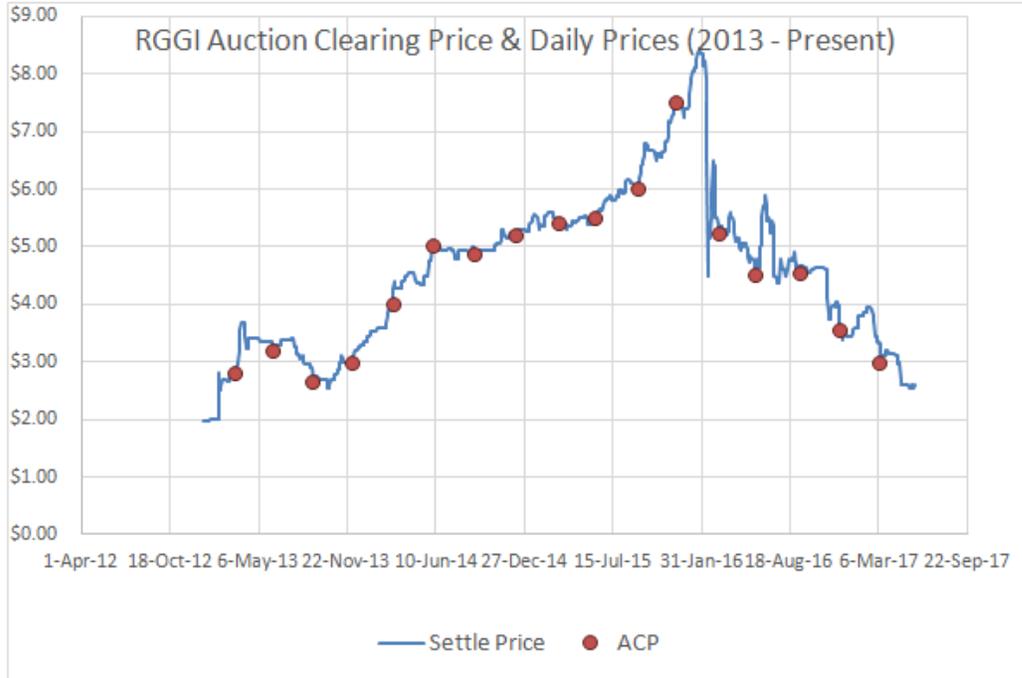
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Actual emissions in Q1 2017 were 14.6 million, down 16% from Q1 2016 and down 40% from Q1 2015. The first quarter reflects a large drop in emissions, and with this head start it is likely 2017 emissions will still be lower than 2016 emissions, despite a warmer than average forecast for this summer.

RGGI's current Program Review and how they amend the program post-2020 will also be a major factor. RGGI has had many stakeholder meetings for the Program Review, and the market currently anticipates a 3%-4% cut in the allocation post-2020. RGGI is also considering an allowance bank adjustment similar to the last Program Review to remove the large bank of allowances over a period of time.



I believe the largest factor in the Program Review will be the potential of an ECR, which proposes to reduce the amount of RGGI allowances for sale if the Auction price is below a certain set price. Where they set the ECR Price – and how many allowances they remove from inventory if the ECR is met – will be major factors in the future of the market. Unfortunately, RGGI has not yet provided details on where they think these parameters will be, and the future stakeholder meeting are tentatively scheduled for “early” and “late” summer. When RGGI decides to clarify the program post-2020, it will help reduce the uncertainty and stabilize the RGGI market.

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