



MARKET UPDATE

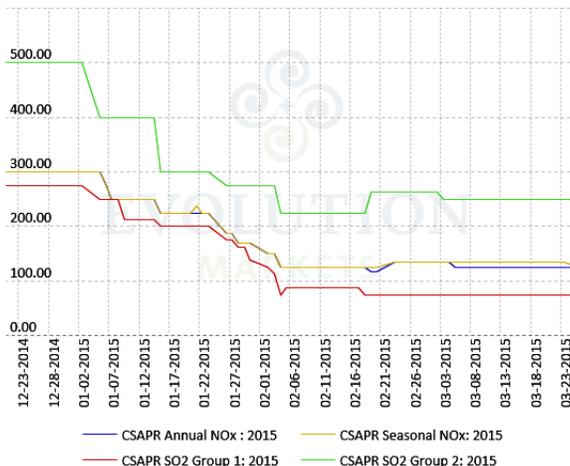
Cross State Air Pollution Rule

Market Status

The Cross State Air Pollution Rule Pricing for NOx and SO2 seems to have leveled off in the month of March. Prices started off around \$300 in January for both Annual and Seasonal NOx, however prices have steadily declined in the first quarter as Buyers acted cautiously in January and February. Both Annual and Seasonal NOx have leveled off to the \$125 - \$130 range in the month of March, with demand and supply evenly matched. SO2 Group 2 Prices started off at \$500 in January and then settled in at around \$275 by the time March rolled in. SO2 Group 1 has been the least liquid of the CSAPR Products with just a few trades. The Group 1 market has been better offered than bid for the entire first quarter. Currently it is offered at \$75. All four markets appear to have temporarily reached their equilibrium point as prices have not moved much in March.

Term (2015)	Bid	Offer
Annual NOx	\$125.00	\$130.00
Seasonal NOx	\$125.00	\$130.00
SO2 Group 1	\$ 50.00	\$75.00
SO2 Group 2	\$100.00	\$275.00
Acid Rain SO2	\$0.25	\$0.75

CSAPR SO2 Group 1 CSAPR SO2 Group 2 CSAPR Annual NOx CSAPR Seasonal NOx
Settle price chart
12-20-2014 - 03-26-2015



Future Outlook

There are several influences for the current trend in CSAPR Pricing, but the two major factors have been regulatory uncertainty and current, low natural gas prices. Although the Supreme Court last April upheld the Program, they remanded the case to the D.C. Circuit Court to resolve remaining issues. In February the D.C. Court heard oral arguments from both sides and has yet to make a final ruling. Although the EPA has moved forward with implementing CSAPR, some market participants are cautious to move forward hedging their emissions until the D.C. Court issues their final ruling. Current low Natural Gas prices are also keeping many higher-emitting plants off line and with low run time projections during the summer.

Fundamentals

Current Emission vs. Allowance Allocation estimates show that all four CSAPR markets are long in Phase 1 (2015 – 2016). The tightest markets being Annual and Seasonal NOx where several states are projected to be short Allowances. But as a whole, the markets is long. SO2 Group 1 is long in Phase 1 but reductions in the Allocation in Phase 2 can make the SO2 Group 1 market short. Since this is the start of the program, there is no bank of allowances to draw upon in 2015. If projected surpluses do not come to market for a variety of reasons, it may affect the market demand supply picture.