

MARKET UPDATE

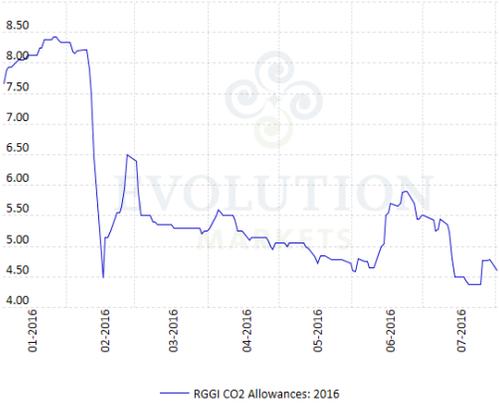
August 02, 2016

Regional Greenhouse Gas Initiative (RGGI)

Market Status

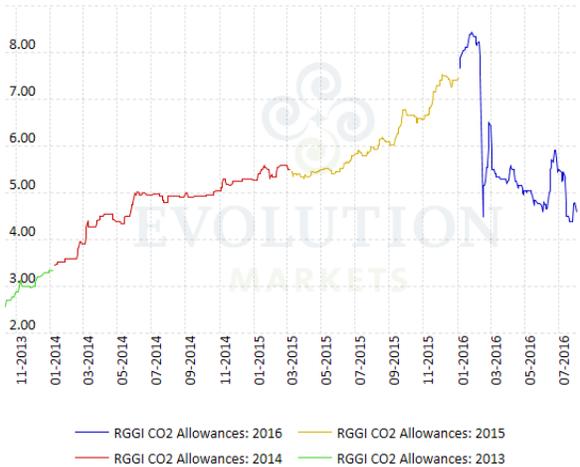
RGGI Prices have been quite volatile since the last RGGI Auction, which cleared \$4.53 on June 1, 2016. Since then, the price climbed to \$5.90 by the end of June, but retreated down to \$4.38 by mid July. RGGI saw another bounce to \$4.80 before settling in at the current price of \$4.50. The recent volatility can be attributed, in part, to the newly adopted NY Clean Energy Standard, which includes a Zero Emission Credit payment to NY Nuclear Generators. Uncertainty relating to the continued operation of the New York nuclear fleet influenced how the market projected future RGGI Emissions.

| Term | Bid | Offer |
|----------------|--------|--------|
| Aug 16 Cleared | \$4.50 | \$4.60 |
| Dec 16 Cleared | \$4.55 | \$4.65 |



Future Outlook

As stated in previous Market Updates, RGGI’s current program review and how states model the RGGI Program into the Clean Power Plan (CPP) post-2020 will be a large factor on where prices will go. This factor will most likely outweigh the impact of New York’s Clean Energy Standard or lower emissions due to weather factors this year.



Fundamentals

Based on the RGGI 2015 Annual Market Report, the bank of allowances is still quite large at approximately 130 million. However, the large bank has been known for awhile, as is the fact that investment-oriented entities hold a significant portion of this bank. With the Supreme Court ruling staying implementation of the CPP, regulatory uncertainty increased, and the RGGI market price retreated. How fast the bank gets drawn down will depend on actual emissions and supply. If we assume that future emissions will be flat over the next few years, and if RGGI maintains its current policy or make changes to meet proposed CPP standards, the allowance bank will be eventually drawn down. RGGI’s current program review and how the program will be amended post-2020 will also be a major factor, along with actual emissions and the fate of the CPP.