

MARKET UPDATE

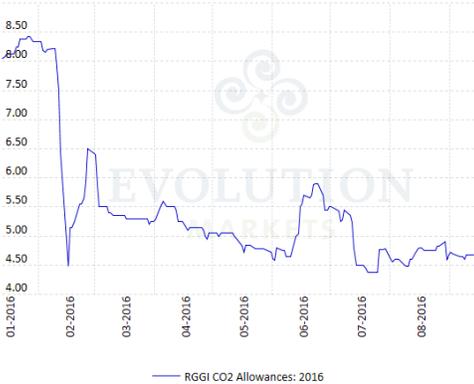
September 14, 2016

Regional Greenhouse Gas Initiative (RGGI)

Market Status

On September 9, RGGI announced the results of its 33rd Allowance Auction. The clearing price was **\$4.54**, which is \$0.01 higher than the last auction held on June 1, 2016. RGGI Prices have reached a high of \$5.90 and a low of \$4.50 since the June auction. RGGI prices were increasing steadily until the unexpected Supreme Court ruling on February 9 to stay President Obama’s Clean Power Plan Rule. Prices started to decline due to regulatory uncertainty and how this may effect RGGI’s future control period starting in 2021. As holders of the RGGI allowance bank began to reduce their holdings, prices dropped at a rate not previously seen, which led to still more selling. Prices eventually hit bottom at \$4.00 on February 16, and then rebounded to \$6.50 by the end of February. However, the market has seen increased volatility and significant support at the \$4.50 price since the end of February.

Term	Bid	Offer
Sep 16 Cleared	\$4.60	\$4.68
Dec 16 Cleared	\$4.67	\$4.70



Future Outlook

The direction of RGGI’s current program review and how the RGGI Program will integrate into the proposed Clean Power Plan (CPP) are a large factors determining where prices will go in the near future. RGGI has presented several models used to determine its allocation post-2020. The scenarios range from a 2.5% emissions cap decline from 2021 to 2024 to 5% cap decline from 2020 to 2030. While most of the scenarios do not include CCR allowances, one scenario does. In early August, a letter was sent by 70 companies and 20 institutional investors urging RGGI to reduce the allocation by 5% per year. RGGI plans to discuss the proposed model rules changes in public hearings scheduled for this Fall.

Fundamentals

Based on the RGGI 2015 Annual Market Report the bank of allowances is still quite large at approximately 130 million. However, depending on the proposed model rule change and which cap reduction is chosen, this bank will be drawn down. How fast the bank gets drawn down will depend on actual emissions and how many CCR allowances are released into inventory. Assuming no CCR allowances come into inventory and emissions stay relatively flat, it is estimated that the bank could be drawn down within several years. Which model RGGI determines to reduce the bank will have a big impact on prices going forward.

