

MARKET UPDATE

September 09, 2020

Regional Greenhouse Gas Initiative (RGGI)

Market Status

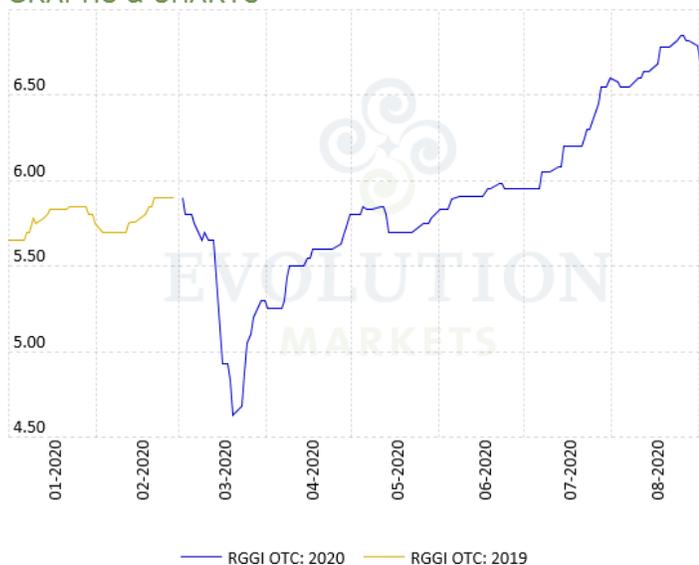
RGGI allowance prices started the year at \$5.60, and as of today, we are \$1.10 higher with the latest spot price of \$6.70. Prices dropped to a low of \$4.65 in mid-March, as Northeast States began shutting down as a result of the COVID-19 Pandemic. However, prices drifted back once the selling stopped, and then rapidly rose after the June allowance auction cleared at \$5.75.

Term	Bid	Offer
Spot	\$6.65	\$6.75
Dec 20 Cleared	\$6.70	\$6.78
Dec 21 Cleared	\$6.85	\$6.93

The September auction continued this momentum by clearing \$6.82 – \$0.12 higher than the secondary market was trading at the time auction bids were due. This suggests that compliance entities put high-priced bids into the auction to secure allowances, and in fact 74% of the auction was purchased by compliance entities.

RGGI 2020 Q1 Emissions were released at the end of April. Unsurprisingly, emissions from the original nine participating states fell to 12.3 million tons, 18% less than 2019 Q1 levels. Adding in New Jersey, which re-joined the program, total RGGI 2020 Q1 Emissions are 15.7 Million. RGGI 2020 Q2 emissions, however, came in higher than expected as June was very warm in the Northeast.

GRAPHS & CHARTS

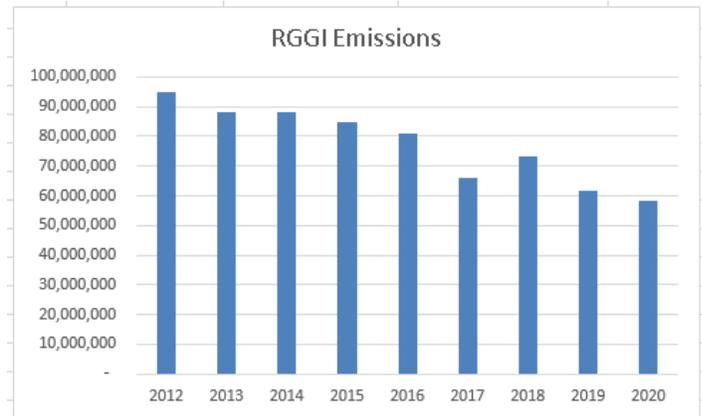


Program Review Summary

As a reminder, RGGI published the results of their Program Review in December 2017, which included: an emissions cap of 75.15 million tons, which declines by 2.275 million tons per year to 2030; full adjustment of the 2020 Allowance Bank over 5 years from 2021 - 2025; and a Cost Containment Reserve (CCR) and an Emission Containment Reserve (ECR), the size each being 10% of the regional cap. The ECR Trigger price will be \$6.00 in 2021 and rise 7% per year. The CCR trigger price will be \$13.00 in 2021 and also rise 7% per year.

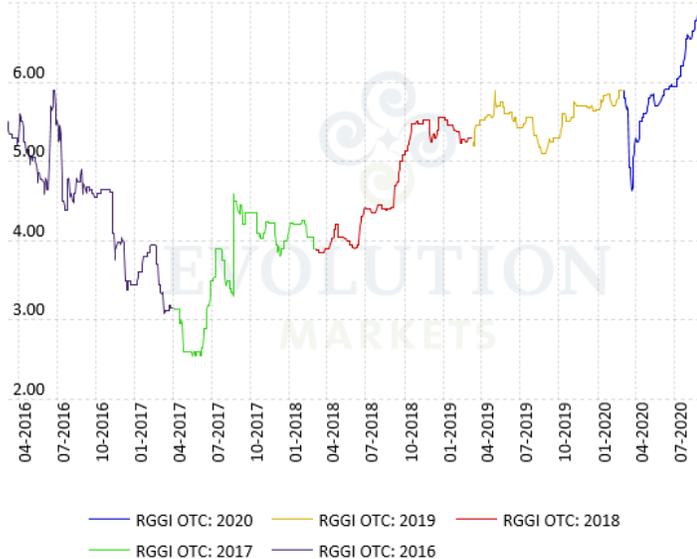
Fundamentals and Future Outlook

Calendar year RGGI emissions have been consistently falling over time. It is projected that 2020 RGGI emissions will be 5% lower than in 2019, based on 2020 Q1-Q2 actual emissions and the state of the COVID-19 response in the US. Since the supply side is relatively static and known, the only variable in the fundamentals is annual emissions. Emissions projections will likely translate to a 2020 Allowance Bank of around 92.5 million tons. Whatever the final number, the Bank will be adjusted over the next five years, which in turn reduces the emissions cap over the same period.



Since the start of the year, the market has seen a 20% price increase and has reached all-time highs. The fact that the latest RGGI auction cleared above the secondary market suggests that compliance entities were motivated to procure allowances through the auction. If most of the compliance entities were successful in securing their allowances, however, then current prices may stay flat or decrease in the current year as secondary market demand may ease.

GRAPHS & CHARTS



The current pandemic reinforces the difficulty in making projections even in the best of times. More so, the current drop in generation and increase in the 2020 Allowance Bank can have unintended consequences as the Bank adjustment begins next year and the emissions cap is correspondingly reduced. However one wonders as we get back to “normal” what the new “normal” will be and will carbon emissions continue to fall.

Ultimately, the price of RGGI allowances will depend on many factors, including actual emissions, which are affected by the weather, electric demand, and the influx of renewable generation in the region. Other factors include if new states decide to join RGGI, if new state or regional carbon programs usurp the RGGI cap, or if RGGI itself decides to review and revise the RGGI cap during the next Program Review.