



MARKET UPDATE

June 03, 2016

Regional Greenhouse Gas Initiative (RGGI)

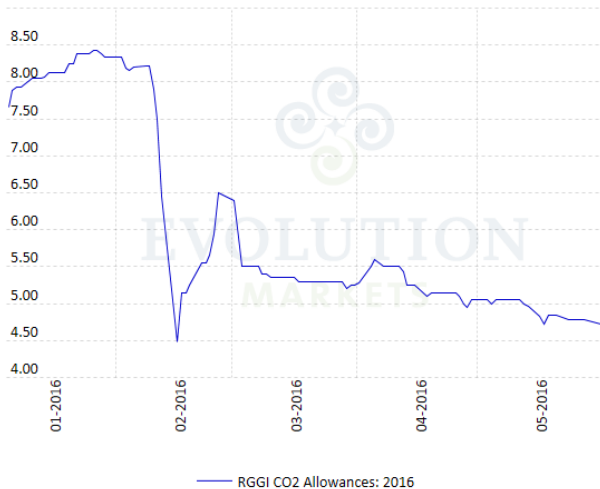
Market Status

RGGI announced today the results of the June 1, 2016 Auction. The clearing price was **\$4.53**, which is \$0.72 lower than the last Auction held on March 09, 2016. RGGI prices had increased steadily for the last few years until the unexpected on February 9th Supreme Court ruling staying President Obama's Clean Power Plan. Prices started to decline due to regulatory uncertainty on how the stay may affect RGGI's future control period starting 2021. As holders of the RGGI bank began to reduce their holdings, prices dropped at a rate not previously seen, which led to more selling. Prices eventually hit bottom at \$4.00 on February 16, and then rebounded to \$6.50 by the end of February. However, prices have steadily declined to \$4.60 since the end of February.

Term	Bid	Offer
Jun 16 Cleared	\$4.50	\$4.60
Dec 16 Cleared	\$4.55	\$4.65

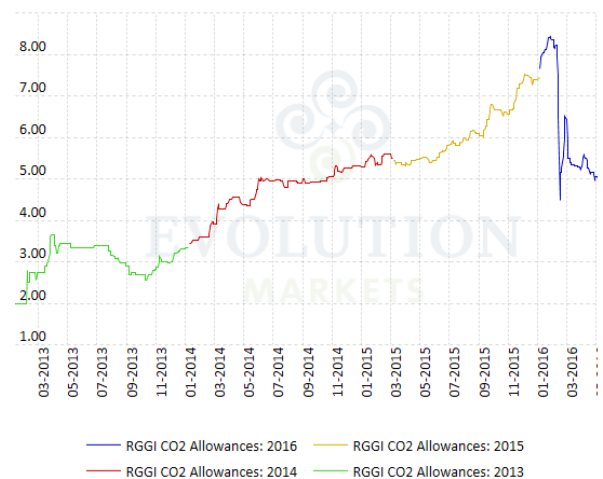
Future Outlook

Under RGGI's current program review, the decision on whether to dovetail the RGGI Program into the proposed Clean Power Plan (CPP) will be a large factor on where prices will go in the future. Also weather forecasts indicate well-above-average temperatures are expected this summer. These two factors have the ability to reverse the downward price trend RGGI has been experiencing.



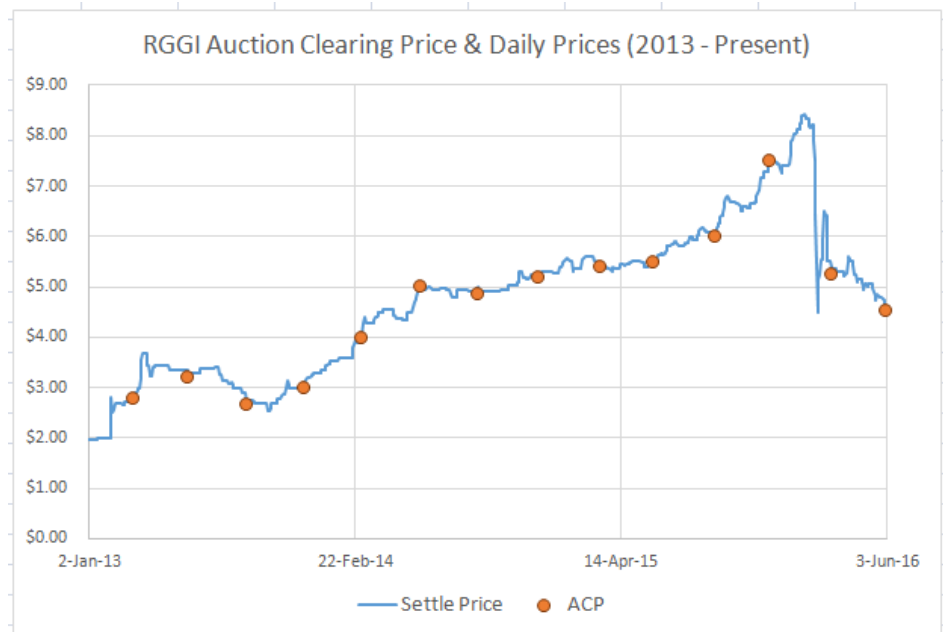
Fundamentals

Have the fundamentals of the RGGI market drastically changed this year to cause such a drastic reversal in price? 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. Also known is that investment-oriented entities hold a significant portion of this bank.



With the Supreme Court ruling, regulatory uncertainty increased, and the RGGI market experienced what happens when part of the allowance bank gets liquidated. How fast the bank gets drawn down will depend on actual emissions and how many CCR allowances are released into inventory.

Actual emissions for Q1 2016 were 17.5 million tons, down approximately 29% from Q1 2015 (24.5 million tons). This is a large drop in emissions comparing Q1 2015 to Q1 2016, and even a forecast of a warmer-than-average summer in 2016, all indications are that 2016 emissions will ultimately be less than 2015 emissions.



However with a closer look at Q1 2016 emissions, one can determine that the large decrease was largely due to a mild winter, and not a shift toward lower carbon emitting generation. If you compare a basket of Heating Degree Days (HDD) from Boston, NY, and MD, you will see that HDDs decreased 27% from Q1 2015 to Q1 2016.

If we assume that future emissions will be flat over the next few years, and if RGGI maintains its current policy or makes changes to meet proposed CPP standards, the allowance bank will be eventually drawn down. How fast will depend on various factors. RGGI's current Program Review and how states will amend the program post-2020 will be a major factor, along with actual emissions and the fate of the CPP. So if the Fundamentals have not really changed this year, one can only assume that increased regulatory uncertainty of the future of carbon markets affected the RGGI market as market participants reduced their RGGI Holdings. Clarification of the program post-2020 will help reduce this uncertainty and stabilize the RGGI market.