

# MARKET UPDATE

March 14, 2022

## Cross State Air Pollution Rule

### Market Status

On March 11, 2022, EPA released a proposed rule to revise the Cross-State Air Pollution Rule once again <https://www.epa.gov/csapr/good-neighbor-plan-2015-ozone-naaqs>. The rule is part of an overall “good neighbor” plan proposed by the EPA to help cut smog across the US. Starting in 2023, the proposed rule looks to expand the Group 3 Ozone NOx Season from 12 States to 25 States. The

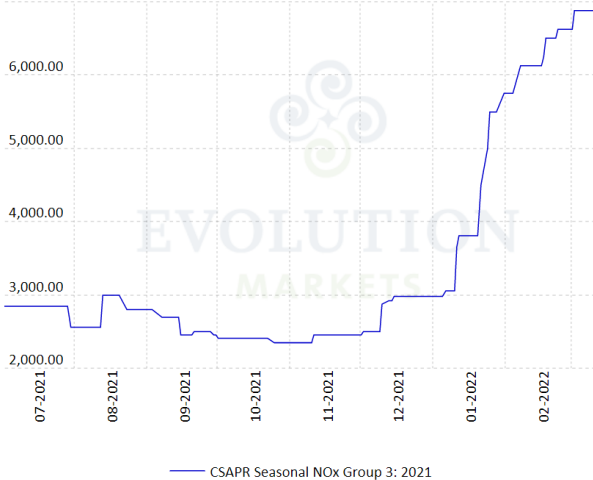
Term	Bid	Offer
SNOx Group 1	\$500	\$1000
SNOx Group 2	\$500	\$1000
SNOx Group 3	\$6500	\$7500

program also looks to include industrial stationary sources starting in 2026.

EPA revised the existing CSAPR Rule in 2021, splitting the original 21 State region into two groups, existing Group 2 States and a new Group 3 States, revising budget allocations for sources in Group 3 States and allowing sources to convert their existing Group 2 banked allowances to Group 3 Allowances at a ratio of 8:1.

This new proposed rule looks to move eight states that are currently in Group 2 to Group 3, and also add five new states that are currently not covered by CSAPR. Expanding the Group 3 CSAPR market from 12 State to 25 States. There would be only 2 remaining States in the existing Group 2

### GRAPHS & CHARTS



The new expanded Group 3 region starts with a budget cap of 210,310 allowances and will get reduced to 129,500 by 2026. Other changes being made to the CSAPR rule includes EPA’s plans to update budgets annually starting in 2025 to account for power plants retirements, changes in operation, and new units. EPA also plans to limit surplus allowances each year starting in 2024 – where the Group 3 bank would be reset to a target level of 10.5% of the sum of state emission budgets for the current control period. Also, starting in 2026, EPA plans to include Industrial stationary sources from natural gas transportation, cement, steel and glass production.

Finally, EPA plans on allowing sources currently in Group 2 states to convert their banked Group 2 Allowances into Group 3 Allowances using the same methodology they used in the Revised CSAPR Update. The total amount of Group 3 Allowances to be created by the conversion of the Group 2 bank would be the sum of the 2024 variability limits from States being transitioned from Group 2 to Group 3. Based on the proposed budget and the estimated Group 2 bank at that time, EPA estimates the conversion ratio to be approximately 5.9:1. Meaning that one Group 3 Allowance would be created for every 5.9 Group 2 Allowances deducted in the conversion.

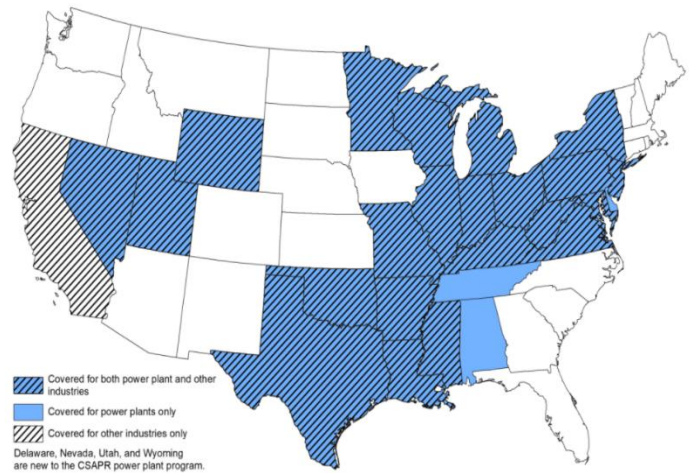
## Future

Below is a Table of the New Group 3 States and their new proposed allocations from 2023 to 2026. The EPA acknowledges that given the potential length of the rulemaking process, it likely needs to prorate the budgets and allowance allocations for 2023 based on when the rule can be put into effect. The ozone season runs from May 1 to Sept 30.

If you compare the existing 12 State Group 3 2023 Budget of 100,526 Allowances to the proposed 2023 Budget of 88,726 in only those current States, you get a 12% reduction in the Allocations for the existing 12 state region.

How will these changes affect current Seasonal NOx Prices? It's too early to tell, since a lot of changes are being made to the existing CSAPR Rule, but it's anticipated that supply of Allowances will be scarce until there is more certainty about the new rule and for it to be fully understood. This will probably cause price to increase in the short term. In the long term it's possible that the rule changes cause demand destruction as higher emitting sources start to shut down. Either way, EPA's changes have the potential to cause all Ozone Season Markets to become less liquid, as sources rely less on the market given regulatory uncertainty, thus leading to less transparency and price discovery.

States Covered Under the Power Plant and Other Industries Portions of CSAPR for the 2015 Ozone NAAQS



Electrical Generating Unit Future Year Emission Baselines, Proposed Budgets and Illustrative Proposed Budgets (tons)								
State	2023		2024		2025		2026	
	Baseline <sup>1</sup>	Proposed Budgets <sup>2</sup>	Baseline <sup>1</sup>	Proposed Budgets <sup>2</sup>	Baseline <sup>1</sup>	Proposed Budgets <sup>2,3</sup>	Baseline <sup>1</sup>	Proposed Budgets <sup>2,3</sup>
Alabama	6648	6364	6701	6306	6701	6306	6701	6306
Arkansas	8955	8889	8955	8889	8955	8889	8728	3923
Delaware	423	384	473	434	473	434	473	434
Illinois	7662	7364	7763	7463	7763	7463	7763	6115
Indiana	12351	11151	10525	9391	9737	8714	9737	7791
Kentucky	13900	11640	13900	11640	13211	11134	13211	7573
Louisiana	9987	9312	9987	9312	9854	9179	9854	3752
Maryland	1208	1187	1208	1187	1208	1187	1208	1189
Michigan	10737	10718	10737	10718	10778	10759	9129	6114
Minnesota	4207	3921	4207	3921	4197	3910	4197	2536
Mississippi	5097	5024	5097	4400	5097	4400	5077	1914
Missouri	20094	11857	20094	11857	18610	10456	18610	7246
Nevada	2346	2280	2438	2372	2438	2372	2438	1211
New Jersey	915	799	915	799	915	799	915	799
New York	3927	3763	3927	3763	3927	3763	3927	3238
Ohio	10295	8369	10295	8369	10295	8369	10295	8586
Oklahoma	10463	10265	10463	9573	10283	9393	10283	4275
Pennsylvania	12242	8855	12242	8855	12242	8855	11738	6819
Tennessee	4319	4234	4319	4234	4064	4008	4064	4008
Texas	40860	38284	40860	38284	39186	36619	39186	21946
Utah	15500	14981	15673	15146	15673	15146	9679	2620
Virginia	3415	3090	3106	2814	3243	2948	3243	2567
West Virginia	14686	12478	14686	12478	14686	12478	14686	10597
Wisconsin	5933	5963	5029	5057	4178	4198	3628	3473
Wyoming	10191	9125	10249	8573	10249	8573	10249	4490
<b>Total</b>	<b>236,363</b>	<b>210,297</b>	<b>233,849</b>	<b>205,835</b>	<b>227,962</b>	<b>200,352</b>	<b>219,017</b>	<b>129,522</b>