

MARKET UPDATE

November 22, 2024

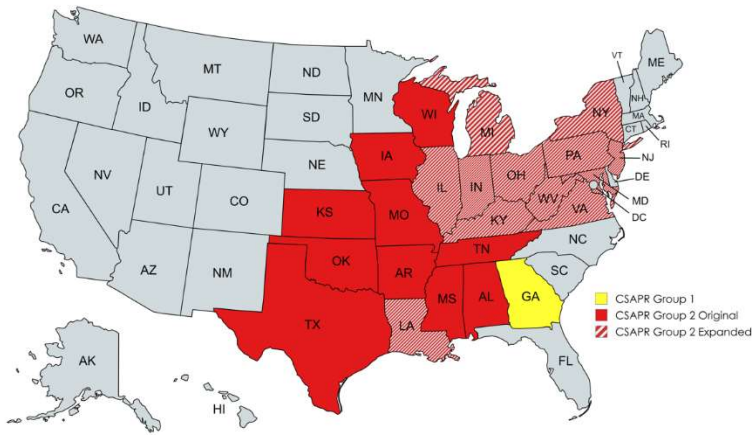
Cross State Air Pollution Rule Interim Final Rule

Market Status

On October 29, 2024, the US Environmental Protection Agency issued a final rule to administratively stay the effectiveness of the Good Neighbor Plan’s requirements for all sources covered by that rule as promulgated where an administrative stay was not already in place. This action is being taken in response to a stay order issued by the United States Supreme Court <https://www.epa.gov/system/files/documents/2024-10/fact-sheet-interim-final-rule-responding-to-stay-order-for-good-neighbor-plan.pdf>

Term	Bid	Offer
SNOx Group 1	\$500	\$900
SNOx Group 2	\$500	\$900
SNOx Group 2E	\$500	\$900
SNOx Group 3	N/A	N/A

As signed in March 2023, EPA’s Good Neighbor Plan requires power plants and other industrial facilities in 23 states to reduce nitrogen oxides (NOX) emissions that significantly contribute to problems attaining and maintaining the 2015 National Ambient Air Quality Standards (NAAQS) for ozone in downwind states. On June 27, 2024, the United States Supreme Court issued an order staying enforcement of the Good Neighbor Plan against the stay applicants pending judicial review on the merits (the Stay Order). In the current EPA action, and referred to as the Third Interim Final Rule, the Agency is responding to the Stay Order by further amending the Good Neighbor Plan.



The EPA’s stay of the Good Neighbor Plan will remain in place until the Supreme Court lifts its order staying enforcement of the Good Neighbor Plan, other courts lift any judicial orders staying the SIP Disapproval action as to the state, and EPA takes subsequent rulemaking action consistent with any judicial rulings on the merits.

In Summary, The Old Group 3 States of Illinois, Indiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, Virginia, and Wisconsin will be subject to the requirements of the CSAPR NOX Ozone Season “Group 2” Trading Program with respect to their emissions in the 2024 control period and in future control periods unless and until

provided otherwise in a future rulemaking. EGUs except WI will use Expanded Group 2 allowances for compliance under the Group 2 trading program. WI will use Original Group 2 allowances for compliance under the Group 2 trading program. The amounts of the state emissions budget and unit-level allowance allocations that will apply for each control period will be the amounts that would have applied for the same control period under the CSAPR Update Rule. As soon as practicable on or after November 21, 2024, EPA will deduct all 2024 Group 3 allowances held in any source’s facility

account or any general account. As soon as practicable on or after December 6, 2024, EPA will record the 2024-2025 Original Group 2 allowances allocated to existing EGUs in Wisconsin and the 2024-2025 Expanded Group 2 allowances

State	Group 2 "Expanded"				
	OS NOx		Allowance	Allowance	Surplus
	2023	2024	Holdings 2023 or earlier	Holdings 2024 allocation	Allowances 2024
IL	5,365	5,441	32,850	8,059	35,468
IN	8,694	9,030	7,184	9,564	7,718
KY	11,918	13,021	27,514	14,051	28,544
LA	10,051	10,089	59,558	14,818	64,287
MD	1,280	1,526	1,403	1,348	1,225
MI	9,152	10,949	11,218	9,786	10,055
NJ	835	757	18,149	1,253	18,645
NY	3,335	3,469	3,140	3,403	3,074
OH	7,072	7,749	1,722	9,773	3,746
PA	5,564	6,622	3,374	8,374	5,126
VA	2,738	3,526	2,054	3,663	2,191
WV	11,050	11,930	1,729	12,884	2,683
Total	77,055	84,109	169,895	96,976	182,762

allocated to existing EGUs in Illinois, Indiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Virginia in the respective sources' facility accounts. As soon as practicable on or after December 23, 2024, EPA will convert 2021-2023 Group 3 allowances held in certain accounts to 2024 Original Group 2 allowances or 2024 Expanded Group 2 allowances on a 1:1 basis.

What's Next

To the left is a Table of the Group 2E States and the Group 2 Original States and their Emissions and Allocations. If you compare their 2023 and 2024 Emissions vs their Allocations, it's quite clear that both Groups have a large bank of allowances to satisfy their compliance needs. In the Good Neighbor Rule, Group 3 Banked Allowances were forecasted to be cut by 67% per the rule, now the bank will be carried forward 1:1 which adds to the Supply. Group 2 Original does not change – however the cloud of being converted to Group 3 and what conversion rate would be took supply off the market. Even though the EPA has Stayed the Rule – there still is a regulatory cloud over both Groups on how this Judicial Case will play out – and what future rules could take its place. This threat of future Regulations and tighter caps do constrain the liquid supply.

State	Group 2 Original				
	OS NOx		Allowance	Allowance	Surplus
	2023	2024	Holdings 2024 or earlier	Allocation 2024	Allowances 2024
AL	6,619	5,925	53,050	13,211	60,336
AR	8,379	7,348	15,707	12,048	20,407
IA	8,008	6,075	21,761	11,272	26,958
KS	5,481	5,365	15,626	8,027	18,288
MO	11,008	10,557	37,538	15,780	42,761
MS	6,173	5,826	11,958	6,315	12,447
OK	12,422	11,373	24,830	11,641	25,098
TN	3,780	4,226	10,486	7,736	13,996
TX	46,919	42,580	74,740	52,301	84,461
WI	11,050	11,930	1,450	7,915	(2,565)
Total	108,789	99,274	265,696	138,331	304,753

The Administrative Stay by the EPA has added Supply to the market for the old Group 3 States and had pushed the threat of tighter caps to the Original Group 2 States to the foreseeable future. In should be safe to say that prices should fall based on the added supply and less stringent Caps for the immediate future. What is not known is when the Courts will decide the fate of the Good Neighbor Rule, How the EPA will respond, and how Compliance entities will decide to sell their ample Supply of

allowances with this regulatory uncertainty. Adding to this mix is a new Presidential Administration which is foreseen to be pro-business. Prices have been frozen since the EPA froze the Group 3 Accounts based on the Supreme Court Ruling. I suspect after the EPA recalls the Group 3 Allowances and re-allocates the new Allowances; we will get a better picture of where prices are. This all should happen by the end of the year, so I suspect trading will start to occur in January 2025.