



MARKET UPDATE

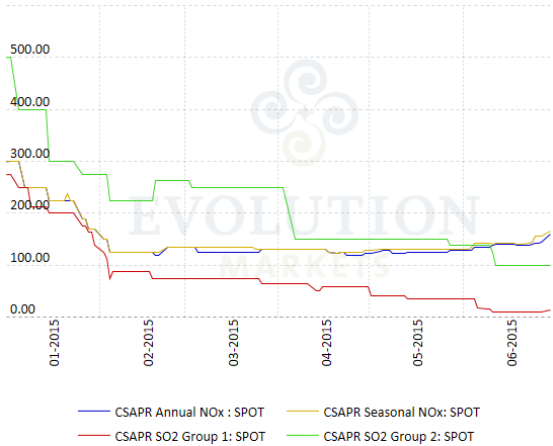
June 30, 2015

Cross State Air Pollution Rule

Market Status

On June 29, 2015 the Supreme Court [ruled](#) 5-4 that the EPA must consider costs in regulating power plant emissions and reversed a DC Circuit Court of Appeals decision in favor of EPA’s Mercury and Air Toxic Standard (MATS). The case is remanded down to the lower court, and the DC Court must determine how to proceed. Cross State Air Pollution Rule (CSAPR) prices moved up yesterday on this news in anticipation that some coal fired facilities may continue to operate in the near term instead of being retired. Prices for both Annual and Seasonal NOx, which were slowly moving up the last few months, jumped from \$140 to \$160 on the news. SO2 Group 1 prices, which had settled in at \$8 over the last few months, jumped to \$11 yesterday. SO2 Group 2 was not affected by the news and has not traded this summer. SO2 Group 2 Market Participants are looking for the DC Courts decision on CSAPR, which is expected shortly and also has been remanded to a lower court by the Supreme Court.

Term (2015)	Bid	Offer
Annual NOx	\$160.00	\$180.00
Seasonal NOx	\$160.00	\$200.00
SO2 Group 1	\$ 10.00	\$ 15.00
SO2 Group 2	\$25.00	\$150.00
Acid Rain SO2	\$0.25	\$0.75



Future Outlook

Although there may be a short term impact from to the Supreme Court Ruling on MATS, most industry sources believe that the damage has already been done. The court ruling was too late to reverse course of the anticipated retirements of many Coal power plants. Coupled with low natural gas prices, this probably does not move the needle regarding emissions in future years. We are also still waiting for the D.C. Circuit Court to resolve remaining issues with CSAPR. In February the DC court heard oral arguments from both sides and has yet to make a final ruling. Although the EPA has moved forward with implementing CSAPR, some market participant are cautious to begin hedging their emissions until the DC Court issues their final ruling.

Fundamentals

Market Fundamentals have not changed since the last update. Current Emission vs. Allowance Allocation estimates show that all four CSAPR markets are long in Phase 1 (2015 – 2016). The tightest markets being both Annual and Seasonal NOx where there are several states projected to be short Allowances. As a whole the markets is long. SO2 Group 1 is long in Phase 1, but reductions in the Allocation in Phase 2 can make the SO2 Group 1 market short. Since this is the start of the program, there is no bank of allowances to draw upon in 2015. If projected surpluses do not come to market for a variety of reasons, it may affect the market demand supply picture.