



South Coast Air Quality Management District

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Twelve-Month Rolling Average Price of Compliance Years 2012 and 2013 NOx RTCs

January 2013 Quarterly Report to Stationary Source Committee

Summary

The RECLAIM rules include an average current-year NOx RTC price threshold of \$15,000 per ton that, if exceeded, triggers additional evaluation, reports to the Board, and potential proposed program adjustments. Staff reports the twelve-month rolling average prices of NOx RTCs to the Stationary Source Committee (SSC) on a quarterly basis. This is the first quarterly report to SSC in calendar year 2013.

Since January 2011, the twelve-month rolling average prices of Compliance Year 2012 NOx RTCs have been on a general declining trend as shown in Table I of this report and have not exceeded the \$15,000 per ton threshold. The twelve-month rolling average price (January 2012 through December 2012) for NOx RTCs valid for Compliance Year 2012 is \$1,162 per ton. In comparison, the average price of Compliance Year 2011 NOx RTCs was \$1,561 per ton for the corresponding period, as reported in January 2012. For Compliance Year 2013 NOx RTCs, the twelve-month rolling average price for January 2012 through December 2012 is \$4,053. In comparison, the twelve-month rolling average of Compliance Year 2012 NOx RTCs was \$4,121 per ton for the corresponding period, ending December 2011. This is the appropriate basis for comparison because RTC prices generally decline as the expiration date approaches. The twelve-month rolling average prices are well below the \$15,000 per ton threshold specified by Rule 2002(f)(1)(C) and, therefore, do not trigger the requirement of reporting to, and potential further actions by, the Governing Board.

Pursuant to the 2005 amendment to Rule 2002(f), there are no longer any incremental NOx reductions to potentially be restored to Tradable/Usable NOx RTCs if the rolling average price of NOx RTCs exceeds \$15,000 per ton, as explained in the Background discussion below. Therefore, this is the last Quarterly Report that will include written discussion and graphical presentation of data. In the future, Quarterly Reports will simply present tabular data such as that included in Tables I and II of this report. Staff will continue to monitor RTC average prices and will prepare a more detailed pricing trend analysis report to the SSC and Governing Board if the average price of current-year RTCs exceeds \$15,000 per ton.

Background

RECLAIM, a multi-industry cap-and-trade program for NO_x and SO_x, allows facilities several options to meet declining emission caps. Facilities can comply with their emission caps by adding controls, changing their operations and/or purchasing RECLAIM Trading Credits (RTCs). RTCs are issued for a specific twelve month period, with Cycle 1 RTCs expiring at the end of a Cycle 1 Compliance Year (which runs from January 1 through December 31), and Cycle 2 RTCs expiring at the end of a Cycle 2 Compliance Year (which runs from July 1 through June 30). At the end of each compliance year (Cycle 1 or Cycle 2, depending on the facility's cycle designation), there is a 60-day reconciliation period for RECLAIM facilities to obtain enough RTCs (Cycle 1 and/or Cycle 2) to cover their emissions.

The AQMD Governing Board amended Rule 2002(f) in January 2005 to reduce the NO_x RTC holdings for Compliance Year 2007 and beyond by 22.5 % over five years (11.7 % in 2007 and an additional 2.7 % in each of the years 2008 through 2011), to convert the 10.8 % adjustment applied over the years 2008 through 2011 to Non-Tradable/Non-Usable RTCs, and to issue them to the parties that held the RTCs prior to conversion. These amendments also direct the Executive Officer to calculate the twelve-month rolling average price of NO_x RTCs ("rolling average price") "for all trades for the current compliance year" excluding "RTC transactions reported at no price." Furthermore, pursuant to the RTC price reporting and averaging methodology approved by the Governing Board in September 2007, "swap" transactions (the exchange of RTCs for other RTCs or for other emissions credits) are also excluded from the calculation of rolling average prices.

In the event that the rolling average price exceeds \$15,000 per ton, the Executive Officer will report the rolling average price to the Governing Board. If the Governing Board concurs and determines that the rolling average price exceeds \$15,000 per ton, it may direct the Executive Officer to convert the annual incremental Non-Tradable/Non-Usable RTCs (2.7 %) back to active, Tradable/Usable RTCs valid for the compliance year in which Cycle 1 facilities are operating at the time the finding is made. In its Resolution amending Rule 2002(f), the Governing Board directed the Executive Officer to report the NO_x RTC twelve-month rolling average price data to the Stationary Source Committee at least quarterly. Therefore, staff began reporting twelve-month rolling average prices of Compliance Year 2008 NO_x RTCs to the Stationary Source Committee in January 2008 and has continued to report this information to the Stationary Source Committee on a quarterly basis. The NO_x RTC "shave" adopted in 2005 has been fully implemented since January 2011. Starting in Compliance Year 2012, there is no further scheduled incremental reduction of NO_x RTCs. Therefore, if the rolling average price exceeds \$15,000 per ton for Compliance Year 2012 or later RTCs, no incremental reduction will be available for conversion to Tradable/Usable RTCs¹. Therefore, this is the last Quarterly Report that will include written discussion and graphical presentation of data;

¹ District Rule 2015 – Backstop Provisions provides additional mechanism for re-evaluating and adjusting the RECLAIM program if average RTCs price exceeds \$15,000 per ton or based on findings from annual audits of the program

subsequent Quarterly Reports will simply present tabular data such as that included in Tables I and II of this report. This Quarterly Report includes the twelve-month rolling average prices for both Compliance Years 2012 and 2013 NOx RTCs, which are the RTCs in current use.

Analysis

Figure I presents the monthly average price of Compliance Year 2012 NOx RTCs for each month from January 2011 through December 2012, as well as the total volume of Compliance Year 2012 NOx RTCs traded in each of those months. Figure II shows the monthly average price and volume of Compliance Year 2013 NOx RTCs traded for each month from January 2012 through December 2012. The rolling average price can be calculated by dividing the total value traded (in dollars) during the twelve-month period by the total volume traded (in tons of NOx) for the same period. Tables I and II list the monthly total volume, total value traded and the rolling average price data for Compliance Year 2012 and 2013 NOx RTCs, respectively. The rolling average price data will continue to be updated on a monthly basis and reported to the Stationary Source Committee on a quarterly basis. Historically, trading of a particular RTC has been most active during the final months of the compliance year and the subsequent reconciliation period. The trading volumes are normally higher, and prices also drop when compared to the other preceding months as the end of the annual reconciliation period approaches because these credits can no longer be traded beyond the annual reconciliation period.

As shown in Tables I and II, the monthly rolling average prices have not exceeded the \$15,000 per ton threshold specified in Rule 2002(f). The rolling average price of Compliance Year 2012 NOx RTCs has been on a declining trend. The average price for Compliance Year 2012 NOx RTCs for January 2012 through December 2012 is \$1,162 per ton. In comparison, the average price of Compliance Year 2011 NOx RTCs was \$1,561 per ton for the corresponding period, as reported in January 2012. For Compliance Year 2013 NOx RTCs, the average price for January 2012 through December 2012 is \$4,053. In comparison, the twelve-month rolling average price of Compliance Year 2012 NOx RTCs was \$4,121 per ton for the corresponding period ending December 2011. RTC prices generally decline as the expiration date approaches. Therefore, the appropriate comparison of the January 2012 through December 2012 average price of Compliance Year 2012 NOx RTCs is to the January 2011 through December 2011 average price of Compliance Year 2011 NOx RTCs. Similarly, the appropriate comparison of the January 2012 through December 2012 average price of Compliance Year 2013 NOx RTCs is to the January 2011 through December 2011 average price of Compliance Year 2012 NOx RTCs.

Conclusions

Based on the average prices of NOx RTCs being well below the \$15,000 per ton threshold specified in Rule 2002(f)(1)(C), it is not necessary for the Executive Officer to provide a report on the NOx RTCs rolling average prices to the Governing Board or for the Governing Board to consider potential adjustments to the RECLAIM program.

Figure I

Monthly Average Price Data for Compliance Year 2012 NOx RTCs Traded – January 2011 through December 2012

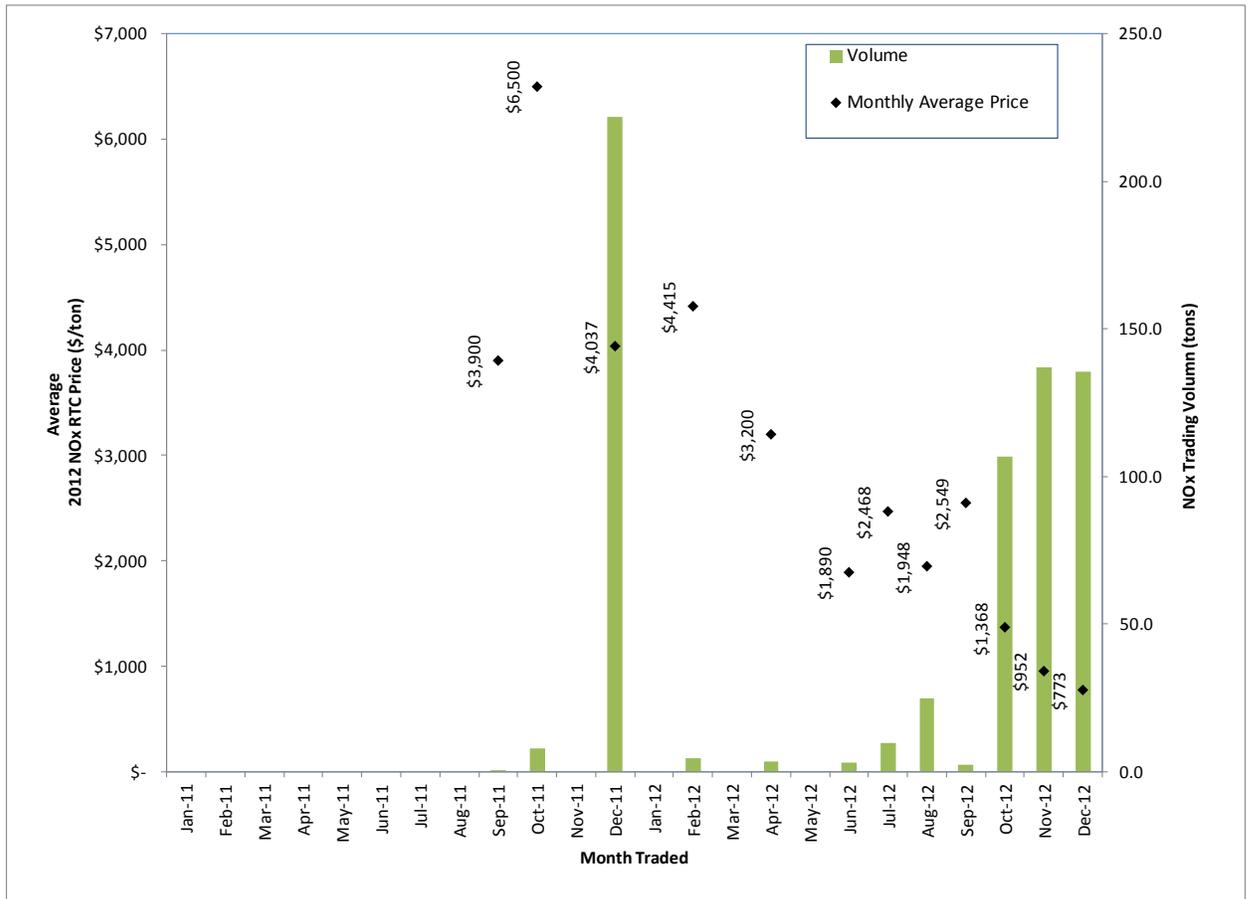


Table I

Twelve-Month Rolling Average Price Data for Compliance Year 2012 NOx RTCs

Twelve-Month Rolling Average Price Data for Compliance Year 2012 NOx RTC (January 2011 - December 2012)					
Reporting Month	12-Month Period	Total Volume Traded with Price During Past 12-month (tons)	Total Price of Volume Traded During Past 12-month (\$)	Number of Trades with Price	Rolling Average Price (\$/ton)
Jan-12	Jan-11 to Dec-11	230.2	\$948,640	13	\$4,121
Feb-12	Feb-11 to Jan-12	230.2	\$948,640	13	\$4,121
Mar-12	Mar-11 to Feb-12	234.8	\$968,730	17	\$4,127
Apr-12	Apr-11 to Mar-12	234.8	\$968,730	17	\$4,127
May-12	May-11 to Apr-12	238.3	\$979,930	19	\$4,113
Jun-12	Jun-11 to May-12	238.3	\$979,930	19	\$4,113
Jul-12	Jul-11 to Jun-12	241.3	\$985,600	21	\$4,085
Aug-12	Aug-11 to Jul-12	251.0	\$1,009,535	29	\$4,023
Sep-12	Sep-11 to Aug-12	275.7*	\$1,057,659*	40	\$3,837
Oct-12	Oct-11 to Sep-12	277.6*	\$1,062,089*	40	\$3,826
Nov-12	Nov-11 to Oct-12	376.6	\$1,157,010	66	\$3,072
Dec-12	Dec-11 to Nov-12	513.7	\$1,287,567	72	\$2,507
Jan-13	Jan-12 to Dec-12	427.3	\$496,616	72	\$1,162

* These figures are updated to correct a calculation error in the October 2012 Quarterly Report.

Figure II

Monthly Average Price Data for Compliance Year 2013 NOx RTCs Traded – January 2012 through December 2012

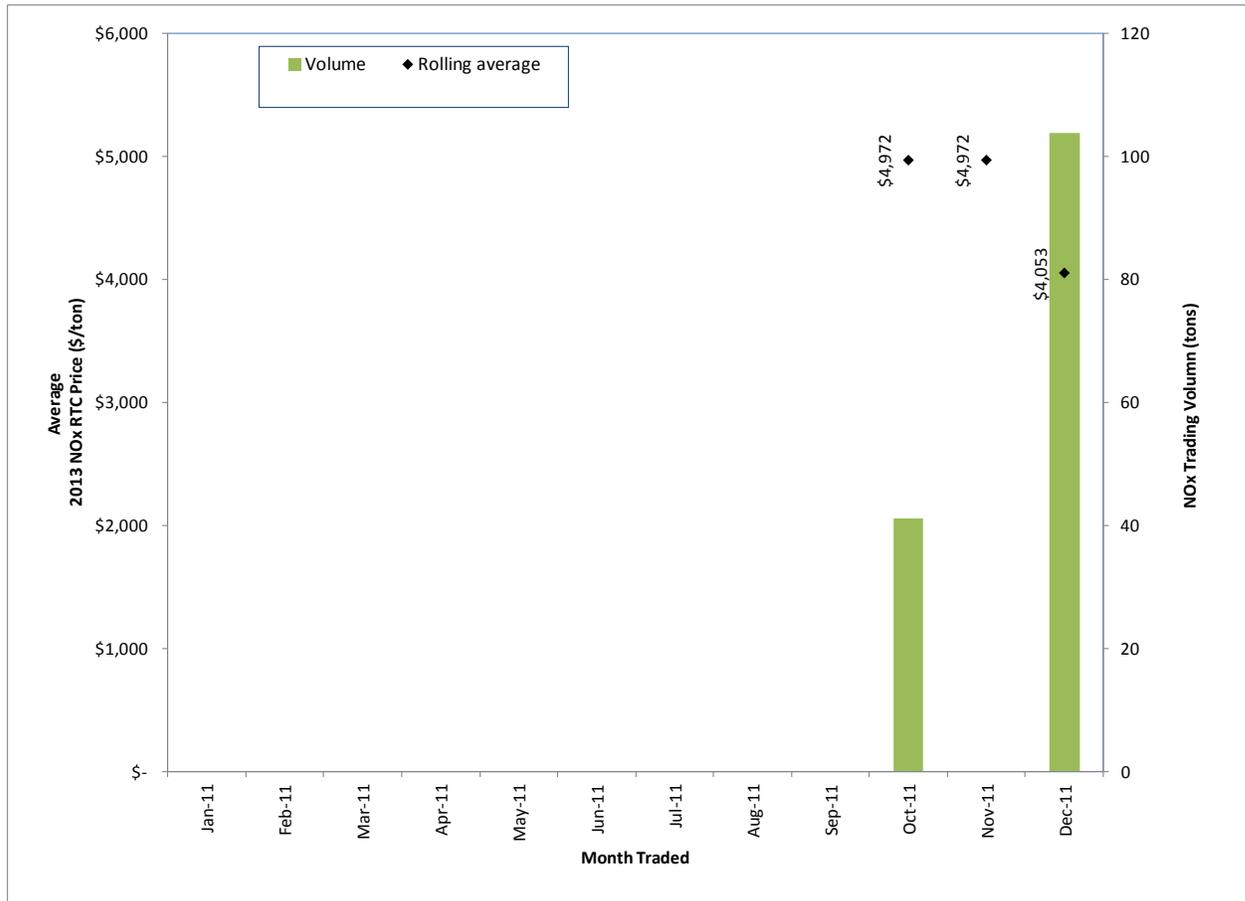


Table II

Twelve-Month Rolling Average Price Data for Compliance Year 2013 NOx RTCs

Twelve-Month Rolling Average Price Data for Compliance Year 2013 NOx RTC (January 2012 - December 2012)					
Reporting Month	12-Month Period	Total Volume Traded with Price During Past 12-month (tons)	Total Price of Volume Traded During Past 12-month (\$)	Number of Trades with Price	Rolling Average Price (\$/ton)
Jan-13	Jan-12 to Dec-12	145.0	\$587,554	9	\$4,053