



South Coast Air Quality Management District

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Twelve-Month Rolling Average Price of Compliance Years 2011 and 2012 NOx RTCs

April 2012 Quarterly Report to Stationary Source Committee

Summary

The RECLAIM rules include an average current-year 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 report is the second quarterly report to SSC in calendar year 2012.

Since January 2010, the twelve-month rolling average prices of Compliance Year 2011 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 (April 2011 through March 2012) for credits valid for Compliance Year 2011 is \$1,013 per ton. In comparison, the average price of Compliance Year 2010 RTCs was \$1,425 per ton for the corresponding period, as reported in April 2011. For Compliance Year 2012 NOx RTCs, the twelve-month rolling average price for April 2011 through March 2012 is \$4,127. In comparison, the twelve-month rolling average of Compliance Year 2011 RTCs was \$7,950 per ton for the corresponding period, ending March 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.

Background

RECLAIM, a multi-industry cap-and-trade program for NOx and SOx, 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 calendar year (which runs from January 1 through December 31), and Cycle 2 RTCs expiring at the end of a fiscal year (which runs from July 1 through June 30). At the end of each year (calendar or fiscal, 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 NOx 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 NOx 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 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 NOx 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 NOx RTCs to the Stationary Source Committee in January 2008. The NOx 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 NOx 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. This Quarterly Report includes the twelve-month rolling average prices for both Compliance Years 2011 and 2012 NOx RTCs, which are the RTCs in current use.

Analysis

Figure I presents the monthly average price of Compliance Year 2011 NOx RTCs for each month from January 2010 through March 2012, as well as the total volume of Compliance Year 2011 NOx RTCs traded in each of those months. Figure II shows the monthly average price and volume of Compliance Year 2012 NOx RTCs traded for each month from January 2011 through March 2012. The rolling average price can be calculated by dividing the total value traded (\$) during the twelve-month period by the total volume traded (tons) 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 2011 and 2012 NOx RTCs, respectively. The rolling average price data will continue to be updated on a

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

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 2011 and 2012 NO_x RTCs have been on a declining trend. The average price for Compliance Year 2011 NO_x RTCs for April 2011 through March 2012 is \$1,013 per ton. In comparison, the average price of Compliance Year 2010 RTCs was \$1,425 per ton for the corresponding period, as reported in April of 2011. For Compliance Year 2012 NO_x RTCs, the average price for April 2011 through March 2012 is \$4,127. In comparison, the twelve-month rolling average of Compliance Year 2010 RTCs was \$7,950 per ton for the corresponding period ending March 2011. RTC prices generally decline as the expiration date approaches. Therefore, the appropriate comparison of the April 2011 through March 2012 average price of Compliance Year 2011 RTCs is to the April 2010 through March 2011 average price of Compliance Year 2010 RTCs. Similarly, the appropriate comparison of the April 2011 through March 2012 average price of Compliance Year 2012 RTCs is to the April 2010 through March 2011 average price of Compliance Year 2011 RTCs. Historically, Compliance Year 2012 RTCs were only traded as part of Infinite-Year Block (IYB) trades that included a block of RTCs from a starting year and all the years thereafter. The first trade of Compliance Year 2012 discrete year RTCs was not reported until October 2011. There were 21 trade agreements involving Compliance Year 2012 discrete year RTC trades reported to date. They were traded in a price range of \$2,800 to \$6,500 per ton.

Conclusions

Based on the average prices 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 RTCs rolling average prices to the Governing Board and for the Governing Board to consider reinstating the incremental NO_x RTC adjustment for Compliance Years 2011 or 2012.

Figure I

Monthly Average Price Data for Compliance Year 2011 NOx RTCs Traded – January 2010 through March 2012

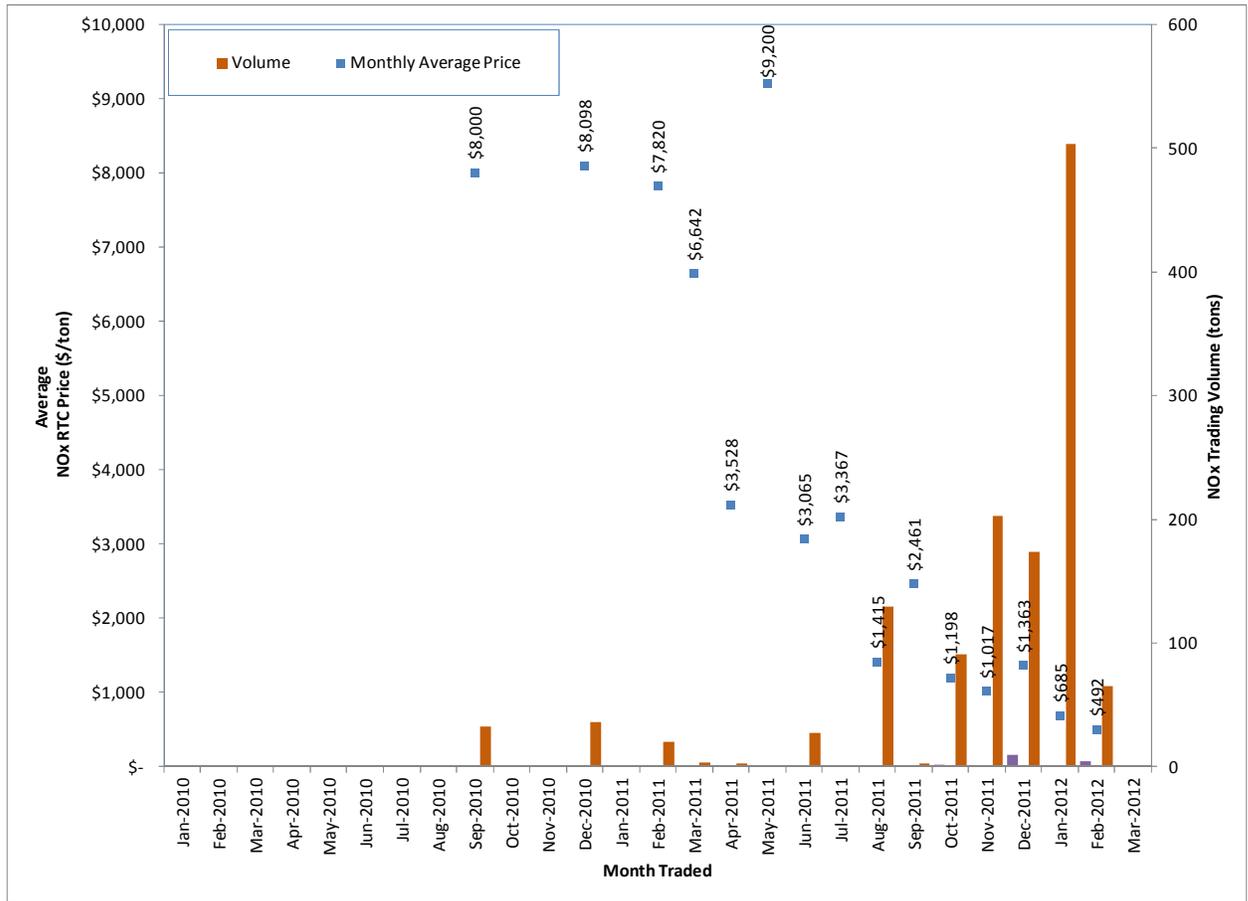


Table I

Twelve-Month Rolling Average Price Data for Compliance Year 2011 NOx RTCs

| Twelve-Month Rolling Average Price Data for Compliance Year 2011 NOx RTC | | | | | |
|---|------------------------|---|---|------------------------------------|---------------------------------------|
| (January 2010 - March 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-11 | Jan 10 - Dec 10 | 69.0 | \$555,180 | 6 | \$8,052 |
| Feb-11 | Feb 10 - Jan 11 | 69.0 | \$555,180 | 7 | \$8,052 |
| Mar-11 | Mar 10 - Feb 11 | 89.5 | \$715,950 | 10 | \$7,999 |
| Apr-11 | Apr 10 - Mar 11 | 92.9 | \$738,200 | 14 | \$7,950 |
| May-11 | May 10 - Apr 11 | 95.0 | \$745,782 | 15 | \$7,850 |
| Jun-11 | Jun 10 - May 11 | 95.2 | \$747,162 | 21 | \$7,852 |
| Jul-11 | July 10 - Jun 11 | 122.5 | \$831,002 | 24 | \$6,783 |
| Aug-11 | Aug 10 - Jul 11 | 123.4 | \$834,032 | 32 | \$6,758 |
| Sep-11 | Sep 10 - Aug 11 | 252.5 | \$1,016,657 | 34 | \$4,026 |
| Oct-11 | Oct 10 - Sep 11 | 222.9 | \$763,752 | 58 | \$3,427 |
| Nov-11 | Nov 10 - Oct 11 | 313.2 | \$872,001 | 62 | \$2,784 |
| Dec-11 | Dec 10 - Nov 11 | 516.2 | \$1,078,501 | 71 | \$2,089 |
| Jan-12 | Jan 11 - Dec 11 | 653.2 | \$1,019,671 | 66 | \$1,561 |
| Feb-12 | Feb 11 - Jan 12 | 1,157.0 | \$1,364,567 | 104 | \$1,179 |
| Mar-12 | Mar 11 - Feb 12 | 1,202.0 | \$1,236,013 | 115 | \$1,028 |
| Apr-12 | Apr 11 - Mar 12 | 1,198.6 | \$1,213,763 | 111 | \$1,013 |

Figure II

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

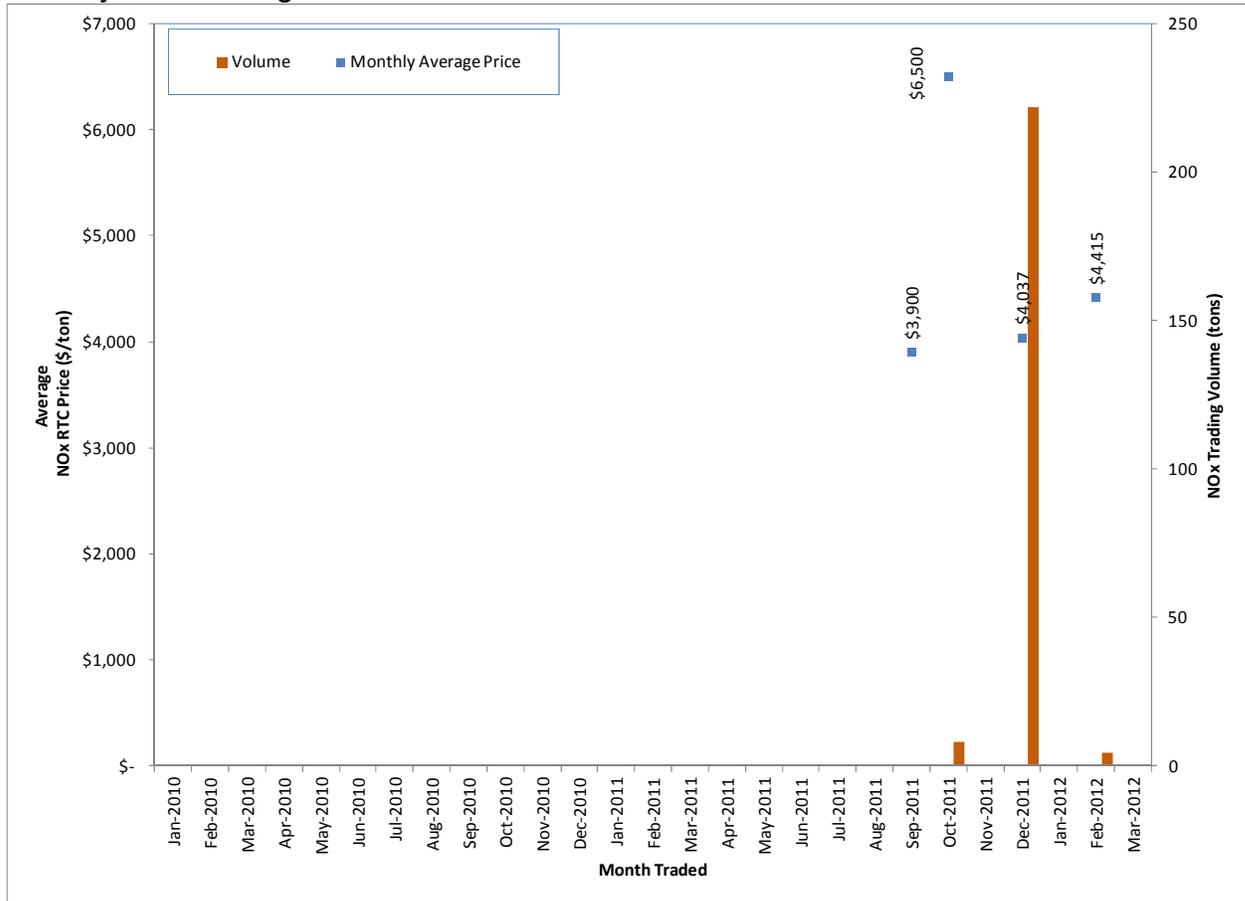


Table II

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 - March 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 - Dec 11 | 230.2 | \$948,640 | 13 | \$4,121 |
| Feb-12 | Feb 11 - Jan 12 | 230.2 | \$948,640 | 13 | \$4,121 |
| Mar-12 | Mar 11 - Feb 12 | 234.8 | \$968,730 | 17 | \$4,127 |
| Apr-12 | Apr 11 - Mar-12 | 234.8 | \$968,730 | 17 | \$4,127 |