



# South Coast Air Quality Management District

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## Twelve-Month Rolling Average Price of Compliance Years 2009 and 2010 NOx RTCs

April 2010 Quarterly Report to Stationary Source Committee

### Summary

The twelve-month rolling average prices of Compliance Years 2009 and 2010 NOx RTCs since January 2009 have been on a declining trend and have not exceeded the \$15,000 per ton threshold. The current twelve-month rolling average price for credits valid for Compliance Year 2009 (April 2009 through March 2010) is \$951 per ton. In comparison, the average price of Compliance Year 2008 RTCs was \$1,260 per ton for the corresponding period in 2008 (reporting month of April 2009). The twelve-month rolling average price for Compliance Year 2010 NOx RTCs, the average price over April 2009 through March 2010 is \$4,541. In comparison, the twelve-month rolling average of Compliance Year 2009 RTCs was \$7,646 per ton for the corresponding period in 2009. 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

The Governing Board amended Rule 2002(f) in January 2005 to reduce Compliance Year 2007 and beyond NOx RTC holdings 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 further 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 this 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 with the Executive Officer 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. This report includes the twelve-month rolling average prices for both Compliance Years 2009 and 2010 NOx RTCs, which are the current RTCs in use.

## **Analysis and Conclusions**

Figure I presents the monthly average cost of Compliance Year 2009 NOx RTCs for each month from January 2008 through March 2010, as well as the total volume of Compliance Year 2009 NOx RTCs traded in each of those months. Similarly, Figure II shows the monthly average cost and volume of Compliance Year 2010 NOx RTCs traded. The rolling average price can be calculated by dividing the total value traded during the twelve-month period by the total volume traded 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 2009 and 2010 NOx RTCs, respectively. The rolling average price data will be updated on a monthly basis and reported to the Stationary Source Committee on a quarterly basis.

Historically, trading of a particular RTC is most active during the reconciliation period following its expiration date when facilities perform their final emission reconciliation. As shown in Figure I, this trend is repeated for Cycle 1 2009 NOx RTC during January and February 2010, the annual reconciliation period for Cycle 1 facilities. For Cycle 2 facilities, the annual reconciliation period is July and August. During these sixty-day periods, the trading volumes are normally higher, and prices also drop when compared to the other months as the end of the annual reconciliation period approaches because these credits can no longer be traded beyond this 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 2009 NOx RTCs have been on a declining trend. The price for such RTCs averaged over April 2009 through March 2010 is \$951 per ton. In comparison, the average price of Compliance Year 2008 RTCs was \$1,260 per ton for the corresponding period in 2008 (reporting month of April 2009). For Compliance Year 2010 NOx RTCs, the average price over April 2009 through March 2010 is \$4,541. In comparison, the twelve-month rolling average of Compliance Year 2009 RTCs was \$7,646 per ton for the corresponding period in 2009. RTC prices generally decline as the expiration date approaches. Therefore, the appropriate comparison of the April 2009 through March 2010 average price of Compliance Year 2009 RTCs is to the April 2008 through March 2009 average price of Compliance Year 2008 RTCs.

Similarly, the appropriate comparison of the April 2009 through March 2010 average price of Compliance Year 2010 RTCs is to the April 2008 through March 2009 average price of Compliance Year 2009 RTCs. Based on these average prices, it is not necessary for the Executive Officer to report the rolling average price to the Governing Board or for the Governing Board to consider reinstating the incremental NOx RTC adjustment for Compliance Years 2009 or 2010.

Figure I

Monthly Average Cost Data for Compliance Year 2009 NOx RTCs Traded – January 2008 through March 2010.

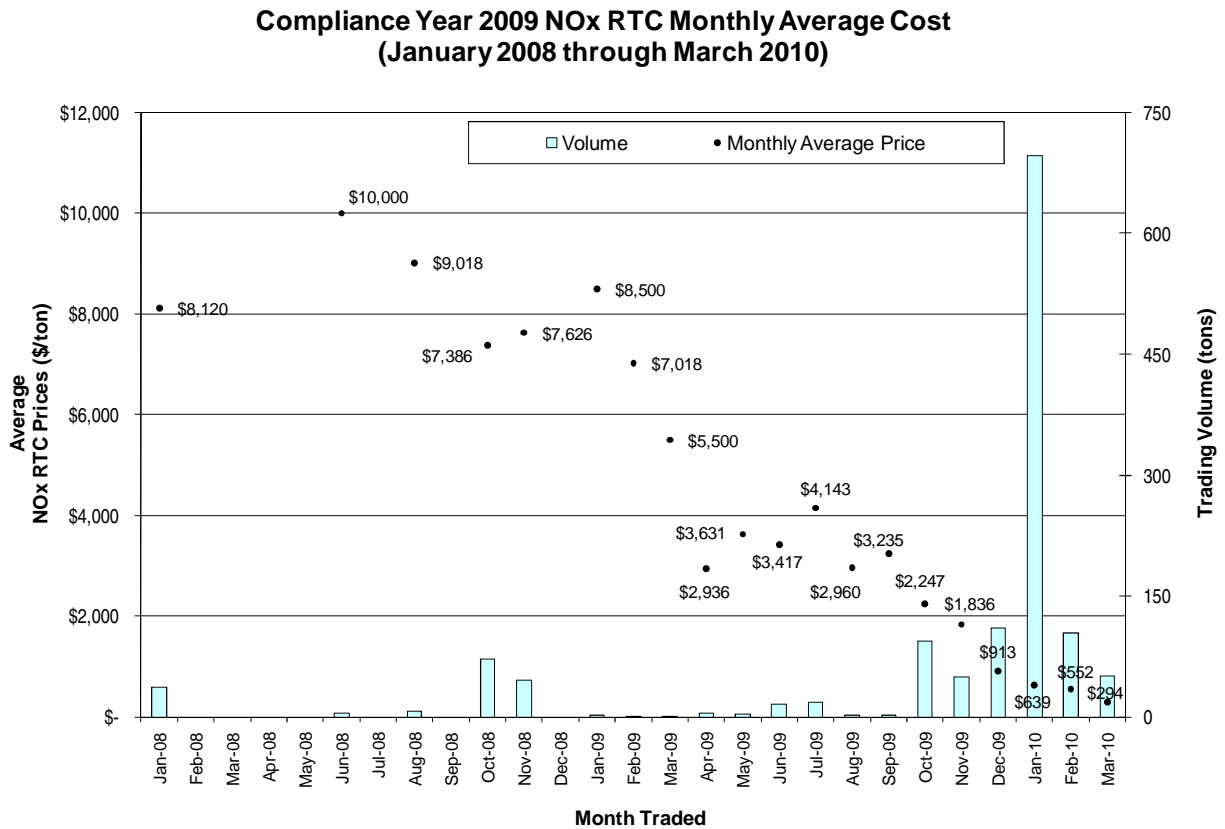


Table I

## Twelve-Month Rolling Average Price Data for Compliance Year 2009 NOx RTCs

<b>Twelve-Month Rolling Average Price Data for Compliance Year 2009 NOx RTC</b>				
<b>(January 2008 - March 2010)</b>				
<b>Reporting Month</b>	<b>12-Month Period</b>	<b>Total Volume Traded with Price During Past 12-month (tons)</b>	<b>Total Value Traded During Past 12-month</b>	<b>Rolling Average Price (\$/ton)</b>
Jan-09	Jan 08 - Dec 08	166.5	\$1,292,806	\$7,763
Feb-09	Feb 08 - Jan 09	131.1	\$1,005,570	\$7,672
Mar-09	Mar 08 - Feb 09	131.9	\$1,011,742	\$7,668
Apr-09	Apr 08 - Mar 09	133.3	\$1,019,167	\$7,646
May-09	May 08 - Apr 09	138.4	\$1,034,053	\$7,473
Jun-09	June 08 - May 09	141.6	\$1,045,853	\$7,385
Jul-09	July 08 - June 09	152.9	\$1,051,548	\$6,877
Aug-09	Aug 08 - July 09	171.6	\$1,128,813	\$6,580
Sep-09	Sep 08 - Aug 09	167.2	\$1,074,303	\$6,424
Oct-09	Oct 08 - Sep 09	169.7	\$1,082,148	\$6,378
Nov-09	Nov 08 - Oct 09	192.9	\$767,403	\$3,977
Dec-09	Dec 08 - Nov 09	197.2	\$510,303	\$2,588
Jan-10	Jan 09 - Dec 09	307.7	\$611,188	\$1,986
Feb-10	Feb 09 - Jan 10	1,002.6	\$1,039,845	\$1,037
Mar-10	Mar 09 - Feb 10	1,105.5	\$1,090,921	\$987
Apr-10	Apr 09 - Mar 10	1,154.4	\$1,098,246	\$951

Figure II

Monthly Average Cost Data for Compliance Year 2010 NOx RTCs Traded – January 2009 through March 2010

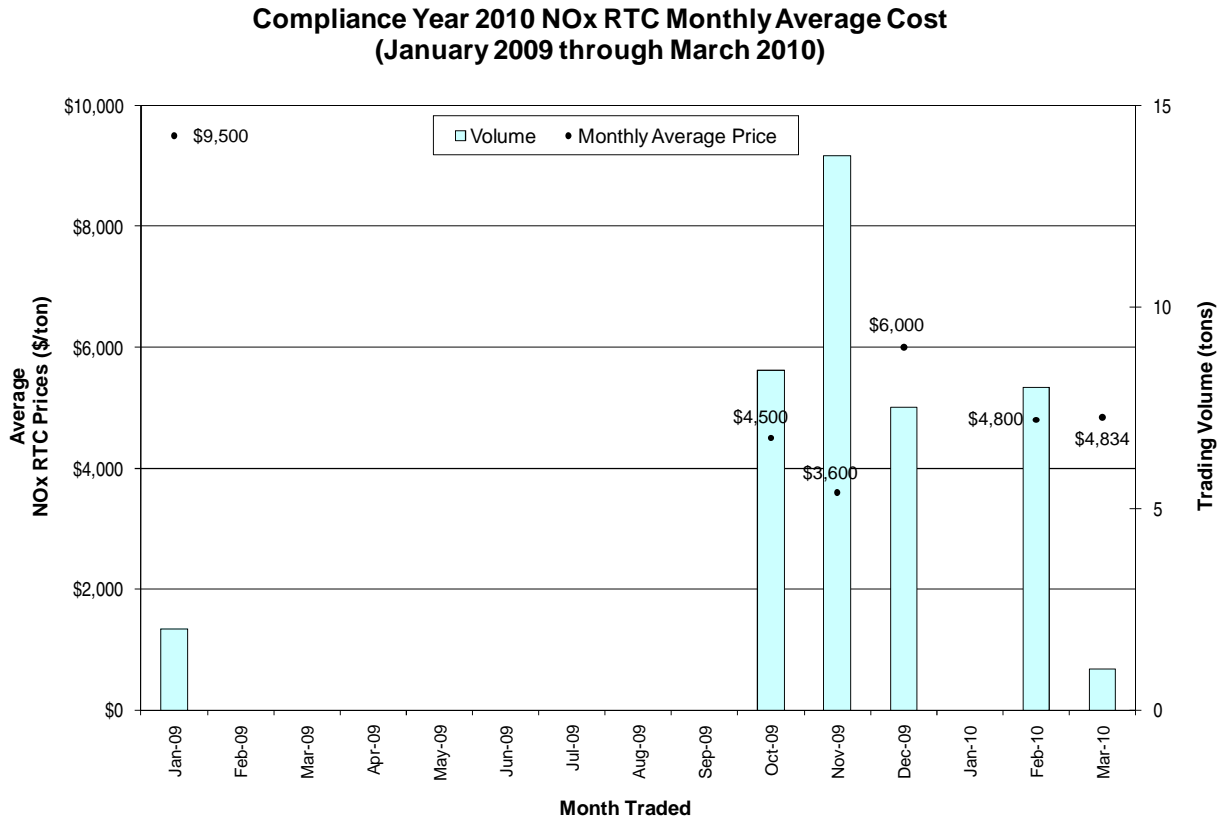


Table II

Twelve-Month Rolling Average Price Data for Compliance Year 2010 NOx RTCs

Twelve-Month Rolling Average Price Data for Compliance Year 2010 NOx RTC (January 2009 - March 2010)				
Reporting Month	12-Month Period	Total Volume Traded with Price During Past 12-month (tons)	Total Value Traded During Past 12-month	Rolling Average Price (\$/ton)
Jan-10	Jan 09 - Dec 09	31.7	\$151,390	\$4,775
Feb-10	Feb 09 - Jan 10	29.7	\$132,390	\$4,458
Mar-10	Mar 09 - Feb 10	37.7	\$170,790	\$4,530
Apr-10	Apr 09 - Mar 10	38.7	\$175,733	\$4,541