



South Coast Air Quality Management District

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

January 2012 Quarterly Report to Stationary Source Committee

Summary

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 (January 2011 through December 2011) for credits valid for Compliance Year 2011 is \$1,557 per ton. In comparison, the average price of Compliance Year 2010 RTCs was \$2,367 per ton for the corresponding period, as reported in January 2011. For Compliance Year 2012 NOx RTCs, the twelve-month rolling average price for January 2011 through December 2011 is \$4,121. In comparison, the twelve-month rolling average of Compliance Year 2011 RTCs was \$8,052 per ton for the corresponding period, ending December 2010. 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 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 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 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. The January 2012 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 December 2011, 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 December 2011. 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 2011 and 2012 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 2011 and 2012 NOx RTCs have been on a declining trend. The average price for Compliance Year 2011 NOx RTCs for January 2011 through December 2011 is \$1,557 per ton. In comparison, the average price of Compliance Year 2010 RTCs was \$2,367 per ton for the corresponding period, as reported in January of 2011. For Compliance Year 2012 NOx RTCs, the average price for January 2011 through December 2011 is \$4,121. In comparison, the twelve-month rolling average of Compliance Year 2010 RTCs was \$8,152 per ton for the corresponding period ending December 2010. RTC prices generally decline as the expiration date approaches.

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

Therefore, the appropriate comparison of the January 2011 through December 2011 average price of Compliance Year 2011 RTCs is to the January 2010 through December 2010 average price of Compliance Year 2010 RTCs. Similarly, the appropriate comparison of the January 2011 through December 2011 average price of Compliance Year 2012 RTCs is to the January 2010 through December 2010 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 13 trade agreements involving Compliance Year 2012 discrete year RTC trades reported. 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 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 2011 or 2012.

Figure I

Monthly Average Price Data for Compliance Year 2011 NOx RTCs Traded – January 2010 through December 2011.

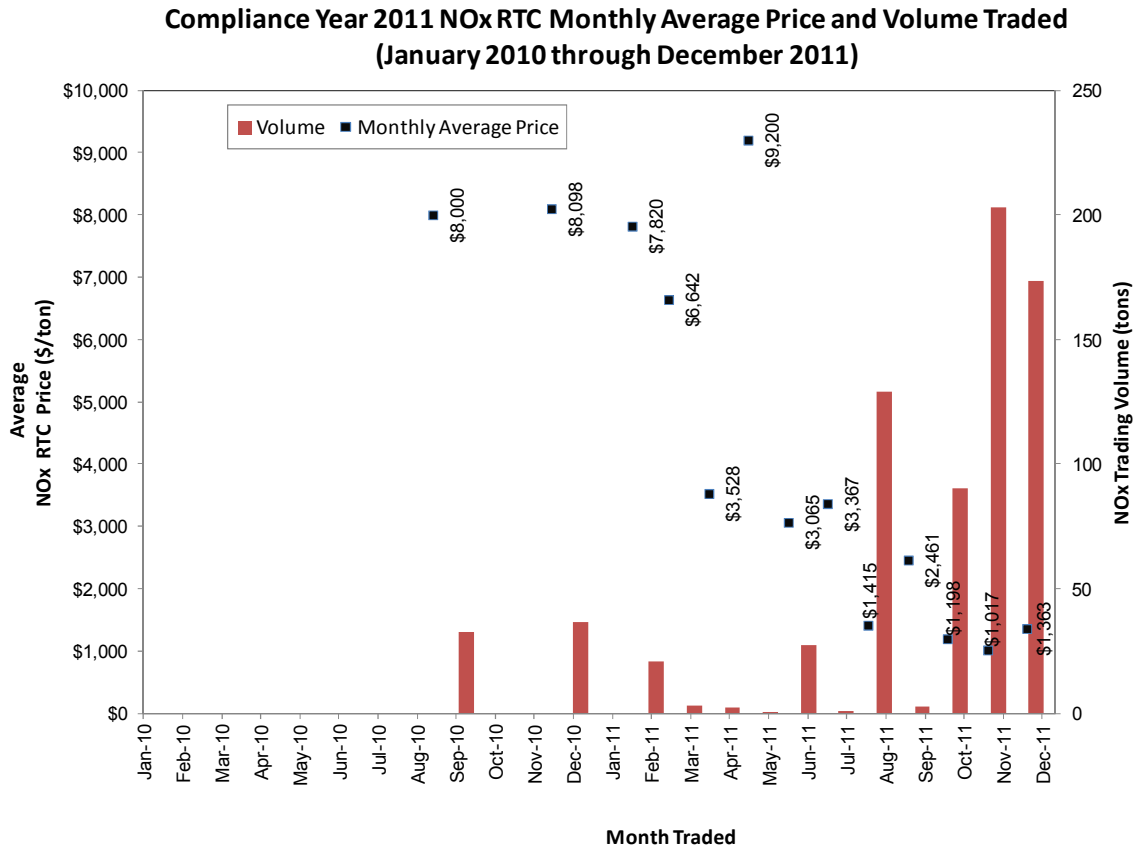


Table I

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 - December 2011)				
Reporting Month	12-Month Period	Total Volume Traded with Price During Past 12-month (tons)	Total Price of Volume Traded During Past 12-month (\$)	Rolling Average Price (\$/ton)
Jan-11	Jan 10 - Dec 10	69.0	\$555,180	\$8,052
Feb-11	Feb 10 - Jan 11	69.0	\$555,180	\$8,052
Mar-11	Mar 10 - Feb 11	89.5	\$715,950	\$7,999
Apr-11	Apr 10 - Mar 11	92.9	\$738,200	\$7,950
May-11	May 10 - Apr 11	95.0	\$745,782	\$7,850
Jun-11	Jun 10 - May 11	95.2	\$747,162	\$7,852
Jul-11	July 10 - Jun 11	122.5	\$831,002	\$6,783
Aug-11	Aug 10 - Jul 11	123.4	\$834,032	\$6,758
Sep-11	Sep 10 - Aug 11	252.5	\$1,016,657	\$4,026
Oct-11	Oct 10 - Sep 11	222.9	\$763,752	\$3,427
Nov-11	Nov 10 - Oct 11	313.2	\$872,001	\$2,784
Dec-11	Dec 10 - Nov 11	516.2	\$1,078,501	\$2,089
Jan-12	Jan 11 - Dec 11	653.2	\$1,019,671	\$1,561

Figure II

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

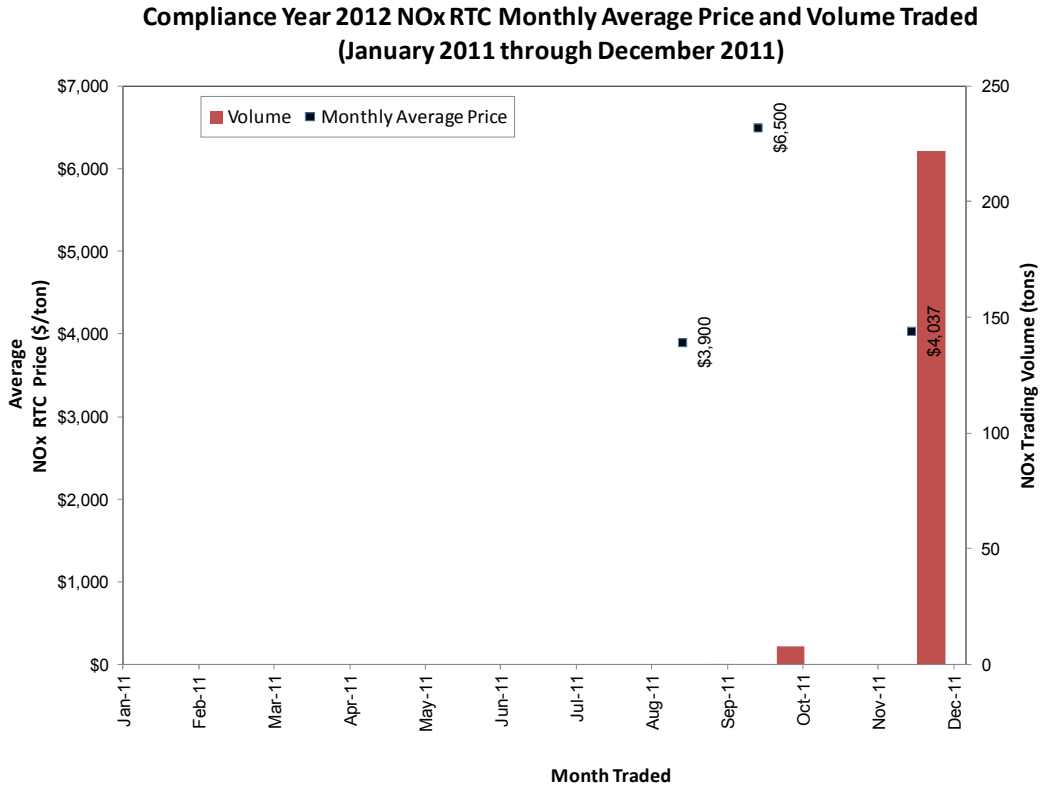


Table II

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 - December 2011)				
Reporting Month	12-Month Period	Total Volume Traded with Price During Past 12-month (tons)	Total Price of Volume Traded During Past 12-month (\$)	Rolling Average Price (\$/ton)
Jan-12	Jan 11 - Dec 11	230.2	\$948,640	\$4,121