

RGGI Markets – May 2009

Monthly Market Update



Market Activity » Allowances

May ended at the same price level as it started the month - around the \$3.55 level. However, the intervening days saw Dec'09 futures contract sell off to 2009 lows, hitting \$3.33 on May 7th. This early month slide was a continuation of the negative sentiment surrounding language in the American Clean Energy and Security Act of 2009 (ACES) establishing a price-based conversion for RGGI allowances when the federal cap and trade program is in place. However, the past couple of weeks have seen a 6.5% climb on the Dec'09 futures contract from its earlier monthly low.

Volume has been relatively light in the OTC exchange-cleared market as participants continue to digest the true implications for RGGI allowances in potential federal legislation. The market saw, however, OTC and OTC exchange-cleared option volume pick up in the beginning of May. Since the end of April, implied volatility was pushed lower with heavy selling in \$5.50 and \$5.00 calls and \$3.00 puts. With the inherent limited upside in the ACES, implied volatility has been pushed lower this month.

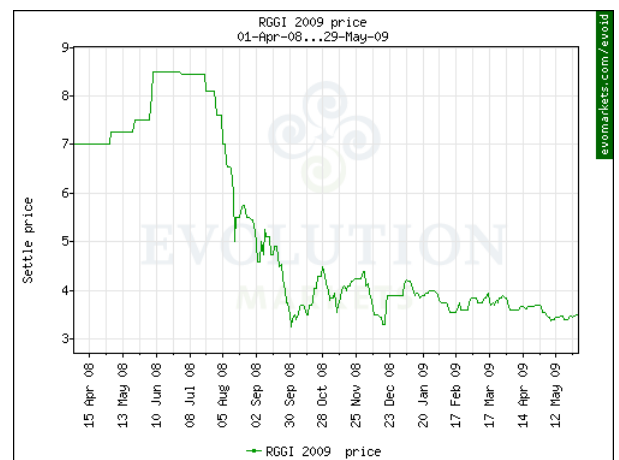
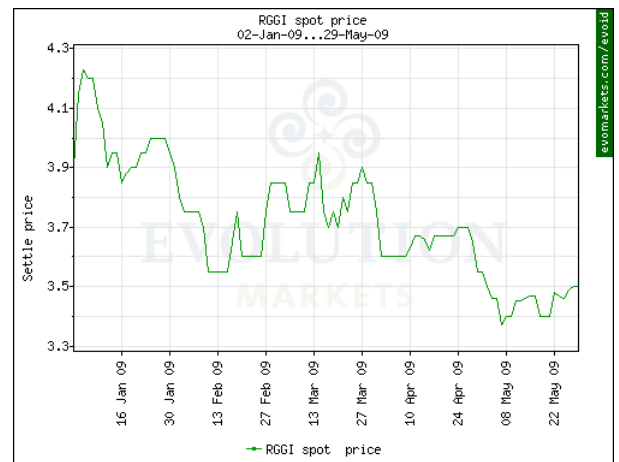
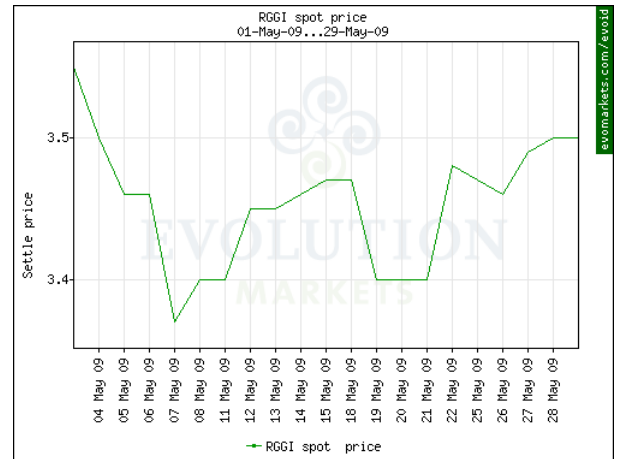
Participants eagerly await the second auction of 2009 to be held on June 17, 2009. Both vintage 2009 and vintage 2012 will be auctioned, yet the volumes will be slightly less than the March auction (see table below). While the OTC market continues to mature, the auction continues to work as a significant pricing mechanism. And, auctions will most likely increase in importance, as ACES will set the conversion price value of RGGI allowances into federal allowances based on the results of quarterly auctions. As a result, the quarterly auctions may develop artificially strong bid support. With a little less than two weeks until auction results, we will soon find out how the market reacts to the ACES auction language.

May 29, 2009

▼ TERM	▼ BID	▼ OFFER	▼ SETTLE
DEC09 RGGI	\$3.50	\$3.60	\$3.55
DEC10 RGGI	\$3.65	\$3.75	\$3.70

Regional Greenhouse Gas Initiative Auctions

▼ TERM	▼ DATE	▼ PRICE	▼ ALLOWANCES
Auction 1 V09	9/25/2008	\$3.07	12,565,387
Auction 2 V09	12/17/2008	\$ 3.38	31,505,898
Auction 3 V09	3/18/2009	\$3.51	31,513,765
Auction 3 V12	3/18/2009	\$3.05	2,175,513
Auction 4 V09	6/17/2009	-	30,887,620
Auction 4 V12	6/17/2009	-	2,172,540



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