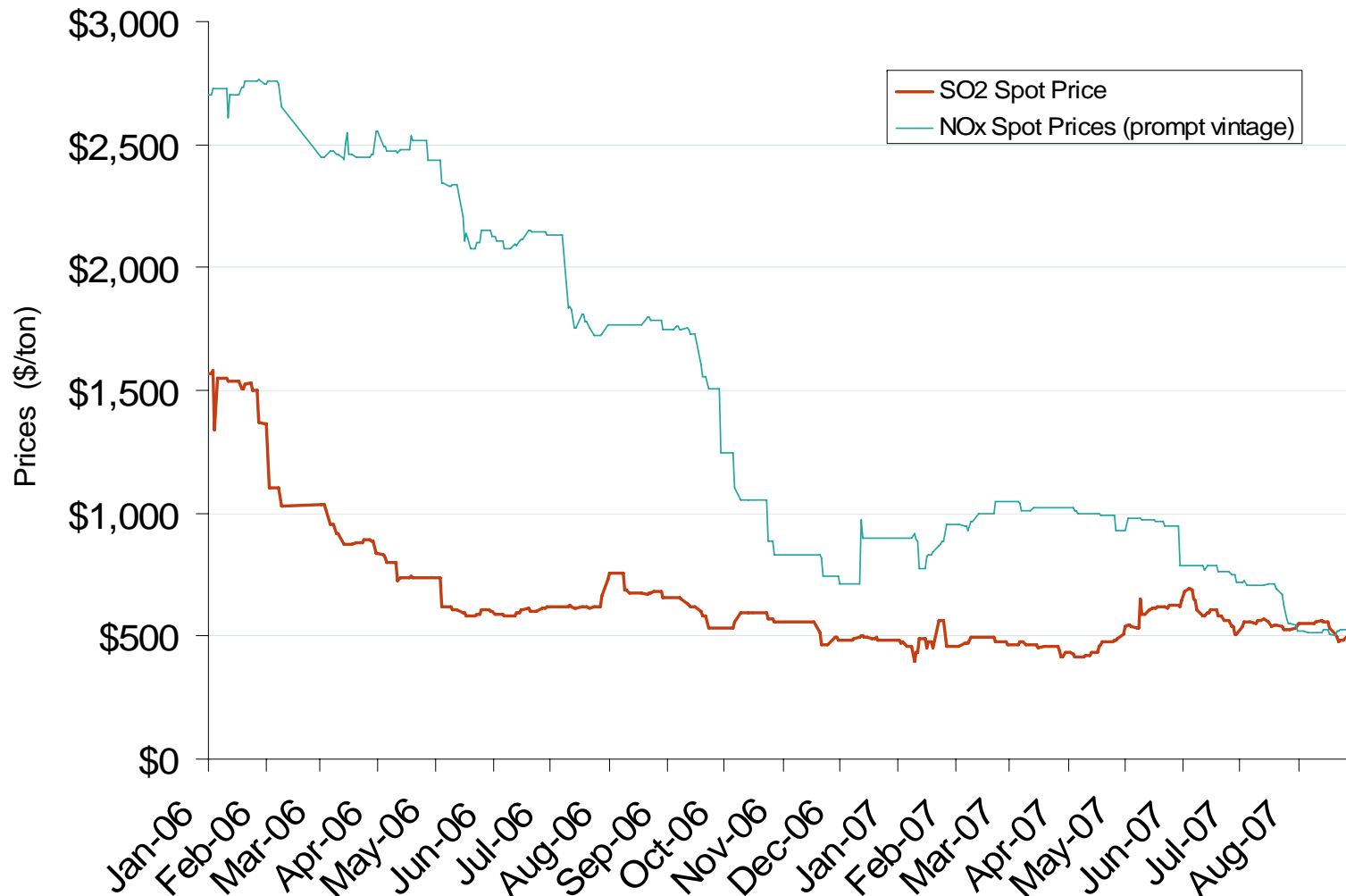


SO₂ and NO_x Allowance Spot Prices



Source: Derived from Cantor Fitzgerald data.

See notes on following pages.

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SO₂

In the 2006 EPA-administered SO₂ auction, merchants and retirement funds won more than 98% of the 125,000 2006 SO₂ spot allowances available for auction. Virtually no traditional investor owned utilities bid into this auction.

2006 SO₂ spot allowance prices peaked on January 3rd at \$1,583/ton. Allowance prices dropped to \$465/ton on November 21st – their lowest price in 2006. SO₂ spot closed the year at \$483/ton on December 29th.

Factors contributing to lower SO₂ prices for 2006 are:

- **Below-cap SO₂ emissions output:** The 2006 SO₂ emissions cap established by the EPA's Acid Rain Program was 9.5 million tons. Preliminary EPA data show power plant SO₂ emissions came in under the cap at 9.39 million tons, down 8% compared with 10.22 million tons of output in 2005.
- **Surplus allowances:** Of the 15.7 million SO₂ allowances available for 2006 compliance, 6.16 million allowances were carried over from previous years.
- **Increased use of low-sulfur, Powder River Basin coal** due to improved rail deliverability.
- **Greater use of natural gas in running power plants** due to lower relative costs compared to residual fuel oil.
- **Increased hydro-electric and nuclear output.**
- **Regional factors:** Increased use of scrubbers in NC and KY and the mothballing of the Mohave generating station in Nevada.

NO_x

Although the EPA administers the NO_x trading program, allowance allocation is determined by state specifications and is generally based on the historical performance of the plant. As of 2007, the NO_x trading program, called the NO_x SIP Call, includes 22 states. The NO_x compliance season runs from May 1st through September 30th, however NO_x 2006 vintage trades take place throughout the 2006 calendar year.

In calendar year 2006, NO_x SIP Call Allowance prices peaked on January 27th at \$2,766. Prices dropped to their calendar-year low of \$711 on December 8th. The NO_x compliance season opened on May 1st at \$2,433/ton. NO_x 2006 vintage closed the 2006 compliance season at approximately \$700/ton.

Factors contributing to lower NO_x vintage prices for 2006 include:

- **Below-cap NO_x emissions output:** Preliminary EPA data show total 2006 NO_x emissions came in at 492,000 tons, down 7% compared with 530,000 tons in 2005 and below the 2006 cap of 520,957 tons.
- **Surplus allowances:** Generators currently have a bank of approximately 217,000 allowances, 30,000 of which are carried over from 2006.
- **Pollution controls** such as selective catalytic reduction (SCR) units outperforming expectations.
- **Declining natural gas prices** compared to 2005 prices.