

# PEAR's Electric Intelligence® Newsletter

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## EXECUTIVE SUMMARY

### ***The State of the SO<sub>2</sub> Market: The Closet Bulls Advance?***

- Every auction tells a story; or if it does not, it has one told on its behalf. According to the market sages, **the real message of EPA's 2007 SO<sub>2</sub> auction lay in the supposedly bullish results for the advance market**, (see *NM-OS-07 v2.1, below.*) The key question remains **how long will the closet bulls wait to emerge?** A detailed review of the allowance transactions data tells us more about why prices may be range-bound in the \$400s than the 2007 Auction results do. After the unusual developments of late-2005 through mid-2006 **we are back to more typical market conditions**.
  - In particular, lower sulfur coal-fired companies are selling surplus allowances to meet the steady if unspectacular requirements of “the usual suspects”: the short companies who, despite their ongoing retrofit programs, remain short.

### ***The State of the NO<sub>x</sub> Market: What Will Annual Allowances Due to the Seasonal Market?***

- After flirting with parity, **banked and current vintage NO<sub>x</sub> allowances have begun to diverge again** (see *NM-OS-07 v2.8, below.*) Fortunately, to keep it interesting, the discount is nowhere near flow control levels, at about \$800 for banked vs. \$1,000 for 2007 vintage allowances.
  - Furthermore, the most recent pattern of NO<sub>x</sub> trading has changed little from preceding quarters, with a strong role for industrials and little new interest from financials.
- In the absence of other new market information, it is worth speculating as to **whether the failure to hit a bid reported to be as high as \$3,000 for a 2009 annual allowance is having a chilling effect on seasonal allowances** as well.
  - It is hard to imagine a combined annual and seasonal price exceeding \$3,800 (the sum of the bid and current prices) so it is conceivable the market is in a “wait-and-see” mode.