Argus Air Daily

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US Emissions Market Prices, News and Analysis

Volume 13, 036, February 23, 2006

Daily Market Assessments

SO_2 Allowances				$/ton
	Bid	Ask	Price	Change
2006	975.00	1,025.00	1,000.00	+50.00

NO_X Allowances				$/ton
	Bid	Ask	Price	Change
2005	2,000.00	2,100.00	2,050.00	—
2006	2,475.00	2,525.00	2,500.00	+50.00
2007	2,350.00	2,425.00	2,387.50	+37.50
2008	1,900.00	2,200.00	2,050.00	+50.00

* 2005 also includes 2003-2004 bankable NO_X.

Assessment Averages

SO_2 Allowances				$/ton
2005-2006	Bid	Ask	Price	Change
February-to-date	976.25	1,025.63	1,000.94	-0.06
January Average	1,486.75	1,519.75	1,503.25	
Q1-to-date average	1,259.86	1,300.14	1,280.00	-8.00
Q4 average	1,278.27	1,303.55	1,290.91	

NO_X Allowances				$/ton
2005-2006	Bid	Ask	Price	Change
February-to-date	2,546.88	2,632.81	2,589.84	-5.99
January Average	2,683.75	2,761.25	2,722.50	
Q1-to-date average	2,622.92	2,704.17	2,663.54	-4.67
Q4 average	2,533.06	2,646.37	2,589.72	

Executive Briefing

- Georgia air regulators have proposed joining the growing list of states looking to opt out of the Clean Air Mercury Rule by adopting more stringent mercury limits for coal-fired generators.
- EPA has revealed the level of restriction to be placed on the use of banked allowances in the federal nitrogen oxide trading market this ozone season.
- Leaders of the Senate Energy and Natural Resources Committee yesterday announced they will hold an April 4 conference on climate change and requested responses to key questions about designing a mandatory cap-and-trade system to regulate greenhouse gases.
- Consol Energy will supply Northern Appalachian coal to Duke Power under a multi-year, multimillion-ton coal agreement for scrubbed Duke facilities in North Carolina, the first of what could be many Northern Appalachian or Illinois Basin sales to the Southeast's newly scrubbed generators.

Georgia proposes CAMR alternative

Georgia air regulators have proposed joining the growing list of states looking to opt out of the Clean Air Mercury Rule by adopting more stringent mercury limits for coal-fired generators.

The Georgia Environmental Protection Division (EPD) issued a proposal for comment yesterday that seeks to require existing units greater than 25MW to achieve 80 pct or 85 pct average capture efficiency by 2010, followed by a 90 pct capture rate sometime between 2012 and 2015. The capture efficiency would be determined by comparing output emissions of mercury with either the mercury content of coal or the inlet mercury concentration upstream from any pollution controls.

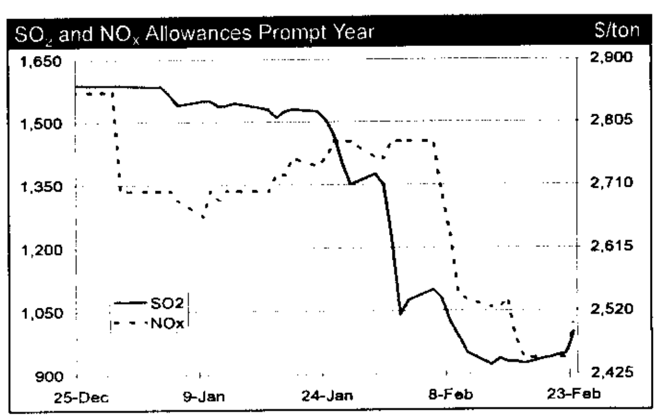
The proposal would allow only intrastate trading of mercury allowances. The program would allow banking to encourage early reductions. It may also include a compliance supplement pool to provide additional flexibility for compliance.

New units in operation after Jan. 31, 2004, would be subject to a best available control technology standard, although EPD could still decide to include new units in the overall program.

The proposal is one of two options for which EPD is seeking comment. The second option would be to join the Clean Air Mercury Rule (CAMR) trading program.

CAMR would require the generators to reduce emissions from about 1.89 tons in 2004 to 1.227 tons/yr from 2010 and 0.484 tons/yr from 2018. The EPD proposal would limit emissions to either 0.38 tons/yr or 0.51 tons/yr in the first phase and 0.26 tons/yr in the second phase. The date of the second phase will be set after EPD receives public comment. There are also plans to consider a new round of emission cuts five years after phase 2 is in place.

Continued on page 2



Market Overview

- SO_2 prices jumped $100 intraday to a high of $1,050 before easing back to close around $1,000. The activity occured in a midday flurry and quickly fizzled out.

- EPA announced the NO_x flow control ratio for 2006 at 0.27, meaning that facilities can use 27 pct of their banked allowances at parity this year.

- The flow control level was expected and had little impact on the market, and no trades were reported.

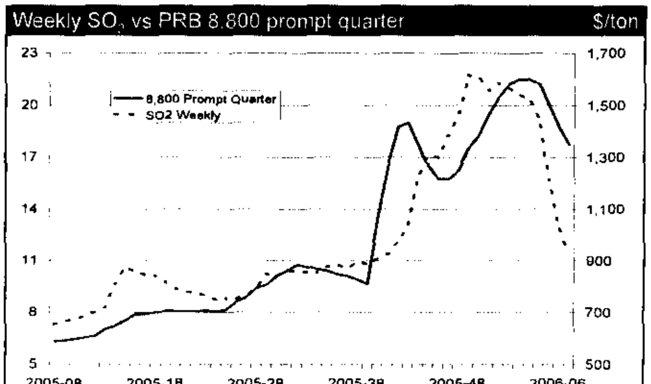
NO_x Allowances Assessment Averages (Cont'd) $/ton

Year		Bid	Ask	Price
2005	February-to-date	2,045.31	2,154.69	2,100.00
	January Average	2,060.00	2,160.00	2,110.00
	Q1-to-date average	2,053.47	2,157.64	2,105.56
	Q4 average	1,925.40	2,068.55	1,996.98
2006	February-to-date	2,546.88	2,632.81	2,589.84
	January Average	2,683.75	2,761.25	2,722.50
	Q1-to-date average	2,622.92	2,704.17	2,663.54
	Q4 average	2,533.06	2,646.37	2,589.72
2007	February-to-date	2,320.31	2,407.81	2,364.06
	January Average	2,318.75	2,448.75	2,403.75
	Q1-to-date average	2,319.44	2,430.56	2,386.11
	Q4 average	2,498.79	2,635.48	2,567.14
2008	February-to-date	1,837.50	2,106.25	1,971.88
	January Average	1,758.75	1,898.75	1,828.75
	Q1-to-date average	1,793.75	1,990.97	1,892.36
	Q4 average	2,262.90	2,439.92	2,351.41

NO_x Allowances - Spread To Prompt Year $/ton

Year	Price	Change
2005	-450.00	-50.00
2007	-112.50	-12.50
2008	-450.00	—

Weekly SO_2 vs PRB 8,800 prompt quarter $/ton



Deals Done $/ton

Date	Type	Transaction	Vintage	Tons	Price
23-Feb	SO_2	Trade	2006	1,000	950.00
23-Feb	SO_2	Trade	2006	1,000	990.00
23-Feb	SO_2	Trade	2006	1,000	1,000.00
23-Feb	SO_2	Trade	2006	1,025	1,000.00
23-Feb	SO_2	Trade	2006	1,050	1,000.00
23-Feb	SO_2	Trade	2006	1,025	2,500.00
23-Feb	SO_2	Trade	2006	1,025	2,500.00

SO_2 Allowance Transfers 22-Feb-06

Transferor	Transferee	Vintage	Tons
Allegheny Energy	Morgan Stanley	2009	12,400
Amerex USA	Lumberton Power	2004	28
American Electric Power	Amerex USA	2004	28
American Electric Power	MidAmerican Energy Holdings	2004	375
BP	JP Morgan	2005	66
BP	JP Morgan	2006	934
BP	Koch Industries	2005	6,549
BP	Koch Industries	2006	4,151
BP	Koch Industries	2007	5,000
BP	Koch Industries	2008	2,500
BP	Koch Industries	2009	1,000
BP	Ohio Valley Electric	2005	585
BP	Ohio Valley Electric	2006	4,415
Credit Suisse	BP	2006	1,000
Credit Suisse	Edison International	2003	5
Credit Suisse	Edison International	2006	2,495
Dominion	East Kentucky Power Coop	2006	2,500
FPL Energy	Southern	2001	579
Great River Energy	Dairyland Power Coop	2003	1
Great River Energy	Dairyland Power Coop	2005	2,510
Morgan Stanley	Allegheny Energy	2007	10,000
Northeast Utilities	Koch Industries	2000	400
Northeast Utilities	Koch Industries	2001	796
Northeast Utilities	Koch Industries	2002	289
Northeast Utilities	Koch Industries	2004	15
Northeast Utilities	American Electric Power	2000	151
Northeast Utilities	American Electric Power	2001	1,949
NRG	Natsource	2005	1
PPL	JP Morgan	2006	2,000

See methodology at end of report.

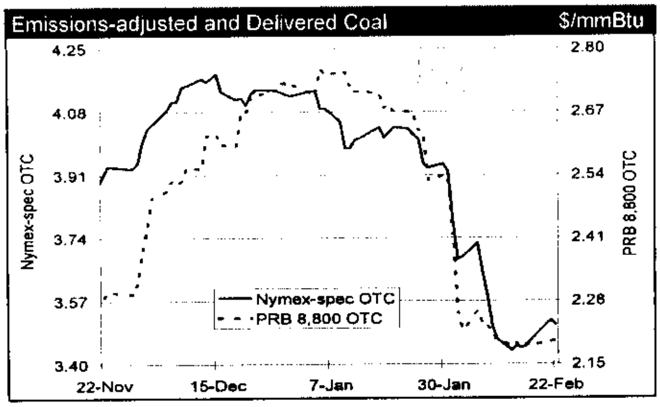
NO_x Allowance Transfers 22-Feb-06

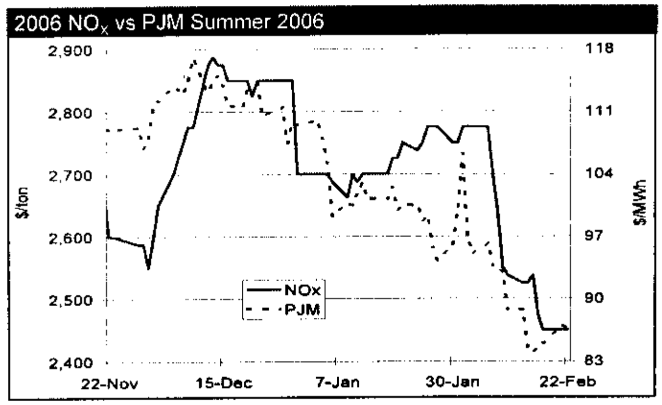
Transferor	Transferee	Vintage	Tons
American Electric Power	FirstEnergy	2006	200
Cinergy	Dominion	2006	100
Cinergy	Dominion	2007	50
State of MA	Cinergy	2005	22

See methodology at end of report.

Continued from page 1

While similar to a model rule issued last year by national regulators groups STAPPA/ALAPCO, the proposal was developed by EPD's Air Protection Branch after an extensive analysis of EPA Toxics Release Inventory data and issues such as the cost-effectiveness of requiring stricter reductions, said Jim Kelly, planning and regulatory development manager for the Air Protection Branch.





The STAPPA/ALAPCO rule calls for a 90 pct to 95 pct capture rate by 2012, with no interstate trading but some intracompany trading.

EPD developed the proposal after meeting with stakeholders last year, but not all are on board. Southern Co. subsidiary Georgia Power continues to support CAMR. "We feel that it would be most effective," Georgia Power spokeswoman Lolita Jackson said.

Georgia Power operates 29 coal-fired units.

EPD will hold a stakeholder meeting March 6 to discuss the proposal and receive public comment. States have until Nov. 17 to submit alternative plans to CAMR.

The proposal comes as 15 other states have adopted or are considering state-specific mercury plans. Pennsylvania unveiled plans yesterday to require 80 pct mercury removal by 2010 and 90 pct by 2015 (AAD 2/22/06). Connecticut, Massachusetts, New Jersey and Wisconsin have state-specific plans in place. Illinois, Indiana, Maryland, Michigan, Minnesota, Montana, New Hampshire, New York, North Carolina, Ohio and Virginia all have regulatory actions or legislation pending.

2006 flow control ratio set at 0.27

EPA has revealed the level of restriction to be placed on the use of banked allowances in the federal nitrogen oxide trading market this ozone season.

The use of banked allowances in the NO_x SIP Call is restricted by progressive flow control (PFC) if the bank exceeds 10 pct of the baseline allocation for the current year. EPA confirmed today that the PFC ratio for 2006 is 0.27. This means that 27 pct of banked allowances can be used to cover one ton of emissions, and the rest will be discounted two-for-one if used.

The ratio is almost unchanged from last year as so few allowances were drawn down from the bank. Despite last year's hot summer and high generation levels, utilities were able to keep NO_x emissions in check thanks to pollution control equipment and fine-tuning of operations.

According to preliminary data released last year, 2005 ozone season NO_x emissions were 530,272 tons, only 14,272 over the baseline allocation of 516,000 tons. Sources had a bank of around 200,000 allowances left over from 2003 and 2004, thanks to the shortened compliance season and a generous supply of additional allowances to ease transition into the scheme. Complete information will be published in the 2005 Progress Report, expected in May.

The PFC level was in line with most expectations and should have little impact on the market, one broker said. Current vintage NO_x remains at around $2,500/ton. But with no signs of any significant depletion of the large bank, consultants are beginning to question the market value of allowances.

"We're starting to think allowance prices are way too high," said John Blaney of ICF Consulting. "There appears to be a fair amount of combustion optimization getting emissions below where one would think by just looking at the controls that are going in," he said. Fair market value should be well below $2,000/ton, he added. "You can't run coal plants much harder than last year. So what will drive [the bank] down more?"

But the market is not efficient, and does not necessarily behave as fundamentals would suggest. Although the total drawdown from the bank was less than 25 pct, some facilities still had to surrender two allowances for one ton of emissions, said a source at EPA.

Although allowances can be banked forward into the Clean Air Interstate Rule seasonal NO_x program, initial modeling suggests that the price will be low, Blaney said. So there is little incentive to hold onto NO_x allowances beyond 2009.

Panel seeks climate change answers

Leaders of the Senate Energy and Natural Resources Committee yesterday announced they will hold an April 4 conference on climate change and requested responses to key questions about designing a mandatory cap-and-trade system to regulate greenhouse gases.

Committee Chairman Pete Domenici (R-N.M.) and ranking member Sen. Jeff Bingaman (D-N.M.), in announcing the conference, solicited responses to a committee staff white paper issued on Feb. 2 that outlines the major issues to be addressed as the senators work on legislation to reduce GHG emissions in the US (AAD 02/02/06). The 14-page paper, available on the committee's Web site, raises numerous issues that the committee hopes to address in the coming weeks.

The paper hones in on four main questions regarding key design elements of a market-based regulatory scheme: which entities should be regulated and should regulations be placed upstream or downstream; how should allowances be distributed; should any eventual trading system be designed to be compatible with existing trading programs, such as the EU emissions trading scheme; and whether legislation should be designed to require reciprocal action by other nations for each step taken by the US. There are 31 clarifying questions, all investigating the design of a "mandatory market-based system," as considered by the Sense of the Senate Resolution that passed in June 2005 (AAD 6/28/05).

"This is a joint, bipartisan approach to addressing climate change legislation," Bingaman spokesman Bill Wicker said. "We are casting a big net... as long as [responders] follow the guidelines ... answer the questions asked and not those unasked ... anyone can respond," he said. Wicker said the release of the guidelines and the announcement of the date of the conference were not pitched to any particular interest group.

The guidelines for submitting responses announced yesterday are very detailed, and if a responder fails to follow the rules their submission may not be reviewed by the committee.

All responses must be submitted via the committee's Web site. Responders must address one or more of the four main questions in separate "Question documents," which must then be accompanied by a one-page explanation of which questions they address and summarizing their answers. Submittals must be emailed to the April conference staff by March 13. All submissions will be reviewed by the committee, but only some will be selected to present their proposals for how to design a GHG cap-and-trade scheme at the April 4 conference. Participants for the conference will be notified March 28, and their proposals will be made available prior to the conference on the committee's Web site.

Duke to take Consol Northern App coal

Consol Energy will supply Northern Appalachian coal to Duke Power under a multi-year, multimillion-ton coal agreement for scrubbed Duke facilities in North Carolina, the first of what could be many Northern Appalachian or Illinois Basin sales to the Southeast's newly scrubbed generators.

Deliveries under the new agreement will commence in 2007, when Duke's Marshall Steam Station's scrubber comes online.

Consol has pinned sales growth hopes to rollout of new scrubbed capacity in the Southeast, arguing that its high-heat Pittsburgh Seam coal represents good value to units newly equipped with flue-gas desulfurization technology.

"This is an important contract, not because of its size, but because it is a further indication that demand for our Northern Appalachia coal will grow as power generators in the United States invest in scrubber technologies," Consol Chief Executive Brett Harvey said. "In particular, we see the southeastern United States as a growth market for us."

Consol said the scrubbed capacity in coal-fired electric generation east of the Mississippi River should more than double in the next five years, creating opportunity for the high-sulfur, high-heat Northern Appalachian coal producer.

Construction started in 2004 on Duke's Marshall Steam Station's FGD installation, and the 2,090MW station will be scrubbed in 2007. Scrubber construction at Duke's 1,120MW Belews Creek station started in May 2005 and is slated to come on line in 2008, the second station in Duke's North Carolina fleet to be scrubbed.

Sierra Club faults Mirant order

A Bush administration order to bring a near-dormant power plant near the nation's capital back into service late last year overlooks an increase in fine particulate pollution that could come from a new emissions control system at the facility, Sierra Club has claimed.

The dispute over the emissions profile of the Mirant-owned facility in Alexandria, Va., has focused on its sulfur dioxide output. The company says it can bring the plant's SO_2 output into compliance with National Ambient Air Quality Standards (NAAQS) through a combination of limited generation and the injection of trona, an alkali, into its boilers.

The company is installing the trona injection system under the terms of a Dec. 20 order from Energy Secretary Samuel Bodman, which followed a dispute with state air regulators that all but shuttered the 482MW facility. Bodman ordered the facility into limited service so it would be ready to provide backup power to Washington, DC, in the event of a major transmission line outage. To date, the plant has not fired up more than three of its five boilers at any given time, but DC-area power officials expect the plant to be ready to surge to its full capacity if two 230kV transmission lines serving the nation's capital were to fail.

Bodman has given tentative approval for Mirant to install the trona injection system, pending an air quality impact assessment. Bodman's order says the DC area needs reliable power, but operations at the Mirant facility should be managed to keep NAAQS breaches to a minimum.

But in a Feb. 20 filing, Sierra Club says trona injection has the potential to increase the plant's fine particulate ($PM_{2.5}$) output. Both Alexandria and nearby Washington are affected by $PM_{2.5}$ emissions from the plant, and Mirant should be required to do stack tests to prove it meets the NAAQS for this pollutant, Sierra Club said.

If the plant must remain in service, Department of Energy should develop a plan to reduce electricity demand in Washington, so the plant is not required to surge to its full capacity during a transmission line outage, the filing said.

"We are rather troubled that ... electrical reliability appears to be taking precedence over public health," Sierra Club's Virginia Chapter Vice Chair Bruce Parker wrote in the filing.

Wisc. Senate takes on AG

A proposed law aimed at cutting the number of government-sponsored public nuisance lawsuits in Wisconsin is a step closer to passing the state legislature.

A Republican majority in the state Senate passed the Fairness in Litigation Act (SB 425) Feb. 21 and the bill will now go before the GOP-controlled state Assembly.

The bill's sponsors accuse Wisconsin Attorney General Peg Lautenschlager (D) of abusing her authority to launch public nuisance lawsuits, citing her involvement in a multi-state court action against utilities on carbon dioxide emissions as the most recent example. Lautenschlager and attorneys general from seven other states — California, Connecticut, Iowa, New Jersey, Rhode Island, New York and Vermont — claim CO_2 emissions from power plants contribute to global warming and so endanger public health, the economy and the environment (AAD 7/21/04).

A federal judge recently sided with utilities AEP, Cinergy, Southern Co., the Tennessee Valley Authority and Xcel Energy and dismissed the case, but the states have filed an appeal.

The bill passed the state Senate in a 19-14 vote, with the entire Republican majority in favor of the proposed law and the Democratic minority against it. If passed, SB 425 would require the attorney general to obtain the permission of the governor, and in some cases the state legislature, before starting a public nuisance action.

Last month, Lautenschlager told lawmakers the bill was a "multi-million dollar give away of public rights to polluters," but her spokesman said today the attorney general was unavailable to comment on the Senate vote.

A spokeswoman for Gov. Jim Doyle (D), who faces re-election this year, was unable to comment before press time.

Judge faults Calif. for pesticide regs

A federal judge ruled yesterday that California violated the Clean Air Act by not issuing regulations to reduce emissions of ozone precursors from pesticides.

Judge Lawrence Karlton said the state violated federal law when it failed to carry out obligations under its state implementation plan (SIP) to adopt regulations to reduce volatile organic compounds from pesticides. Instead, the state merely asked manufacturers to reformulate some products to reduce emissions after it decided regulations were not needed.

The state argued that it had committed to passing the regulations only if it determined they were necessary after reviewing and revising emissions data. But, "the SIP called for a commitment on the part of DPR [Department of Pesticide Regulation] and CARB [California Air Resources Board] to look at the emissions data before it and to promulgate regulations it thought would allow it to meet attainment dates," Karlton ruled in a lawsuit filed by environmental groups.

If the state felt the data no longer supported enforceable measures, as required by the SIP, it should have submitted a revised SIP to EPA, Karlton said. DPR said it was reviewing the court decision. Lawyers for both sides are expected to file briefs in 20 days proposing what steps the court should take next.

Wyo. tax bill would promote gasification

The Wyoming House of Representatives has approved a multimillion-dollar tax break for the construction of coal gasification and liquefaction facilities in the state.

The legislation, HB 61, drafted by the joint House-Senate Minerals, Business and Economic Development Committee, would exempt equipment used to build a gasification or liquefaction facility from state excise tax.

The Wyoming Department of Revenue estimates that the tax break could cost the state between $9.4 million and $62.4 million per plant, based on estimated construction costs of $300 million-$2 billion. A single plant could generate local governments about $14 million/yr in property taxes, according to the Revenue Department fiscal note on the bill.

Wyoming, the US' most prolific coal-mining state, is expected to compete to be the host state for the proposed $1 billion FutureGen power plant, which could be eligible for the tax breaks. A coalition of energy companies and the Department of Energy are coordinating a competitive bidding process to develop an experimental zero-emissions plant by 2012. The FutureGen Alliance has said it will set a May deadline for siting proposals, so a list of finalists can be compiled by summer.

Wyoming joins Montana, Pennsylvania and West Virginia among coal states lobbying hard for gasification and liquefaction plants, with state governments in all four states offering some combination of tax breaks, regulatory flexibility and public-private partnership to attract the multibillion refineries to their regions.

Anglo joins zero-emissions project

Mining company Anglo American has joined the FutureGen Industrial Alliance, which is aiming to develop the world's first "zero emissions" coal-fueled power plant.

Construction of the FutureGen plant is scheduled to start in three years time and work is currently under way to find a suitable site in the US. Construction, plant start-up and testing are due to take an additional three years with the plant to be fully operational by 2012.

Methodology

Argus publishes daily NO_X allowance prices for current vintage (spot), forward market prices for three additional years and previous year (banked) allowances. It also publishes spreads between the spot and forward and banked allowances. *Argus* publishes daily SO_2 allowance prices for current vintage (spot). Each Friday on a weekly basis, *Argus* publishes forward market prices for seven additional years. The forward SO_2 prices reflect the value on the Friday assessed, not a value representative of the entire week.

The *Argus* prices published daily are intelligent assessments of the bid/ask range at the timestamp of 5:00pm Eastern Time. The "price" represents the midpoint between the assessed bid and ask. The assessed range takes into account deals done, bids, offers, spreads between current and future vintages, and other assessments of the market gathered through a wide survey of participants. The assessment represents the range within which deals traded or could have traded at the close of the trading day for that particular vintage. *Argus* holds as a guiding principle that our assessments should be the product of intelligence, skill, and diligent investigation.

Each week on Friday, *Argus* publishes a Weekly Index for SO_2 and NO_X. These indices are the arithmetic average of the daily "Price" published for current vintage allowances for each day on which prices were published during that week. On the last business day of each calendar month, *Argus* publishes a Monthly Index for SO_2 and NO_X. These indices are the arithmetic average of the daily "Price" published for current vintage allowances for each day on which prices were published during that month. Monthly indices for forward and previous year vintages are also published. *Argus* publishes a monthly Broker Index as well, based on a methodology suggested by the Emissions Marketing Association.

The US Environmental Protection Agency (EPA) publishes transfers of SO_2 and NO_X allowances every business day. *Argus* publishes details on daily transfers between non-affiliated companies or organizations. Separately, *Argus* collects details on transactions completed in the over-the-counter market for emission allowances and publishes them in the "Deals Done" table in *Argus Air Daily* each business day. These transactions are typically completed two weeks or more before they are finalized and processed through the EPA's allowance tracking system. Therefore volume and type of trades in the "Deals Done" table will not match up with the same day's transfers in the EPA tables.

For more information, go to http://www.argusonline.com

The nominal 275MW prototype FutureGen power plant will gasify coal through a process that converts carbon to a synthesis gas composed of hydrogen and carbon monoxide. The hydrogen will be used as a clean fuel for electricity generation in turbines, fuel cells or hybrid combinations of these technologies, Anglo American said.

"Our participation is complementary to our existing projects in China and through Monash Energy in Australia, and represents a further step in our commitment to participating in the development of clean coal technologies that ensure that coal remains an important and sustainable energy source for the future," Anglo Chief Executive Tony Trahar said.

FutureGen is made up of eight major energy and mining companies that intend to contribute up to $250 million to the project over its lifetime. It will partner the US Department of Energy to design, construct and operate FutureGen.

The captured carbon dioxide from the planned plant will be separated from the hydrogen and permanently stored underground, where it will be monitored over time. "The project hopes to prove the effectiveness, safety and permanence of CO_2 capture and storage by testing the technology under real working conditions," Anglo American said.

Anglo American Coal is a major coal producer and operates mines in South Africa, Australia and South America.

February 24 *Federal Register*

Rules

Air pollution; standards of performance for new stationary sources: Stationary gas turbines; performance standards,	06-01743 [FRL-8025-9]

Proposed Rules

Air pollution; standards of performance for new stationary sources: Stationary gas turbines; performance standards,	06-01742 [FRL-8025-8]

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