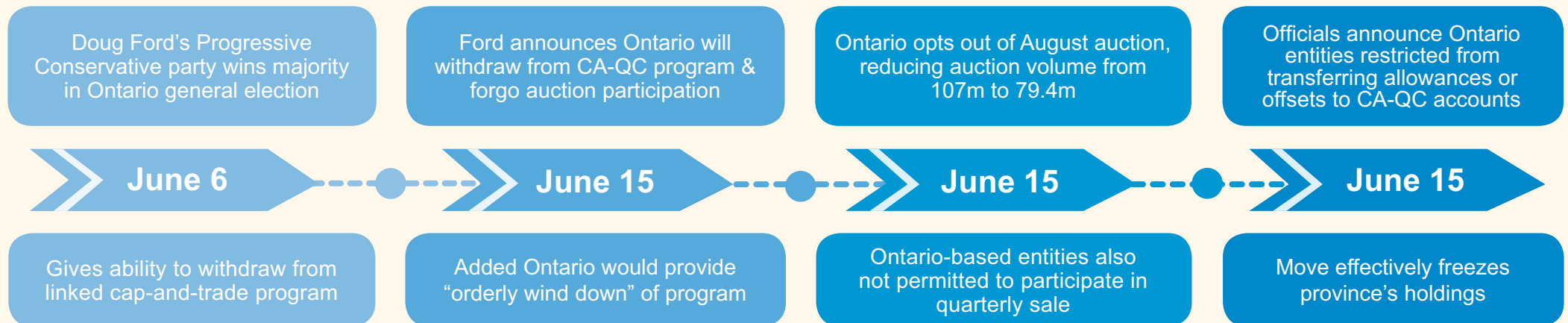




ONTARIO'S EXIT WILL HAVE NEAR- AND LONG-TERM IMPLICATIONS ON WCI MARKET

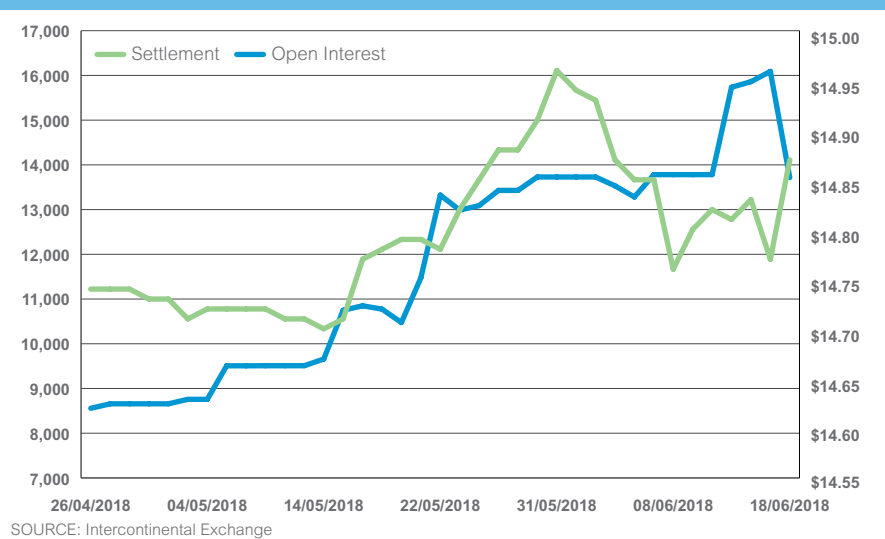


CITSS RESTRICTIONS IMPACTING MARKET

California and Quebec restricting transfers from Ontario accounts is affecting the secondary market, causing entities to be short allowances. Open interest dropped on 18 June as entities closed open positions.

The restrictions could have a short-term bullish impact, but the changes will prevent the most bearish outcome of Ontario entities liquidating positions for as long as they remain in effect.

IMPACT OF CITSS FREEZE ON CCA



What does this mean for the market in the mid to long term?

- Uncertainty around next steps could bring additional volatility in the market
- August auction could still be impacted as California and Quebec entities wait for further clarity
- Ontario exit is likely bearish for the California-Quebec program, as the province would have been a net buyer in the post-2020 period

FUTURE IMPLICATIONS TO ONTARIO'S ANNOUNCEMENTS

Until when do Ontario entities have a compliance obligation?

- Ontario's program may have injected more supply into the market via auctions and allocation than its potential compliance demand through June 2018
- Exit date would determine potential Ontario surplus in the linked program

How long will Ontario accounts remain frozen?

- Officials have not said when – if ever – restrictions could be lifted
- Measure could enable allowances to be matched to Ontario compliance obligations, potentially minimizing the market surplus

Could Ontario continue to impact future auctions?

- California and Quebec previously showed enough demand to sell out the 79.4m allowances on offer in August
- An undersubscribed auction could remove roughly 67m unsold California allowances from the market via the 24-month policy
- Demand could depend on California and Quebec's steps to deal with Ontario's exit

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