



**MARKET MONITOR REPORT ON THE ELECTRICITY
GENERATOR EMISSIONS LIMITS PROGRAM (310 CMR 7.74):
AUCTION 2019-2**

Prepared for:

**Massachusetts Department of Environmental Protection on behalf of the
Commonwealth of Massachusetts**

Prepared by:

**POTOMAC
ECONOMICS**

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Potomac Economics is the Market Monitor for the Massachusetts Department of Environmental Protection (“MassDEP”) program to limit CO₂ emissions from electricity generating facilities located in Massachusetts.¹ Potomac Economics monitors the conduct of market participants in the auctions and in the secondary market to identify indications of anti-competitive conduct. This report discusses our assessment of Auction 2019-2, which was held on December 17, 2019.

Five bidders participated in the offering of CO₂ allowances for the 2019 compliance year. Bids were submitted to purchase 2.4 times the available supply of allowances, resulting in a clearing price of \$8.26 per metric ton.

Eight bidders participated in the offering of CO₂ allowances for the 2020 compliance year. Bids were submitted to purchase 2.5 times the available supply of allowances, resulting in a clearing price of \$8.00 per metric ton.

Based on our review of the auction outcomes and bidding of individual Regulated Entities, we found that:

- Allowances were primarily awarded to firms whose emissions are trending high (i.e., their projected 2019 and 2020 emissions are high relative to the sum of: (a) their current allowance holdings and (b) their remaining allocations of 2019 and 2020 vintage allowances). Thus, Regulated Entities generally sought to acquire allowances consistent with their forecasted needs through 2020.
- The clearing prices of \$8.00 and \$8.26 per metric ton were generally consistent with secondary market transaction prices reported this year, although there have been relatively few transactions in the secondary market. Prices are still high relative to levels that would be expected given the projected supply and demand for allowances and levels anticipated based on analysis that was performed to support the implementation of the program.²
- Bid prices were widely dispersed, reflecting considerable variation among Regulated Entities in expectations regarding the value of allowances. The wide dispersion of bid prices reflects that relatively little market information has been available regarding the value of allowances.

In summary, allowances were generally awarded to the firms that will likely need them for 2019 and/or 2020 compliance, and while the auction clearing price was high given the fundamentals of

¹ <https://www.mass.gov/guides/electricity-generator-emissions-limits-310-cmr-774>

² For additional discussion of secondary market activity, see *QUARTERLY REPORT ON THE ELECTRICITY GENERATOR EMISSIONS LIMITS PROGRAM (310 CMR 7.74): THIRD QUARTER 2019*, by Potomac Economics, November 2019.

supply and demand for allowances, the clearing price was consistent with transaction prices in the secondary market. We did not observe behavior that would raise significant concerns regarding the competitiveness of the auction results.