



**MARKET MONITOR REPORT ON THE ELECTRICITY
GENERATOR EMISSIONS LIMITS PROGRAM (310 CMR 7.74):
AUCTION 3**

Prepared for:

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

Prepared by:



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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 3, which was held on September 22, 2020.

Seven bidders participated in the offering of 502,503 CO₂ allowances for the 2020 compliance year. Bids were submitted to purchase 2.6 times the available supply of allowances, resulting in a clearing price of \$7.50 per metric ton.

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

- Many of the allowances were awarded to Regulated Entities who will need additional allowances to satisfy their forecasted compliance obligations for 2020, while many were awarded to firms that will likely need them for compliance in 2021.
- The clearing price of \$7.50 per metric ton was at the lower end of secondary market transaction prices reported over the last year, although there have been very 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 awarded to the firms that will likely need them for 2020 or 2021 compliance, and while the auction clearing price was high given the fundamentals of 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.

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): FOURTH QUARTER 2019*, by Potomac Economics, April 2020.