



**MARKET MONITOR REPORT ON THE ELECTRICITY
GENERATOR EMISSIONS LIMITS PROGRAM (310 CMR 7.74):
AUCTION 2021-1**

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 2021-1, which was held on December 16, 2020.

Seven bidders participated in the offering of 1,656,685 CO₂ allowances for the 2021 compliance year. Bids were submitted to purchase 1.6 times the available supply of allowances, resulting in a clearing price of \$7.25 per metric ton. Auction 2021-1 was the first of four auctions that will be conducted to sell allowances for the 2021 compliance year.

Based on our review of auction outcomes and bidding of individual Regulated Entities, we find:

- Most of the allowances were awarded to Regulated Entities who will need them to satisfy their forecasted compliance obligations for 2021, while some were awarded to firms that will likely use them for compliance in 2022 and/or sell them in the secondary market.
- The clearing price of \$7.25 per metric ton was at the low end of secondary market transaction prices reported over the last year for 2020 compliance year allowances. Prices remain 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, most allowances were awarded to the firms that will likely need them for 2021 compliance, while some acquired more than they will likely need for 2021 compliance. The auction clearing price was high given the fundamentals of supply and demand for allowances but relatively consistent with transaction prices in the secondary market. Ultimately, 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): THIRD QUARTER 2020*, by Potomac Economics, December 2020.