

MassDEP Discussion Document – July 2024

Increasing the Minimum Action Reserve Price under 310 CMR 7.74: *Reducing CO₂ Emissions from Electricity Generating Facilities*

MassDEP is accepting written stakeholder comments on the minimum auction reserve price under 310 CMR 7.74 through Thursday September 12; comments and questions may be submitted via email to climate.strategies@mass.gov. Additional information about 310 CMR 7.74 is available on the program web page at <https://www.mass.gov/guides/electricity-generator-emissions-limits-310-cmr-774>.

MassDEP held the first allowance auctions under 310 CMR 7.74 in December 2018 and December 2019, and began holding regular quarterly auctions in September 2020. The auctions are used to distribute allowances that power plants use to comply with declining annual aggregate emission limits specified in the regulation. 310 CMR 7.74(h)1.i. requires that auction proceeds be used for “supporting programs or projects to reduce greenhouse gas emissions.” Regulations that combine emission limits and investments in this way are called “cap-and-invest” programs. Auctions proceeds have been used to support several programs and projects including, most recently, the launch of the Massachusetts Community Climate Bank.¹

310 CMR 7.74(6)(h)1.f. and 2.b.v. allow MassDEP to establish a minimum reserve price (MRP) for each auction conducted under 310 CMR 7.74 as long as the price is published in an auction notice no later than 45 days before an auction. The MRP is defined as the price below which MassDEP is not obligated to sell allowances. 310 CMR 7.74(6)(h)1.h. provides authority for MassDEP to evaluate auction performance and also to implement the MRP by retiring unsold allowances. 310 CMR 7.74(6)(h)5.a. provides for MassDEP to “employ a market monitor to observe the conduct and outcome of each auction.” These regulatory provisions establish the basis for setting the MRP.

In 2023, in response to declining auction prices, MassDEP requested guidance from the market monitor on increasing the MRP. The market monitor provided a memorandum² that is generally supportive of raising the MRP and suggests, as one option: “if allowance prices observed prior to September 2023 are consistent with MassDEP policy goals for 310 CMR 7.74, then MassDEP could consider increasing the auction reserve price to a level more consistent with these prices.” The memo also suggested that such an increase would be particularly appropriate “if MassDEP has policy preferences with respect to the acceptable range of allowance prices which might lead it to tighten the future annual emission caps.”

MassDEP has concluded that the MRP should be raised to \$9.00 per allowance based on consideration of the market monitor memo, relevant provisions of 310 CMR 7.74, the historical information provided in figures 1-2 below, and the following additional considerations:

- It may be necessary to tighten the emission caps under 310 CMR 7.74 before 2030. This could be necessary to maintain consistency with the clean energy requirements of 310 CMR 7.75: *Clean Energy Standard*, which begin to increase rapidly after 2025. Without a

¹ See <https://www.mass.gov/news/massachusetts-community-climate-bank-launches-first-consumer-loan-product>. Proceeds are deposited, along with alternative compliance payments under 310 CMR 7.75, in a dedicated account called the Climate Protection and Mitigation Expendable Trust. A detailed list of expenditures is available by searching for appropriation code 22009746 (or by name) at https://cثرspending.mass.gov/#!/year/2024/explore/1/cabinet_secretariat.

² The memorandum is posted along with this discussion document at <https://www.mass.gov/guides/electricity-generator-emissions-limits-310-cmr-774#-stakeholder-input->.

corresponding increase in the stringency of 310 CMR 7.74, this new clean energy may result in emissions reductions anywhere in New England vs. in Massachusetts. As explained in the market monitor memo, increasing the MRP could be a good first step toward increasing the stringency of 310 CMR 7.74.

- In October 2023, the Massachusetts Climate Chief issued recommendations to Massachusetts agencies, including to: “consider policy options, including potentially additional market-based mechanisms, that both reduce emissions and also produce a revenue stream that can be used to fund further decarbonization.”³ Increasing the MRP under 310 CMR 7.74 would be generally consistent with this recommendation.
- A MRP of \$9.00 per allowances would maintain allowance prices at a level consistent with the range of prices observed in most auctions before September 2023, consistent with the market monitor’s suggestion to set the MRP based on allowance price levels that were observed before recent price decreases.⁴

Figure 1: Current Vintage Auction Clearing Prices in Dollars

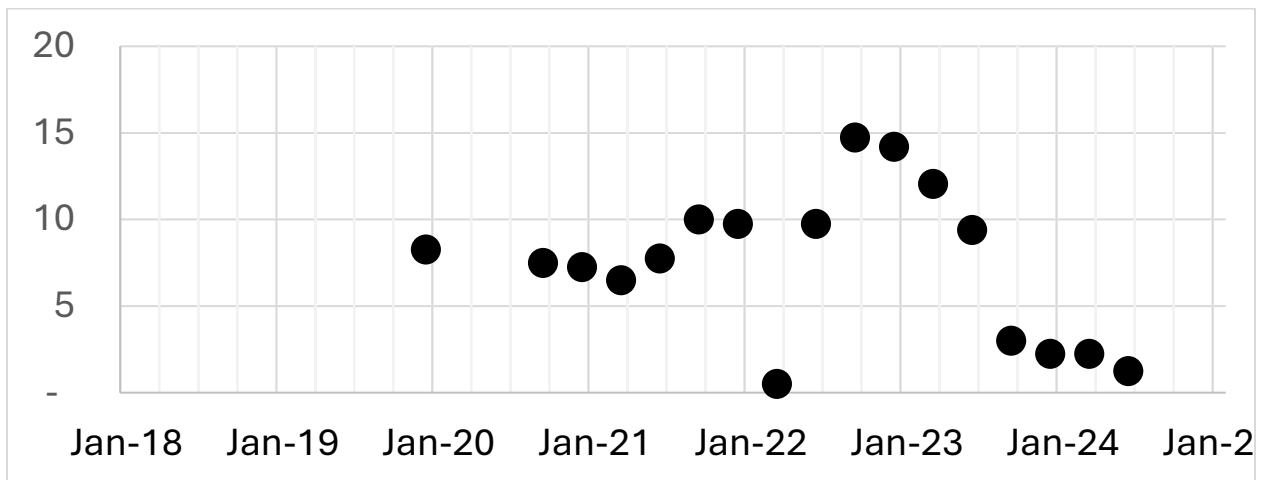
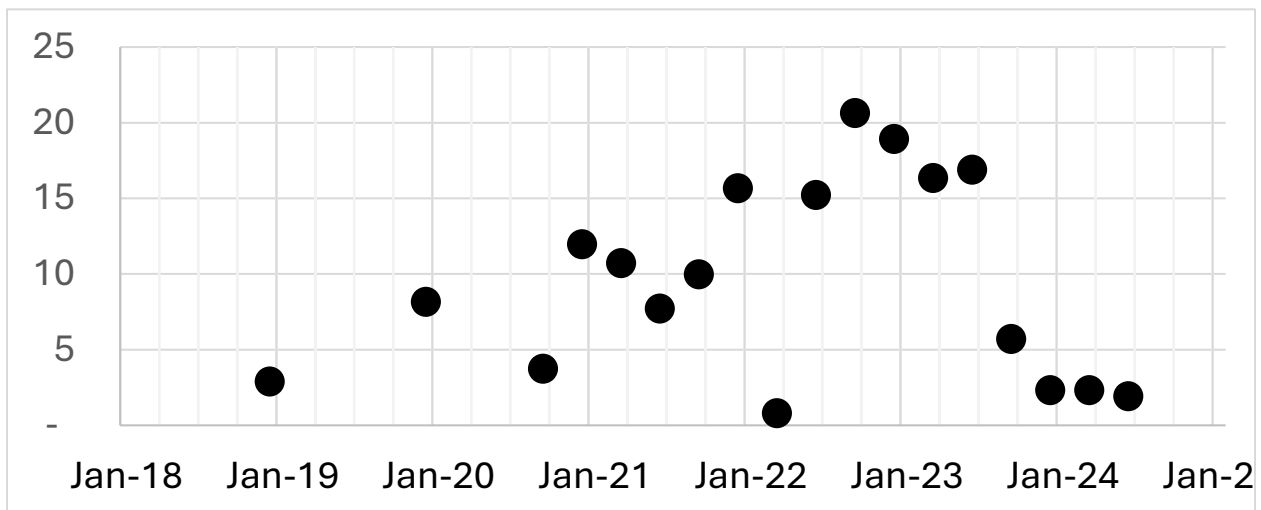


Figure 2: Auction Proceeds in Millions of Dollars



³ <https://www.mass.gov/doc/recommendations-of-the-climate-chief-october-25-2023/download>; p.19.

⁴ Note that, consistent with the market monitor recommendation, the MRP would remain at \$0.50 for future vintage allowance sales.