

MassDEP received stakeholder questions regarding its intent to increase the 310 CMR 7.74 minimum auction reserve price [[See July 2024 Discussion Document](#)] and is posting the questions and answers to these questions on its website.

NOTE: The minimum reserve price for the September 2024 auction was included in the auction notice issued on August 2, 2024. It unchanged at \$0.50 per allowance.

1. It would be helpful to have additional information as to the purpose of DEP’ s proposal so generators can better evaluate and understand the efficacy of their own comments and suggestions.

a. For example, why does DEP believe that a higher reserve price is necessary? What are the determinations that are driving this proposal, and are there alternatives that have been considered? Is it more revenue for decarbonization programs? Increased stability in the market? Reduced emissions?

MassDEP determined that the minimum reserve price should be increased based on a number of factors related to the goals of the program, particularly the state’s ability to reduce emissions, provide revenue for decarbonization programs, and increase stability in the market. A December 2023 memorandum from the 310 CMR 7.74 market monitor recommended increasing the auction reserve price and described benefits that would result from reduced uncertainty and volatility. MassDEP has not identified any alternative options that would achieve all of those benefits.

b. The generator sector is proud of its success in not only meeting, but exceeding, the targets for GHG reductions in the state. Has there been analysis regarding the impact that raising prices in the generator sector could have on efforts to reduce emissions in the building and/or transportation sectors?

We applaud the efforts of all sectors to reduce GHG emissions and look forward to continued work in this area. MassDEP has not completed additional economic analysis of the impacts of \$9 allowance prices because setting a minimum price of \$9 per allowance would have the effect of maintaining allowance prices at the level already observed during the September 2021 – June 2023 time period. MassDEP is not aware of any significant direct impacts of the allowance prices during that time period but notes that indirect positive benefits of revenue investments may be significant over the long term, such as the potential impacts of the climate bank on building emissions.

2. Is there analysis or modeling that can be shared providing the basis for DEP’ s proposal?

The proposal is based on analysis included in the market monitor memorandum published with the proposal, which stated in part: “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.” As a reminder those goals are and continue to be, reduction of GHG emissions, revenue for decarbonization programs, and market stability.

a. It would be helpful to know how DEP determined that a reserve price is the best option to meet DEP’s goals and how DEP came to this particular price.

The price of \$9 per allowances was selected based on experience during the September 2021 – June 2023 time period, when prices were at or above \$9 per allowance. Choosing a price just below the minimum observed during that time will avoid volatility experienced in the March 2022 auction while otherwise allowing the market to settle on a price consistent with experience during that time period.

b. DEP proposes to go from \$0.50 in the last auction to \$9.00 in the next. However, the Market Monitor proposed between \$2.45 and \$5.

Two options were presented in the market monitor memorandum, along with the recommendation to select the “higher of” the two options. The higher option is described in the memorandum as the “minimum level consistent with MassDEP policy goals for 310 CMR 7.74.” The \$9.00 price is based on experience during the September 2021 – June 2024 time period, when prices were at or above \$9 per allowance.

3. Why did DEP propose this timeframe for implementation?

a. The Market Monitor’s letter appears to point to a gradual reserve price increase, if necessary, rather than a single-step approach. As the Monitor wrote, “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 if allowance prices consistently cleared at the reserve price of \$0.50 per allowance, then it would be efficient to raise the auction reserve price to the minimum acceptable level for policy makers over the long-term.”

The market monitor memorandum refers to a “price range consistent with long-term policy goals” and an “acceptable level for policy makers over the long-term.” MassDEP determined that a minimum price of \$9 per allowance is appropriate based on experience during the September 2021 – June 2023 time period, when 310 CMR 7.74 was most successful in supporting MassDEP long-term policy goals with respect to emissions and revenue. A gradual approach would introduce new levels of volatility as bidders anticipate the future market.

b. With DEP having previously taken a phased approach to major program changes in

this market (i.e. in moving from an allocation to auction mechanism), why is the proposal to make such a significant increase all at once?

In general, MassDEP does not consider setting the minimum price to \$9 per allowance to be a major change in the implementation of 310 CMR 7.74 because prices were at that level for nearly two years prior to September 2023 and the regulation allows MassDEP to set a minimum reserve price. Making the change to the minimum price quickly vs. over an extended time period will contribute to market stability by minimizing the time period during which the minimum reserve price is uncertain and/or changing over time.

4. Is there information from the generator community that would assist DEP in assessing the state of the market and/or any changes that would improve the functioning?

MassDEP encourages and will consider all comments on the proposal to increase the minimum auction reserve price.