



**MARKET MONITOR REPORT ON THE ELECTRICITY  
GENERATOR EMISSIONS LIMITS PROGRAM (310 CMR 7.74):  
AUCTION 2019-1**

**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 CO<sub>2</sub> emissions from electricity generating facilities located in Massachusetts.<sup>1</sup> 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 2019-1, which was held on December 18, 2018.

Twelve bidders participated in the offering of CO<sub>2</sub> allowances for the 2019 compliance year. Bids were submitted to purchase 3.6 times the available supply of allowances, resulting in a clearing price of \$6.71 per metric ton.

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

- Allowances were awarded to a relatively small number of firms whose emissions are trending high (i.e., their projected 2018 and 2019 emissions are above the sum of: (a) their current allowance holdings and (b) their remaining allocations of 2018 and 2019 vintage allowances). Thus, Regulated Entities generally sought to acquire allowances consistent with their forecasted needs through 2019.
- The clearing price of \$6.71 per metric ton is substantially lower than most secondary market transaction prices reported from the beginning of the program until the auction.<sup>2</sup> The auction clearing price is 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.<sup>3</sup>
- Bid prices were widely dispersed, reflecting considerable variation among Regulated Entities in expectations regarding the value of allowances. Secondary market activity has been limited—just 430 thousand allowances have been transferred from the beginning of the program up to the auction. 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 need them most for 2019 compliance, and while the auction clearing price was high given the fundamentals of supply and demand for allowances, the clearing price was significantly lower than most transaction prices in the secondary market. We did not observe behavior that would raise significant concerns regarding the competitiveness of the auction results.

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

<sup>2</sup> As of the auction date, the lowest reported secondary market transaction price was \$7.00 per metric ton.

<sup>3</sup> For additional discussion of secondary market transactions and factors that have contributed to higher transaction prices, see *QUARTERLY REPORT ON THE ELECTRICITY GENERATOR EMISSIONS LIMITS PROGRAM (310 CMR 7.74): THIRD QUARTER 2018*, by Potomac Economics, November 2018.