

Emissions Trading

RGGI Allowance Price May Hit Key Milestone At First Auction Since Release of Power Plan

The price of carbon allowances sold by the Regional Greenhouse Gas Initiative could approach or hit a key milestone Sept. 9 when RGGI holds its first quarterly auction since the Environmental Protection Agency released its final Clean Power Plan.

If the price reaches \$6 per allowance, a cost containment reserve—a mechanism designed to prevent large price spikes—is triggered and 10 million additional allowances are offered for sale. RGGI allowances sold for \$5.50 each in the most recent auction, but prices in the secondary market have been around \$6 each.

“I expect that we will see another record high clearing price, for the seventh time in the last eight auctions,” Jordan Stutt, a policy analyst for the New England-based Acadia Center, told Bloomberg BNA in an e-mail.

“Auction participants know that 10 million additional allowances will become available through the cost containment reserve if the clearing price reaches \$6, which would increase the quantity of allowances for auctions in 2015 by 15 percent,” he said.

Stutt said the cost-containment reserve trigger price rises to \$8 next year, “creating an incentive for compliance entities to bid at least \$6 per ton in order to purchase those additional allowances now.”

A total of 15.3 million allowances will be offered for sale in the auction, if the cost-containment reserve is not triggered. A total of 25.3 million will be offered if the reserve is triggered.

The price of allowances sold in the auction, which is RGGI’s 29th, and other details will be released by the market-based regulatory program on Sept. 11.

The cost-containment reserve has only been triggered once before. In March 2014, the reserve was triggered at a price of \$4 (46 DEN A-2, 3/10/14).

Prices Still Low. Jessica Wentz, associate director of the Sabin Center for Climate Change Law at Columbia University, told Bloomberg BNA that RGGI allowance prices, despite reaching record highs, are still far below the \$12.10 price in California’s most recent auction.

Among the firms eligible to bid in the previous auction were Consolidated Edison Co., Koch Supply & Trading, Morgan Stanley Capital Group Inc., National

Grid PLC, Dominion Energy Marketing Inc., Vitol Inc., DTE Energy Trading Inc., and EDF Trading North America LLC. The identities of actual bidders are masked by RGGI.

Another key issue electricity generators and others will be watching is the percentage of allowances purchased by “compliance entities” and “compliance-oriented entities.” Electricity generators of at least 25 megawatts are required to hold one allowance for each short ton of carbon dioxide they emit.

Compliance-oriented entities, which is a new category created by RGGI at its last auction, is a subcategory of what was previously identified as compliance entities. A compliance-oriented entity is a power generator that holds only enough allowances to meet its compliance obligations, while a compliance entity may hold additional allowances for re-sale or other investment purpose.

In RGGI’s previous auction, 47 percent of the allowances sold in the auction were purchased by compliance-oriented entities, while 68 percent were purchased by compliance entities. The remaining 32 percent of allowances were purchased by commodities firms, traders and other types of investors.

“If prices do go up, that would only be because there is an estimate that compliance entities are short because non-compliance entities are increasing demand,” Charles D. McConnell, executive director of the Energy and Environment Initiative at Rice University, told Bloomberg BNA in an e-mail.

It also would indicate, he said, that investors may want to “get some practice in the RGGI scheme before the federal plan takes place or because bidders are acting irrationally like they do in the stock market.”

Clean Power Plan Impact. Stutt said noncompliance entities “have an interest in preserving the value of their existing allowance holdings and will therefore be less eager than compliance entities to see 10 million additional allowances minted.”

“As such, compliance entities will have greater incentive to bid above \$6, in order to trigger the cost containment reserve,” he said.

It’s unclear what impact release of the Environmental Protection Agency’s Clean Power Plan (RIN 2060-AR33) will have on the auction. Released Aug. 3, the final Clean Power Plan extends the initial compliance date for the rule from 2020 to 2022 and allows states to phase in the required carbon dioxide emissions reductions (149 DEN B-1, 8/4/15).

RGGI allowance prices took one of their largest jumps in June 2014, shortly after EPA first proposed its plan. The price of RGGI allowances increased 25.5 percent in its June 2014 auction (110 DEN A-9, 6/9/14).

Stutt said the Clean Power Plan is one of the factors that will drive RGGI allowance prices higher because RGGI “appears well positioned as a compliance pathway under the final Clean Power Plan, improving the program’s future outlook and reducing regulatory risk.”

McConnell, disagreed. “I don’t see how the current auction for vintage 2015 allowances would be impacted

at all by the final 111(d) rule,” McConnell, said, referring to the Clean Air Act section.

“RGGI ends in 2020, so there is a two-year gap between when RGGI currently ends and when the federal trading program would begin in 2022,” he said.

“RGGI states would have to amend the regulations to provide for cross-period banking (of allowances), not to mention extending RGGI past 2020, to have any impact on current period RGGI allowance value.”

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