

INSIGHTS

Demand "Very Strong" in Nation's First Carbon Allowance Auction

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Despite the market turmoil and liquidity concerns on Wall Street in recent weeks, the nation's first government-run auction of carbon dioxide emissions allowances met with "very strong demand," according to the coalition of ten states, the Regional Greenhouse Gas Initiative (RGGI), that is implementing a mandatory carbon dioxide cap-and-trade program in the Northeast and Mid-Atlantic United States. The next auction will take place on December 17, 2008. On September 29, 2008, RGGI announced that its first carbon allowance auction had generated approximately \$38 million in revenues for six of the ten RGGI states that participated in the auction—Connecticut, Maine, Maryland, Massachusetts, Rhode Island, and Vermont. RGGI reported that the 59 participants represented diverse interests from across financial, energy, and environmental sectors. Demand was so strong that participants sought to purchase nearly four times the number of allowances available for sale at the auction. The price of allowances reflected this demand, with the 12,565,387 available allowances selling at a market clearing price of \$3.07 per allowance. This figure is reported to be approximately 65 percent above RGGI's predetermined minimum floor price of \$1.86, or 80 percent of the modeled 2009 allowance price.