



Price Responsive Allowance Supply in North American Carbon Markets

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Balancing carbon markets: design options and trade-offs in price-based supply adjustments

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How do regulations and carbon markets interact?

Regulatory achievements can be undermined by an emissions cap =>*the waterbed effect!*

- Regulations cause prices to fall and emissions to go up somewhere else!
- Technological change, economic activity, also affect allowance demand. *Like every other commodity market*, the carbon market can accommodate secular changes by adjusting supply.

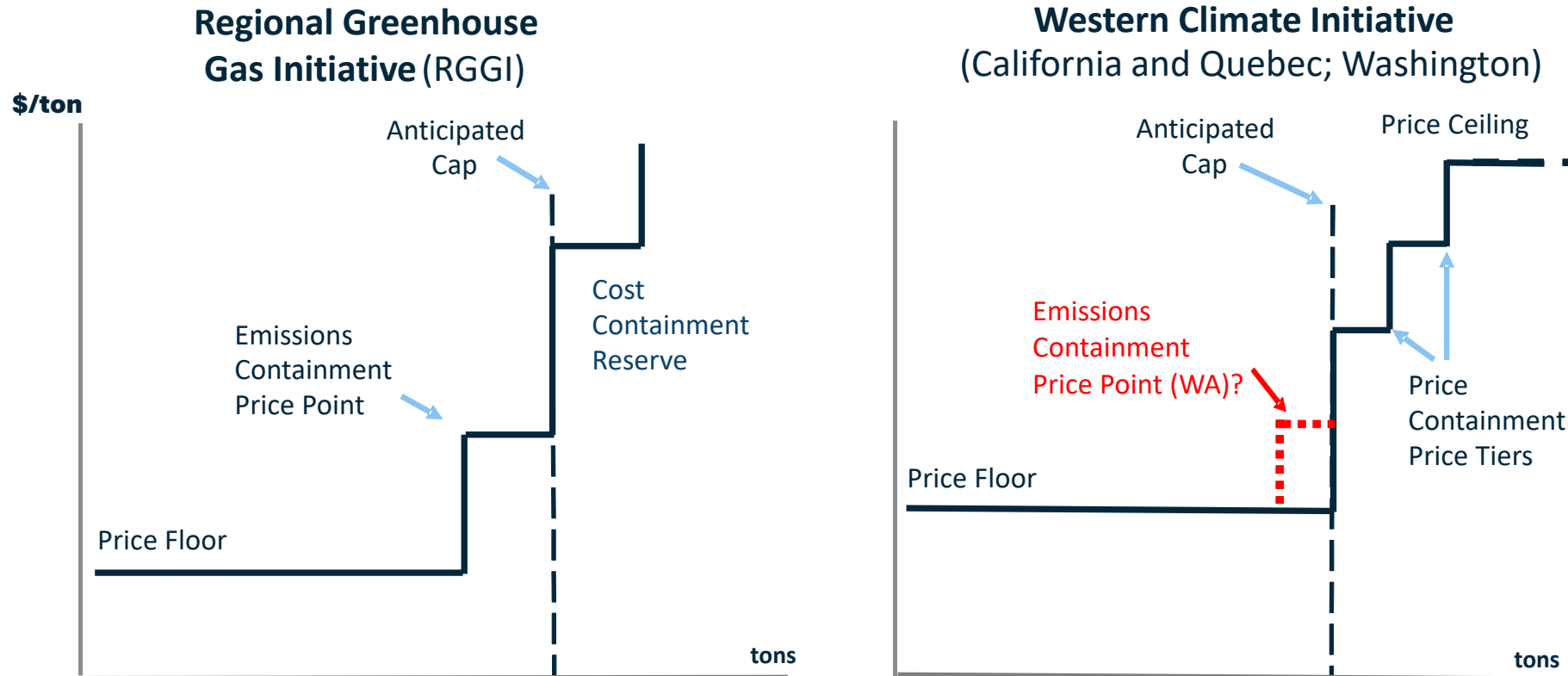
The conceptual difference between EU and North American markets is whether supply adjustments should be *quantity or price triggered*.

- The effect of a quantity-based adjustment like the MSR is delayed after an auction event.
- A price-based trigger can be implemented instantly in RGGI, although it is not fully in the WCI.
- Both approaches can be rule-based or administratively implemented.

“The Waterbed Effect”



Price-responsive allowance supply in North American carbon markets



➤ However, in 2027, RGGI will move toward the WCI model



Implementation Issues

What happens to allowances that do not sell at price floor?

- Roll forward and/or canceled. (Both: RGGI and WCI)

How do additional allowances enter the market?

- Cost containment allowances can be integrated with the auction through reserve prices analogous to price floor (RGGI).
- Or they can be made available through a separate fixed-price sale at later time (WCI).

Are cost containment allowances “above” to emissions cap?

- Cost containment allowances (Yes: RGGI; No: WCI). Price ceiling (Yes: WCI).

Are cost containment allowances replaced annually? (Yes: RGGI; No: WCI).

Who is eligible to purchase cost containment allowances?

- All bidders (RGGI)
- Only compliance entities (WCI)
 - Who do not hold allowances in their general account (CA?)

Are cost containment allowances bankable?

- Yes (RGGI). No (WCI).

