Price Containment in the California C&T Market

Emissions Market Assessment Committee Quarterly Meeting
September 24, 2012
Forecasted BAU GHG Emissions Compared to the Allowance Cap
Covered Entities Only
2013 - 2020
Price Containment Reserve

• CARB sets minimum price at which it will sell permits in auction
  
• At high price, CARB stands ready to sell permits from a reserve
  • Limited quantities at prices of $40, $45, $50

• If all reserve quantities at these prices were sold and the reserve were exhausted, what would happen?
  – Is unrestricted price rise politically credible?
    • RECLAIM during CA electricity crisis
  – Defending a hard price cap likely to improve market
    • Could be done by borrowing from post-2020
Supply of Abatement with Containment Reserve

Allowance Price

Complementary Measures

Costless Reshuffling

Costly Reshuffling

Offsets

Electricity Dispatch Changes; Industrial Processes Changes; Fuels Consumption Changes

GHG Reductions
Supply of Abatement with Hard Price Cap

Allowance Price

\[ P_{\text{cap}} \]

Complementary Measures
Costless Reshuffling
Costly Reshuffling
Offsets

Electricity Dispatch Changes;
Industrial Processes Changes;
Fuels Consumption Changes

GHG Reductions
Benefits of Defending a Price Cap

• Limits the possible price and economic impacts from volatility in supply or demand
  – Especially if abatement supply is very inelastic
• Avoids possible market disruption if shortage occurs near end of market period (2020)
• Eliminates price increase that incorporates low probability of skyrocketing price
• Eliminates incentive to push price above current reserve levels through market manipulation
Costs of Defending a Price Cap

• Reduces predictability of California GHG reductions
  – Only if alternative is true commitment to reduction regardless of cost
  – A smooth functioning C&T market is more likely to be expanded to other states and countries