



Chapter 6: Market Activity

Allowance trading allows sources in cap and trade programs to adopt the most cost-effective strategy to reduce emissions. Sources that reduce their emissions below the number of allowances they hold may trade allowances with other sources in their system, sell them to other sources on the open market or through EPA auctions, or bank them for use in future years.

While all transactions are important to proper market operation, EPA follows trends in transactions between distinct economic entities with particular interest because these transactions represent an actual exchange of assets between unaffiliated participants, which reflect companies making the most of the cost-minimizing flexibility of emission trading programs by finding the cheapest emission reductions across the marketplace.

Analysis and Background Information

Transaction Types and Volumes

Allowance transfer activity includes two types of transfers: EPA transfers to accounts and private transactions. EPA transfers to accounts include the initial allocation of allowances by states or EPA, as well as transfers into accounts related to set-asides. This category does not include transfers due to allowance retirements. Private transactions include all transfers initiated by authorized account representatives for any compliance or general account purposes.

To help better understand the trends in market performance and transfer history, EPA classifies private transfers of allowance transactions into two categories:

- Transfers between separate and distinct economic entities, which may include companies with contractual relationships such as power purchase agreements, but excludes parent-subsidiary types of relationships.
- Transfers within a company or between related entities (e.g., holding company transfers between a unit compliance account and any account held by a company with an ownership interest in the unit).

Allowance Markets

The 2013 emissions were below emission budgets for the ARP and for all three CAIR programs. As a result, CAIR allowance prices were well below the marginal cost for reductions projected at the time of the final rule, and are in part subject to downward pressure from the available banks of allowances.

Overall, allowance prices remained relatively stable throughout 2013, with only the NO_x ozone season allowances increasing in cost during the ozone season.



<http://www.epa.gov/airmarkets/progress>

Key Points

Transaction Types and Volumes

- In 2013, about one quarter of CAIR NO_x ozone season program allowance transactions and about a third of ARP and CAIR SO₂ annual and CAIR NO_x annual allowance transactions were between unrelated parties, often with a broker facilitating the trade.

2013 Allowance Market Prices

- CAIR SO₂ allowance prices averaged less than \$1 per ton.
- CAIR NO_x annual program allowances averaged \$40 per ton.
- CAIR NO_x ozone season program allowances averaged \$17 per ton.

More Information

Allowance Markets <http://www.epa.gov/airmarkets/participants/allowance/index.html>

Air Markets Business Center <http://www.epa.gov/airmarkets/participants/business/index.html>

Air Markets Program Data <http://ampd.epa.gov/ampd/>



Figures

	Transactions Conducted in 2013	Allowances Transferred in 2013	Share of Program's 2013 Allowances Transferred	
CAIR NO _x Ozone Trading Season Program	989 transactions	309,563 allowances	Distinct Organizations	25%
			Related Organizations	75%
CAIR NO _x Annual Program	1,288 transactions	627,910 allowances	Distinct Organizations	31%
			Related Organizations	69%
ARP and CAIR SO ₂ Annual Programs	1,353 transactions	6,732,632 allowances	Distinct Organizations	36%
			Related Organizations	64%

Source EPA, 2014
Last updated: 04/2015

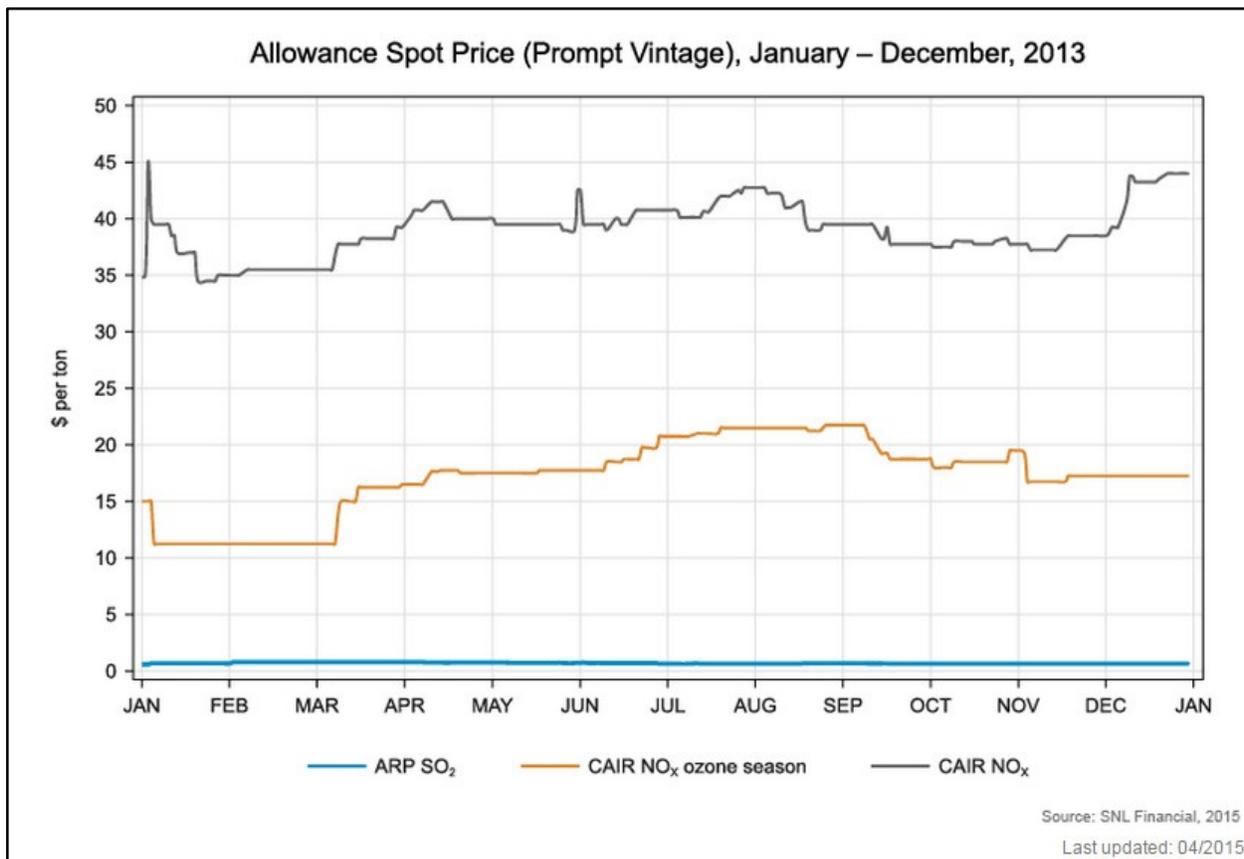
Notes:

- Most, but not all, of the transactions were characterized. The actual percentage shares may vary by less than 1% of the total allowances transferred for each program.
- Percentages may not add up to 100% due to rounding.

Figure 1. 2013 Allowance Transfers under CAIR and ARP



<http://www.epa.gov/airmarkets/progress>



Notes:

- Prompt vintage is the vintage for the “current” compliance year.

Figure 2. Allowance Spot Price, January-December, 2013