Ontario Joins California and Quebec for Largest Carbon Auction Yet: All Current Allowances Sell

By Katelyn Roedner Sutter / Bio / Published: February 28, 2018

The results of the first California-Quebec-Ontario joint auction of greenhouse gas allowances were released today, and even with a record-high volume of allowances for sale, the current auction sold out with the price clearing just
above the floor. This is an indication of the strength and stability of the expanded market.

Even more significantly, this was Ontario’s inaugural Western Climate Initiative (WCI) auction, and it is a real-world demonstration of the benefits of linking cap-and-trade programs. Ontario’s participation in the WCI brings more trading partners to the table, helps keep compliance costs low, creates an opportunity to increase ambition to reduce emissions, and models what international climate action can look like.

**First, let’s do the February numbers:**

- All 98,215,920 current allowances offered were sold, including 23,743,316 allowances from Ontario, and 14,894,520 previously unsold allowances. This is the first auction including allowances from Ontario, and the second offering of held allowances.

- Allowances cleared at $14.61, this is 8 cents above the floor price of $14.53. This is down from the $1.49 above the floor price in the November, 2017 auction. However, this is not surprising given the significant increase in allowances for sale, and the floor price itself has increased 96 cents since November.

- 8,576,000 future vintage allowances sold of the 12,427,950 allowances offered. These allowances will not be available for compliance until 2021, demonstrating there is confidence in the growing WCI market into the future.

- Approximately $725 million was raised for California’s Greenhouse Gas Reduction Fund. This revenue will be invested in improving local air quality, building sustainable and affordable housing near transit, and helping low-income families weatherize their homes.
• Ontario raised an estimated $377 million USD and Quebec an estimated $155 million USD to fund their own climate investments.

**So what does it all mean?**

By selling out of allowances, the market quelled concerns that supply would outstrip demand due to the unprecedented number of allowances for sale. These results show that the market is stable, and with the addition of new trading partners from Ontario, the demand for allowances is healthy.

This greater availability of allowances does contribute to the price clearing just above the floor, but rather than something to be concerned about, this demonstrates the importance of that price floor. It is a key feature to keep the market and the revenues on an even keel.

Another feature of the linked cap-and-trade program is the ability to bank allowances. It is possible that allowance prices will rise after 2020, and companies are planning ahead. Some may be buying the limited number of allowances they are allowed to save now, when they are less expensive, supporting the strong demand we saw in the February auction.

Every allowance that is banked represents one ton of carbon emissions that are not released into the atmosphere now. Greater emission reductions sooner mean less cumulative emissions, and that is a win for the environment. Lower emissions now also creates an opportunity for California to consider tightening the cap in the coming years. This would drive even deeper emission reductions as the state looks to the ambitious 2030 target.

For Ontario, these results also demonstrate some of the benefits of participating in a larger carbon market. Ontario’s last solo auction did not clear, perhaps
because of partisan campaign promises to abandon cap and trade and leave the Western Climate Initiative. Even with demand potentially dampened in Ontario due to this uncertainty, all of Ontario’s allowances sold to buyers in the larger market. This provides proceeds that can fund Ontario’s transition to a clean economy. We can’t know what would have happened in an Ontario-only auction, but this seems a clear example of the stability that joining a larger market can generate.

We often talk about California and Quebec setting an example on climate action in the face of the Trump Administration determination to go backwards. Today’s results demonstrate that the Western Climate Initiative has gained a valuable new partner in Ontario, and that this partnership is succeeding.