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**REGI Inc.**



**REPORT ON THE SECONDARY MARKET  
FOR REGI CO<sub>2</sub> ALLOWANCES: THIRD QUARTER 2024**

**Prepared for:**

**REGI, Inc., on behalf of the REGI Participating States**

**Prepared By:**

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November 2024

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The Regional Greenhouse Gas Initiative (RGGI) was the first mandatory market-based regulatory initiative in the U.S. to reduce greenhouse gas emissions. The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort of Eastern states of the US to reduce emissions of carbon dioxide (CO<sub>2</sub>) from the power sector.

RGGI, Inc. is a non-profit corporation created to provide technical and administrative services to the states participating in the Regional Greenhouse Gas Initiative.

## A. INTRODUCTION AND SUMMARY

The primary market for RGGI CO<sub>2</sub> allowances consists mainly of the auctions where allowances are initially sold. Once a CO<sub>2</sub> allowance is purchased in the primary market, it can then be resold in the secondary market. The secondary market for RGGI CO<sub>2</sub> allowances comprises the trading of physical allowances and financial derivatives, such as futures and options contracts.

The secondary market is important for several reasons. First, it gives firms an ability to obtain CO<sub>2</sub> allowances at any time during the three months between the RGGI auctions. Second, it provides firms a way to protect themselves against the potential volatility of future auction clearing prices. Third, it provides price signals that assist firms in making investment decisions in markets affected by the cost of RGGI compliance.

This report provides a summary of activity in the secondary market in the third quarter of 2024 and discusses the results of our market power screens.

- Secondary Market Activity: Activity increased significantly from previous periods.
  - ✓ Physical allowance transfers between unaffiliated firms totaled 20 million, which was 45 percent higher than the third quarter of 2023 and similar to the second quarter of 2024.
  - ✓ The volume of trading of RGGI futures was 200 million CO<sub>2</sub> allowances in the third quarter of 2024, which was more than double volume in the third quarter of 2023 and 27 percent higher than the second quarter of 2024.
  - ✓ Open interest in RGGI futures and options increased from 118 million allowances at the end of the second quarter to 140 million at the close of the third quarter of 2024.
  - ✓ “Spread” transactions accounted for an increased share of long open interest in vintage 2024 ICE contracts, accounting for 27 percent of long positions at the end of the third quarter, attributable in large part to increased options transactions.
- CO<sub>2</sub> Allowance Prices: Prices started the quarter near \$23/ton and rose steadily to around \$27 by the end of July. Prices fluctuated between \$26 and \$27.40 for much of August. Prices settled near \$26 just before Auction 65, which took place on September 4<sup>th</sup> and cleared at \$25.75. In the remainder of September, futures and physical market prices varied widely between \$20 and \$26.
  - ✓ Cost Containment Reserve (“CCR”) allowances for 2024 were exhausted in the March 2024 auction, so additional CCR allowances will not be available until the March 2025 auction at a CCR Trigger Price of \$17.03.

- ✓ Trading of options on RGGI futures has increased dramatically over the past year and option-implied volatility (a measure of market expectations of future price volatility) has doubled since the beginning of the second quarter of 2024.
- CO<sub>2</sub> Allowance Holdings – At the end of the third quarter of 2024:
  - ✓ There were 129 million CO<sub>2</sub> allowances in circulation.<sup>1</sup>
  - ✓ Compliance-oriented entities held approximately 56 million of the allowances in circulation (44 percent).
  - ✓ Approximately 58 million of the allowances in circulation (45 percent) are believed to be held for compliance purposes.

We evaluate information on the holdings of CO<sub>2</sub> allowances and allowance derivatives as well as the demand for allowances to identify firms that may have acquired a position that raises competitive concerns. In the current study period, we find no evidence of anticompetitive conduct.

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<sup>1</sup> The number of allowances in circulation equals the sum of quarterly auction sales and direct allocations and sales from Participating State accounts minus the quantity that have been surrendered as of the 15<sup>th</sup> of the month after the end of the quarter. Public data sources for estimating the number of allowances in circulation include: (1) the CO<sub>2</sub> Allowance Distribution tables (<https://www.rggi.org/allowance-tracking/allowance-distribution>), which report information by allowance vintage, where “Sold at Auction” is the auction distribution volume, “Sold at Fixed Price” plus “Transferred from State Set-aside Accounts” is the state allocations and (2) the Compliance Summary Report posted on the COATS website, which includes both the compliance obligation and outstanding compliance obligation of each source for interim and final compliance deadlines.

## B. BACKGROUND

The secondary market for RGGI CO<sub>2</sub> allowances comprises the trading of physical allowances and financial derivatives, such as futures, forward, and option contracts. A physical allowance trade occurs when the parties to the transaction register the transfer of ownership in RGGI's CO<sub>2</sub> Allowance Tracking System ("COATS"). Financial derivatives include any contracts whereby parties agree to exchange funds and/or allowances at some future date, depending in many cases on factors such as the price of allowances at some future date. Many financial derivatives eventually result in the transfer of physical CO<sub>2</sub> allowances (i.e., the transfer is registered in COATS), but this may occur months or years after the parties enter into a financial transaction. These include the following types of transactions:

- *Futures* – Under these contracts, two parties agree to exchange a fixed number of CO<sub>2</sub> allowances of a certain vintage year at a particular price at a specific point in the future (called the "delivery month"). At the end of the delivery month, the contracted number of CO<sub>2</sub> allowances must be physically transferred to the buyer's account in the COATS registry and funds must be transferred to the seller. Allowances transferred must be usable for compliance in the vintage year of the futures contract. One standard futures contract equals 1,000 RGGI allowances.<sup>2</sup> These contracts are listed by an exchange with simple standardized terms to promote liquidity.
- *Forwards* – These are like futures contracts, but a forward contract typically requires that all financial settlement occur at expiration. These contracts can be made off an exchange between two parties, allowing the parties to agree to less standardized terms.
- *Call Options* – Call options give the purchaser the option to buy a fixed number of CO<sub>2</sub> allowances of a certain vintage year at a particular strike price at the expiration date. For example, suppose a firm holds a call option with \$5 strike price, and December 2022 expiration date. If the price of the corresponding forward contract rose to \$5.75, the firm could exercise the option to buy CO<sub>2</sub> allowances at \$5 and immediately sell them at \$5.75. Alternatively, if the price of the forward contract stayed below \$5, the firm would let the option expire without exercising it. One standard options contract can be exercised for 1,000

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<sup>2</sup> More precisely, a futures contract requires parties with an open interest to post financial assurance in an account with the exchange until the contract reaches expiration. The exchange continually withdraws and deposits funds according to changes in the prices of the contracts in which the party has interest. For example, if a firm buys a contract for 1,000 allowances at \$3.50/allowance, the purchasing firm (firm with a long position) must put \$3,500 in an account (or whatever share of the entire liability the exchange requires). If the futures price declines to \$3/allowance, the exchange transfers \$500 from the account of a firm with a long position to the account of a firm with a short position (firm that sold a contract), and the firm with a long position is only required to keep \$3,000 in the account. At the end of the delivery month, allowances are exchanged for funds according to the closing price on the last day of the month.

RGGI allowances. Currently, call option contracts listed on both ICE and Nodal Exchange are European style, meaning that they cannot be exercised before the expiration date.

- *Put Options* – Put options are similar to call options but they give the purchaser the option to *sell* a certain number of CO<sub>2</sub> allowances of a particular vintage year at a specified strike price any time prior to the expiration date. Currently, put option contracts listed on both ICE and Nodal Exchange are European style, meaning that they cannot be exercised before the expiration date.

Futures, forward, and option contracts allow firms to manage risks associated with unforeseen swings in commodity prices. Futures and forwards allow firms to lock-in the prices of future purchases or sales. Options allow firms to limit their exposure to price volatility. Call options protect the purchaser if the price of the commodity increases, while put options protect the purchaser if the price of the commodity decreases. Although options provide less certainty than futures and forward contracts, they generally require less financial security since they do not obligate the holder to exercise the contract if its value declines, which could make them more attractive to some firms.

The terms of futures, forward, and option contracts vary in the degree to which they are standardized. “Exchange-traded” contracts typically have the most standardized provisions, while the term “over-the-counter” (“OTC”) is applied to contracts with less standardized provisions. However, OTC contracts, once entered into, are often settled through a clearinghouse in order to protect the parties from the risk that the counterparty defaults.

The amount of *open interest* is the net amount of futures, forwards, or options that have been traded for a contract with a particular set of specifications (i.e., vintage year, delivery month, etc.), but have not reached the time of delivery, expired, or been exercised. For example, if Firm A sells 100 contracts of a particular type to Firm B, Firm A will have a short position of 100 contracts, Firm B will have a long position of 100 contracts, and the total open interest for the particular type of contract will be 100 contracts. Hence, the total open interest can be determined by summing across all of the long positions of market participants or by summing across all of the short positions.

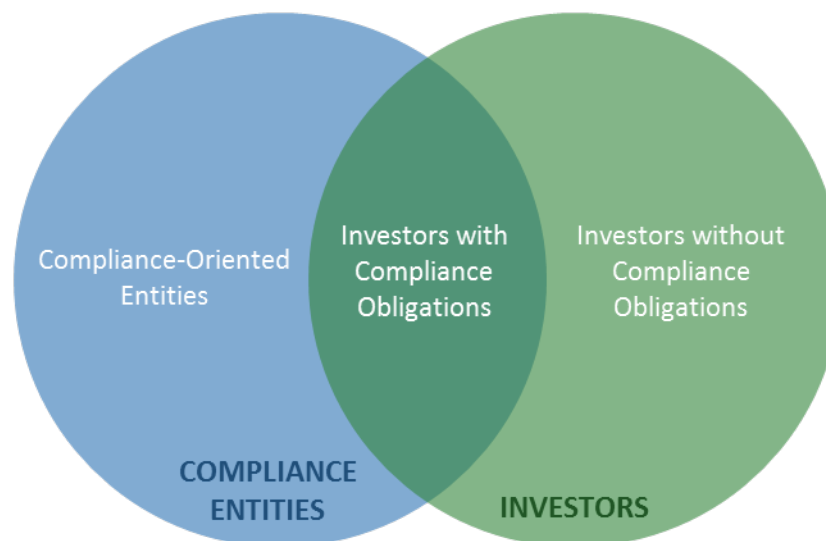
The volatility of a CO<sub>2</sub> allowance refers to the expected standard deviation of the distribution of allowance prices one year in the future. For example, if the expected value of the price one year

in the future is \$1 and the option-implied volatility is 25 percent, this implies that the probability that the price will be within 25 percent of \$1 (i.e., between \$0.75 and \$1.25) is 68.2 percent assuming that the price is distributed log-normally. Option-implied volatility refers to volatility estimates that are derived by analyzing the price and other terms of an option contract compared with the price of CO<sub>2</sub> allowances.

### *Categories of Firms Participating in the RGGI Market*

Participation in the RGGI market involves many different firms with various interests in RGGI allowances. Some participate in order to satisfy compliance obligations, others have investment interests, and still others participate for both purposes. To more effectively track the activity of different participants, we use several classifications for participant firms. Figure 1 summarizes the relationship between these classifications.

**Figure 1: Classifications of Participant Firms in the RGGI Marketplace**



- *Compliance-oriented entities* are compliance entities that appear to acquire and hold allowances primarily to satisfy their compliance obligations.
- *Investors with Compliance Obligations* are firms that have compliance obligations, but which hold a number of allowances that exceeds their estimated compliance obligations by a margin suggesting they also buy for re-sale or some other investment purpose. These firms often transfer significant quantities of allowances to unaffiliated firms.
- *Investors without Compliance Obligations* are firms without any compliance obligations.

These three categories form the basis for two overlapping groups.

- *Compliance Entities* – All firms with compliance obligations, and their affiliates.<sup>3</sup> Combines the first and second of the above categories.
- *Investors* – All firms which are assessed to be purchasing primarily for investment rather than compliance purposes. Combines the second and third of the above categories.

The assessment of whether a compliance entity holds a number of allowances that exceeds its compliance obligations by a margin that suggests they are also buying for re-sale or some other investment purpose is based on: (a) the entity’s forecasted share of the total compliance obligations for the entire RGGI footprint through 2026, (b) the total number of allowances in circulation, and (c) consideration of the pattern of the entity’s allowance transfers to unaffiliated firms versus affiliated firms. Since the designation of a compliance entity as an investor is based on a review of its transactions and holdings, the designation of a particular firm may change over time as more information becomes available. Therefore, some of the quantities in this report may not match previous reports because of changes in the classification of particular firms.

The number of allowances that are believed to be held for compliance purposes includes 100 percent of the allowances held by compliance-oriented entities and a portion of allowances held by other compliance entities (i.e., entities with compliance obligations that are not included in the compliance-oriented category).

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<sup>3</sup> Affiliates are firms that: (i) have a parent-subsidiary relationship with a compliance entity, (ii) are subsidiaries of a parent company that has a large interest in a compliance entity, (iii) have substantial control over the operation of a budget source and/or responsibility for acquiring RGGI allowances to satisfy its compliance obligations.



### **C. SUMMARY OF PRICES**

This section summarizes prices in the secondary market for RGGI CO<sub>2</sub> allowances in the third quarter of 2024. Figure 2 summarizes transaction prices in the secondary market for CO<sub>2</sub> allowances, including the prices of allowance transfers registered in COATS<sup>4</sup> and the prices of futures contract trades on the Intercontinental Exchange (“ICE”) and on the Nodal Exchange (“NEX”). Figure 3 analyzes the trading of options for RGGI allowance futures which firms use to hedge exposure to fluctuations in allowance prices.

Key observations regarding RGGI CO<sub>2</sub> allowance prices and options trading:

- Prices rose from about \$23 in early-July to around \$27 in August and then settled around \$26 leading up to the auction on September 4th. Throughout September, prices varied widely between \$20 and about \$26, settling near \$20.
- The Cost Containment Reserve (“CCR”) will not be available again until the March 2025 auction at a CCR Trigger Price of \$17.03.
- Trading of options on RGGI futures has increased dramatically over the past year and option-implied volatility (a measure of market expectations of future price volatility) has nearly doubled since the beginning of the second quarter of 2024.

#### ***Prices of CO<sub>2</sub> Allowances and Allowance Derivatives***

Figure 2 summarizes prices in the secondary market for allowances usable for compliance in the sixth control period. The blue diamonds show the price of futures trades on ICE, and orange diamonds show futures trades on Nodal Exchange on days with trading volume. The green triangles show the volume-weighted average prices of physical deliveries registered in COATS on days with transactions when the price was recorded (“COATS transactions”). The red circle shows the clearing price of allowances that were sold in RGGI Auction 65, which was held on September 4th. Figure 2 also shows volume-weighted average prices for each category in the third quarter of 2024 compared to the previous quarter and the third quarter of the previous year.

<sup>4</sup> Parties are required to report the transaction price if there is an underlying financial transaction related to the transfer of allowances between accounts.

**Figure 2: Prices in the Secondary Market for RGGI CO<sub>2</sub> Allowances<sup>5</sup>  
July 1 to September 30, 2024**



Key observations regarding CO<sub>2</sub> allowance prices:

- Prices rose from \$23 at the start of the quarter and peaked above \$27 in August and settled at \$26 just prior to the auction. Post-auction, prices varied widely between \$20 and \$26. Overall average futures prices rose to about \$24.30 (ICE and Nodal Exchange combined), which was about \$3.80 higher than the previous quarter (volume-weighted).
- On most days in July and August, COATS prices were generally consistent with futures prices; however after the first week of September, COATS and futures prices typically differed by wider margins than typical and varied between days. The inconsistencies between futures prices and COATS transfer prices may indicate that the pricing terms of COATS transfers were determined at an earlier date or as part of a larger agreement.
- The clearing price in Auction 65 (on September 4) was \$25.75/ton, which was similar to secondary market prices ahead of the auction.

<sup>5</sup> Sources: Auction clearing prices are available [here](#), ICE futures prices are available [here](#), NEX futures prices are available [here](#), and the prices of physical deliveries are based on information in COATS. Futures prices are shown for the prompt month contract settlement price even if the volume traded was for another contract. Average COATS Transfer Prices for previous quarters have been updated to reflect transactions reported after the compilation of data for previous quarterly reports.

### *Prices of Options for CO<sub>2</sub> Allowances*

The clearing prices of option contracts provide insight about how the market expects the price of the underlying commodity to move in the future. The price of an option depends on two factors: (i) the expected value of the underlying commodity relative to the strike price of the option, and (ii) the expected volatility of the underlying commodity over the period before the expiration date. When call option price decreases coincide with put option price increases, it signals a decrease in the expected price of the underlying commodity. Conversely, when call option prices and put option prices move in the same direction, it signals a change in the expected volatility of the underlying commodity price. Key observations regarding the pricing of options for CO<sub>2</sub> allowances:

- We observed 76 option trades recorded on ICE in the third quarter, down from 102 in the previous quarter. There were 33 calls and 43 puts traded for settlement in December 2024. All call option trades had strike prices between \$20 and \$35, while puts had strike prices between \$11 and \$25.

### *Volatility of CO<sub>2</sub> Allowance Prices*

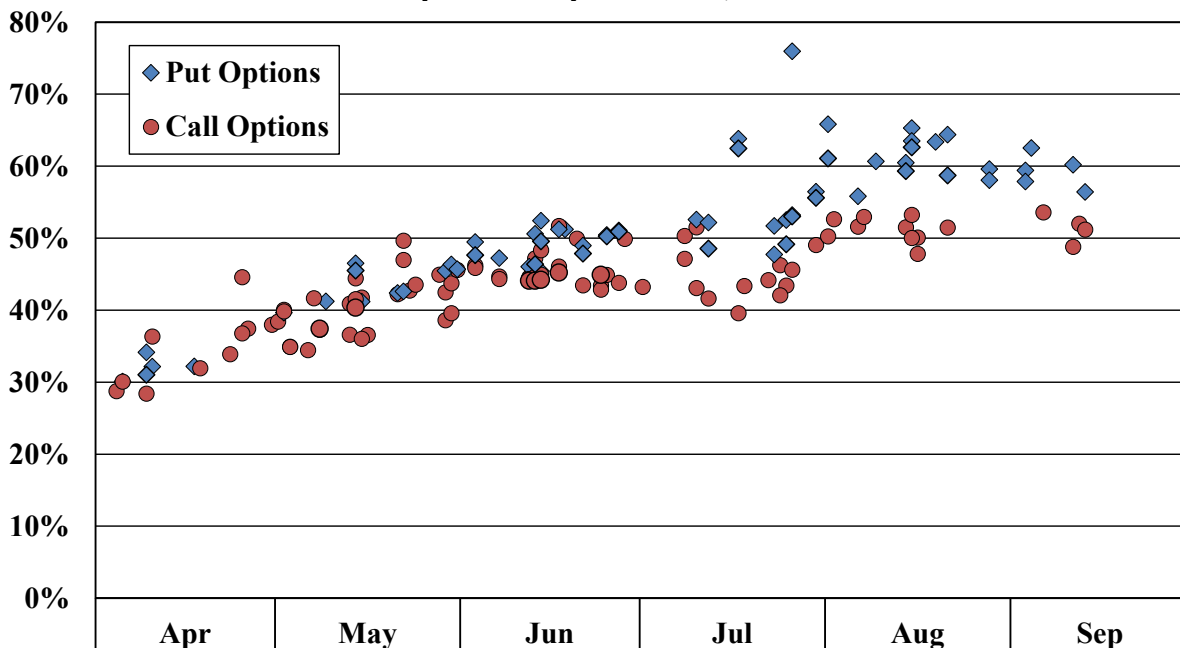
Market-based emissions reduction initiatives such as RGGI are designed to give firms efficient incentives to reduce or offset emissions. In the short-term, high-emitting generators will operate less frequently in favor of low-emitting generators. In the long-term, the market will affect the decisions of firms to develop offset projects, retire older inefficient generation, and perform maintenance that increases fuel efficiency and lowers carbon-intensity. Predictable CO<sub>2</sub> allowance prices decrease the risks associated with making long-term investments in reducing CO<sub>2</sub> emissions. Since CO<sub>2</sub> allowance prices can be volatile, the availability of futures and options contracts allows firms to protect themselves from the risks of such investments.

Expected price volatility is affected by elements of RGGI that promote allowance price stability. Potential upward price movements are limited by the Cost Containment Reserve (“CCR”), which allows for the sale of a fixed number of allowances in addition to the cap if the auction clearing price reaches the CCR Trigger Price. Potential downward price movements are limited by the Reserve Price, which currently prevents allowances from being sold in the auction at a price

below \$2.50, and the Emissions Containment Reserve (“ECR”), which withholds allowances from circulation if prices fall below an established Trigger Price.<sup>6</sup>

One measure of the volatility of CO<sub>2</sub> allowance prices is known as option-implied volatility, which measures the volatility that is implied by the trading of option contracts for CO<sub>2</sub> allowances. If a firm perceives that CO<sub>2</sub> allowance prices are volatile, the firm may be willing to pay a high price for an option contract that protects it from unforeseen allowance price fluctuations. Likewise, if a firm perceives that CO<sub>2</sub> allowance prices are relatively stable, the firm will be willing to pay relatively little for the same option contract. Figure 3 shows the option-implied volatilities of option trades over the most recent six-month period.<sup>7</sup>

**Figure 3: Option-Implied Volatility of CO<sub>2</sub> Allowance Futures Prices  
April 1 to September 30, 2024**



<sup>6</sup> The sizes and Trigger Prices of the CCR and ECR were set in accordance with the 2017 Model Rule. In 2024, the CCR Trigger Price was set at \$15.92 and the ECR Trigger Price was set to \$7.35, and both will rise 7 percent each year. Details are provided [here](#).

<sup>7</sup> Trades conducted within 90 days of a contract’s expiration are excluded from the figure. Options typically expire on the third Friday of the expiration month, but the 15<sup>th</sup> is used as a proxy for the expiration date. Thus, a transaction date of September 15 with an expiration of December 15 of the same year would be excluded.

Observations regarding the option-implied volatility of CO<sub>2</sub> allowance prices shown in Figure 3:

- The Cost Containment Reserve with a Trigger Price of \$15.92/ton in 2024 helped reduce the risk of upward price variations in the beginning of the year. After Auction 63, when the CCR was exhausted, prices in the secondary market rose steeply.
  - ✓ Before the Auction 63, option-implied price volatility varied between 21 and 26 percent, and after the auction in the first quarter, it moved closer to 30 percent, and by the end of the second quarter, it varied between 43 and 51 percent.
  - ✓ At the start of the third quarter early in July, option-implied price volatility largely resembled the end of the second quarter, but in August, volatility moved higher between 48 and 66 percent. In September, option implied volatility was between 49 and 63 percent.
- In the third quarter, put option prices exhibited more implied volatility than call options.

## **D. VOLUMES AND OPEN INTEREST**

This section evaluates the volume of COATS transactions (i.e., transfers of CO<sub>2</sub> allowances between unaffiliated parties as recorded in COATS) as well as the volume of trading and the level of open interest in exchange-traded futures and options. Figure 4 examines the volumes of transactions recorded in COATS and of futures trading. Figure 5 summarizes the level of open interest in exchange-traded RGGI futures and option contracts. Figure 6 evaluates the concentration of firms with open interest in exchange-traded RGGI futures and option contracts. Figures 7 and 8 show the levels of participation in the market for exchange-traded RGGI futures and option contracts by various categories of firms.

Key observations regarding trading volumes and open interest in the third quarter of 2024:

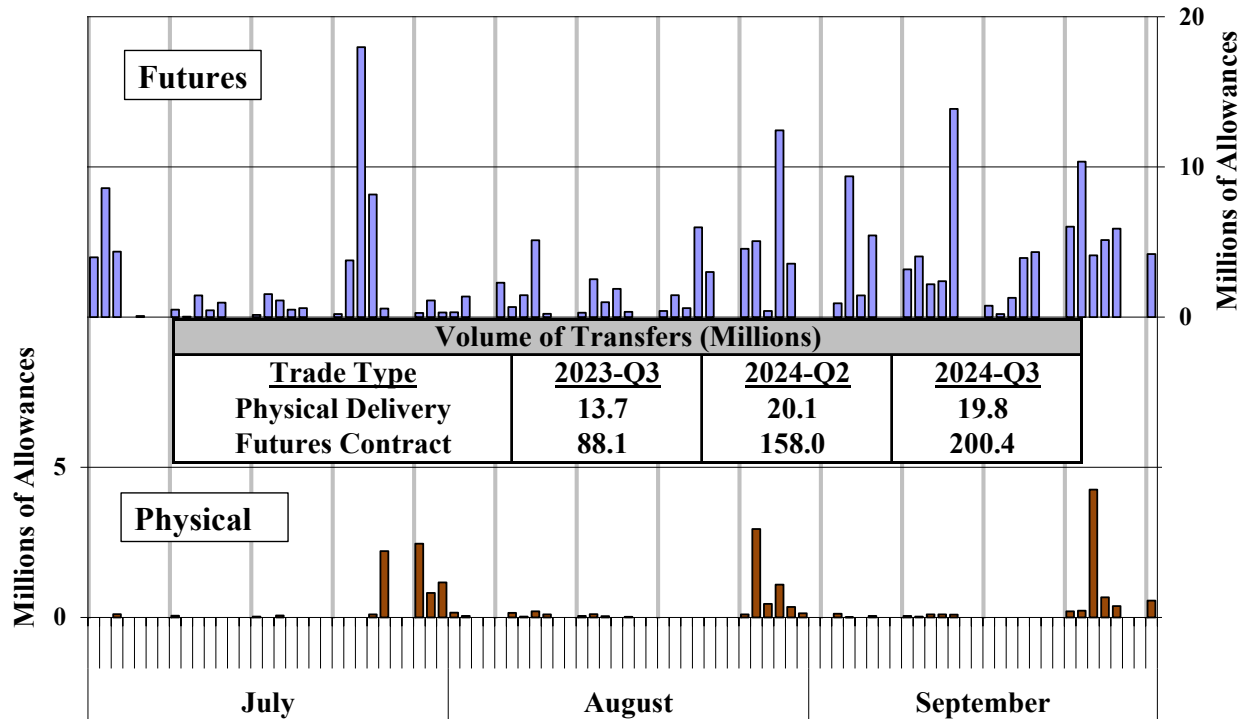
- Futures trading volume was 200 million CO<sub>2</sub> allowances in the third quarter of 2024, 42 million more than the previous quarter and 112 million higher than the third quarter of 2023.
- Physical allowance transfers between unaffiliated firms totaled 20 million, similar to the second quarter of 2024 but 45 percent higher than the third quarter of 2023.
- Open interest in RGGI futures and options increased from 118 million allowances at the end of the previous quarter to 140 million by the close of the third quarter of 2024.
- There were 129 million CO<sub>2</sub> allowances in circulation at the end of the quarter. Compliance-oriented entities held approximately 56 million of the allowances in circulation (44 percent). Approximately 58 million of the allowances in circulation (45 percent) are believed to be held for compliance purposes.

### ***Volume of CO<sub>2</sub> Allowance Transfers, Futures, and Options***

Figure 4 summarizes the volume of transfers of CO<sub>2</sub> allowances between the COATS accounts of unaffiliated firms and the volume of trading of RGGI futures listed on ICE and NEX.<sup>8</sup> The figure also shows the volume of transfers in the third quarter of 2024 compared to the previous quarter and the third quarter of 2023.

<sup>8</sup> Firms are categorized as affiliated based on available information. As a result, calculations in previous reports may be inconsistent with this report if new information becomes available. Furthermore, the COATS transfer totals from previous quarters have been revised from previous reports to reflect late-reported transactions.

**Figure 4: Volume of CO<sub>2</sub> Allowance Transfers Between Unaffiliated Parties  
July 1 to September 30, 2024**



Key observations regarding physical CO<sub>2</sub> allowance transfers between unaffiliated firms:

- The volume of CO<sub>2</sub> allowance transfers between unaffiliated firms was 20 million, similar to the second quarter and 45 percent higher than the third quarter of 2023.
- Most CO<sub>2</sub> allowance transfers occurred in the last few business days of the month when futures contracts settle, reflecting that most result from settlement of futures contracts.

Key observations regarding the volume of trading of RGGI futures and options contracts:

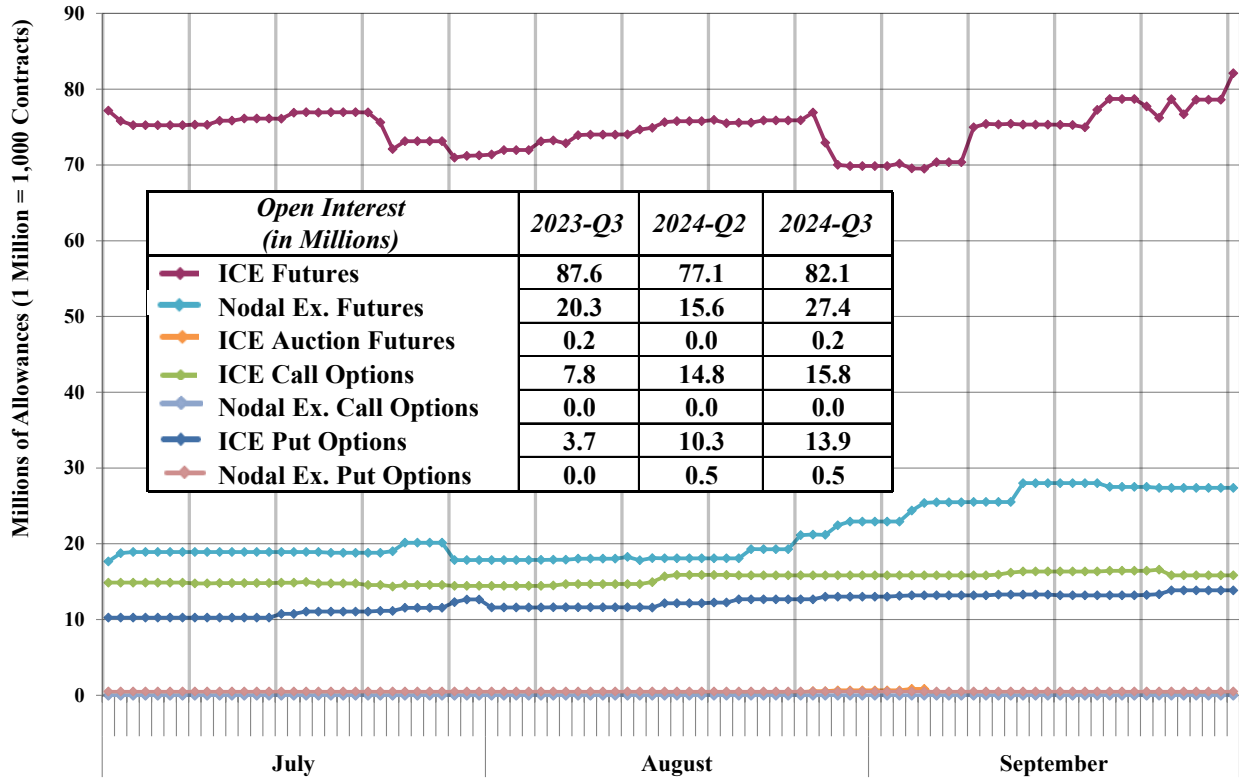
- The total volume of RGGI futures trading was 200 million allowances in the third quarter of 2024, 42 percent higher than the second quarter of 2024 trading volume, and 112 percent higher than the third quarter 2023 trading volume.
- Of futures trading volumes during the quarter, approximately 53 percent was for contracts that settle in December 2024 and 25 percent was for contracts that settle in December 2025.

***Open Interest in Exchange-Traded RGGI Futures and Options***

Figure 5 summarizes the level of open interest in exchange-traded futures and options listed on ICE and Nodal Exchange during the third quarter of 2024. The red line shows the level of open interest in futures contracts on ICE. The teal line shows the level of open interest in futures

contracts on NEX. The green line shows the level of open interest in call options on ICE. The blue line shows the level of open interest in put options on ICE. The orange line shows the level of open interest in auction futures<sup>9</sup> on ICE, while the purple line shows NEX call options.

**Figure 5: Open Interest in RGGI Futures and Options  
July 1 to September 30, 2024**



Key observations regarding the level of open interest in RGGI futures and options:

- Open interest in RGGI futures on ICE remained steady above 75 million allowances until the end of July when July contracts expired. At the start of August, ICE futures open interest was about 71 million allowances and steadily rose peaking at about 77 million allowances before falling to 70 million allowances with the expiration of August contracts. ICE open interest again rose starting in the second week of September and ended the quarter about 5 million higher than the start of the quarter. Open interest in RGGI futures on Nodal

<sup>9</sup> RGGI Auction Futures are a product which converts to long or short RGGI futures contracts on the day of publication of the Market Monitor Report for a specific auction. Positions opened in the RGGI futures contract will be priced at the Auction Clearing Price as specified in the Market Monitor Report. The futures contract vintage will be the month and year in which the auction is held. For more information see [here](#).



Exchange increased from the prior quarter by 11 million allowances to 27 million allowances.

- Open interest in RGGI call and put options on ICE rose from 15 million tons to 16 million and from 10 to 14 million tons, respectively.

***Concentration of Open Interest***

Additional information about the trading of futures, forwards, and options is available in the weekly Commitments of Traders (“COT”) reports, which are published by the Commodity Futures Trading Commission (“CFTC”)<sup>10</sup> for each week when greater than 20 firms have reportable positions in a particular product.

Figure 6 summarizes the concentration of open interest in 2024 and 2025 vintage ICE futures and options contracts reported during the quarter by the CFTC. The figure reports the net long positions in three categories: (i) the four firms with the largest long positions, (ii) the four firms with the largest long positions not including the Top 4, and (iii) all other long positions. The figure also reports the net short positions in three categories: (i) the four firms with the largest short positions, (ii) the four firms with the largest short positions not including the Top 4, and (iii) all other short positions.

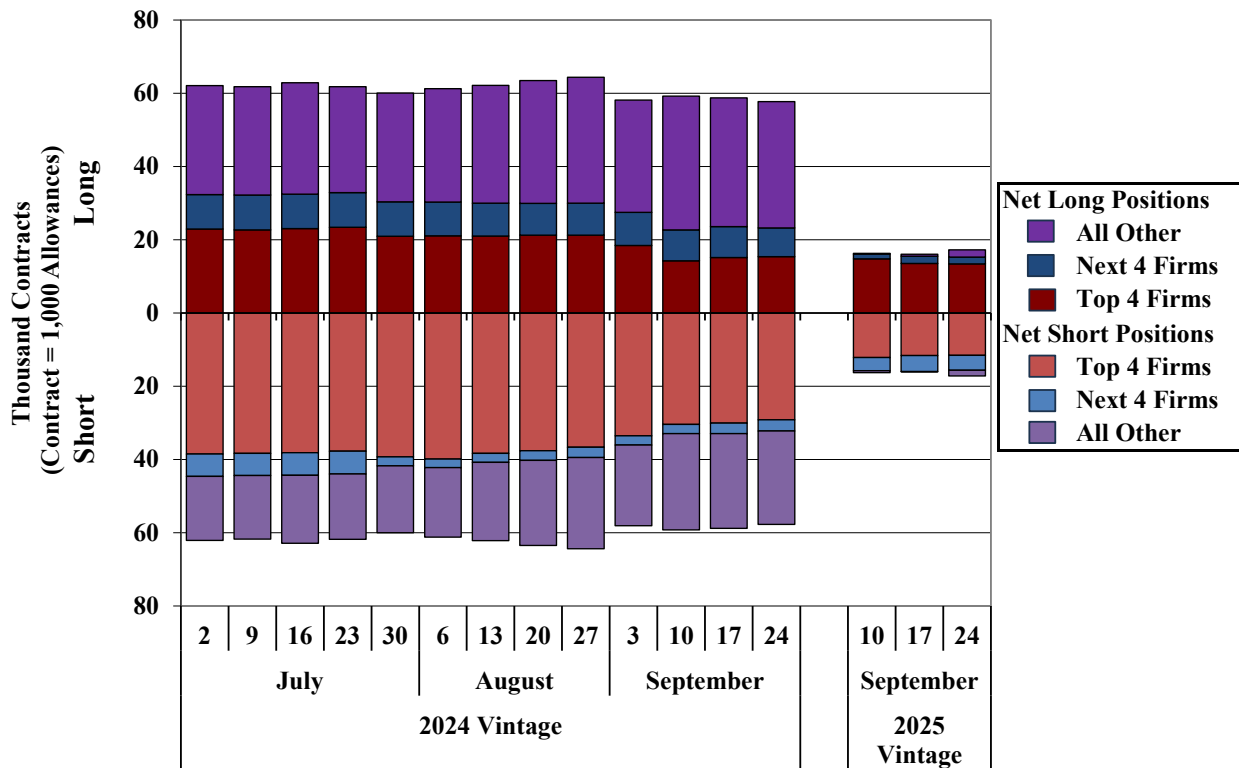
Key observations regarding the concentration of open interest:

- Open interest in ICE 2024 Vintage contracts rose slightly from the start of the quarter to the end of August. In September, 2024 Vintage open interest fell, ending the quarter 7 percent (or 4 million tons) lower than the start of July while 2025 Vintage open interest increased by 17 million tons.
- In addition, for 2024 Vintage open interest:
  - ✓ The “All Other” firms’ share of net long positions increased the most over the quarter for Vintage 2024 contracts, making up 48 percent of total long positions at the beginning of the quarter and ending the quarter with a 60 percent share. Increases in the “All Other” category generally coincided with increases in total open interest.
  - ✓ The “Top Four” held its largest share, 38 percent, of net long positions in the third week of July, but the share fell to 27 percent by the end of September.

<sup>10</sup> Each day, firms with an open interest of 25 contracts or more must report their positions to the CFTC. Each Tuesday, the CFTC issues the COT report summarizing the long and short positions of market participants.

- ✓ The “Next Four” (excluding the “Top Four”) accounted for a relatively small share (about 6 percent on average) of net short open interest during the quarter, indicating that some of these firms also held long positions in 2024 vintage contracts. For example, if a compliance entity with a long position for the prompt month does not have an immediate need to hold allowances, the firm may sell futures for the prompt month while buying futures for settlement in a month that is closer to the compliance deadline.

**Figure 6: Concentration of Open Interest in ICE Futures and Options  
July 1 to September 30, 2024**



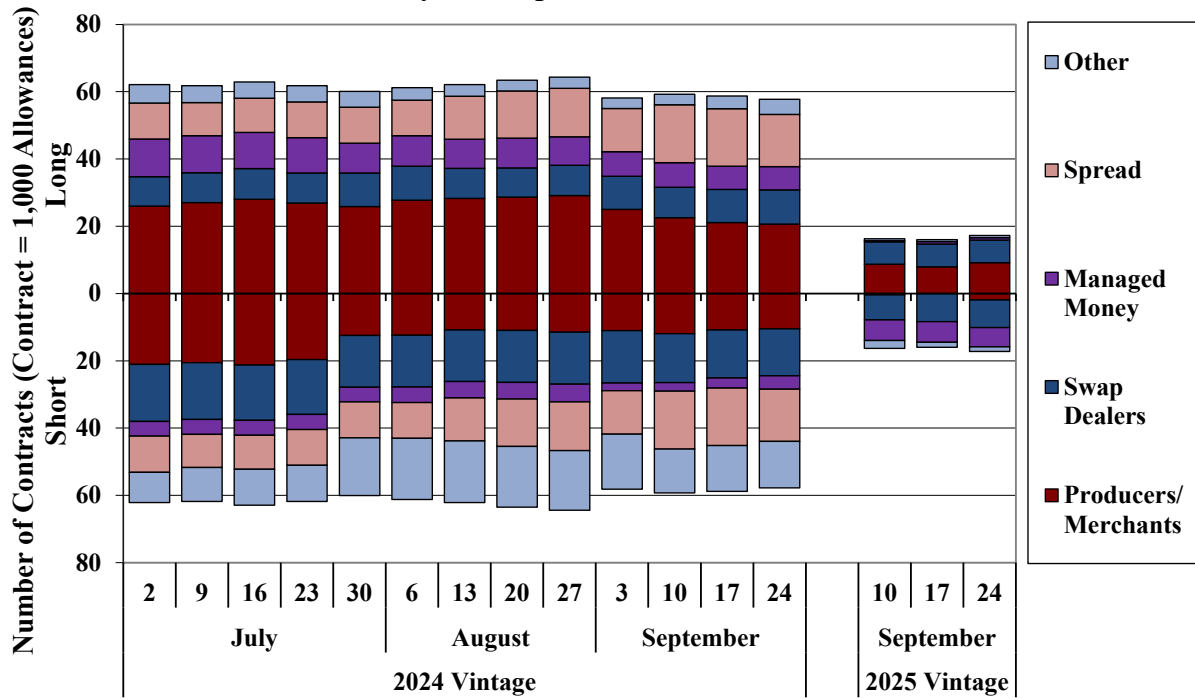
***Participation in the Market for RGGI Derivatives***

Figure 7 summarizes the concentration of open interest by category of trader as defined by the CFTC: producers/merchants, swap dealers, money managers, spread, and other, which includes the CFTC’s categories of “Other” and “Non-reportable.” Producers/merchants represent the group of traders who use futures markets to hedge risks associated with their own production or ‘handling’ of RGGI allowances. This category most closely aligns with the compliance entity category used in this report but could potentially also include energy management companies

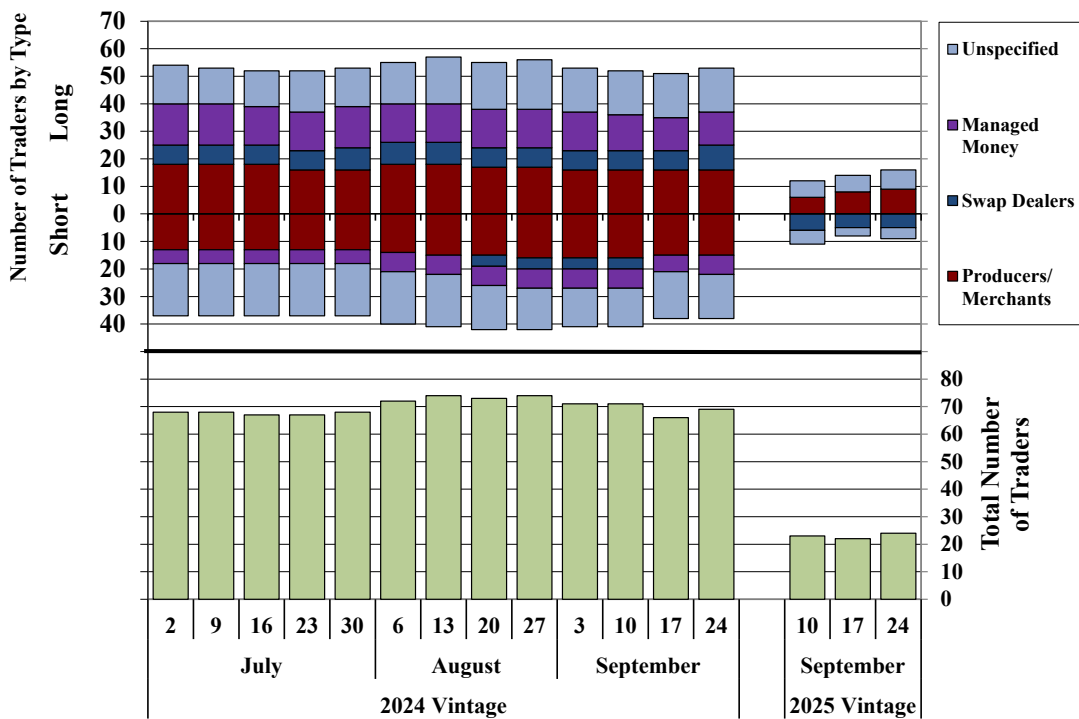
that are not engaged directly with the generation of emissions but help others comply. A swap dealer is defined as an entity that deals primarily in swaps and may do so on behalf of speculative traders or companies trying to reduce risk. In general, a money manager represents an entity that offers trading advice or manages futures trading for others. An investor without a compliance obligation would likely be classified as a money manager or potentially a swap dealer. In addition, if a trader has offsetting short and long positions, the associated quantity is included in a separate spread category. Finally, if a trader is not readily classified in a specific category, it is classified as “Other.” The assignment of an entity to a CFTC category may change over time depending on changing activities of the entity or new information.

Figure 8 shows the number of traders by the same CFTC trader categories described above except “Spread” is included in “Other.” At least four entities must be included in a category for CFTC to report the number of traders in a category. For that reason, a category may appear in Figure 7 for a particular vintage but be absent from Figure 8 if there are not at least four distinct traders in the category. The sum of the number of traders within the long and short categories will typically exceed the total number of traders since a single trader may have both long and short positions. For more refined descriptions of the CFTC classifications, see [www.cftc.gov](http://www.cftc.gov).

**Figure 7: Concentration of Open Interest in ICE Futures and Options by Type  
July 1 to September 30, 2024**



**Figure 8: Number of Traders in ICE Futures and Options by Type  
July 1 to September 30, 2024**



Key observations regarding the participation by various categories of firms:

- Throughout the quarter, the concentration of ICE 2024 Vintage open interest long positions held by producers/merchants accounted for the largest share of the long positions, between 36 and 45 percent. Producers/merchants are expected to account for a large portion of long positions since most eventually must acquire allowances to satisfy their compliance obligations. However, their share was its lowest at the end of the quarter likely due to a shift into 2025 Vintage open interest.
- Managed money traders were primarily holders of long positions for ICE 2024 Vintage open interest, accounting for 18 percent of long positions at the start of the quarter. At the end of the quarter, their positions accounted for just 12 percent of long open interest in ICE 2024 Vintage, a decline of 4 million tons while increasing their 2025 Vintage open interest short positions.
- Swap dealers typically made up the largest share of short positions of ICE 2024 Vintage open interest, which is expected since these are generally well-capitalized firms that hold RGGI allowances in order to make them available for sale through the futures market. In the prior quarter in June, producers/merchants overtook swap dealers share, making up 32 percent of short positions compared to swap dealers' 28 percent. In the third quarter during the last week of July, this reversed, and swap dealers once again overtook producers/merchants, but still never held the highest share of short positions.
- The "Other" category's share of short positions grew markedly starting at the end of July. "Other" accounted for the largest share of short positions in the month of August through the first week of September.
- Spreading positions, in which traders seek to take advantage of price differences between different contracts, increased starting in August and extending through about the third week in September. At the end of the quarter, spreading positions accounted for 27 percent of short positions, the largest share. Options-related open interest accounted for a large portion of the spreading positions. The increased share of spreading open interest also occurred during an uptick in option implied volatility as well as during a period of varied secondary market clearing prices.
- The total number of futures and option traders of ICE Vintage 2024 contracts was similar at the start and end of the quarter, 68 and 69, respectively, but peaked at 74 in the last week of August, just prior to the auction.
  - ✓ While swap dealers hold a sizable portion of the short positions, relatively few traders are classified as such. At most four swap dealers accounted for the 14 to 16 million allowances of ICE Vintage 2024 short positions held in any week during the quarter.
- The CFTC does not publish firm-level information on open interest, although the information they publish provides an indication of the upper limits of the net long and net short positions of individual firms. Combined with firm-specific information about CO<sub>2</sub> allowance holdings from COATS, the information on open interest that is published by the CFTC is useful for

evaluating the potential for a firm to hoard RGGI CO<sub>2</sub> allowances, which is discussed further in Section E.

## E. DISCUSSION OF MARKET MONITORING

As the RGGI Market Monitor, we monitor trading in the secondary CO<sub>2</sub> allowance market in order to identify anticompetitive conduct. Additionally, the Commodity Futures Trading Commission (“CFTC”) evaluates trading in the secondary CO<sub>2</sub> allowance market consistent with its role as the regulator of derivative markets in the U.S. This section discusses two types of anti-competitive conduct for which we monitor. As in previous reports on the secondary market, we find no evidence of anti-competitive conduct.

In any commodity market, one potential concern is that a firm could hoard a substantial share of the supply of a commodity to influence prices or to prevent a competitor from obtaining CO<sub>2</sub> allowances. Hence, we screen information on the holdings of CO<sub>2</sub> allowances and allowance-derivatives and the demand for allowances to identify firms that might acquire a position that raises competitive concerns. The ability of an individual firm to hoard is limited by the substantial private bank of CO<sub>2</sub> allowances that has been accumulated and also by the market rules, particularly the auction rules that limit the amount of allowances that can be purchased by a single party or group of affiliated parties in a single offering to 25 percent.

Another potential concern is that a firm expecting to purchase CO<sub>2</sub> allowances in the auction might sell a large number of futures contracts in an effort to push the price of the contracts below the competitive level. Such a firm might profit from buying a large number of CO<sub>2</sub> allowances in the auction at a discount if the bidding in the auction were influenced by the depressed futures price. For this to be a profitable strategy, the firm would need to be able to substantially depress the futures price with a relatively small amount of sales—an amount smaller than the amount of CO<sub>2</sub> allowances it planned to buy in the auction. The best protection against this strategy is a market where other firms respond by making additional purchases. Firms that are looking for an opportunity to reduce their short positions or to purchase CO<sub>2</sub> allowances for their future compliance needs help limit the effectiveness of a strategy to depress prices below the competitive level. Nevertheless, the CFTC has access to confidential transaction data, which allows it to monitor for evidence of manipulative conduct.