
RGGI Inc.



**MARKET MONITOR REPORT
FOR AUCTION 18**

Prepared for:

RGGI, Inc., on behalf of the RGGI Participating States

Prepared By:

**POTOMAC
ECONOMICS**

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The Regional Greenhouse Gas Initiative (RGGI) is the first mandatory market-based regulatory program in the U.S. to reduce greenhouse gas emissions. RGGI is a cooperative effort of Northeast and Mid- Atlantic states to reduce emissions of carbon dioxide (CO₂) 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.

MARKET MONITOR REPORT FOR AUCTION 18

As the Market Monitor for the RGGI CO₂ allowance market, Potomac Economics monitors the conduct of market participants in the auctions and in the secondary market to identify indications of market manipulation or collusion. We also review the administration of the auctions by World Energy Solutions. This report summarizes our findings regarding RGGI Auction 18, which was held on December 5, 2012.

We observed the auction as it occurred and have completed our review and analysis of its results. Based on our review of bids in the auction, we find no material evidence of collusion or manipulation by bidders.

Twenty-nine bidders participated in the offering of CO₂ allowances for the current control period. Bids were submitted to purchase 53 percent of the available supply of allowances, resulting in a clearing price equal to the reserve price of \$1.93 per ton. Compliance entities or their affiliates purchased 100 percent of the allowances in the offering. There was no indication of barriers to participation in the auction.

Based on our review of the administration of the market, we found that:

- The auction was administered in a fair and transparent manner in accordance with the noticed auction procedures and limitations.
- The auction results were consistent with the market rules and the bids received.
- Sensitive information was treated appropriately by the auction administrator.
- There were no indications of issues with the auction platform such as hardware or software problems, communications issues, or security breaches.

In summary, the results of our monitoring of RGGI Auction 18 raise no material concerns regarding the auction process, barriers to participation in the auction, or the competitiveness of the auction results. The appendix provides additional information about the market for RGGI CO₂ allowances and outcomes of the auction.

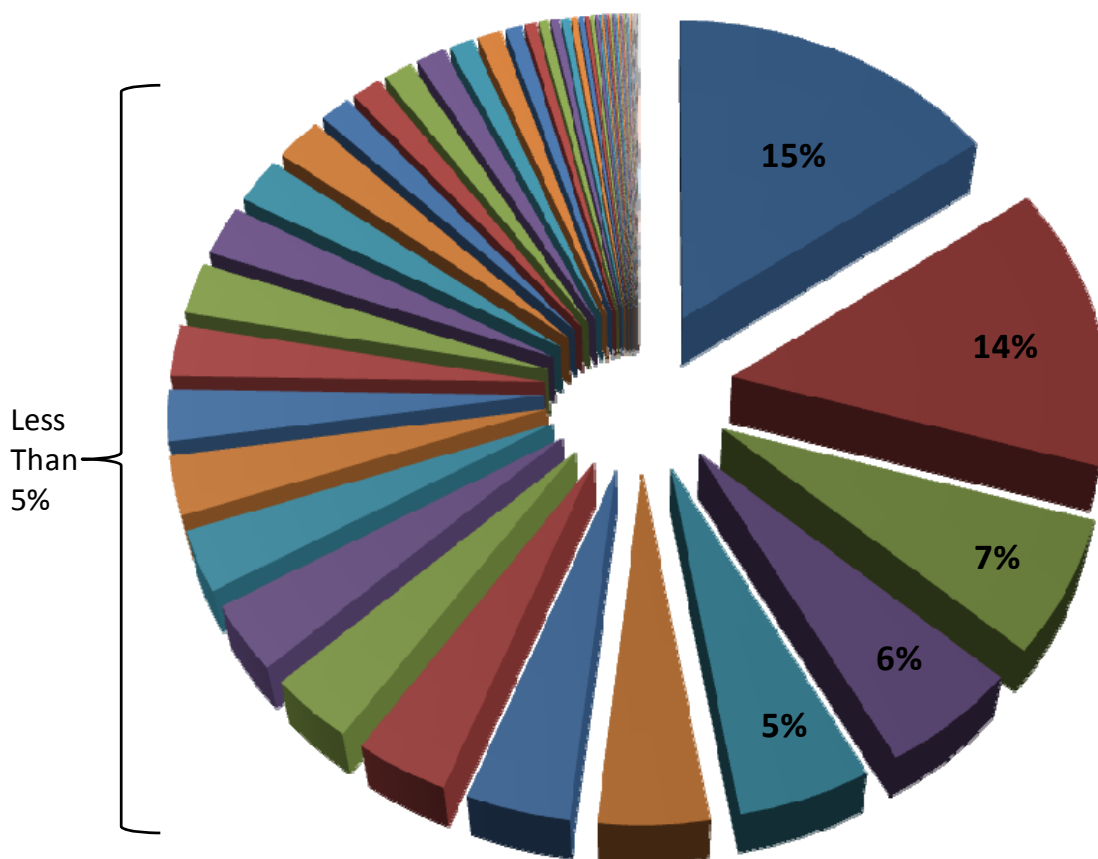
APPENDIX

A. DISPERSION OF PROJECTED DEMAND

The wide dispersion of projected demand for RGGI allowances across compliance entities facilitates the competitive performance of the auction.

The following figure shows the relative shares of projected demand for RGGI allowances by compliance entity in the current control period. The largest compliance entity represents only 15 percent of the total projected demand for allowances. More than half of the projected demand is composed of entities that each account for less than 5 percent of the total demand. Participation by a large number of entities facilitates the competitive performance of the auction.

Figure 1: Projected Demand for RGGI Allowances Shares by Compliance Entity



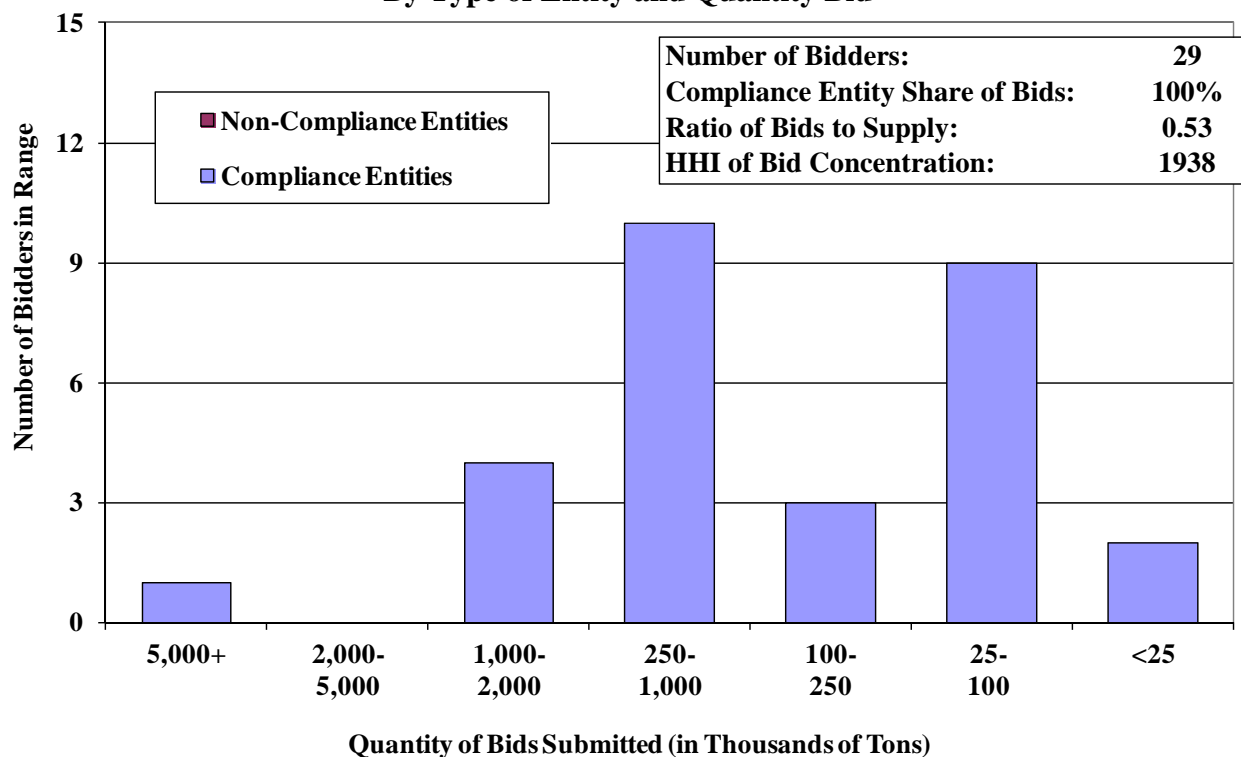
B. DISPERSION OF BIDS IN AUCTION 18

In the offering of allowances for the current control period, bids were submitted by 29 compliance entities and no non-compliance entities. In our review of the bids and the qualification process, we found no material evidence of anti-competitive conduct or significant barriers to participation.

The following figure summarizes the quantity of allowances for which bids were submitted by each bidder. One compliance entity submitted bids for a large quantity of allowances (e.g., at least 5 million tons). Overall, compliance entities accounted for 100 percent of the quantity of allowances for which bids were submitted. The quantity of allowances for which bids were submitted decreased to 0.53 times the available supply in Auction 18 from 0.65 times the available supply in Auction 17 and 0.57 times the available supply in Auction 16.

The bid quantities were widely distributed among the 29 bidders. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), rose from 1703 in Auction 17 to 1938 in Auction 18. The HHI is a standard measure of concentration calculated by squaring each entity’s share and then summing the squares across all entities (hence, the index ranges from 0 to 10,000).

**Figure 2: Quantity of Bids Submitted by Entity
By Type of Entity and Quantity Bid**



C. SUMMARY OF PURCHASES OF ALLOWANCES IN AUCTION 18

In the offering of allowances for the current control period, awards were distributed across 29 bidders with one bidder purchasing five million tons or more and 15 bidders purchasing 250,000 tons or more. Compliance entities or their affiliates purchased 100 percent of the allowances in the auction.

The share of allowances purchased and several other quantities are reported for two types of entities:

- *Compliance Entities:* This includes all compliance entities and their affiliates. In this report, affiliated firms are firms that: (i) have a parent-subsidary 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.
- *Non-Compliance Entities:* Other firms.

The following statistics summarize the purchases and holdings of allowances by compliance entities and their affiliates under the RGGI program:

- In Auction 18, compliance entities and their affiliates purchased 100 percent of the allowances sold.
- In the first 18 RGGI auctions, compliance entities and their affiliates purchased 88 percent of the allowances sold.
- Compliance entities and their affiliates will hold 94 percent of the allowances in circulation following the settlement of allowances sold in Auction 18.

The following table shows the quantity of allowances purchased by each bidder. The identity of each bidder is masked, and the bidders are ranked according to the amount of allowances awarded, from largest to smallest.

Table 1: Quantity of Allowances Awarded by Bidder

Bidder	Number of Allowances Awarded
Bidder 1	8,000,000
Bidder 2	1,968,000
Bidder 3	1,500,000
Bidder 4	1,245,000
Bidder 5	1,000,000
Bidder 6	933,000
Bidder 7	800,000
Bidder 8	600,000
Bidder 9	575,000
Bidder 10	450,000
Bidder 11	400,000
Bidder 12	397,000
Bidder 13	380,000
Bidder 14	279,000
Bidder 15	275,000
Bidder 16	161,000
Bidder 17	136,000
Bidder 18	112,000
Bidder 19	99,000
Bidder 20	85,000
Bidder 21	75,000
Bidder 22	75,000
Bidder 23	51,000
Bidder 24	51,000
Bidder 25	50,000
Bidder 26	37,000
Bidder 27	25,000
Bidder 28	14,000
Bidder 29	1,000

D. SUMMARY OF BID PRICES IN AUCTION 18

The distribution of bid prices submitted in the auction indicates that the demand for allowances was relatively elastic, which is a signal that the results were competitive.

The following table reports several statistics regarding the bid prices for bids submitted in Auction 18. The median and mean bid prices are weighted by the quantity of each bid.

Bid Prices:	
Minimum	\$1.93
Maximum	\$5.14
Average (Median)	\$1.93
Average (Mean)	\$1.98
Clearing Price:	\$1.93

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 18

In accordance with Sections 2.8 and 3 of the Auction Notice for CO₂ Allowance Auction 18 on December 5, 2012, the Participating States are releasing the names of Potential Bidders in Auction 18. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid*.” The list of 34 Potential Bidders is as follows:

AES Warrior Run Cogeneration Facility	Indeck-Corinth Limited Partnership
Astoria Energy, LLC	Jamestown Board of Public Utilities
Astoria Generating Company, LP	J-Power USA Development Co., Ltd.
Berkshire Power Company, LLC	Kleen Energy Systems, LLC
Brookfield Energy Marketing LP	Massachusetts Muni. Wholesale Elec. Co.
Brooklyn Navy Yard Cogen Partners, LP	Millennium Power Partners, LP
Caithness Long Island, LLC	National Grid Gen. dba National Grid
Castleton Power, LLC	New Athens Generating Company, LLC
Consolidated Edison Comp. of NY, Inc.	NextEra Energy Power Marketing, LLC
Constellation Energy Commodities Group	NRG Power Marketing, LLC
Dominion Energy Marketing, Inc.	Power Authority of the State of New York
Dynegy Marketing and Trade, LLC	Public Service Company of New Hampshire
EDF Trading North America, LLC	RBC
Empire Generating Co., LLC	Rochester Gas and Electric Corporation
Entergy Rhode Island State Energy, LP	Selkirk Cogen Partners, LP
EquiPower Resources	Verso Paper Corp.
GenOn Energy Management, LLC	Wallingford Energy, LLC