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RGGI Auction Sells 21.5 Million CO₂ Allowances

Current Control Period Allowances Sold at \$1.93

NEW YORK, NY—21,559,000 carbon dioxide (CO₂) allowances were sold in the Regional Greenhouse Gas Initiative's (RGGI) 15th quarterly auction on Wednesday, announced the nine Northeastern and Mid-Atlantic states participating in the second RGGI control period. The auction was the first of RGGI's second three-year control period.

Bids for current control period (2012-2014) CO₂ allowances ranged from \$1.93 to \$5.36 per allowance, with a clearing price of \$1.93, the minimum reserve price for the auction. Allowances sold represented 62 percent of the 34,843,858 allowances offered for sale by the nine states. The auction generated a total of \$41.6 million in proceeds, which the states will continue to invest in a variety of consumer benefit initiatives.

According to the independent market monitor's report, electricity generators and their corporate affiliates have won 87 percent of CO₂ allowances sold in RGGI auctions since 2008. Additional details are available in the *Market Monitor Report for Auction 15*, available at: http://www.rrgi.org/docs/Auctions/15/Auction_15_Market_Monitor_Report.pdf

"By using the auction proceeds to invest in energy efficiency, the RGGI states continue to help families and businesses save money, support local job creation, and improve air quality," said Collin O'Mara, Secretary of the Delaware Department of Natural Resources and Environmental Control and Chair of RGGI, Inc. "Smart energy efficiency investments enabled by RGGI have created thousands of local jobs and are returning significant cost savings to business and residential consumers throughout the region."

"Every dollar we keep in our region supports growth in local economies," said David Littell, a Commissioner of the Maine Public Utilities Commission and Vice Chair of RGGI, Inc. "RGGI investments keep \$765 million in our states by reducing fossil fuel expenditures. At the same time, we are reducing harmful pollution. This double impact—of enhancing local economies and reducing emissions—is what makes RGGI so effective."

The nine states are conducting a comprehensive review of RGGI's first three years of implementation. The 2012 program review, which was included in RGGI's original design, gathers stakeholder comment on all aspects of the program. The review considers, among other things, the reduction in emissions that has occurred since the regional emissions cap was put into place.

The next stakeholder meeting on March 20th will solicit input on electricity-sector modeling of potential scenarios, potential use of macroeconomic modeling for program review, and program operations. Meeting materials and registration information are available at: www.rrgi.org/design/program_review/materials_by_date.

The next RGGI auction is scheduled for June 6, 2012.

Auction 15 Results At-A-Glance	
Auction Date	March 14, 2012
Allowances Offered for Sale (2012 Vintage)	34,843,858
Allowances Sold	21,559,000
Ratio of Bids to Supply	.62x
Clearing Price	\$1.93
Reserve Price	\$1.93
Proceeds from Auction 15	\$41,608,870.00
Total Cumulative Proceeds (All Auctions)	\$993,752,038.19
Number of Bidders in Auction 15	20
Percent of Allowances Purchased by Compliance Entities & their Corporate Affiliates in Auction 15	99%

More data is available at: http://www.rggi.org/market/co2_auctions/results.

About the Regional Greenhouse Gas Initiative

The Northeast and Mid-Atlantic states participating in the second RGGI control period (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont) have implemented the first mandatory market-based regulatory program in the U.S. to reduce greenhouse gas emissions. Power sector CO₂ emissions are capped at 165 million short tons per year through 2014. The cap will then be reduced by 2.5 percent in each of the four years 2015 through 2018, for a total reduction of 10 percent.

RGGI is composed of individual CO₂ budget trading programs in each state, based on each state's independent legal authority. A CO₂ allowance represents a limited authorization to emit one short ton of CO₂, as issued by a respective state. A regulated power plant must hold CO₂ allowances equal to its emissions to demonstrate compliance at the end of each three-year control program. RGGI's second control period began on January 1, 2012 and extends through December 31, 2014. CO₂ allowances issued by any state are usable across all state programs, so that the individual state CO₂ budget trading programs, in aggregate, form one regional compliance market for CO₂ emissions. For more information visit www.rggi.org

About Regional Greenhouse Gas Initiative, Inc.

Regional Greenhouse Gas Initiative, Inc. (RGGI, Inc.) was created to provide technical and administrative services to the states participating in the Regional Greenhouse Gas Initiative. RGGI, Inc. is a 501(c)(3) nonprofit organization. For more information, visit: www.rggi.org/rggi

The RGGI auctions are administered by RGGI, Inc. and run on an on-line platform provided by World Energy Solutions, Inc.

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RGGI Inc.



**MARKET MONITOR REPORT
FOR AUCTION 15**

Prepared for:

RGGI, Inc., on behalf of the states participating in RGGI

Prepared By:

**POTOMAC
ECONOMICS**

March 16, 2012

This report was prepared by Potomac Economics (the contractor) in the course of performing work contracted for and sponsored by RGGI, Inc. on behalf of states participating in RGGI (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont). The opinions expressed in this report do not necessarily reflect those of RGGI, Inc. or any of the states participating in RGGI, and reference to any specific product, service, process, or method does not constitute an implied or expressed recommendation or endorsement of it. Further, RGGI, Inc., the states participating in RGGI, and the contractor make no warranties or representations, expressed or implied, as to the fitness for particular purpose or merchantability of any product, apparatus, or service, or the usefulness, completeness, or accuracy of any processes, methods, or other information contained, described, disclosed, or referred to in this report. RGGI, Inc., the states participating in RGGI, and the contractor make no representation that the use of any product, apparatus, process, method, or other information will not infringe privately owned rights and will assume no liability for any loss, injury, or damage resulting from, or occurring in connection with, the use of information contained, described, disclosed, or referred to in this report.

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 15

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 15, which was held on March 14, 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 bidders participated in the offering of CO₂ allowances for the 2012 allocation year. Bids were submitted to purchase 62 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 99 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 15 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.

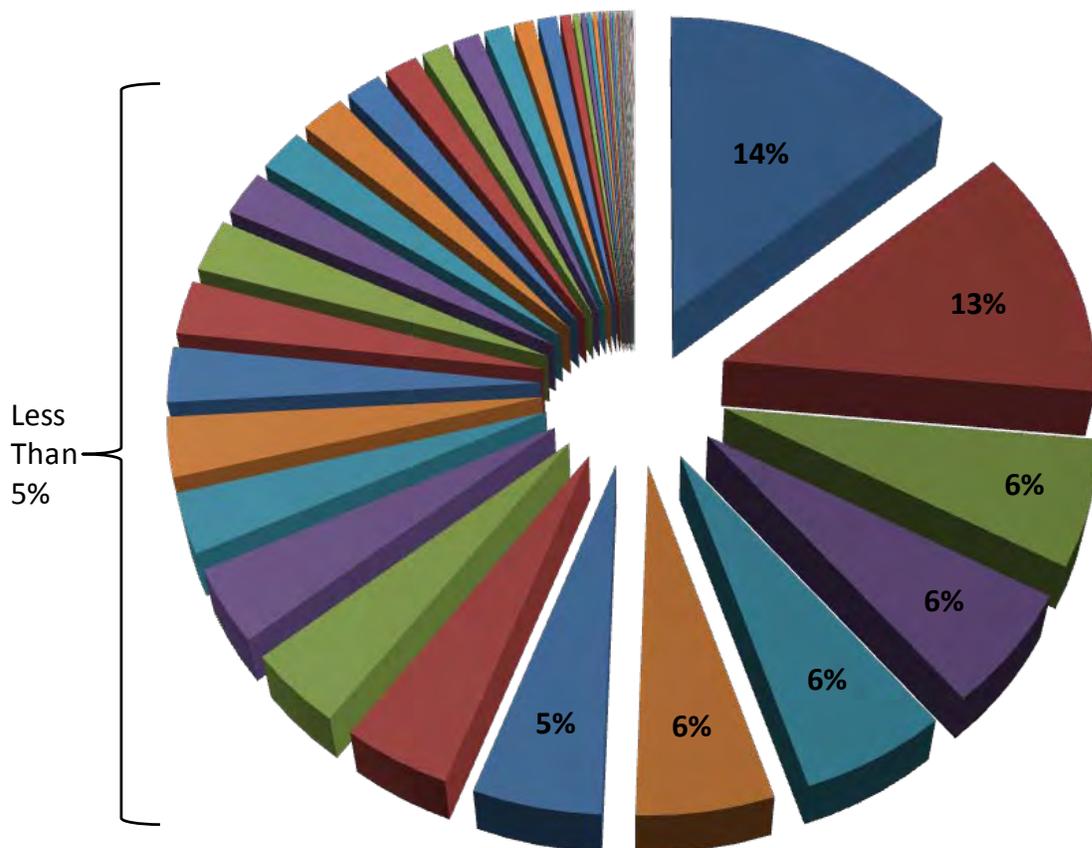
APPENDIX

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 14 percent of the total projected demand for allowances. Almost half of the projected demand is composed of entities that each account for less than 6 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



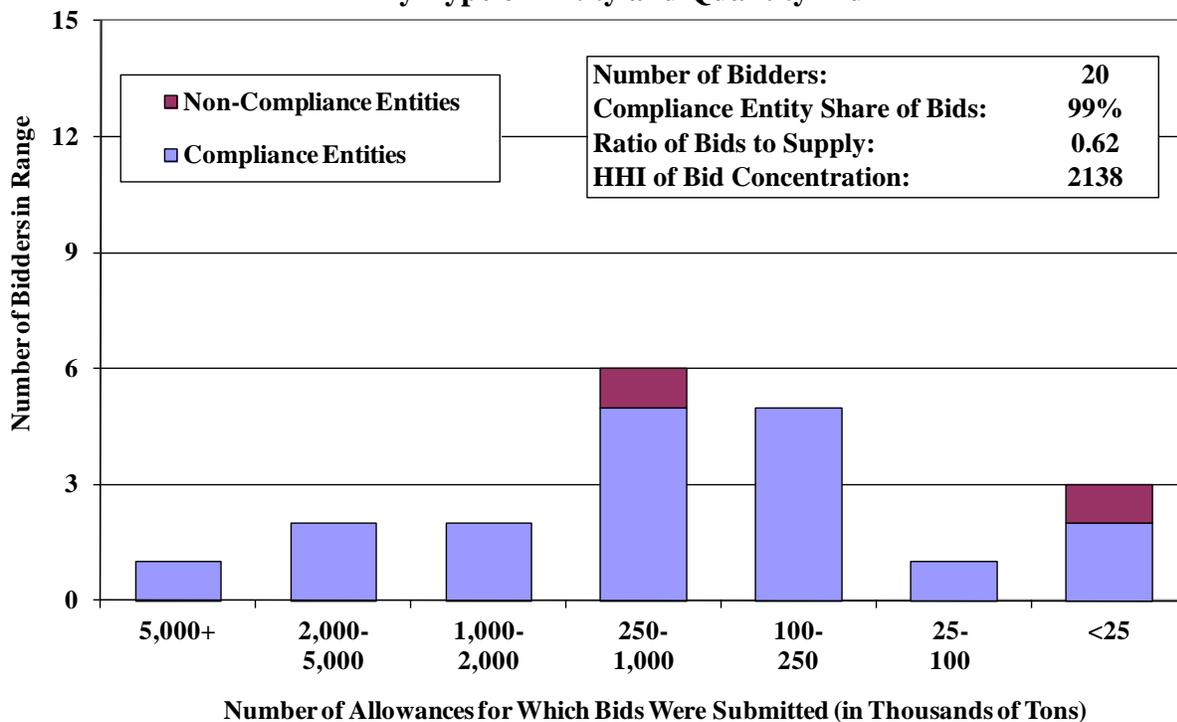
B. DISPERSION OF BIDS IN AUCTION 15

In the offering of allowances for the 2012 allocation year, bids were submitted by 18 compliance entities and two 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. Three compliance entities submitted bids for a large quantity of allowances (e.g., at least 2 million tons). Overall, compliance entities accounted for 99 percent of the quantity of allowances for which bids were submitted. The quantity of allowances for which bids were submitted decreased to 0.62 times the available supply in Auction 15 from 0.63 times the available supply in Auction 14, but increased from 0.18 times the available supply in Auction 13.

The bid quantities were widely distributed among the 20 bidders. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), fell from 2344 in Auction 14 to 2138 in Auction 15. 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 15

In the offering of allowances for the 2012 allocation year, awards were widely distributed across 20 bidders with three bidders purchasing two million tons or more and eleven bidders purchasing 250,000 tons or more. Compliance entities or their affiliates purchased 99 percent of the allowances in the auction.

The share of allowances purchased and several other quantities are reported for each of three 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.
- *Environmental/Individuals:* This includes non-compliance entities describing themselves as “Environmental Groups” or “Individual Person” in their qualification application.
- *Other Non-Compliance Entities:* This includes all other non-compliance entities.

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

- In Auction 15, compliance entities and their affiliates purchased 99 percent of the allowances sold.
- In the first fifteen RGGI auctions, compliance entities and their affiliates purchased 87 percent of the allowances sold.
- Compliance entities and their affiliates will hold 90 percent of the allowances in circulation following the settlement of allowances sold in Auction 15 (and after compliance has been completed for the first control period).¹

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.

¹ Please note this is based upon the Market Monitor's estimate of first control period compliance obligations. States are currently evaluating compliance for the first control period. State evaluations of compliance will be released publically on June 2, 2012.

Table 1: Quantity of Allowances Awarded by Bidder

Bidder	Number of Allowances Awarded
Bidder 1	8,710,000
Bidder 2	3,090,000
Bidder 3	2,510,000
Bidder 4	1,850,000
Bidder 5	1,554,000
Bidder 6	850,000
Bidder 7	615,000
Bidder 8	500,000
Bidder 9	390,000
Bidder 10	337,000
Bidder 11	280,000
Bidder 12	200,000
Bidder 13	187,000
Bidder 14	154,000
Bidder 15	150,000
Bidder 16	121,000
Bidder 17	28,000
Bidder 18	13,000
Bidder 19	12,000
Bidder 20	8,000

D. SUMMARY OF BID PRICES IN AUCTION 15

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 15. The median and mean bid prices are weighted by the quantity of each bid.

Bid Prices:	
Minimum	\$1.93
Maximum	\$5.36
Average (Median)	\$1.95
Average (Mean)	\$2.00
Clearing Prices:	\$1.93

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 15

In accordance with Section 2.8 of the Auction Notice for CO₂ Allowance Auction 15 on March 14, 2012, the Participating States are releasing the names of Potential Bidders in Auction 15. 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:

Brooklyn Navy Yard Cogen Partners, LP	J-Power USA Development Co., Ltd.
Caithness Long Island, LLC	Kleen Energy Systems, LLC
CE2 Carbon Capital, LLC	Koch Supply & Trading, LP
Consolidated Edison Comp. of NY, Inc.	Massachusetts Muni. Wholesale Elec. Co.
Constellation Energy Commodities Group	Millennium Power Partners, LP
CP Energy Marketing (US) Inc.	Morgan Stanley Capital Group, Inc.
Delaware Municipal Electric Corp.	National Grid Gen. dba National Grid
Dominion Energy Marketing, Inc.	New Athens Generating Company, LLC
EDF Trading North America, LLC	NextEra Energy Power Marketing, LLC
Empire Generating Co., LLC	Power Authority of the State of New York
EquiPower Resources	Public Service Company of New Hampshire
Essential Power, LLC	RBC
GenOn Energy Management, LLC	Rochester Gas and Electric Corporation
Granite Ridge Energy, LLC	Selkirk Cogen Partners, LP
H.Q. Energy Services (US) Inc.	Sterling Planet, Inc.
Hawkeye Energy Greenport	Verso Paper Corp.
Indeck-Corinth Limited Partnership	Vitol Inc.