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RGGI Auction Sells 27 Million CO₂ Allowances, Proceeds to Benefit Northeast and Mid-Atlantic Regional Economy

Current Control Period Allowances Sold at \$1.89

NEW YORK, NY— The ten Northeastern and Mid-Atlantic states participating in the Regional Greenhouse Gas Initiative (RGGI) announced today the sale of 27,293,000 carbon dioxide (CO₂) allowances in the program's 14th quarterly auction, generating a total of \$51.5 million in proceeds. Wednesday's auction was the final auction of the program's first three-year control period and brought cumulative auction proceeds to \$952 million.

Bids for current control period allowances (2009-2011) ranged from \$1.89 to \$5.00 per allowance, with a clearing price of \$1.89, the minimum reserve price for the auction. Allowances sold represented 63 percent of the 42,983,482 current control period allowances offered for sale by the ten participating states.

The participating states of Connecticut, Delaware, Maine, Massachusetts, Maryland, New Hampshire, New York, Rhode Island, and Vermont also offered a smaller number of CO₂ allowances for a future control period (2012-2014), none of which were sold.

Tens of thousands of businesses and families throughout the region are already benefiting from RGGI-funded programs designed to reduce energy bills and support local jobs. Overall, the first three years of the program will result in \$1.6 billion in net economic benefit to the region, according to a recent report by the independent consulting firm, The Analysis Group. This translates into an economic benefit of \$33 per person in the region, according to the report. In addition, reduced emissions from power plants yield health benefits and a cleaner environment for the residents of the region.

All of these benefits are achieved while the states continue to cap power sector CO₂ emissions in the RGGI region. The first control period three-year emissions average (2009-2011) is expected to be the lowest of the decade.

"RGGI's first three years have delivered results: results that generate significant economic benefit while preventing harmful pollutants from entering our air and atmosphere," said David Littell, a Commissioner of the Maine Public Utilities Commission and Chair of RGGI, Inc. "The auctions have proven to be an effective and efficient way to allocate CO₂ allowances. RGGI has demonstrated that market-based solutions work, promoting innovation in low-emissions technologies and providing an economic engine for investments in energy efficiency, workforce training, and bill assistance programs."

"The RGGI program uses the power of economic markets to tackle one of the greatest environmental challenges for our generation," said Collin O'Mara, Secretary of the Delaware Department of Natural Resources and Environmental Control and Vice Chair of RGGI, Inc. "RGGI has provided power generators with the regulatory certainty they need to invest in our energy infrastructure. At the same time, it enables our states to invest in our local economies and generate

cost savings for businesses and residents. Over the past three years, we have successfully supported emissions reductions while generating economic benefits for each of our states."

According to the independent market monitor's report, electricity generators and their corporate affiliates have won 86 percent of CO₂ allowances sold in the auctions and will hold 97 percent of allowances in circulation following Auction 14 settlement. Additional details are available in the *Market Monitor Report for Auction 14*, available at:

http://www.rggi.org/docs/Auctions/14/Auction_14_Market_Monitor_Report.pdf.

As the end of the first control period approaches, the participating states continue preparations for the comprehensive 2012 program review. Stakeholder meetings were held in 2010 and 2011 and the states will continue to engage with stakeholders throughout 2012. The states will consider, among other matters, recent reductions in emissions, while working to ensure the environmental integrity and long-term development of the RGGI market. For additional information on the RGGI program review, visit: http://www.rggi.org/design/program_review.

The next RGGI auction, the first of the second control period, is scheduled for March 14, 2012.

About the Regional Greenhouse Gas Initiative

The Northeast and Mid-Atlantic states participating in RGGI (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island and Vermont) have implemented the first market-based, mandatory cap-and-trade program in the U.S. to reduce greenhouse gas emissions. Power sector CO₂ emissions are capped at 188 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.

A CO₂ allowance represents a limited authorization to emit one short ton of CO₂, as issued by a respective participating state. A regulated power plant must hold CO₂ allowances equal to its emissions to demonstrate compliance at the end of each three-year control period. The first control period for fossil fuel-fired electric generators under each state's CO₂ Budget Trading Program took effect on January 1, 2009 and extends through December 31, 2011. Allowances for the first (2009-2011) control period may be used to meet current compliance obligations, or may be banked for use in future control periods. CO₂ allowances for the second (2012-2014) control period can only be used to meet compliance obligations beginning in 2012. CO₂ allowances issued by any participating state are usable across all state programs, so that the ten 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 14**

Prepared for:

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

Prepared By:

**POTOMAC
ECONOMICS**

December 9, 2011

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 the RGGI Participating States (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont). The opinions expressed in this report do not necessarily reflect those of RGGI, Inc. or any of the Participating States, 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 Participating States, 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 Participating States, 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 a cooperative effort by participating states to reduce emissions of carbon dioxide (CO₂), a greenhouse gas that causes global warming.

RGGI, Inc. is a non-profit corporation created to provide technical and administrative services to the CO₂ Budget Trading Programs of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.

MARKET MONITOR REPORT FOR AUCTION 14

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 14, which was held on December 7, 2011.

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.

A large number of bidders participated in the offering of CO₂ allowances for the current control period (with a 2009, 2010 and 2011 vintage year). Thirty-eight entities submitted bids to purchase 63 percent of the available supply of allowances, resulting in a clearing price equal to the reserve price of \$1.89 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 current control period offering.

A small number of allowances were auctioned for a future control period (with a 2014 vintage year), although no bids were submitted to purchase these allowances. There was no indication of barriers to participation in the future control period offering.

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 14 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.

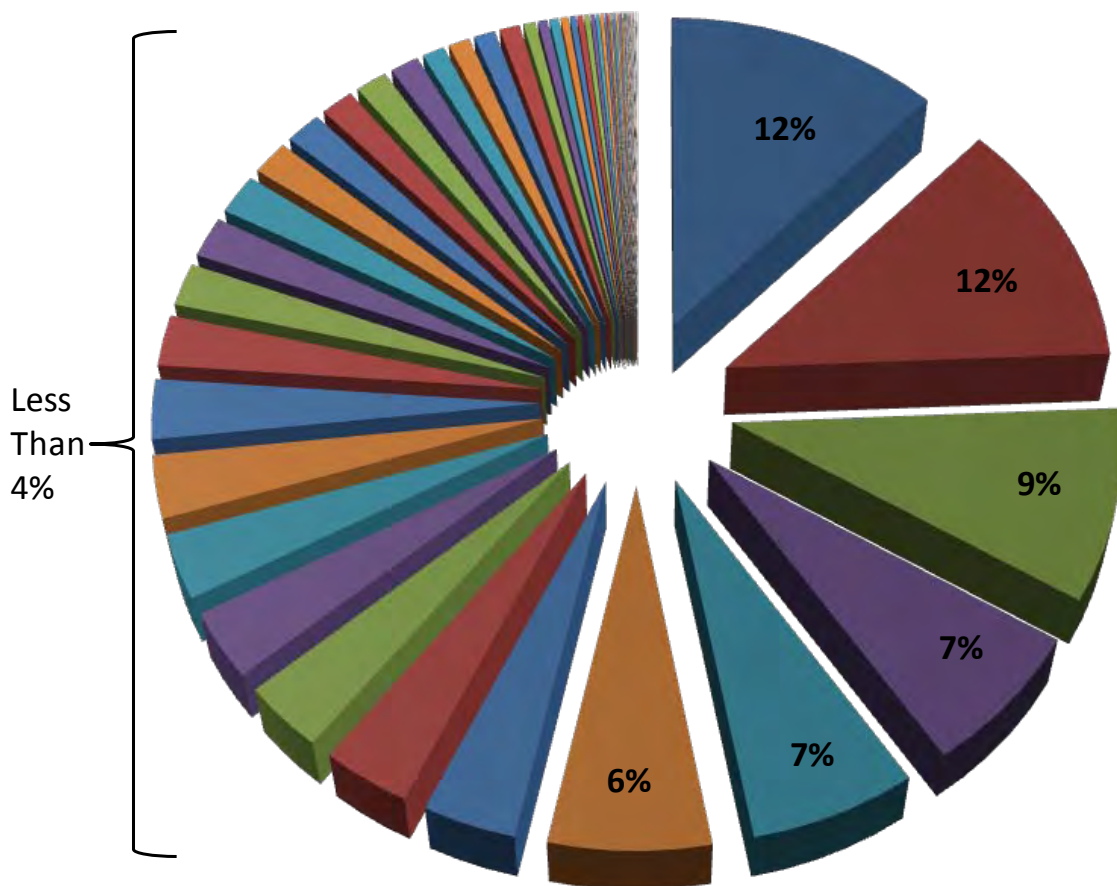
APPENDIX

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 12 percent of the total projected demand for allowances. Almost half of the projected demand is composed of entities that each account for less than 4 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 14

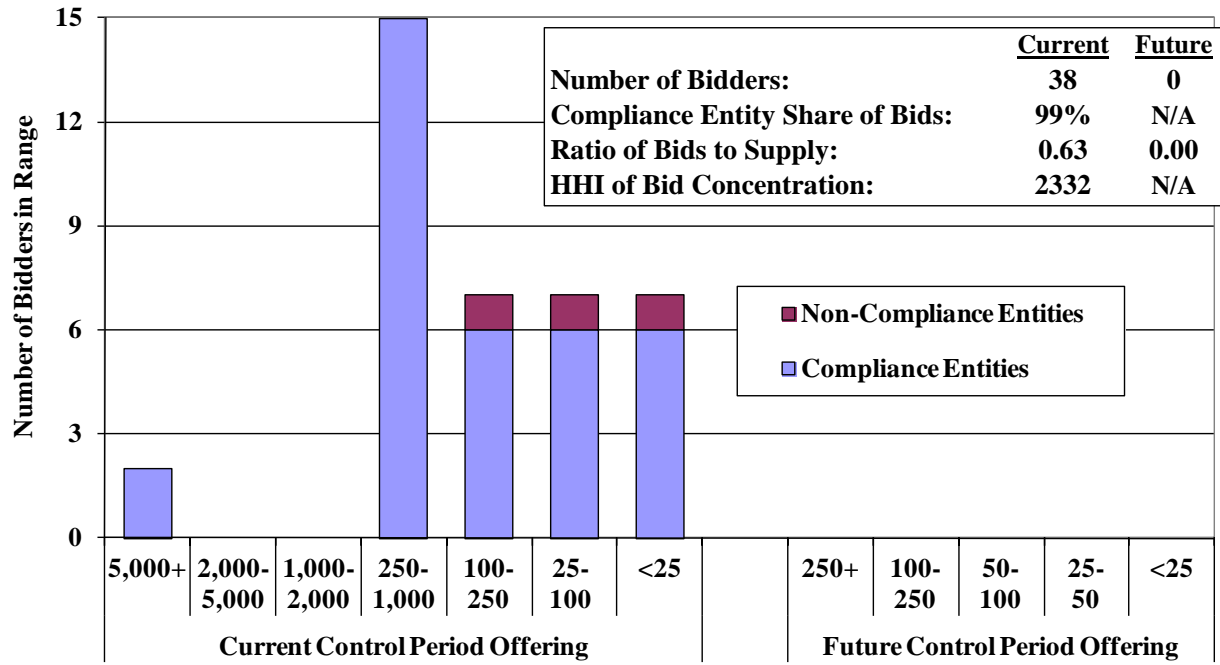
In the offering of current control period allowances, bids were submitted by a large number of compliance entities and two non-compliance entities. A small number of allowances were also auctioned in advance for a future control period, although no bids were submitted in this offering. In our review 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 quantities of allowances for which bids were submitted in the two offerings. In the offering of current control period allowances, two compliance entities submitted bids for a large quantity of allowances (e.g., at least 5 million tons). Overall, compliance entities accounted for 99 percent of the quantity of allowances for which bids were submitted in the offering of current control period allowances. The quantity of allowances for which bids were submitted increased to 0.63 times the available supply in Auction 14 from 0.18 times the available supply in Auction 13 and 0.30 times the available supply in Auction 12.

In the offering of future control period allowances, no bids were submitted in Auction 13 or in Auction 14. The last auction in which bids were submitted for future control period allowances was Auction 12 when bids were submitted for 0.57 times the available supply.

The bid quantities were widely distributed among the 38 bidders in the offering of current control period allowances. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), rose from 884 in Auction 13 to 2344 in Auction 14. The HHI rose because two compliance entities accounted for the majority (66 percent) of allowances for which bids were submitted in Auction 14. 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**



Quantity of Bids Submitted (in Thousands of Tons)

C. SUMMARY OF PURCHASES OF ALLOWANCES IN AUCTION 14

In the offering of current control period allowances, awards were widely distributed across 38 bidders with two bidders purchasing five million tons or more and seventeen bidders purchasing 250,000 tons or more. Compliance entities or their affiliates purchased 99 percent of the allowances in the offering of current control period allowances.

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 14, compliance entities and their affiliates purchased 99 percent of the current control period allowances sold.
- In the first fourteen RGGI auctions, compliance entities and their affiliates purchased:
 - ✓ 86 percent of the current control period allowances sold,
 - ✓ 92 percent of the future control period allowances sold, and
 - ✓ 86 percent of all allowances sold.
- Compliance entities and their affiliates will hold 97 percent of the allowances in circulation following the settlement of allowances sold in Auction 14.

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 Current Control Period Allowances Awarded
Bidder 1	10,745,000
Bidder 2	7,300,000
Bidder 3	990,000
Bidder 4	980,000
Bidder 5	803,000
Bidder 6	734,000
Bidder 7	600,000
Bidder 8	533,000
Bidder 9	490,000
Bidder 10	400,000
Bidder 11	340,000
Bidder 12	312,000
Bidder 13	300,000
Bidder 14	300,000
Bidder 15	260,000
Bidder 16	250,000
Bidder 17	250,000
Bidder 18	220,000
Bidder 19	201,000
Bidder 20	193,000
Bidder 21	185,000
Bidder 22	140,000
Bidder 23	136,000
Bidder 24	110,000
Bidder 25	87,000
Bidder 26	75,000
Bidder 27	70,000
Bidder 28	61,000
Bidder 29	60,000
Bidder 30	47,000
Bidder 31	25,000
Bidder 32	20,000
Bidder 33	19,000
Bidder 34	17,000
Bidder 35	16,000
Bidder 36	15,000
Bidder 37	5,000
Bidder 38	4,000

D. SUMMARY OF BID PRICES IN AUCTION 14

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

	<u>Current</u>	<u>Future</u>
Bid Prices:		
Minimum	\$1.89	N/A
Maximum	\$5.00	N/A
Average (Median)	\$1.91	N/A
Average (Mean)	\$1.99	N/A
Clearing Prices:	\$1.89	N/A

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 14

In accordance with Section 2.8 of the Auction Notice for CO₂ Allowance Auction 14 on December 7, 2011, the Participating States are releasing the names of Potential Bidders in Auction 14. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid*.” The list of 49 Potential Bidders is as follows:

AES Eastern Energy, LP	J-Power USA Development Co., Ltd.
AES Warrior Run Cogeneration Facility	Kleen Energy Systems, LLC
Aircraft Services Corporation	Koch Supply & Trading, LP
Astoria Generating Company, LP	Logan Generating Company, LP
Brooklyn Navy Yard Cogen Partners, LP	Massachusetts Bay Transportation Auth.
Caithness Long Island, LLC	Massachusetts Muni. Wholesale Elec. Co.
Calpine Energy Services, LP	Massachusetts Water Resources Authority
Cargill Power Markets, LLC	Millennium Power Partners, LP
Castleton Power, LLC	Morgan Stanley Capital Group, Inc.
Chambers Cogeneration, LP	National Grid Gen. dba National Grid
ConocoPhillips Company	New Athens Generating Company, LLC
Consolidated Edison Comp. of NY, Inc.	NextEra Energy Power Marketing, LLC
Constellation Energy Commodities Group	North American Energy Alliance, LLC
Covanta Energy Corporation	NRG Power Marketing, LLC
CP Energy Marketing (US) Inc.	Old Dominion Electric Cooperative
Dominion Energy Marketing, Inc.	Panda Brandywine, LP
Dynegy Marketing and Trade, LLC	Power Authority of the State of New York
Empire Generating Co., LLC	Public Service Company of New Hampshire
EquiPower Resources	RBC
GenOn Energy Management, LLC	Rochester Gas and Electric Corporation
Green Mountain Power Corporation	Selkirk Cogen Partners, LP
H.Q. Energy Services (US) Inc.	Sunoco Power Generation, LLC
Hawkeye Energy Greenport	Verso Paper Corp.
Indeck-Corinth Limited Partnership	Wallingford Energy, LLC
Jamestown Board of Public Utilities	