
RGGI Inc.



**MARKET MONITOR REPORT
FOR AUCTION 16**

Prepared for:

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

Prepared By:

**POTOMAC
ECONOMICS**

June 8, 2012

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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 16

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 16, which was held on June 6, 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-four bidders participated in the offering of CO₂ allowances for the current control period. Bids were submitted to purchase 57 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 95 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 16 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.

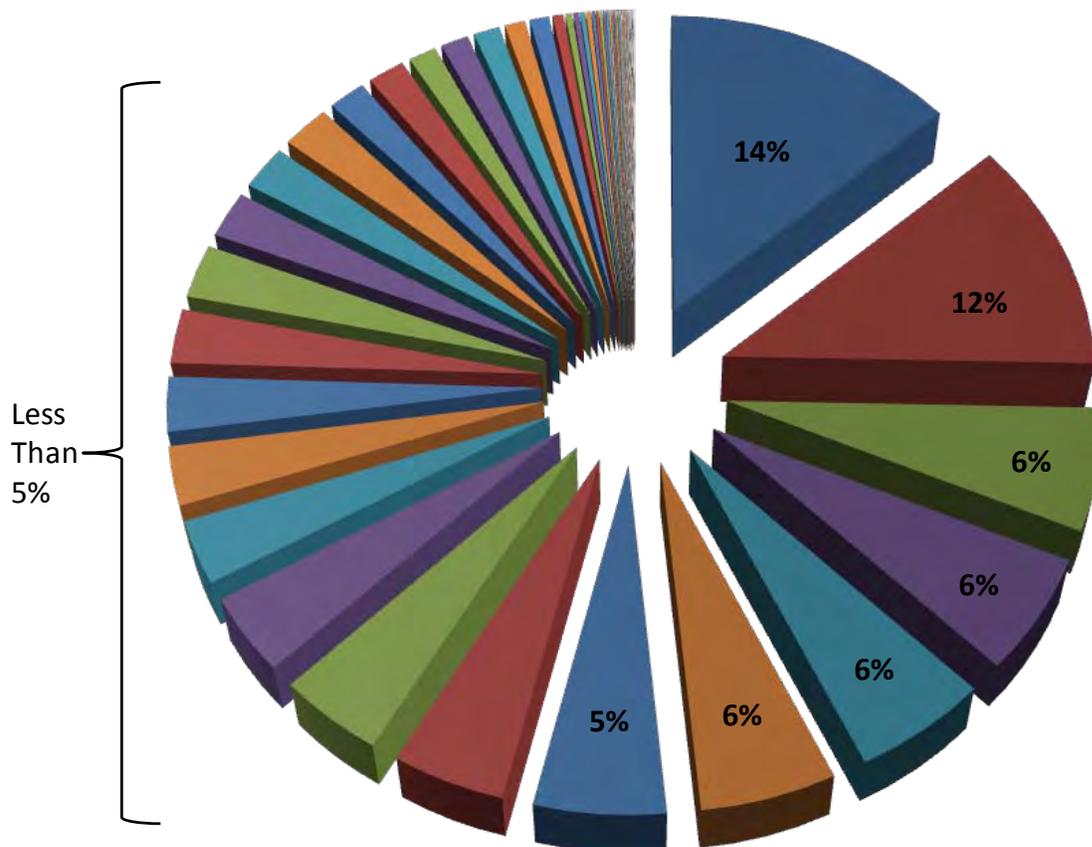
APPENDIX

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 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



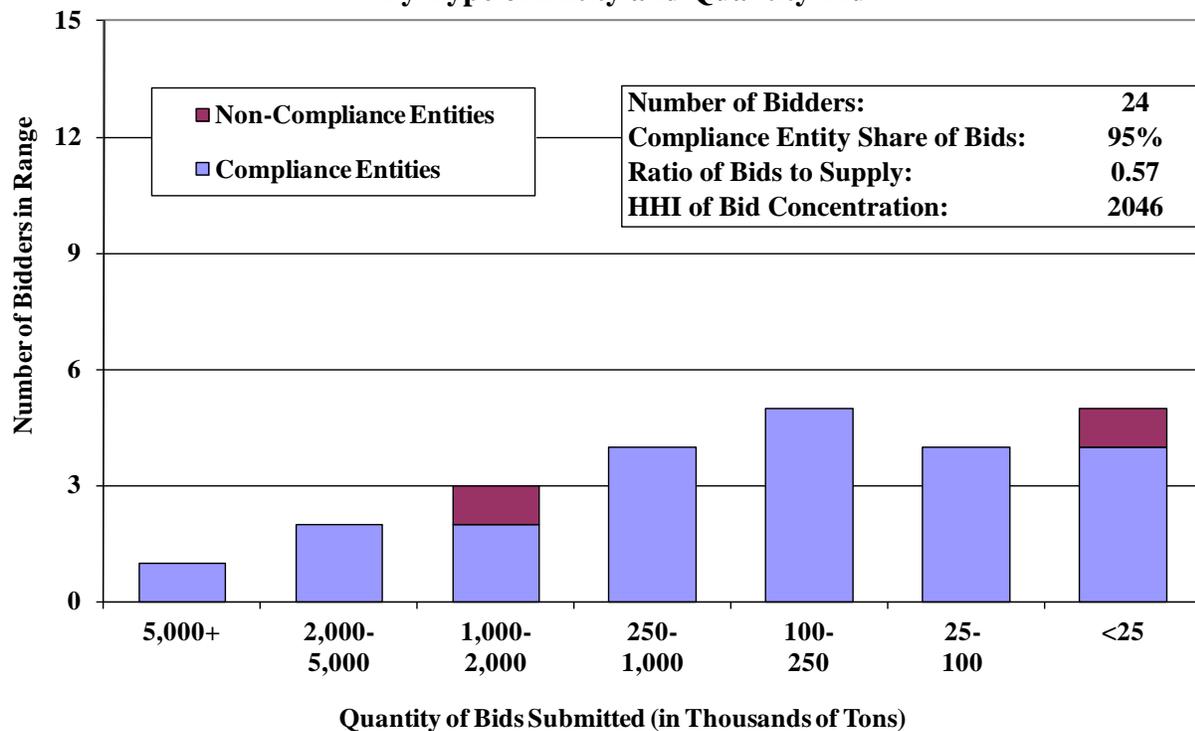
B. DISPERSION OF BIDS IN AUCTION 16

In the offering of allowances for the current control period, bids were submitted by 22 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 95 percent of the quantity of allowances for which bids were submitted. The quantity of allowances for which bids were submitted decreased to 0.57 times the available supply in Auction 16 from 0.62 times the available supply in Auction 15 and 0.63 times the available supply in Auction 14.

The bid quantities were widely distributed among the 24 bidders. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), fell from 2138 in Auction 15 to 2046 in Auction 16. 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 16

In the offering of allowances for the current control period, awards were distributed across 24 bidders with three bidders purchasing two million tons or more and ten bidders purchasing 250,000 tons or more. Compliance entities or their affiliates purchased 95 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 16, compliance entities and their affiliates purchased 95 percent of the allowances sold.
- In the first sixteen 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 16.¹

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 This percentage reflects that allowances that were used for first control period compliance are no longer in circulation.

Table 1: Quantity of Allowances Awarded by Bidder

Bidder	Number of Allowances Awarded
Bidder 1	8,062,000
Bidder 2	3,500,000
Bidder 3	2,500,000
Bidder 4	1,550,000
Bidder 5	1,184,000
Bidder 6	1,000,000
Bidder 7	810,000
Bidder 8	478,000
Bidder 9	470,000
Bidder 10	423,000
Bidder 11	212,000
Bidder 12	175,000
Bidder 13	168,000
Bidder 14	100,000
Bidder 15	100,000
Bidder 16	75,000
Bidder 17	47,000
Bidder 18	25,000
Bidder 19	25,000
Bidder 20	12,000
Bidder 21	11,000
Bidder 22	5,000
Bidder 23	5,000
Bidder 24	4,000

D. SUMMARY OF BID PRICES IN AUCTION 16

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

Bid Prices:	
Minimum	\$1.93
Maximum	\$6.14
Average (Median)	\$1.94
Average (Mean)	\$1.98
Clearing Price:	\$1.93

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 16

In accordance with Sections 2.8 and 3 of the Auction Notice for CO₂ Allowance Auction 16 on June 6, 2012, the Participating States are releasing the names of Potential Bidders in Auction 16. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid*.” The list of 35 Potential Bidders is as follows:

AES Warrior Run Cogeneration Facility	Indeck-Corinth Limited Partnership
Astoria Energy, LLC	Indeck-Olean Limited Partnership
Brookfield Energy Marketing Inc.	Jamestown Board of Public Utilities
Brooklyn Navy Yard Cogen Partners, LP	J-Power USA Development Co., Ltd.
Caithness Long Island, LLC	Massachusetts Muni. Wholesale Elec. Co.
Carbon Lighthouse Association	Millennium Power Partners, LP
Castleton Power, LLC	National Grid Gen. dba National Grid
Consolidated Edison Comp. of NY, Inc.	New Athens Generating Company, LLC
Constellation Energy Commodities Group	NextEra Energy Power Marketing, LLC
Dominion Energy Marketing, Inc.	Public Service Company of New Hampshire
EDF Trading North America, LLC	RBC
Empire Generating Co., LLC	Rochester Gas and Electric Corporation
EquiPower Resources	Selkirk Cogen Partners, LP
Essential Power, LLC	Shell Energy North America (US), LP
GenOn Energy Management, LLC	TransCanada Power Marketing, Ltd.
Granite Ridge Energy, LLC	Verso Paper Corp.
Hawkeye Energy Greenport	Village of Freeport
Indeck Energy Serv. of Silver Springs	