
RGGI Inc.



**MARKET MONITOR REPORT
FOR AUCTION 19**

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 19

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 19, which was held on March 13, 2013.

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.

Forty-two bidders participated in the offering of CO₂ allowances for the current control period. Bids were submitted to purchase 2.2 times the available supply of allowances, resulting in a clearing price of \$2.80 per ton. Compliance entities or their affiliates purchased 69 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 19 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.

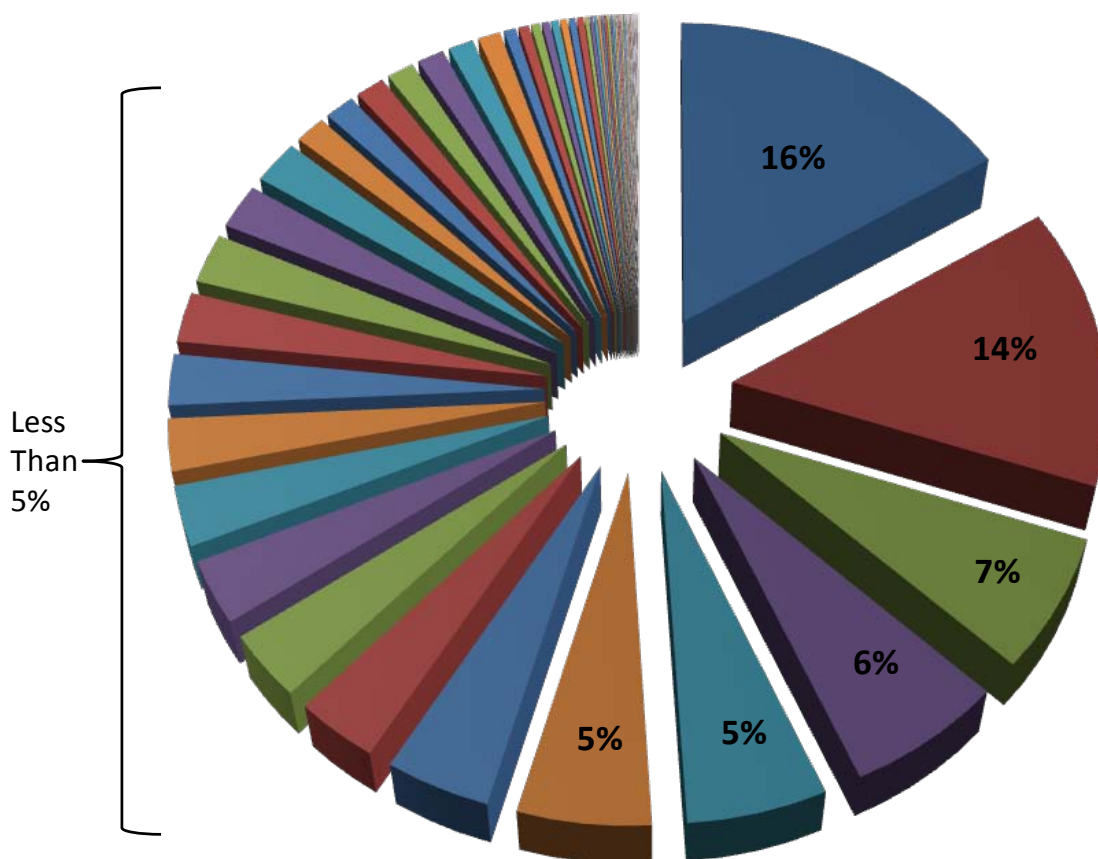
APPENDIX

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 16 percent of the total projected demand for allowances. Nearly 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



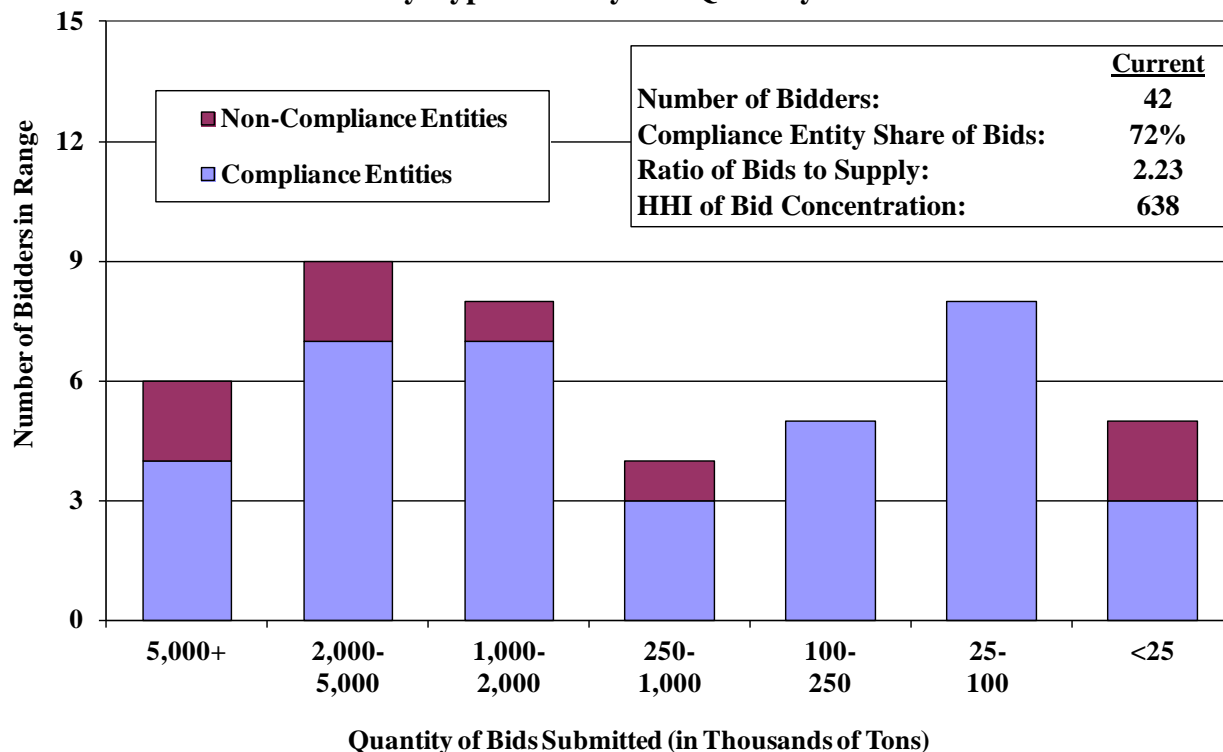
B. DISPERSION OF BIDS IN AUCTION 19

In the offering of allowances for the current control period, bids were submitted by 34 compliance entities and eight non-compliance entities. In our review of the bids and the qualification process, we found no material evidence of anti-competitive conduct or inappropriate barriers to participation.

The following figure summarizes the quantity of allowances for which bids were submitted by each bidder. Eleven compliance entities and four non-compliance entities submitted bids for a large quantity of allowances (e.g., at least 2 million tons). Overall, compliance entities accounted for 72 percent of the quantity of allowances for which bids were submitted. The quantity of allowances for which bids were submitted increased to 2.2 times the available supply in Auction 19 from 0.53 times the available supply in Auction 18 and 0.65 times the available supply in Auction 17.

The bid quantities were widely distributed among the 42 bidders. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), fell from 1938 in Auction 18 to 638 in Auction 19. 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 19

In the offering of allowances for the current control period, awards were distributed across 20 bidders with seven bidders purchasing three million tons or more and 14 bidders purchasing 300,000 tons or more. Compliance entities or their affiliates purchased 69 percent of the allowances in the auction.

The share of allowances purchased and several other quantities are reported for 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.
- *Non-Compliance Entities (Environmental Groups/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 19, compliance entities and their affiliates purchased 69 percent of the allowances sold.
- In the first 19 RGGI auctions, compliance entities and their affiliates purchased 88 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 19.

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	9,458,000
Bidder 2	4,900,000
Bidder 3	4,432,000
Bidder 4	3,833,000
Bidder 5	3,730,000
Bidder 6	3,156,405
Bidder 7	3,000,000
Bidder 8	1,000,000
Bidder 9	874,000
Bidder 10	800,000
Bidder 11	750,000
Bidder 12	594,000
Bidder 13	417,000
Bidder 14	300,000
Bidder 15	220,000
Bidder 16	157,000
Bidder 17	150,000
Bidder 18	25,000
Bidder 19	25,000
Bidder 20	14,000

D. SUMMARY OF BID PRICES IN AUCTION 19

Bids were submitted across a wide range of prices in the auction and the clearing price of \$2.80 was relatively consistent with average bid prices submitted.

The following table reports several statistics regarding the bid prices for bids submitted in Auction 19. The median and mean bid prices are weighted by the quantity of each bid.

Bid Prices:	
Minimum	\$1.98
Maximum	\$5.03
Average (Median)	\$2.66
Average (Mean)	\$2.69
Clearing Price:	\$2.80

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 19

In accordance with Sections 2.8 and 3 of the Auction Notice for CO₂ Allowance Auction 19 on March 13, 2013, the Participating States are releasing the names of Potential Bidders in Auction 19. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid*.” The list of 43 Potential Bidders is as follows:

Astoria Energy, LLC	Integrus Energy Services, Inc.
Berkshire Power Company, LLC	Jordan Stutt
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.	Laurence DeWitt
CP Energy Marketing (US) Inc.	Massachusetts Water Resources Authority
Dynegy Marketing and Trade, LLC	Millennium Power Partners, LP
Empire Generating Co., LLC	Morgan Stanley Capital Group, Inc.
Entergy Rhode Island State Energy, LP	National Grid Gen. dba National Grid
EquiPower Resources	Natsource Environmental and Energy Services, LLC
Exelon Generation Company, LLC	New Athens Generating Company, LLC
GDF SUEZ Energy Marketing NA, Inc.	NextEra Energy Power Marketing, LLC
GenOn Energy Management, LLC	NRG Power Marketing, LLC
Granite Ridge Energy, LLC	Power Authority of the State of New York
H.Q. Energy Services (US) Inc.	Public Service Company of New Hampshire
Hess Corporation (G)	RBC
Indeck Energy Serv. of Silver Springs	Selkirk Cogen Partners, LP
Indeck-Corinth Limited Partnership	TransCanada Power Marketing, Ltd.
Indeck-Olean Limited Partnership	Upstate New York Power Producers, LLC
Indeck-Oswego Limited Partnership	Vitol Inc.
Indeck-Yerkes Limited Partnership	