
RGGI Inc.



**MARKET MONITOR REPORT
FOR AUCTION 44**

Prepared for:

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

Prepared By:

**POTOMAC
ECONOMICS**

June 7, 2019

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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 New England 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 44

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 allowance auctions by Enel X. This report summarizes our findings regarding RGGI Auction 44, which was held on June 5, 2019.

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-seven bidders participated in the offering of CO₂ allowances. Bids were submitted to purchase 2.8 times the available supply of allowances, resulting in a clearing price of \$5.62 per ton. Compliance-Oriented Entities purchased 38 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 44 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.

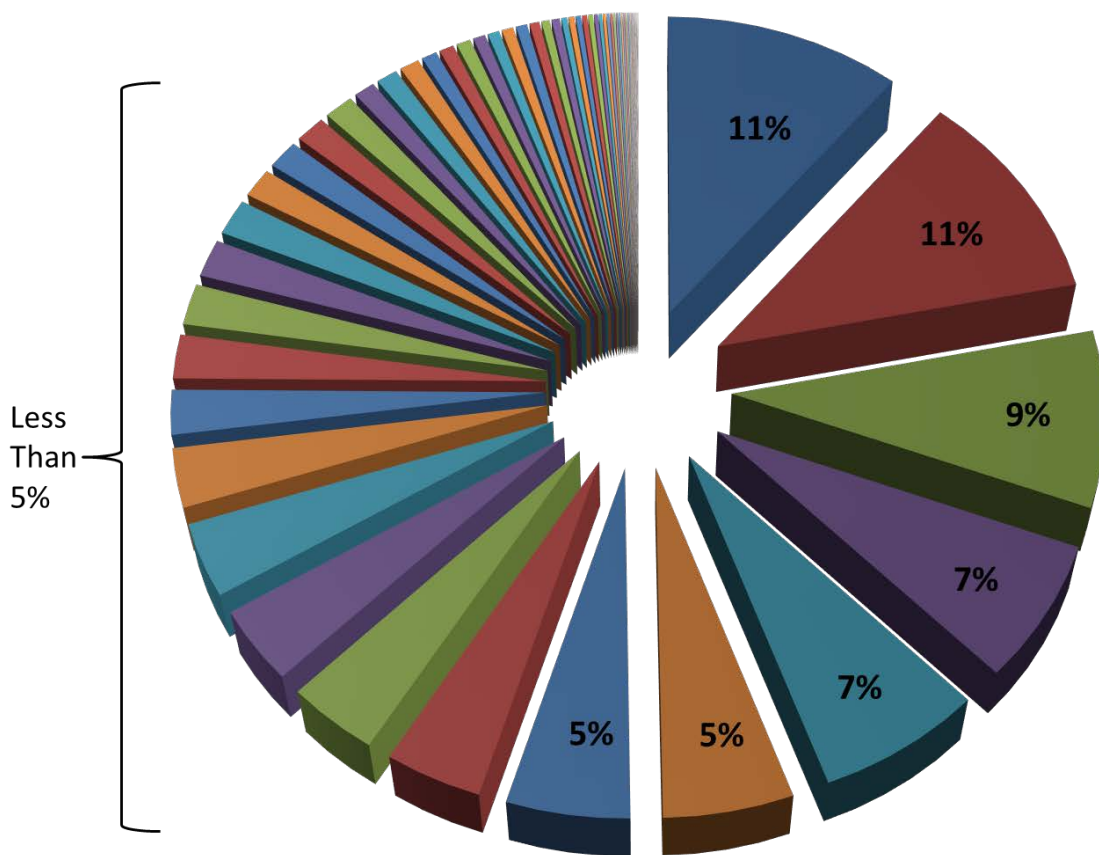
APPENDIX

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 11 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**

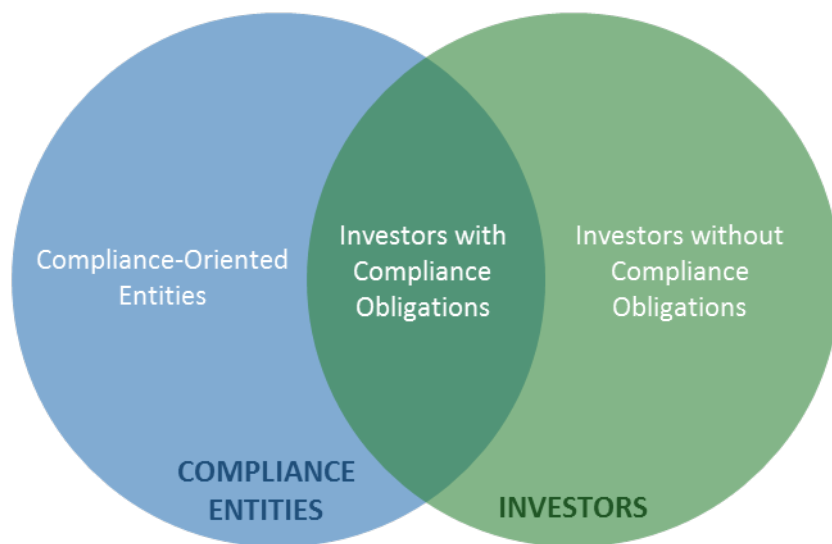


B. SUMMARY OF PURCHASES OF ALLOWANCES IN AUCTION 44

Awards were distributed across 40 bidders with four bidders purchasing one million tons or more and 15 bidders purchasing 200,000 tons or more.

This report summarizes participation in Auction 44. Participation in the RGGI market involves many different firms with various interests in RGGI allowances. Some participate in order to satisfy compliance obligations, others have investment interests, and still others participate for both purposes. To more effectively track the activity of different participants, we use several classifications for participant firms. Figure 2 summarizes the relationship between these classifications.

Figure 2: Classifications of Participant Firms in the RGGI Marketplace



- *Compliance-Oriented Entities* are compliance entities that appear to acquire and hold allowances primarily to satisfy their compliance obligations.
- *Investors with Compliance Obligations* are firms that have compliance obligations but which hold a number of allowances that exceeds their estimated compliance obligations by a margin suggesting they also buy for re-sale or some other investment purpose. These firms often transfer significant quantities of allowances to unaffiliated firms.¹

¹ The assessment of whether a compliance entity holds a number of allowances that exceeds its compliance obligations by a margin that suggests they are also buying for re-sale or some other investment purpose is based on: (a) the entity's forecasted share of the total compliance obligations for the entire RGGI footprint through 2020, (b) the total number of allowances in circulation, and (c) consideration of the pattern of the entity's allowance transfers to unaffiliated firms versus affiliated firms. Since the designation of a compliance entity as an investor is based on a review of its transactions and holdings, the designation of a particular firm may change

- *Investors without Compliance Obligations* are firms without any compliance obligations.

These three categories form the basis for two overlapping groups.

- *Compliance Entities* – All firms with compliance obligations, and their affiliates.² Combines the first and second of the above categories.
- *Investors* – All firms which are assessed to be purchasing for investment rather than compliance purposes. Combines the second and third of the above categories.

In Auction 44, Compliance Entities purchased 47 percent of the allowances sold. In the first 44 RGGI auctions, Compliance Entities purchased 74 percent of the allowances sold. In Auction 44, Compliance-Oriented Entities purchased 38 percent of the allowances sold.

After settlement of allowances sold in Auction 44:

- Forty-five percent of the allowances in circulation will be held by Compliance-Oriented Entities.
- Fifty-two percent of the allowances in circulation are believed to be held for compliance purposes. The number of allowances that are believed to be held for compliance purposes includes 100 percent of the allowances held by Compliance-Oriented Entities and a portion of allowances held by Investors with Compliance Obligations.

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.

over time as more information becomes available.

² Affiliates are firms that: (i) have a parent-subsidiary 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.

Table 1: Quantity of Allowances Awarded by Bidder

Bidder	Number of Allowances Awarded
Bidder 1	2,650,000
Bidder 2	1,600,000
Bidder 3	1,355,453
Bidder 4	1,235,000
Bidder 5	862,000
Bidder 6	825,000
Bidder 7	618,000
Bidder 8	600,000
Bidder 9	433,000
Bidder 10	420,000
Bidder 11	335,000
Bidder 12	300,000
Bidder 13	300,000
Bidder 14	300,000
Bidder 15	200,000
Bidder 16	155,000
Bidder 17	145,000
Bidder 18	100,000
Bidder 19	100,000
Bidder 20	100,000
Bidder 21	80,000
Bidder 22	75,000
Bidder 23	60,000
Bidder 24	55,000
Bidder 25	50,000
Bidder 26	50,000
Bidder 27	50,000
Bidder 28	33,000
Bidder 29	30,000
Bidder 30	25,000
Bidder 31	25,000
Bidder 32	12,000
Bidder 33	10,000
Bidder 34	8,000
Bidder 35	6,000
Bidder 36	6,000
Bidder 37	5,000
Bidder 38	4,000
Bidder 39	3,000
Bidder 40	1,000
Bidder 41	0
Bidder 42	0
Bidder 43	0
Bidder 44	0
Bidder 45	0
Bidder 46	0
Bidder 47	0

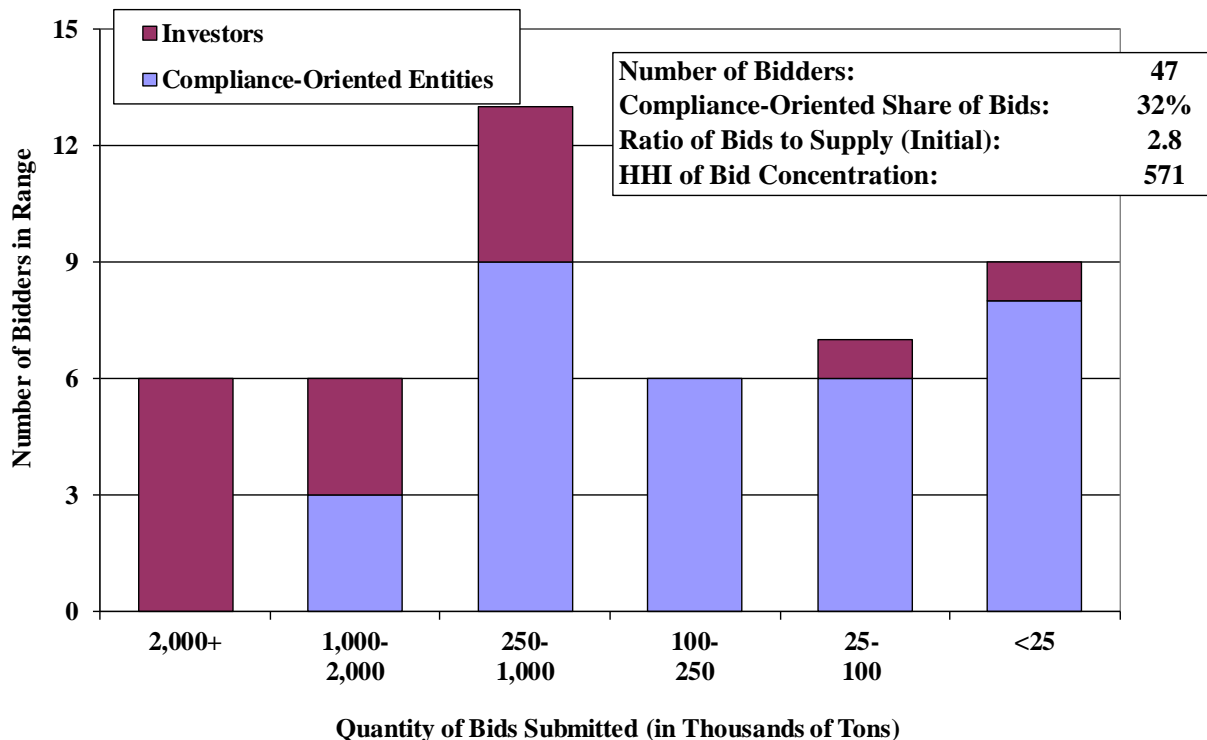
C. DISPERSION OF BIDS IN AUCTION 44

Bids were submitted by 32 Compliance-Oriented Entities and 15 Investors. 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. Three Compliance-Oriented Entities and nine Investors submitted bids for a large quantity of allowances (i.e., at least 1 million tons). Overall, Compliance-Oriented Entities accounted for 32 percent of the quantity of allowances for which bids were submitted. The quantity of allowances for which bids were submitted was 2.8 times the available supply. In Auction 43, the quantity of allowances for which bids were submitted was 3.0 times the Initial Offering.

The bid quantities were widely distributed among the 47 bidders. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), is relatively low at 571, consistent with recent auctions. The HHI is a standard measure of concentration calculated by squaring each entity’s share and then summing the squares across all entities (i.e., the index ranges from 0 to 10,000).

**Figure 3: Quantity of Bids Submitted by Entity
By Type of Entity and Quantity Bid**



D. SUMMARY OF BID PRICES IN AUCTION 44

Bids were submitted across a wide range of prices in the auction and the clearing price of \$5.62 was relatively consistent with average bid prices submitted.

The following table reports several statistics regarding the bid prices for bids submitted in Auction 44. The median and mean bid prices are weighted by the quantity of each bid.

Bid Prices:	
Minimum	\$2.26
Maximum	\$10.01
Average (Median)	\$5.53
Average (Mean)	\$5.42
Clearing Price:	\$5.62

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 44

In accordance with Sections 2.8 and 3 of the Auction Notice for CO₂ Allowance Auction 44, the Participating States are releasing the names of Potential Bidders in Auction 44. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid.*” The list of 50 Potential Bidders is as follows:

Astoria Energy, LLC	Koch Supply & Trading, LP
Blue Delta Energy, LLC	Luminus Energy Partners Master Fund, Ltd.
BP Products North America Inc.	Macquarie Energy, LLC
Brooklyn Navy Yard Cogen Partners, LP	Mercuria Energy America, Inc.
Caithness Long Island, LLC	Morgan Stanley Capital Group, Inc.
Calpine Energy Services, LP	National Grid Gen. dba National Grid
Consolidated Edison Comp. of NY, Inc.	NextEra Energy Marketing, LLC
CPV Maryland, LLC	NRG Power Marketing, LLC
CPV Towantic, LLC	Old Dominion Electric Cooperative
Delaware City Refining Company, LLC	Pinelawn Power, LLC
Delaware Municipal Electric Corp.	Power Authority of the State of New York
Direct Energy Business Marketing, LLC	PSEG Energy Resources & Trade, LLC
DTE Energy Trading, Inc.	RBC
Dynegy Marketing and Trade, LLC	Revere Power, LLC
Edgewood Energy, LLC	Rhode Island State Energy Center, LP
Element Markets, LLC	Selkirk Cogen Partners, LP
Equus Power I, LP	Shell Energy North America (US), LP
Exelon Generation Company, LLC	Shoreham Energy, LLC
Footprint Power Salem Harbor Development, LP	Statkraft US, LLC
Gen IV Investment Opportunities, LLC	Taunton Municipal Lighting Plant
Hawkeye Energy Greenport	Tenaska, Inc.
Indeck-Corinth Limited Partnership	Verso Corporation
Jamestown Board of Public Utilities	Village of Freeport
Kendall Green Energy, LLC	Vitol Inc.
KMC Thermo, LLC	Wallingford Energy, LLC