MARKET MONITOR REPORT
FOR AUCTION 63

Prepared for:
RGGI, Inc., on behalf of the RGGI Participating States

Prepared By:
POTOMAC ECONOMICS

March 15, 2024
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The Regional Greenhouse Gas Initiative (RGGI) is the first mandatory market-based regulatory initiative 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.

1 While technically a RGGI participating state, Pennsylvania is currently awaiting adjudication from the state’s Supreme Court as to whether it will be allowed to actively participate in RGGI & RGGI Inc. related activities.
MARKET MONITOR REPORT FOR AUCTION 63

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 63, which was held on March 13, 2024.

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.

Fifty-three bidders participated in the auction for CO₂ allowances. Bids were submitted to purchase 3.0 times the initial offering of approximately 15.9 million allowances. However, the quantity for which bids were submitted above $15.92 per ton exceeded the initial offering, so the Cost Containment Reserve (“CCR”) was made available at the CCR Trigger Price of $15.92 per ton. Over 8.4 million additional allowances were sold as the CCR for 2024 was fully depleted, resulting in a clearing price of $16.00 per ton in the auction. Compliance-Oriented Entities purchased 35 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.
- One bidder reported difficulty submitting bids, but there was no indication 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 63 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 demand for CO2 allowances is based on the requirement for each compliance entity in the RGGI footprint to obtain one CO2 allowance for each short ton of CO2 that it emits from the sale of electricity. The following figure shows the relative shares of projected demand for RGGI allowances by compliance entity in the sixth control period. The largest compliance entity represents 17 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

- 17%
- 12%
- 9%
- 8%
- 7%
- 5%
- Each Less Than 5%
B. SUMMARY OF PURCHASES OF ALLOWANCES IN AUCTION 63

Awards were distributed across 40 bidders with six bidders purchasing one million tons or more and 19 bidders purchasing 200,000 tons or more.

This report summarizes participation in Auction 63. 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.

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 in the RGGI footprint through 2026, (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 over time as more information becomes available.
• **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.\(^3\)
  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 63, Compliance Entities purchased 51 percent of the allowances sold. In the first 63 RGGI auctions, Compliance Entities purchased 72 percent of the allowances sold. In Auction 63, Compliance-Oriented Entities purchased 35 percent of the allowances sold.

After settlement of allowances sold in Auction 63:

• Twenty-seven percent of the allowances in circulation will be held by Compliance-Oriented Entities.

• Thirty-one 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.

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\(^3\) 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

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Number of Allowances Awarded</th>
<th>Bidder</th>
<th>Number of Allowances Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bidder 1</td>
<td>3,963,000</td>
<td>Bidder 28</td>
<td>51,000</td>
</tr>
<tr>
<td>Bidder 2</td>
<td>3,963,000</td>
<td>Bidder 29</td>
<td>49,000</td>
</tr>
<tr>
<td>Bidder 3</td>
<td>3,250,000</td>
<td>Bidder 30</td>
<td>25,000</td>
</tr>
<tr>
<td>Bidder 4</td>
<td>2,000,000</td>
<td>Bidder 31</td>
<td>25,000</td>
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<tr>
<td>Bidder 5</td>
<td>2,000,000</td>
<td>Bidder 32</td>
<td>25,000</td>
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<td>Bidder 6</td>
<td>1,824,000</td>
<td>Bidder 33</td>
<td>10,000</td>
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<tr>
<td>Bidder 7</td>
<td>900,000</td>
<td>Bidder 34</td>
<td>5,000</td>
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<tr>
<td>Bidder 8</td>
<td>770,157</td>
<td>Bidder 35</td>
<td>3,000</td>
</tr>
<tr>
<td>Bidder 9</td>
<td>591,000</td>
<td>Bidder 36</td>
<td>1,000</td>
</tr>
<tr>
<td>Bidder 10</td>
<td>550,000</td>
<td>Bidder 37</td>
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<td>Bidder 11</td>
<td>500,000</td>
<td>Bidder 38</td>
<td>1,000</td>
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<td>Bidder 12</td>
<td>464,000</td>
<td>Bidder 39</td>
<td>1,000</td>
</tr>
<tr>
<td>Bidder 13</td>
<td>400,000</td>
<td>Bidder 40</td>
<td>1,000</td>
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<td>Bidder 14</td>
<td>400,000</td>
<td>Bidder 41</td>
<td>0</td>
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<tr>
<td>Bidder 15</td>
<td>375,000</td>
<td>Bidder 42</td>
<td>0</td>
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<td>Bidder 16</td>
<td>373,000</td>
<td>Bidder 43</td>
<td>0</td>
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<td>Bidder 17</td>
<td>310,000</td>
<td>Bidder 44</td>
<td>0</td>
</tr>
<tr>
<td>Bidder 18</td>
<td>300,000</td>
<td>Bidder 45</td>
<td>0</td>
</tr>
<tr>
<td>Bidder 19</td>
<td>200,000</td>
<td>Bidder 46</td>
<td>0</td>
</tr>
<tr>
<td>Bidder 20</td>
<td>186,000</td>
<td>Bidder 47</td>
<td>0</td>
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<td>Bidder 21</td>
<td>165,000</td>
<td>Bidder 48</td>
<td>0</td>
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<td>Bidder 22</td>
<td>140,000</td>
<td>Bidder 49</td>
<td>0</td>
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<td>Bidder 23</td>
<td>102,000</td>
<td>Bidder 50</td>
<td>0</td>
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<tr>
<td>Bidder 24</td>
<td>100,000</td>
<td>Bidder 51</td>
<td>0</td>
</tr>
<tr>
<td>Bidder 25</td>
<td>96,000</td>
<td>Bidder 52</td>
<td>0</td>
</tr>
<tr>
<td>Bidder 26</td>
<td>90,000</td>
<td>Bidder 53</td>
<td>0</td>
</tr>
<tr>
<td>Bidder 27</td>
<td>62,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
C. DISPERSION OF BIDS IN AUCTION 63

Bids were submitted by 33 Compliance-Oriented Entities and 20 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. Four 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 40 percent of the quantity of allowances for which bids were submitted. The quantity of allowances for which bids were submitted was 3.0 times the Initial Offering. In the previous auction, the quantity of allowances for which bids were submitted was 2.8 times the Initial Offering.

The bid quantities were widely distributed among the 53 bidders. The concentration of bids, using the Herfindahl-Hirschman Index ("HHI"), was relatively low at 565. The HHI is a standard measure of concentration calculated by squaring each entity’s percent 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](image)

- Number of Bidders: 53
- Compliance-Oriented Share of Bids: 40%
- Ratio of Bids to Supply (Initial): 3.0
- HHI of Bid Concentration: 565

**Legend:**
- **Investors**
- **Compliance-Oriented Entities**
D. SUMMARY OF BID PRICES IN AUCTION 63

Bids were submitted across a wide range of prices in the auction and the clearing price of $16.00 was relatively consistent with average bid prices submitted.

The following table reports several statistics regarding the bid prices for bids submitted in Auction 63. The median and mean bid prices are weighted by the quantity of each bid.

<table>
<thead>
<tr>
<th>Bid Prices</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>$2.56</td>
</tr>
<tr>
<td>Maximum</td>
<td>$25.00</td>
</tr>
<tr>
<td>Average (Median)</td>
<td>$16.00</td>
</tr>
<tr>
<td>Average (Mean)</td>
<td>$15.91</td>
</tr>
<tr>
<td>Clearing Price</td>
<td>$16.00</td>
</tr>
</tbody>
</table>
E. NAMES OF POTENTIAL BIDDERS IN AUCTION 63

In accordance with Sections 2.8 and 3 of the Auction Notice for CO2 Allowance Auction 63, the Participating States are releasing the names of Potential Bidders in Auction 63. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete Intent to Bid.” The list of 71 Potential Bidders is as follows:

Anew Environmental, LLC
Astoria Energy, LLC
Caithness Long Island, LLC
Calpine Energy Services, LP
Canadian Imperial Bank of Commerce
Carbon Lighthouse Association
Castleton Commodities Merchant Trading, LP
Citadel Energy Marketing LLC
Clear Sky Enhanced Inflation Carbon Master Fund LP
Cogen Technologies Linden Venture, L.P.
Consolidated Edison Comp. of NY, Inc.
Constellation Energy Generation, LLC
CP Energy Marketing (US) Inc.
CPV Maryland, LLC
CPV Shore, LLC
CPV Towantic, LLC
CPV Valley, LLC
Cricket Valley Energy Center, LLC
Delaware City Refining Company, LLC
Delaware Municipal Electric Corp.
DTE Energy Trading, Inc.
Dynegy Marketing and Trade, LLC
East Coast Environmental, LLC
ECP Capital LP
ECP Capital Parallel Fund LP
Edgewood Energy, LLC
Elbow River Marketing LTD.
Empire Generating Co., LLC
Energy Center Dover
Equus Power I, LP
Global Carbon Opportunity (SPV) Fund LLC
Global Emission Fund LP
Hartree Partners, LP
Hawkeye Energy Greenport
Helix Ravenswood Energy, LLC
Indeck-Corinth Limited Partnership
Kendall Green Energy LLC
Kleen Energy Systems, LLC
KMC Thermo, LLC
LMR Multi-Strategy Master Fund Limited
Lucid Clarity Master Fund LP
Macquarie Energy, LLC
Mercuria Energy America, LLC
Morgan Stanley Capital Group, Inc.
National Grid Generation LLC dba National Grid
New Athens Generating Company, LLC
Newark Energy Center
NextEra Energy Marketing, LLC
NRG Business Marketing LLC
Ocean State Power, LLC
Old Dominion Electric Cooperative
Pacific Summit Energy LLC
Pegasus Development Corporation
PetroChina International (America), Inc.
Pinelawn Power, LLC
Power Authority of the State of New York
Rhode Island State Energy Center, LP
Rubicon Carbon Services LLC
Selkirk Cogen Partners, LP
Shell Energy North America (US), LP
Shoreham Energy, LLC
Statkraft US, LLC
STX Commodities LLC
Tenaska Power Services Co.
Tenaska, Inc.
Traficura Trading LLC
Village of Freeport
Virginia Electric and Power Company
Vitol Inc.
Wallingford Energy, LLC
West Coast Environmental, LLC