
RGGI Inc.



**MARKET MONITOR REPORT
FOR AUCTION 13**

Prepared for:

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

Prepared By:

**POTOMAC
ECONOMICS**

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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 13

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 13, which was held on September 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 2010 and 2011 vintage year). Thirty-one entities submitted bids to purchase 18 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 94 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 13 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.

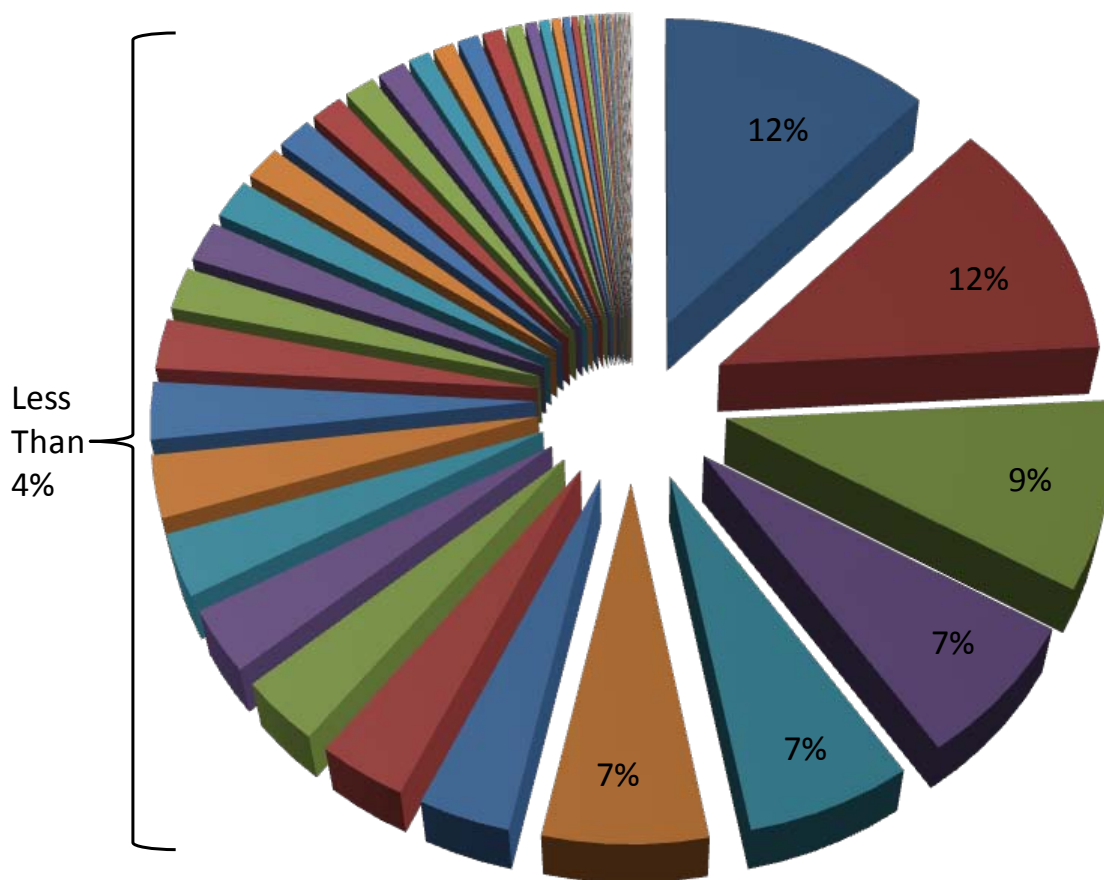
APPENDIX

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 13

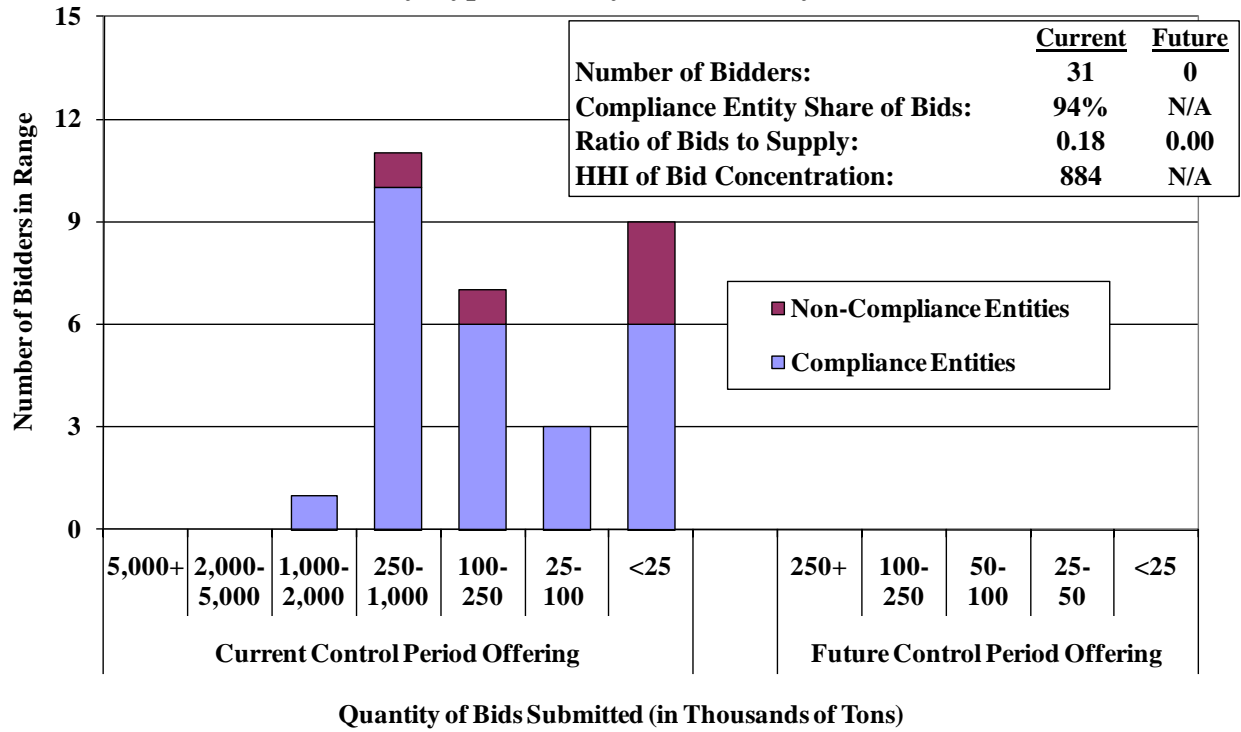
In the offering of current control period allowances, bids were submitted by a large number of compliance entities and several non-compliance entities. A small number of allowances were also auctioned in advance for a future control period, although no bids were submitted in this offering. In our review 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, just one compliance entity submitted bids for a large quantity of allowances (e.g., at least 1 million tons or 2.5 percent of the available supply). Overall, compliance entities accounted for 94 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 decreased to 0.18 times the available supply in Auction 13 from 0.30 times the available supply in Auction 12 and 1.1 times the available supply in Auction 11.

In the offering of future control period allowances, no bids were submitted. This decreased from 0.57 times the available supply in Auction 12 and 1.4 times the available supply in Auction 11.

The bid quantities were widely distributed among the 31 bidders in the offering of current control period allowances. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), was relatively low at 884. 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 13

In the offering of current control period allowances, awards were widely distributed across 31 bidders with one bidder purchasing one million tons or more and twelve bidders purchasing 250,000 tons or more. Compliance entities or their affiliates purchased 94 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 13, compliance entities and their affiliates purchased 94 percent of the current control period allowances sold.
- In the first thirteen RGGI auctions, compliance entities and their affiliates purchased:
 - ✓ 85 percent of the current control period allowances sold,
 - ✓ 92 percent of the future control period allowances sold, and
 - ✓ 85 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 13.

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	1,550,000
Bidder 2	900,000
Bidder 3	670,000
Bidder 4	500,000
Bidder 5	500,000
Bidder 6	348,000
Bidder 7	337,000
Bidder 8	300,000
Bidder 9	261,000
Bidder 10	252,000
Bidder 11	250,000
Bidder 12	250,000
Bidder 13	232,000
Bidder 14	200,000
Bidder 15	200,000
Bidder 16	170,000
Bidder 17	150,000
Bidder 18	109,000
Bidder 19	100,000
Bidder 20	51,000
Bidder 21	38,000
Bidder 22	32,000
Bidder 23	20,000
Bidder 24	18,000
Bidder 25	12,000
Bidder 26	10,000
Bidder 27	10,000
Bidder 28	8,000
Bidder 29	7,000
Bidder 30	1,000
Bidder 31	1,000

D. SUMMARY OF BID PRICES IN AUCTION 13

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 13. 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	\$5.18	N/A
Average (Median)	\$1.94	N/A
Average (Mean)	\$2.05	N/A
Clearing Prices:	\$1.89	N/A

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 13

In accordance with Section 2.8 of the Auction Notice for CO₂ Allowance Auction 13 on September 7, 2011, the Participating States are releasing the names of Potential Bidders in Auction 13. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid.*” The list of 41 Potential Bidders is as follows:

Adirondack Council Inc.	Indeck-Yerkes Limited Partnership
AES Eastern Energy, LP	J-Power USA Development Co., Ltd.
Aircraft Services Corporation	Kleen Energy Systems, LLC
Astoria Generating Company, LP	Logan Generating Company, LP
Barclays Bank PLC	Millennium Power Partners, LP
Berkshire Power Company, LLC	Morgan Stanley Capital Group, Inc.
Brooklyn Navy Yard Cogen Partners, LP	National Grid Gen. dba National Grid
Caithness Long Island, LLC	New Athens Generating Company, LLC
Carbon Lighthouse Association	North American Energy Alliance, LLC
Castleton Power, LLC	NRG Power Marketing, LLC
Chambers Cogeneration, LP	Power Authority of the State of New York
ConocoPhillips Company	PSEG Energy Resources & Trade, LLC
Consolidated Edison Comp. of NY, Inc.	Public Service Company of New Hampshire
Constellation Energy Commodities Group	RBC
Dominion Energy Marketing, Inc.	Rochester Gas and Electric Corporation
Empire Generating Co., LLC	Selkirk Cogen Partners, LP
EquiPower Resources	Sterling Planet, Inc.
GenOn Energy Management, LLC	Sunoco Power Generation, LLC
Green Mountain Power Corporation	Verso Paper Corp.
Indeck-Corinth Limited Partnership	Wallingford Energy, LLC
Indeck-Oswego Limited Partnership	