



**MARKET MONITOR REPORT  
FOR AUCTION 26**

**Prepared for:**

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

**Prepared By:**



December 5, 2014

---

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 states participating in RGGI (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont). The opinions expressed in this report do not necessarily reflect those of RGGI, Inc. or any of the states participating in RGGI, 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 states participating in RGGI, 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 states participating in RGGI, 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 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 (CO<sub>2</sub>) 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 26**

As the Market Monitor for the RGGI CO<sub>2</sub> 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 26, which was held on December 3, 2014.

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 bidders participated in the offering of CO<sub>2</sub> allowances. Bids were submitted to purchase 2.5 times the available supply of allowances, resulting in a clearing price of \$5.21 per ton. Compliance entities or their affiliates purchased 88 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 26 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 CO<sub>2</sub> allowances and outcomes of the auction.

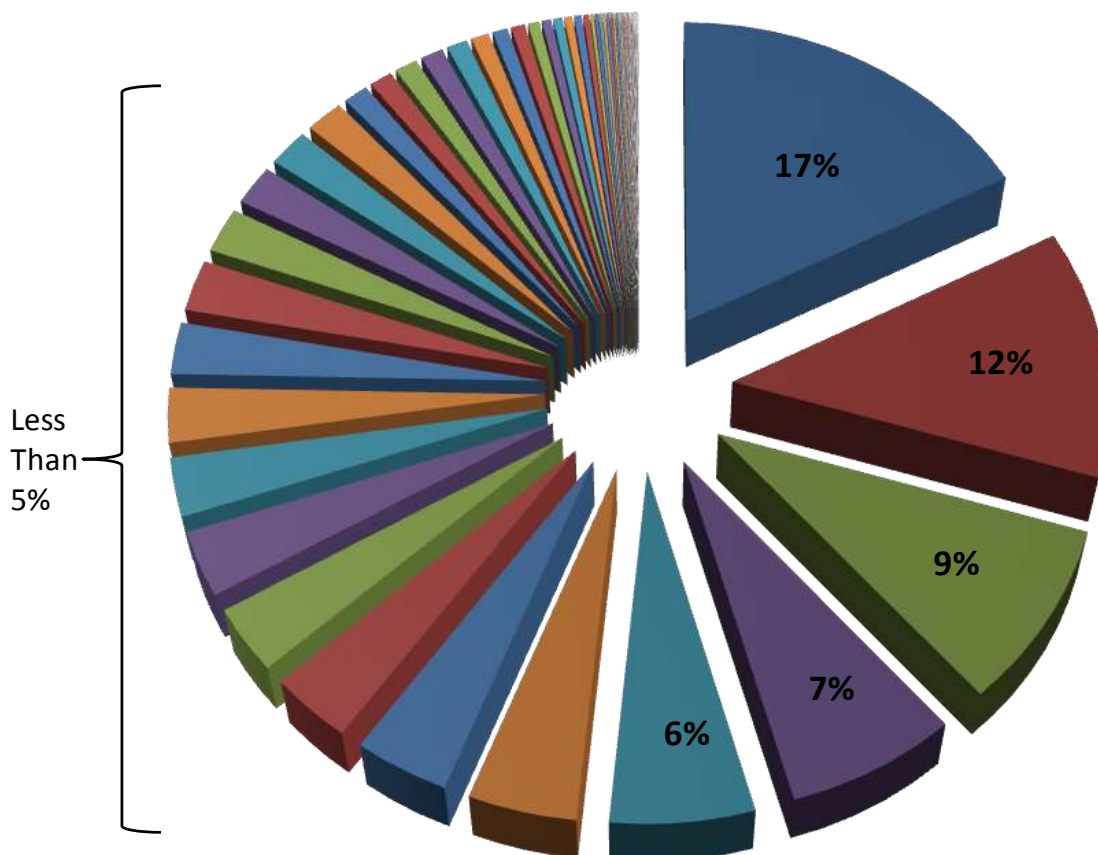
**APPENDIX**

**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 17 percent of the total projected demand for allowances. Approximately 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**



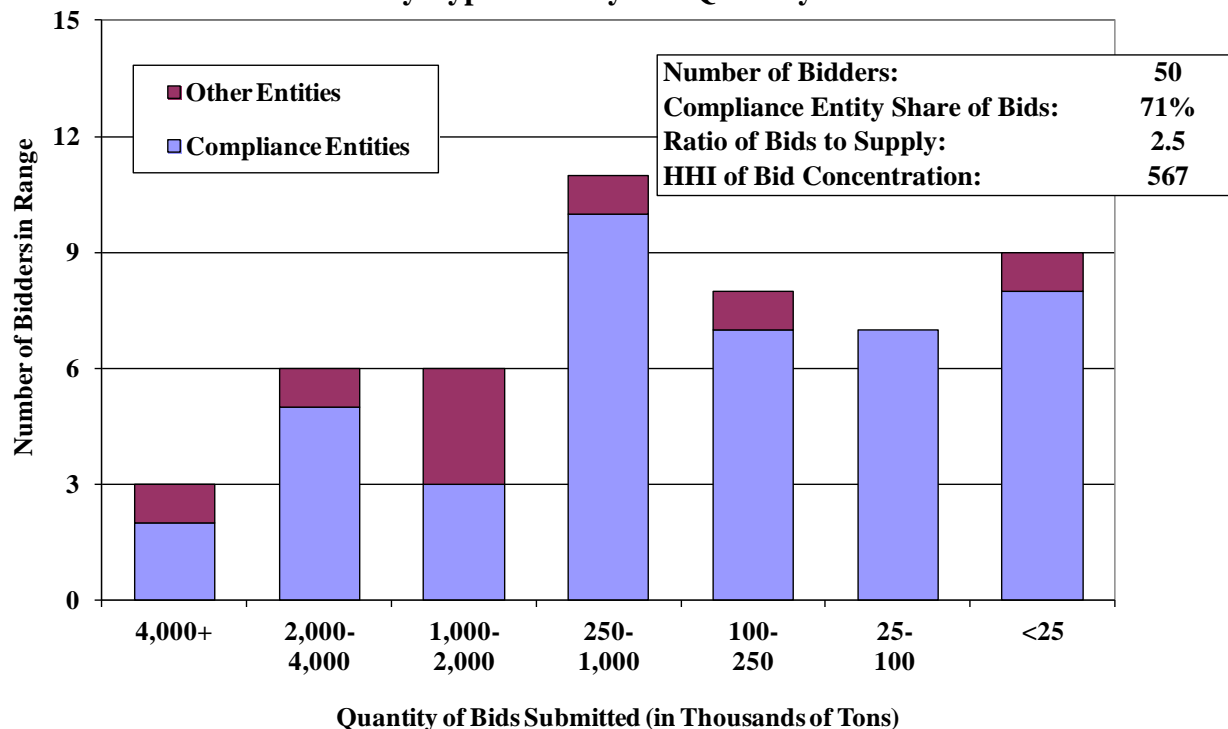
**B. DISPERSION OF BIDS IN AUCTION 26**

*In the offering of allowances for the current control period, bids were submitted by 42 compliance entities and eight other 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. Seven compliance entities and two other entities submitted bids for a large quantity of allowances (i.e., at least 2 million tons). Overall, compliance entities accounted for 71 percent of the quantity of allowances for which bids were submitted. The quantity of allowances for which bids were submitted was 2.5 times the Initial Offering of 18,198,685 allowances. In Auction 25, the quantity of allowances for which bids were submitted was 2.5 times the Initial Offering of 17,998,687 allowances.

The bid quantities were widely distributed among the 50 bidders. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), is relatively low at 567, 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 (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 26**

*In the offering of allowances for the current control period, awards were distributed across 40 bidders with five bidders purchasing one million tons or more and 14 bidders purchasing 300,000 tons or more. Compliance entities or their affiliates purchased 88 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.
- *Other Entities:* This includes all other entities without compliance obligations.

The following statistics summarize the purchases and holdings of allowances by compliance entities and their affiliates under the RGGI program:

- In Auction 26, compliance entities and their affiliates purchased 88 percent of the allowances sold.
- In the first 26 RGGI auctions, compliance entities and their affiliates purchased 78 percent of the allowances sold.
- Compliance entities and their affiliates will hold 81 percent of the allowances in circulation following the settlement of allowances sold in Auction 26.

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**

<b>Bidder</b>	<b>Number of Allowances Awarded</b>
Bidder 1	4,522,000
Bidder 2	1,880,000
Bidder 3	1,600,000
Bidder 4	1,263,685
Bidder 5	1,142,000
Bidder 6	850,000
Bidder 7	800,000
Bidder 8	750,000
Bidder 9	700,000
Bidder 10	676,000
Bidder 11	528,000
Bidder 12	475,000
Bidder 13	350,000
Bidder 14	300,000
Bidder 15	286,000
Bidder 16	250,000
Bidder 17	230,000
Bidder 18	228,000
Bidder 19	200,000
Bidder 20	180,000
Bidder 21	160,000
Bidder 22	147,000
Bidder 23	130,000
Bidder 24	115,000
Bidder 25	100,000
Bidder 26	90,000
Bidder 27	56,000
Bidder 28	35,000
Bidder 29	30,000
Bidder 30	25,000
Bidder 31	25,000
Bidder 32	23,000
Bidder 33	19,000
Bidder 34	11,000
Bidder 35	7,000
Bidder 36	5,000
Bidder 37	5,000
Bidder 38	3,000
Bidder 39	1,000
Bidder 40	1,000

**D. SUMMARY OF BID PRICES IN AUCTION 26**

*Bids were submitted across a wide range of prices in the auction and the clearing price of \$5.21 was relatively consistent with average bid prices submitted.*

The following table reports several statistics regarding the bid prices for bids submitted in Auction 26. The median and mean bid prices are weighted by the quantity of each bid.

---

<b>Bid Prices:</b>	
<b>Minimum</b>	<b>\$2.00</b>
<b>Maximum</b>	<b>\$12.20</b>
<b>Average (Median)</b>	<b>\$5.15</b>
<b>Average (Mean)</b>	<b>\$4.77</b>
<b>Clearing Price:</b>	<b>\$5.21</b>

---



### **E. NAMES OF POTENTIAL BIDDERS IN AUCTION 26**

In accordance with Sections 2.8 and 3 of the Auction Notice for CO<sub>2</sub> Allowance Auction 26 on December 3, 2014, the Participating States are releasing the names of Potential Bidders in Auction 26. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid*.” The list of 53 Potential Bidders is as follows:

Brooklyn Navy Yard Cogen Partners, LP	Kendall Green Energy, LLC
Caithness Long Island, LLC	Kleen Energy Systems, LLC
Calpine Energy Services, LP	Koch Supply & Trading, LP
Carbon Lighthouse Association	Luminus Energy Partners QP, LP
Castleton Power, LLC	Massachusetts Muni. Wholesale Elec. Co.
CE2 Carbon Capital, LLC	Mercuria Energy America, Inc.
City of Dover	Millennium Power Partners, LP
Consolidated Edison Comp. of NY, Inc.	Morgan Stanley Capital Group, Inc.
Delaware City Refining Company, LLC	National Grid Gen. dba National Grid
Delaware Municipal Electric Corp.	New Athens Generating Company, LLC
Direct Energy Business Marketing, LLC	NextEra Energy Power Marketing, LLC
Dominion Energy Marketing, Inc.	NRG Power Marketing, LLC
EDF Trading North America, LLC	Power Authority of the State of New York
Empire Generating Co., LLC	PSEG Energy Resources & Trade, LLC
Energy Rhode Island State Energy, LP	Public Service Company of New Hampshire
Exelon Generation Company, LLC	Raven Power Marketing, LLC
GDF SUEZ Energy Marketing NA, Inc.	RBC
GenOn Energy Management, LLC	Selkirk Cogen Partners, LP
Granite Ridge Energy, LLC	Seventh Generation Advisors
Green Mountain Power Corporation	Stonyfield Farm
Hawkeye Energy Greenport	TransCanada Power Marketing, Ltd.
Indeck-Corinth Limited Partnership	Upstate New York Power Producers, LLC
Indeck-Olean Limited Partnership	Verso Paper Corp.
Indeck-Oswego Limited Partnership	Village of Freeport
Indeck-Yerkes Limited Partnership	Vitol Inc.
Jamestown Board of Public Utilities	Wallingford Energy, LLC
J-Power USA Development Co., Ltd.	