



**MARKET MONITOR REPORT
FOR AUCTION 25**

Prepared for:

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

Prepared By:



September 5, 2014

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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 25

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 25, which was held on September 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.

Forty-three bidders participated in the offering of CO₂ allowances. Bids were submitted to purchase 2.5 times the available supply of allowances, resulting in a clearing price of \$4.88 per ton. Compliance entities or their affiliates purchased 80 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 25 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.

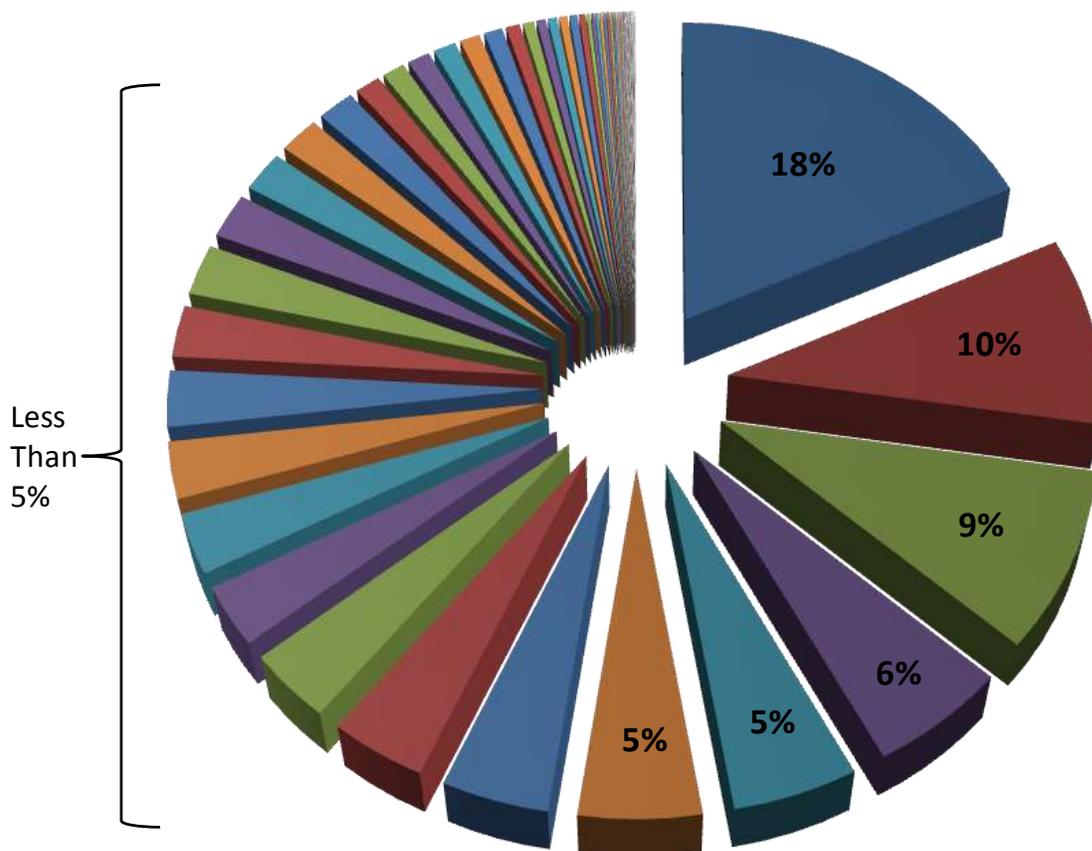
APPENDIX

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 18 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



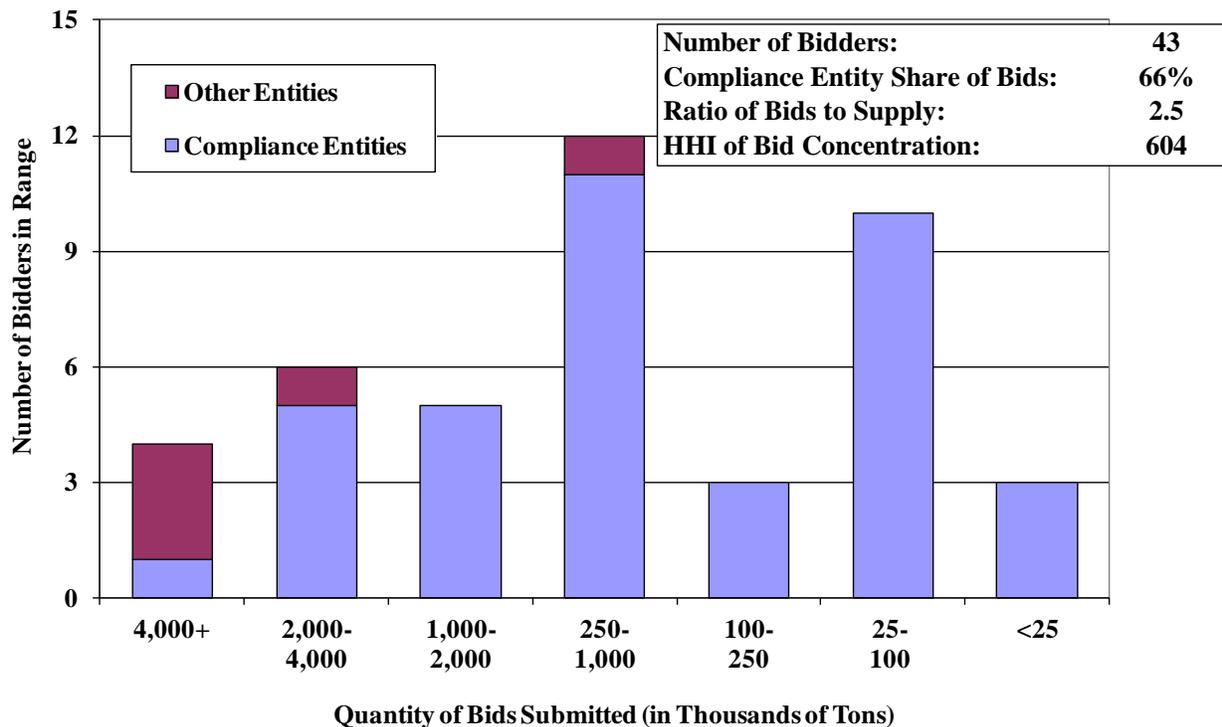
B. DISPERSION OF BIDS IN AUCTION 25

In the offering of allowances for the current control period, bids were submitted by 38 compliance entities and five 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. Six compliance entities and four other entities submitted bids for a large quantity of allowances (i.e., at least 2 million tons). Overall, compliance entities accounted for 66 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 17,998,687 allowances. In Auction 24, the quantity of allowances for which bids were submitted was 2.9 times the Initial Offering of 18,062,384 allowances.

The bid quantities were widely distributed among the 43 bidders. The concentration of bids, using the Herfindahl-Hirschman Index (“HHI”), is relatively low at 604, 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 25

In the offering of allowances for the current control period, awards were distributed across 36 bidders with six bidders purchasing one million tons or more and 17 bidders purchasing 300,000 tons or more. Compliance entities or their affiliates purchased 80 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 25, compliance entities and their affiliates purchased 80 percent of the allowances sold.
- In the first 25 RGGI auctions, compliance entities and their affiliates purchased 78 percent of the allowances sold.
- Compliance entities and their affiliates will hold 80 percent of the allowances in circulation following the settlement of allowances sold in Auction 25.

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	3,400,000
Bidder 2	2,249,000
Bidder 3	1,750,000
Bidder 4	1,458,687
Bidder 5	1,057,000
Bidder 6	1,000,000
Bidder 7	850,000
Bidder 8	675,000
Bidder 9	614,000
Bidder 10	580,000
Bidder 11	508,000
Bidder 12	500,000
Bidder 13	441,000
Bidder 14	401,000
Bidder 15	350,000
Bidder 16	341,000
Bidder 17	303,000
Bidder 18	200,000
Bidder 19	200,000
Bidder 20	171,000
Bidder 21	150,000
Bidder 22	150,000
Bidder 23	145,000
Bidder 24	100,000
Bidder 25	88,000
Bidder 26	85,000
Bidder 27	39,000
Bidder 28	30,000
Bidder 29	26,000
Bidder 30	25,000
Bidder 31	25,000
Bidder 32	25,000
Bidder 33	25,000
Bidder 34	18,000
Bidder 35	14,000
Bidder 36	5,000

D. SUMMARY OF BID PRICES IN AUCTION 25

Bids were submitted across a wide range of prices in the auction and the clearing price of \$4.88 was relatively consistent with average bid prices submitted.

The following table reports several statistics regarding the bid prices for bids submitted in Auction 25. The median and mean bid prices are weighted by the quantity of each bid.

Bid Prices:	
Minimum	\$2.00
Maximum	\$7.35
Average (Median)	\$4.71
Average (Mean)	\$4.58
Clearing Price:	\$4.88

E. NAMES OF POTENTIAL BIDDERS IN AUCTION 25

In accordance with Sections 2.8 and 3 of the Auction Notice for CO₂ Allowance Auction 25 on September 3, 2014, the Participating States are releasing the names of Potential Bidders in Auction 25. The states defined potential bidders as: “Each Applicant that has been qualified and submitted a complete *Intent to Bid*.” The list of 47 Potential Bidders is as follows:

Brayton Point Energy, LLC	Kleen Energy Systems, LLC
Brookfield Energy Marketing LP	Koch Supply & Trading, LP
Brooklyn Navy Yard Cogen Partners, LP	Lakeside Energy, LLC
Caithness Long Island, LLC	Luminus Energy Partners QP, LP
Calpine Energy Services, LP	Mercuria Energy America, Inc.
Castleton Commodities Merchant Trading, LP	Millennium Power Partners, LP
Castleton Power, LLC	Morgan Stanley Capital Group, Inc.
CE2 Carbon Capital, LLC	National Grid Gen. dba National Grid
Consolidated Edison Comp. of NY, Inc.	New Athens Generating Company, LLC
Delaware City Refining Company, LLC	NextEra Energy Power Marketing, LLC
Dominion Energy Marketing, Inc.	NRG Power Marketing, LLC
EDF Trading North America, LLC	Old Dominion Electric Cooperative
Entergy Rhode Island State Energy, LP	Power Authority of the State of New York
EquiPower Resources	PSEG Energy Resources & Trade, LLC
Exelon Generation Company, LLC	Public Service Company of New Hampshire
GDF SUEZ Energy Marketing NA, Inc.	RBC
GenOn Energy Management, LLC	Selkirk Cogen Partners, LP
Granite Ridge Energy, LLC	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.	