

MEMORANDUM

TO: RGGI, Inc.
RGGI Participating States

FROM: David Patton
Pallas LeeVanSchaick

DATE: December 18, 2008

RE: Allowance Auction on December 17, 2008

As the Market Monitor for the RGGI CO₂ allowance market, Potomac Economics monitors the conduct of market participants in both the primary auctions and the secondary market to identify indications of market manipulation or collusion. We also review the administration of the auctions by World Energy. This memorandum summarizes our findings regarding the second RGGI allowance auction, which was held on December 17, 2008.

We observed the auction as it occurred and have completed our review and analysis of its results. Based on our monitoring of participant conduct in the auction, we find no material evidence of collusion or manipulation by bidders. The vast majority of bids were consistent with competitive expectations.

Participation in the auction was robust with 69 separate entities submitting bids to purchase 3.5 times the available supply of allowances in the auction. This liquidity contributed to generating a clearing price that is consistent with the underlying supply and demand fundamentals governing the CO₂ allowance market. It is also encouraging that compliance entities or their affiliates, which should value the allowances most highly, purchased most of the allowances 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 hardware or software problems, communications issues, security breaches, or other problems with the auction platform.

In summary, the results of our monitoring of the first CO₂ allowance auction raise no material concerns regarding the auction process or its results.