Regional Greenhouse Gas Initiative
an initiative of the Northeast and Mid-Atlantic States of the U.S.

CO_2 Allowance Auctions

Frequently Asked Questions

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Administered by RGGI, Inc.
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RGGI Inc.

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by participating states to reduce emissions of carbon dioxide (CO_2), a greenhouse gas that causes global warming.

RGGI, Inc. is a non-profit corporation created to provide technical and administrative services to the CO_2 Budget Trading Programs of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont.

Contents

I Frequently Asked Questions Overview

In the course of conducting CO_2 allowance auctions, RGGI, Inc. administered an online question and answer process. This document generalizes and summarizes some of the frequently asked questions ("FAQs") received through the online question and answer process. For additional information, auction application forms, and notices of future auctions, please refer to the RGGI website: www.rggi.org.

Please note: These Questions and Answers are provided to assist applicants in understanding the auction process and the corresponding requirements. However, all the information needed to participate in a CO_2 allowance auction can be found in the current Auction Notice. **Please review the Auction Notice carefully before completing the Intent to Bid or Qualification Application forms.**

II What's New (See Section IV. Q. 8)

How should the questions on the Qualification Application, "Form 8 – Attestations" be answered in cases where an organization's ownership has changed? Does the response have to consider both the new and old "officers, directors, principals, members, or partners, over the past five (5) years?"

The attestations on Form 8 should only consider the current "officers, directors, principals, members, or partners" of the Applicant. The attestations should consider the history of those officers, directors, principals, members, or partners over the past five (5) years, including before their ownership of the current Applicant.

III General Application Process

Questions and answers provided in this section relate to the process and procedures to become qualified and approved to participate in a CO_2 allowance auction.

1. ***Who is eligible to participate in a CO_2 allowance auction?***

   At this time, all parties are eligible to participate in CO_2 allowance auctions including but not limited to corporations, individuals, non-profit corporations, environmental organizations, brokers, and other interested parties.

2. ***Can a firm incorporated outside the U.S. qualify to participate and bid in CO_2 allowance auctions? More specifically, are there any additional special requirements for a foreign firm to participate?***

   There are no special requirements for a foreign firm to participate in CO_2 allowance auctions. An applicant that does not have a United States Federal Tax ID should enter "Not Applicable" or "N/A" in the appropriate field of the Qualification Application.

3. ***How will information marked confidential by the Applicant be treated?***

   Information marked confidential by the Applicant in each Qualification Application and Intent to Bid will be held confidential to the extent permitted by applicable state laws and as specified in each Auction Notice.

4. Do qualified applicants from previous CO_2 allowance auctions need to re-submit all of the Qualification Application or does some of the information carry over to future auctions?

An applicant that has been qualified for a previous CO_2 allowance auction and has no material change to the information previously submitted in its Qualification Application is not required to submit a new Qualification Application. In order to participate in future auctions, a previously qualified applicant with no material change to its Qualification Application must:

a. Complete and submit the Intent to Bid; and

b. Meet the financial security requirements.

A previously qualified applicant with a material change to the information contained in its previously submitted Qualification Application must submit the Intent to Bid and meet the financial security requirements, as described above, and must also submit a new Qualification Application as set forth in the Auction Notice.

Please refer to the Intent to Bid for criteria on what constitutes a material change.

5. How will previously disclosed corporate and bidding associations be applied in upcoming auctions? When is a new Qualification Application required?

Previously disclosed corporate and bidding associations will be carried forward and applied to the auction for which the applicant intends to bid. If previously disclosed corporate and bidding associations have changed, a previously qualified applicant must complete and submit a new Qualification Application.

6. How will you communicate any changes to the Auction Schedule or auction documents? Is there any way that notices could be sent to the Authorized Representatives of each applicant alerting them to any changes?

Any changes to the Auction Schedule or auction documents for a CO_2 allowance auction will be posted on the auction website. In addition, the Primary (and Secondary, if applicable) Authorized Auction Representative will both receive all communications regarding the Qualification Application, the Intent to Bid, all notices and documentation, and any other information related to a CO_2 allowance auction including changes to the auction schedule. The principal mode of communication with Authorized Auction Representatives is via email.

7. How should I treat sections of forms which do not apply?

Sections of forms or fields that do not apply to an applicant should be clearly marked “Not Applicable” or “N/A” by the Applicant.

8. Should an applicant submit both the Qualification Application and the Intent to Bid together?

Yes. If submitting the Qualification Application and the Intent to Bid forms in hard copy, please send in one package. If submitting the Qualification Application and Intent to Bid forms electronically via e-mail, please send PDF (portable document format) attachments in one e-mail.

9. How does an applicant create a PDF (portable document format) Qualification Application and/or Intent to Bid for electronic submission via e-mail?

There are multiple ways to create a PDF (portable document format) Qualification Application and/ or Intent to Bid. For example, an applicant could scan a signed paper Qualification Application and/or Intent to Bid to PDF. An applicant could also convert a Microsoft Word Qualification Application and/or Intent to Bid with an electronic signature to PDF.

10. How does an applicant sign a PDF (portable document format) Qualification Application and/or Intent to Bid for electronic submission via e-mail?

There are multiple ways for the applicant to submit a signed PDF (portable document format) Qualification Application and/or Intent to Bid. An applicant could sign a printed Qualification Application and/or Intent to Bid in ink and then scan the complete documents. An applicant could also create an electronic image or file of the ink signature, which is inserted into the Microsoft Word Qualification Application and/or Intent to Bid on the signature line.

IV. Qualification Application

Questions and answers provided in this section relate to the Qualification Application that must be submitted and approved to participate in CO_2 allowance auctions.

1. Does each Participating State need to approve each applicant's Qualification Application?

Each of the states offering CO_2 allowances for sale in a CO_2 allowance auction will review each Qualification Application, Intent to Bid, and financial security for compliance with its own rules and/or requirements. The Participating States have developed a cooperative review process and a single set of criteria based on the requirements set forth in the Auction Notice. In order to qualify to participate in CO_2 allowance auctions, an applicant's Qualification Application must be approved by all Participating States.

2. On the "General Information" form of the Qualification Application where it requires the Applicant to select the "Appropriate Applicant Category" should Applicant select more than one category if applicable?

No. Applicants are instructed to select only one category. Applicants should select the most appropriate category describing the Applicant's core business.

3. Does an Applicant with an indirect ownership interest in electric generation source need to select the "Owner of Electric Generation Source(s)" category?

An applicant who owns or controls less than 20% of an electric generation source does not need to select the "Owner of Electric Generation Source(s)" category.

4. Will Qualified Applicants have access to information that would not otherwise be available to the public?

A qualified applicant has access to the auction platform which allows it to view its own bidding activity.

5. What auction data and information is available to applicants and the public?

The Participating States, through RGGI, Inc. release a Market Monitor Report shortly after each CO_2 allowance auction. The report includes aggregate information about the auction including the dispersion of projected demand, the dispersion of bids, and a summary of bid prices, showing the minimum, maximum, average and clearing price and the allowances awarded. The Market Monitor Report can be found at http://www.rggi.org/market/market_monitor . All inquiries should be directed to RGGI, Inc.

6. Who receives communications from the Auction Manager?

The Primary (and Secondary, if applicable) Authorized Auction Representative will both receive all communications regarding the Qualification Application, the Intent to Bid, all notices and documentation, and any other information related to a CO_2 allowance auction(s). The principal mode of communication will be via email.

7. I have been designated as the Secondary Authorized Auction Representative (SAAR) in a Qualification Application, what am I authorized to do?

The SAAR is authorized to (1) submit bids on behalf of the Applicant in any CO_2 Allowance Auction; (2) sign and submit an *Intent to Bid* on behalf of the Applicant for any CO_2 Allowance Auction; and (3) act on behalf of the Applicant in the remediation of the *Qualification Application* and/or any *Intent to Bid*. The SAAR receives the same username and password for the Auction Platform, allowing him/her to submit bids in any CO_2 Allowance Auction for which the Applicant is approved to participate. The SAAR also receives all communications regarding the *Qualification Application*, the *Intent to Bid*, all notices and documentation, and any other information related to a CO_2 Allowance Auction.

Applicants qualified prior to Auction 7 that wish to authorize the SAAR to act on behalf of the Applicant as described above must submit the “SAAR Authorization Form” contained in Appendix G. Appendix G. Once the Appendix G is submitted the SAAR will be qualified for future auctions.

8. How should the questions on the Qualification Application, “Form 8 – Attestations” be answered in cases where an organization’s ownership has changed? Does the response have to consider both the new and old “officers, directors, principals, members, or partners, over the past five (5) years?”

The attestations on Form 8 should only consider the current “officers, directors, principals, members, or partners” of the Applicant. The attestations should consider the history of those officers, directors, principals, members, or partners over the past five (5) years, including before their ownership of the current Applicant.

V. Intent to Bid Form

Questions and answers provided in this section relate to the Intent to Bid that must be submitted to participate in a specific CO_2 allowance auction.

1. ***Do applicants need to submit a new Intent to Bid form for each auction in which they may wish to participate?***

   Yes.

2. ***If an applicant submits an Intent to Bid form is it obligated to bid?***

   No. An applicant is never obligated to submit a bid or otherwise participate in a CO_2 allowance auction.

VI. Association

Questions and answers provided in this section relate to disclosable associations that must be disclosed in the Qualification Application.

1. ***If an applicant is unsure of how to report "Corporate and Bidding Associations" what should it do?***

   Each applicant is expected to perform due diligence in identifying its corporate and contractual relationships. The Participating States will evaluate the forms based upon information available to them and request remediation for outstanding issues if necessary. The Auction Notice defines the criteria for whether a disclosable corporate or bidding association exists.

2. ***Does an applicant that is an energy manager for several firms (asset owners) in the Participating States, need to declare associations with each of these firms or only those for which it will be purchasing CO_2 allowances?***

   An applicant must disclose in its qualification application the bidding association with any party (including an asset owner) for whom the applicant will be purchasing CO_2 allowances in an auction. An applicant may report a future bidding association now or submit this information as a material change in a new Qualification Application prior to the auction for which the bidding association applies.

3. ***What types of associations are prohibited after the Qualification Application has been submitted?***

   After the relevant Qualification Application filing deadline, an applicant may not communicate about the CO_2 allowance auction with any other applicant or party that has not been disclosed in its Qualification Application, except as requested by the RGGI CO_2 Budget Trading Programs Auction Manager to remediate a Qualification Application.

   If an applicant continues or initiates negotiations, discussions, or communications in a manner that would materially affect the disclosures made by the applicant in its Qualification Application, it must submit a new Qualification Application disclosing the new information. Such applicant may not participate in any CO_2 allowance auction without submitting a new Qualification Application with the RGGI CO_2 Budget Trading Programs Auction Manager prior to the relevant filing deadline.

4. *Can you provide an example of direct and indirect corporate associations?*

Consider Company A, Company B, Company C, Company D, and Company E. These companies have the following relationships.

- Company A owns 90% of Company B
- Company A owns 30% of Company D
- Company B owns 70% of Company C; thus Company A owns 63% of Company C
- Company E owns 35% of Company D

Only Company C, Company D, and Company E intend to participate in the upcoming CO_2 Allowance Auction. Therefore, the relevant disclosable corporate associations are as follows.

- Since both Company C and Company D are partially owned by Company A, they have an indirect corporate association. Each of Company C and Company D must disclose their corporate association in their respective Qualification Application. They have a combined bid limitation of 25%, which must be apportioned between the two companies.
- Company D and Company E have a direct corporate association. Each of Company D and Company E must disclose their corporate association in their respective Qualification Application. They have a combined bid limitation of 25%, which must be apportioned between the two companies.

Note, Company D’s individual limitation as disclosed on Company D, Company C, and Company E’s materials must be identical.

This example assumes that the corporate association exists through the ownership of shares; however, it is important to note that there are other means by which a corporate association can exist between applicants. This includes, but is not limited to, the right of an applicant to acquire shares or any option to purchase shares of another applicant; the ability of one applicant to hold or appoint directors of another applicant; the holding of voting power by an applicant for another applicant; or if an applicant controls another applicant’s affairs through some other means, for example, the terms of a general partnership agreement.

5. *Can you provide an example of how bid limitations would be allocated among applicants that have bidding associations?*

Consider Company W, Company X, Company Y, and Company Z. All of these companies intend to participate in the upcoming CO_2 Allowance Auction and have disclosable corporate associations that result in the following bid limitations.

- Company W and Company X have a disclosable corporate association. These companies have agreed to bid limitations of 15% for Company W and 10% for Company X.

- Company X and Company Y have a disclosable corporate association. These companies have agreed to bid limitations of 10% for Company X and 15% for Company Y.

- Company Z does not have any disclosable corporate associations.

Company W has a signed agreement with Company Z to buy 1 million of the CO_2 allowances that Company Z may be awarded from the auction. This bidding association must be disclosed on both Company W's and Company Z's Qualification Applications. Company W's bid limitation is reduced by 1 million CO_2 allowances. Therefore, the final quantity of CO_2 allowance bid limitation for each bidder in the example, assuming the total number of CO_2 allowances offered for sale is "N" is as follows.

- Company W: (N * .15) - 1 million

- Company X: (N * .10)

- Company Y: (N * .15)

- Company Z: (N * .25)

6. My associations and their associated bid limits have changed since the last auction in which I participated. How can I make a change to these associations for the next auction in which I want to participate?

Any change to a previously disclosed association, including bid limitations, is a material change. Therefore, a previously qualified applicant must update the associations and associated bid limitations by completing and submitting a new Qualification Application.

7. I have an association with another Applicant. If an associated Applicant submits a new Qualification Application could that impact my qualification status?

Yes. If one or more associated applicants submits a new Qualification Application modifying information in Forms 4 – 7, (such that information for all associated applicants is no longer consistent) this could trigger a material change for one or more of the other associated applicants. Information provided by all qualified applicants referring to corporate or bidding associations (Forms 4 – 7 of the Qualification Application) must match. All the associated applicants would receive a remediation notice via e-mail instructing them to address the inconsistencies in the corporate or bidding associations.

8. Can I enter in an agreement with a party for the auction to purchase/sell allowances after I have submitted an Intent to Bid and/or Qualification Application? For example, the transaction is contingent on the clearing price being less than a certain price.

No. Please refer to Auction Notice for CO2 Allowance Auction 35 ("Auction Notice") Section 7.2.3.3 Identifying Bidding Associations. Your proposed agreement would constitute a bidding association and must be reported in your Qualification Application as well as the counter party's Qualification Application. Entering into an agreement with a party after the Qualification Application deadline for the Auction has passed, would constitute a material change and both parties would not be able to participate in that Auction.

As per Section 4 of the Auction Notice, "Before the Qualification Application and Intent to Bid deadline, Applicants may enter into otherwise lawful associations, but each Applicant must disclose the existence of the associations as required in the Qualification Application."

Moreover, as per Section 3 of the Auction Notice, you should be aware that Applicants may not publicly release confidential information. Confidential information includes, but is not limited to, qualification status, bidding strategy, bid price and/or bid quantity information, and information on financial security to the extent such information is not generally available to the public.

9. ***As a qualified applicant, if my company may be merging with another potential bidder prior to the auction are there any considerations to be made for qualification documents?***

   If the intent for a merger is publically announced applicants should include a corporate association, listing the other associated applicant, on their Qualification Applications.

VII. Financial Security

Questions and answers provided in this section relate to the financial security that must be submitted and approved to participate in a CO_2 allowance auction.

1. ***Can financial security remain active from auction to auction or does an applicant need to post financial security for each auction?***

   Financial security can remain active and on file with RGGI, Inc., provided the expiration date on the Bond or Irrevocable Letter of Credit meets the minimum expiration date required for any auction for which an applicant wishes to participate, as specified in the applicable Auction Notice.

2. ***Letters of Credit - Is the Form of Irrevocable Letter of Credit non-negotiable? Will minor language changes to this document be permitted (for example, if required by our bank)?***

   No material changes will be permitted. To the extent the submitted Irrevocable Letter of Credit or Bond differs from the form provided in the Auction Notice, the applicant assumes the risk that the submitted irrevocable Letter of Credit or Bond may be rejected.

3. ***Can a third party entity post financial collateral for an applicant? If so, does the applicant or the party posting financial security receive awarded CO_2 allowances?***

   Yes, a third party can post financial security for an applicant. The financial security must clearly indicate the applicant it is being provided for. The applicant will receive any awarded CO_2 allowances.

4. ***Can a company which is located/registered in a foreign country, and which does not own a bank account in the US, participate in the auction?***

   A company that is located/registered in a foreign country can participate in a RGGI auction; however, the company must establish a banking arrangement that allows it to comply with the requirements established in Section 2.9 (Submittal of Financial Security) of the Auction Notice. The financial security requirements in this Section establish a reasonable level of financial due diligence and are non-negotiable***.***

VIII. Auction Format

Questions and answers provided in this section relate to the auction format and procedures to be utilized in a CO_2 allowance auction.

1. Is there a bid price ceiling?

No, there is no bid price ceiling.

2. What is the minimum reserve price?

The minimum reserve price in calendar year 2017 is $2.15. As specified in Participating State regulations, the minimum reserve price in calendar year 2014 was $2.00. Each calendar year thereafter, the minimum reserve price is 1.025 multiplied by the minimum reserve price from the previous calendar year, rounded to the nearest whole cent. The 2016 minimum reserve price was $2.10.

3. In selecting winning bidders, is there any preference given to residents of the participating states?

No preference will be given to any bidder.

4. What if the total number of CO_2 allowances does not divide evenly into lots of 1,000?

All bids must be submitted in multiples of 1,000 CO_2 allowances. There is no way to submit bids for partial lots.

5. Is the bid price for an individual CO_2 allowance or for a lot of 1,000 allowances (e.g., is a bid at a reserve price of $2.15 or $2,150.00)?

A bid price on the Auction Platform is to be entered for a single CO_2 allowance. The corresponding bid quantity must be submitted as a multiple of 1,000 CO_2 allowances.

6. Can auction participants see the bids being entered by other participants during the auction?

No. CO_2 allowance auctions use a sealed bid auction format.

7. What happens if a bidder enters a bid on the auction platform that exceeds either the financial security or the bidder's bid quantity limitations? Are all of that company's bids rejected?

The Auction Platform will reject any bid that exceeds the financial security limitation or the bidder's bid limitation. All previously entered bids will remain active on the Auction Platform.

8. Are auction financial settlements with The Bank of New York Mellon and not with the individual states?

RGGI Inc., through The Bank of New York Mellon, provides financial settlement services on behalf of the Participating States offering CO_2 allowances for sale.

9. When is the clearing price for each auction made available to bidders and the general public? Where is this information released?

RGGI, Inc. will post the auction clearing price of each auction on the homepage of the RGGI website at http://www.rggi.org at 10:00 AM ET[1] on the second business day following that auction. For example, for an auction held on Wednesday, March 08, 2017 the clearing price will be posted at 10:00 AM ET on Friday, March 10, 2017. The release of the clearing price through the RGGI website is intended to ensure that all interested parties are provided market information at the same time, to the greatest extent possible.

Shortly following the release of the clearing price on the RGGI website, the auction platform will be updated to allow bidders to view the number of allowances they may have been awarded at the auction. In addition, shortly following the release of the clearing price RGGI, Inc. will post the market monitor report.

If there is a delay or technical issue in the RGGI website, RGGI, Inc. will delay the release of auction results through other channels until posting on the website has been completed.

10. Are post-auction invoices for internal accounting records available?

Yes, upon receipt of the e-mail notification from the auction manager that the CO_2 Allowance Auction results are available for viewing, a bidder may log into the auction platform, and print and/or download the auction platform page showing allowances won and the dollar amount owed as an invoice.

11. How are allowances awarded if there are multiple marginal bids?

If there are multiple marginal bids, the tie will be resolved by a random process.
The table below highlights the tiebreaking process. This example is an auction for 100,000 CO2 allowances. All bids are ranked by bid price from high to low and cumulative demand is noted at each bid.

[1] ET, or EPT on the Auction Platform, refers to the prevailing local time in New York City in the United States of America.

Bidder Name	Bid Price	Bid Quantity	Cumulative Demand	Random Number
Bidder E	$5.00	20,000	20,000	
Bidder A	$4.50	10,000	30,000	
Bidder B	$4.10	10,000	40,000	
Bidder D	$4.05	20,000	60,000	
Bidder E	$4.00	10,000	70,000	
Bidder A	$3.95	10,000	80,000	
Bidder C	$3.85	10,000	90,000	
Bidder E	$3.75	10,000	125,000	(3)
Bidder D	$3.75	5,000	125,000	(1)
Bidder A	$3.75	10,000	125,000	(2)
Bidder B	$3.75	10,000	125,000	(4)
Bidder A	$3.25	30,000	155,000	
Bidder C	$3.00	40,000	195,000	

Table: Tiebreaking Process Example

Bidders E, D, A, and B's bids for CO2 allowances at $3.75 cause cumulative demand to be greater than the supply of CO2 allowances offered for sale in the auction, so these bids are the marginal bids and the interim clearing price is the bid price of the marginal bids, or $3.75 per CO2 allowance. Provided that the interim clearing price does not exceed the CCR trigger price, the final clearing price will equal the interim clearing price and CO2 allowances are awarded to all bids with bid prices greater than $3.75 per CO2 allowance, the final clearing price.

In addition, the tie amongst the marginal bids, highlighted in blue, must be broken and CO2 allowances awarded. Breaking the tie requires the generation of a random number that is assigned to each tied bid. The CO2 allowances are awarded to each tied bidder in increasing order by the value of their assigned random number until no CO2 allowances are left.

Bidder D received the random number 1; therefore the remaining CO2 allowances are awarded to that bidder first. Bidder D's bid for 5,000 CO2 allowances can be fully satisfied, leaving 5,000 CO2 allowances to still be awarded. The bidder who received the random number 2 is Bidder A. Bidder A's bid for 10,000 CO2 allowances cannot be fully satisfied, but the bid is awarded the remaining 5,000 CO2 allowances. No other tied marginal bid would be awarded any CO2 allowances since the remaining available supply is exhausted. In summary, bidders would receive the following awards.

- Bidder A – 25,000 CO2 allowances at a total cost of $93,750.
- Bidder B – 10,000 CO2 allowances at a total cost of $37,500.
- Bidder C – 10,000 CO2 allowances at a total cost of $37,500.
- Bidder D – 25,000 CO2 allowances at a total cost of $93,750.
- Bidder E – 30,000 CO2 allowances at a total cost of $112,500.

IX Cost Containment Reserve

1. What triggers a release of CO_2 Allowances from the Cost Containment Reserve?

The Cost Containment Reserve ("CCR") is designed to moderate the price of CO_2 allowances if the demand for allowances exceeds the Initial Offering (i.e., the CO_2 allowances that are offered for sale upon the opening of the auction) and the interim clearing price exceeds the CCR trigger price. The CCR trigger price is the price, which if exceeded by the interim clearing price, triggers a release of CO_2 allowances from the CCR.

2. If a release of CO_2 Allowances from the Cost Containment Reserve is triggered, how many allowances are released?

The interim clearing price determines whether any CCR CO_2 allowances ("CCR Allowances") are released. If a release occurs, CCR CO_2 allowances are released until:

- The final clearing price equals the CCR Trigger Price; or
- The CCR is exhausted.

3. What happens once the pool of allowances available in the CCR is depleted?

Once the pool of CO_2 allowances available in the CCR is exhausted, no CCR Allowances will be available for the remainder of that calendar year. The CCR is replenished at the start of each calendar year. The CCR was 5 million CO_2 allowances in 2014 and will consist of 10 million CO_2 allowances each year thereafter.

4. What is the Trigger Price for the CCR?

The CCR trigger price is $10.00 in 2017. Each year after 2017, the CCR trigger price will increase by 2.5%.

5. Can the final clearing price exceed the CCR Trigger Price?

Yes, the final clearing price can exceed the CCR Trigger Price. This would happen if there was a release of CCR Allowances and the CCR is exhausted before the CCR Trigger Price is reached, or if the CCR has been exhausted in prior auctions in that calendar year. Therefore the final clearing price will exceed the CCR Trigger Price.

6. How do bidders get to bid on the CCR Allowances?

Bidders will continue to place bids during the auction on the Initial Offering of CO_2 allowances. The bidding procedures are unchanged from previous auctions. At the completion of the auction, the interim clearing price will be established and if greater than the CCR Trigger Price, CCR Allowances are released. The increased supply of CO_2 allowances allows more demand to be met resulting in a lower final clearing price. Bidders need to understand the CCR dynamics but bidding procedures are unchanged.

7. *How is the interim and final clearing price established and how are CO_2 allowance awards made?*

The following example illustrates the process that determines the results of the auction. First is the establishment of the interim clearing price. The interim clearing price will determine whether any CCR allowances are released, the number to be released, and the final clearing price. The final step is to award the CO_2 allowances.

The auction example discussed here is for a uniform-price, sealed-bid auction that highlights the release of CO_2 allowances from the CCR. There are 100,000 Base Allowances and 100,000 CCR Allowances. The CCR Trigger Price is $4.00 per CO_2 Allowance.

At the conclusion of the auction, all bids are ranked by bid price from high to low and cumulative demand is noted at each bid.

Bidder Name	Bid Price	Bid Quantity	Cumulative Demand	
Bidder E	$6.00	27,000	27,000	
Bidder A	$5.95	10,000	37,000	
Bidder A	$5.80	11,000	48,000	
Bidder D	$5.70	20,000	68,000	
Bidder B	$5.10	10,000	78,000	
Bidder E	$5.10	12,000	90,000	
Bidder C	$4.85	10,000	100,000	
Bidder E	$4.80	10,000	110,000	< Interim Clearing Price
Bidder B	$4.75	15,000	125,000	
Bidder C	$4.25	20,000	145,000	
Bidder A	$4.05	12,000	157,000	
Bidder C	$4.00	40,000	197,000	< Final Clearing Price
Bidder D	$3.25	16,000	213,000	
Bidder A	$3.15	13,000	226,000	

<u>Step 1: The Interim Clearing Price</u>
Bidder C's bid for CO_2 allowances at $4.85 causes cumulative demand to exactly equal the supply of CO_2 allowances offered for sale in the auction, so that bid is the marginal bid. The interim clearing price is the bid price of the bid after the marginal bid, or $4.80 per CO_2 allowance.

<u>Step 2: CCR Allowances to be Released and the Final Clearing Price</u>

Since the interim clearing price is above the CCR Trigger Price, additional CO_2 allowances are released from the CCR. CCR Allowances are released until:

- The final clearing price equals the CCR Trigger Price; or
- The CCR is exhausted.

Incremental amounts of CCR Allowances equal to demand at each successively lower bid price are released. For instances, 10,000 CO_2 allowances are released at the $4.80 bid price; however, the interim clearing price is still greater than the CCR Trigger Price so more

CCR Allowances are released. 15,000 CO_2 allowances are released at the $4.75 bid price, 20,000 CO_2 allowances are released at the $4.25 bid price, 12,000 CO_2 allowances are released at the $4.05 bid price, and 40,000 CO_2 allowances are released at the $4.00 bid price. In total, 97,000 CO_2 allowances are released from the CCR. The remaining 3,000 CCR Allowances will carry over to the next auction until the end of the calendar year. After this release of CO_2 allowances, the final clearing price is $4.00, which is the CCR Trigger Price. The increased supply of CO_2 allowances allows more cumulative demand to be met resulting in a lower final clearing price.

Step 3: CO_2 Allowance Awards

Once the final clearing price has been established, CO_2 allowance awards are made using the ranked bids. Since cumulative demand at the final clearing price equals the number of CO_2 allowances available for sale (Base Allowances plus CCR Allowances), then CO_2 allowances are awarded to all bids with a bid price greater than or equal to the final clearing price.

In summary, bidders would receive the following awards:

- Bidder A – 33,000 CO_2 allowances at a total cost of $132,000.
- Bidder B – 25,000 CO_2 allowances at a total cost of $100,000.
- Bidder C – 70,000 CO_2 allowances at a total cost of $280,000.
- Bidder D – 20,000 CO_2 allowances at a total cost of $80,000.
- Bidder E – 49,000 CO_2 allowances at a total cost of $196,000.

X. RGGI CO_2 Allowance Tracking System

Questions and answers provided in this section relate to the RGGI CO_2 Allowance Tracking System (RGGI COATS).

1. What is the difference between a RGGI COATS "General" account and a "Compliance" account?

A general account is a CO_2 allowance account available to any party. A general account can be used for the receipt, transfer, and banking of CO_2 allowances in the RGGI COATS (as can a compliance account) but does not provide the CO_2 allowance compliance deduction process outlined in subdivision 6.5(b) of the model rule as promulgated in each state's regulations.

A compliance account is associated with an electric generation facility regulated under a state CO_2 Budget Trading Program (a "CO_2 budget source"). These accounts are used for compliance with the requirements of each state's CO_2 Budget Trading Program. Only one compliance account will be assigned to each CO_2 budget source.

An applicant must have either a general or compliance account to participate in CO_2 allowance auctions. Applicants may provide either a general or a compliance account number in their Qualification Application for the auction. The RGGI COATS account designated in the Qualification Application is the destination account for transfer of any CO_2 allowances awarded from the auction. An account number change would be considered a material change that requires a resubmission of the Qualification Application.

2. ***Can CO_2 allowances be sold and transferred to other parties?***

   Yes. CO_2 allowances may be sold to other parties. Transfer of CO_2 allowances occurs in the RGGI COATS (see http://www.rggi-coats.org). Note, however, that there may be special conditions associated with certain CO_2 allowances issued by a specific state that are not auctioned, but are distributed under individual state set-aside programs. Please refer to each state's implementing regulation for any specific limitations that apply to certain CO_2 allowances issued by a specific state.

3. ***How many Authorized Account Representatives can be registered for a given Owner?***

   Only one Authorized Account Representative (AAR) and one Alternate Authorized Account Representative (AAAR) may be designated per account. Any person can hold more than one general account. An owner or operator of more than one CO_2 budget source will have a single compliance account for each CO_2 budget source, and it is the owner's choice whether the AARs or AAARs for those compliance accounts are the same or different persons.

4. ***Can the Authorized Account Representative be someone besides the Owner or Operator and act as agent for the Owner or Operator?***

   Yes, an AAR can be any individual. For a compliance account, an AAR must certify that he/she was selected as the AAR by an agreement binding on the owners and operators of a CO_2 budget source. For a general account, the AAR must certify that he/she was selected as the AAR by an agreement that is binding on all parties that have an ownership interest with respect to the CO_2 allowances in the account.

5. ***Can CO_2 allowances be held in an account indefinitely?***

   Yes, CO_2 allowances can be held indefinitely.

6. ***The "General Information" form of the Qualification Application requires the identity of the applicant to be disclosed. Does the owner of multiple electric generation sources have the flexibility to determine whether or not to "register" CO_2 budget sources on an individual basis or on a portfolio level (i.e. by submitting an application on behalf of a holding company or limited liability company (LLC))?***

   An owner of multiple electric generation sources has the flexibility to submit applications for CO_2 budget sources on an individual basis and/or at the holding company level.

7. ***Can general accounts retire CO_2 allowances? If so, will there be reports available to show the retirements?***

   The state CO_2 Budget Trading Programs do not currently provide for retirement of CO_2 allowances through a general account. However, CO_2 allowances not needed for compliance can be held indefinitely in a compliance or general account.

8. ***Is there a read-only level access to RGGI COATS accounts?***

   Only account holders have access to view or manage their individual RGGI COATS accounts. The RGGI COATS contain reports that provide access to certain information to the general public. It is not necessary to open an account to access these reports.

9. ***Can a RGGI COATS account have more than two qualified people allowed to access the system?***

   Yes. Each account in the RGGI COATS will be allowed to have one AAR, one AAAR, and electronic submission agents. Each AAR and AAAR is allowed to have up to five electronic submission agents in the RGGI COATS. Each authorized user will have his or her distinct username and password for accessing the system.

10. ***Do the Authorized Account Representatives for RGGI COATS accounts need to be the same people as the Primary and Secondary Authorized Auction Representatives?***

    No. The RGGI COATS is a separate and distinct system from the Auction Platform.

11. **For a general account, is it required to list all Electric Generating Sources owned by affiliates?**

    For a RGGI COATS general account, it is required to list all persons, firms or entities subject to a binding agreement for the AAR or any AAAR to represent their ownership interest with respect to the CO_2 allowances held in the general account.

    For a RGGI COATS compliance account, it is not required to list all electric generating sources owned by affiliates. A compliance account is associated with a CO_2 budget source. These accounts are used for compliance with the requirements of each state's CO_2 Budget Trading Program. Only one compliance account will be assigned to each CO_2 budget source.

    The requirements above, referring to the RGGI COATS accounts, are distinct from the information requested in the "General Information" form of the Qualification Application. In the Qualification Application all electric generating sources owned by an Applicant must be listed.

XI. RGGI, Inc.

Questions and answers provided in this section relate to RGGI, Inc.

1. ***What is the nature of RGGI, Inc. and its role in the state CO_2 Budget Trading Programs?***

   Regional Greenhouse Gas Initiative, Inc. ("RGGI, Inc.") is a non-profit incorporated in Delaware and based in New York, created to provide technical and administrative services to Participating States in the development and implementation of the state CO_2 Budget Trading Programs. RGGI, Inc. receives funding from the Participating States and is required to file annual financial reports according to state and federal requirements. RGGI, Inc. is governed by a Board of Directors comprised of the Agency Heads of energy and environmental agencies from each Participating State. All actions or decisions regarding finances and business operations of RGGI Inc., including all monetary transactions, are controlled by the Board of Directors. Information on the current Board of Directors is available at: http://www.rggi.org/rggi/board. In addition, RGGI, Inc.'s Articles of Incorporation and Corporation By-Laws are available at: http://www.rggi.org/rggi/legal.

RGGI, Inc. has been retained and funded by each of the Participating States to provide technical and administrative services in the development and implementation of state CO_2 Budget Trading Programs. Any bid submitted into the Auction Platform, and not canceled prior to the close of the auction, is deemed a binding offer to purchase CO_2 allowances from each of the Participating States. The award of CO_2 allowances by each of the Participating States is deemed an acceptance of the offer. The controlling terms of the transaction are stated in the Auction Notice, the Qualification Application, and the Intent to Bid. The combination of offer, acceptance, payment, and terms constitute the contract between the applicant and each of the Participating States.

RGGI, Inc. acts as agent for the Participating States for the purpose of financial settlement. Financial security is deposited into an account at The Bank of New York Mellon under the title "RGGI, Inc. as agent for the Signatory States of the Regional Greenhouse Gas Initiative" and will be held in that account subject to the terms in the Auction Notice issued by the Participating States. Following financial settlement of each auction, excess financial security will be returned to bidders and the remainder of financial security will be transferred to the states offering CO_2 allowances for sale as payment for the CO_2 allowances purchased.

RGGI, Inc. will receive and maintain any Irrevocable Letters of Credit (ILOC) and Bonds that are submitted as financial security. Any cash financial security will be held in an account at The Bank of New York Mellon by RGGI, Inc., as agent for the Participating States.

XII. Other

Questions and answers provided in this section relate to other aspects of the auction.

1. ***Can companies offer CO_2 allowances or other kinds of credits through a RGGI CO_2 allowance auction?***

   No. Only the Participating States may offer CO_2 allowances for sale at a RGGI CO_2 allowance auction.

2. ***Are the CO_2 allowances issued by each of the Participating States fungible? Can CO_2 allowances from any Participating State be used in any Participating State to meet compliance obligations?***

   Yes. Any CO_2 allowance issued by a Participating State may be used to meet compliance obligations in any of the Participating States' CO_2 Budget Trading Programs.

3. ***Can CO_2 allowances from the first control period (2009, 2010, or 2011) be used to meet obligations in future compliance periods? Similarly, can CO_2 allowances from the second control period be used to meet obligations in future compliance periods?***

   As indicated in each of the Participating States regulations CO_2 allowances from the first or second control periods may be used to meet compliance obligations during that time period or may be banked to meet future compliance obligations.

4. What is the schedule for future auctions?

A schedule of upcoming auctions and projected allowance quantities to be offered is located at http://www.rggi.org/market/co2_auctions/upcoming_auctions.

5. When bidders purchase one lot of CO_2 allowances, it includes CO_2 allowances from all Participating States. How does this work?

CO_2 allowances will be sold in multiples of 1,000. Each lot of 1,000 CO_2 allowances will consist of CO_2 allowances from all of the Participating States offering CO_2 allowances for sale in that auction.

6. Please define "Financial or Investment Institution".

A financial or investment institution is commonly understood to be an entity that obtains capital from individuals, businesses, and other organizations and invests it in various financial assets.

7. Please explain the meaning of "non-responsible".

Non-responsible is a term that is used as part of government procurement processes in some states. An entity found non-responsible will have received a determination of non-responsibility from the procurement agency.

8. What is the definition of a compliance entity?

A compliance entity is an owner or operator of a facility that is a CO_2 budget source pursuant to state regulation in one or more of the Participating States.

9. How will the third control period differ from the first and second control periods?

Starting in the third control period (which began January 1, 2015 and extends through December 31, 2017), each CO_2 budget source must hold allowances equal to 50 percent of their emissions during each interim control period (the first two calendar years of each three-year control period). Each CO_2 budget source must hold allowances equal to 100 percent of their remaining emissions for the three-year control period at the end of the three year control period.