

RGGI CO₂ BUDGET TRADING PROGRAMS

CO₂ Allowance Auction Questions and Answers for CO₂ Allowance Auction 1 on September 25, 2008 Part 2 of 2

States offering CO₂ allowances for sale:

Connecticut, Maine, Maryland, Massachusetts, Rhode Island, Vermont

Released on August 6, 2008

Administered by RGGI, Inc.
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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.

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I. Questions and Answers Overview

This document, titled *CO₂ Allowance Auction Questions and Answers for CO₂ Allowance Auction 1 on September 25, 2008 – Part 2 of 2* ("Part 2") is the second of two documents that have been released to address relevant questions submitted while the online question window was open,¹ as provided in Section 2.3 of the *CO₂ Allowance Auction Notice for CO₂ Allowance Auction 1 on September 25, 2008* ("Auction Notice"). Auction Notice Section 2.3, Electronic Question Submittal, states that only questions regarding the Auction Notice, *CO₂ Allowance Auction Qualification Application – Version 1* ("Qualification Application"), and *CO₂ Allowance Auction Intent to Bid for CO₂ Allowance Auction 1 on September 25, 2008* ("Intent to Bid") will be answered. To the extent that responses to relevant questions addressing the broader program framework will help clarify the auction process, answers to those questions have been included as well.

Any relevant question submitted while the online question window was open that is not answered in Part 2 was answered in *CO₂ Allowance Auction Questions and Answers for CO₂ Allowance Auction 1 on September 25, 2008 – Part 1 of 2* ("Part 1"). Part 1 was released on Friday, August 1, 2008 and is available at the footnoted link.² The questions are listed in bold as submitted.

The numbering of the questions in Part 2 is a continuation of the numbering from Part 1.

The responses provided in Part 1 and Part 2 are considered formal responses to inquiries submitted during the process provided for in Auction Notice Section 2.3. Any information received outside of the process provided in Auction Notice Section 2.3 is not considered a formal response by the states offering CO₂ allowances for sale in CO₂ Allowance Auction 1 ("Auction 1").

II. Process Questions and Answers

Questions and answers provided in this section relate to the process and procedures to become qualified and approved to participate in Auction 1.

50. Each state offering CO₂ allowances for sale in Auction 1 will review each applicant's Qualification Application and make a determination as to grant or deny qualification to each applicant. Does this mean that all six states will review each application? What if 5 grant and one decides to deny the qualification?

Each of the states offering CO₂ allowances for sale in Auction 1 will review each Qualification Application for compliance with its own rules and/or requirements. The 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 for Auction 1, an applicant's Qualification Application must be approved by all states offering CO₂ allowances for sale in Auction 1. See Auction Notice Sections 2.4 and 1.1.

Each of the states offering CO₂ allowances for sale in Auction 1 will review each Intent to Bid for compliance with its own rules and/or requirements. The States have developed a

¹ The online question window was open from 8:00 AM EDT on Thursday, July 24, 2008 until 5:00 PM EDT on Wednesday, July 30, 2008.

² http://www.rggi.org/auctions/documents/Questions_and_Answers-Part_1_August_1_2008.pdf

cooperative review process and a single set of criteria based on the requirements set forth in the Auction Notice. In order to participate in Auction 1, an applicant's Intent to Bid must be deemed complete by all states offering CO₂ allowances for sale in Auction 1. See Auction Notice Sections 2.5 and 1.1.

Each of the states offering CO₂ allowances for sale in Auction 1 will review each applicant's financial security for compliance with the requirements set forth in the Auction Notice. In order to participate in Auction 1, an applicant's financial security must be approved by all states offering CO₂ allowances for sale in Auction 1. See Auction Notice Sections 2.6 and 1.5.

51. Is it possible that one state accepts the Qualification Application and another does not? How will bidding procedure work if this occurs?

Please refer to the answer to Question 50.

52. Section 1.5 - Does each participating state need to approve each applicant's Qualification Application? What are the implications of this? What happens if an applicant's application is approved by 5 of 6 participating states? Have you considered having one central clearing house that could review and approve all applications?

Please refer to the answer to Question 50.

53. I understand that each state participating in the auction must approve each participant's Qualification Application and Intent to Bid. Why is there not a centralized approval process?

Please refer to the answer to Question 50.

54. Does each state have its own separate review criteria and, if so, where are these criteria disclosed? How will conflicts between those criteria be resolved?

Please refer to the answer to Question 50.

55. What will happen if one state decides to oppose an applicant?

Please refer to the answer to Question 50.

56. Could that applicant's bids be deemed relevant only for allowances from the states that approved the applicant?

Please refer to the answer to Question 50.

57. Is there an appeal or other resolution process?

Any appeal of a state agency's decision would be made in accordance with that state's laws.

58. What will happen if one state does not make its decisions in accordance with the timetable?

Please refer to the answer to Question 50. Decisions will be made in accordance with the timetable.

59. The CO₂ Allowance Auction Notice for CO₂ Allowance Auction 1 on September 25, 2008 indicates that each state offering CO₂ allowances for sale in Auction 1 will review each participant's Qualification Application and Intent to Bid. The notice also states that each state will then make a determination to grant or deny qualification to each applicant and a determination as to the completeness of the intent to bid. Can more insight into this decision process be provided? How is consensus reached on each participant's application materials? What happens if the decision to approve/deny a participant's application materials is not unanimous?

Please refer to the answer to Question 50.

60. Acceptance of applications appears to be state-specific. What happens if one or more states reject a company's application and the other states accept the application? Under the RGGI construct, we are not bidding on state-specific allowances, but just RGGI allowances. (We think, in the end, we'll know which state's allowances we are buying.) If this occurs, what are the implications in/for the auction?

Please refer to the answer to Question 50.

61. Section 1.5 - Does each participating state need to approve each applicant's financial security? What are the implications of this? What happens if an applicant's financial security is approved by 5 of 6 participating states? Have you considered having one central clearing house that could review and approve all financial security?

Please refer to the answer to Question 50.

62. Section 1.1 of the Auction Notices states that "Each state offering CO₂ allowances for sale in Auction 1 will retain the authority to make its own regulatory determinations in conducting the auction? What does this mean? How do you expect this to impact the auction?

Please refer to the answer to Question 50.

63. What information will be available to the general public for the Auction Results besides clearing prices?

Auction results will be publicly released no later than 5:00 PM EDT on Monday, September 29, 2008. Only the clearing price and number of CO₂ allowances sold will be released. See also the answer to Question 116 regarding RGGI COATS reports.

64. After the auction is complete, will we know the bid quantities and prices for all bidders, both above and below the clearing price?

Please refer to the answer to Question 63.

65. Would you be able to provide a breakdown of allowances state-by-state (for the upcoming auction and beyond, if possible), especially the number of allowances each state is withholding or offering to certain providers for free?

A table outlining the specific number of CO₂ allowances each state is offering for sale in Auction 1 is listed in Auction Notice Section 1.3. Notices for upcoming auctions will also include the specific numbers of CO₂ allowances each state is offering for sale in that auction. For more information on each state's program, contact each of the primary state staff representatives located at <http://www.rggi.org/contact.htm>.

66. Form 1 - "General Information" of the Qualification Application requires bidders to select the "Appropriate Applicant Category." Please provide clarification on the following issues related to Form 1:

(a) Are bidders required to select more than one category if applicable? Should bidders select more than one category if applicable?

(b) Does a bidder with an indirect ownership interest in generation need to select the "Owner of Electric Generation Source(s)" category?

(c) Does a bidder with indirect ownership of generation resources not located in any of the RGGI member states need to select the "Owner of Electric Generation Source(s)" category?

(d) Please confirm that an entity that owns a non-controlling equity interest or a passive interest (e.g. with limited voting rights) in a generation resource is not required to identify itself as an "Owner of Electric Generation Source(s)"?

Applicants are instructed to "Select the Appropriate Applicant Category (only one)." The most appropriate category describing the Applicant should be selected based on the Applicant's core business.

An applicant who owns or controls less than 20% of a generating resource does not need to select the "Owner of Electric Generation Source(s)" category. See Auction Notice Section 1.7.4.1.

67. I was wondering if RGGI has a policy on participant loss sharing. For example, if on auction participant were to default, and in some way jeopardize the financial security they have allocated to the RGGI auction, do the other market participants have to share the loss?

I'm assuming that there is no sure policy, considering that the financial security is posted directly to RGGI for the auction, a risk of default is near zero.

In the unlikely event a bidder defaults on its financial security, that bidder will not receive any CO₂ allowances. Other bidders will not be impacted.

68. Is it possible to get the 2006 and 2007 financial statements for RGGI (Balance Sheet, Income Statement, etc...)? My credit department requires some additional info on your corporation.

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 CO₂ 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. The first such filing will be in November 2008.

All financial security submitted for the CO₂ Budget Trading Programs auctions will be held by RGGI, Inc. as agent for the participating states. More details about RGGI, Inc. and the RGGI can be found at <http://www.rggi.org/ro.htm> and <http://www.rggi.org/agreement.htm>, respectively.

69. Who provides the financial backing for RGGI Inc and are there financial statements available?

Please refer to the answer to Question 68.

70. Will RGGI, Inc. be the entity that holds the financial securities posted by the auction participants? If so, is RGGI, Inc. an investment grade entity? Without an underlying contract, what protection and/or recourse do bidders have in the event of a default or bankruptcy by the holder of these funds?

RGGI, Inc. will receive and maintain any irrevocable Letters of Credit (LOC) and Bonds that are submitted as financial security. Any cash financial security will be held in an account at Mellon N.A. by RGGI, Inc., as agent for the Signatory States of the Regional Greenhouse Gas Initiative.

Please refer to the answer to Question 68.

71. Would a broker be able to place a bid for power generator whose name would be kept confidential from the rest of the market but only disclosed to the RGGI board as "Broker acting as agent for XXX"?

A broker that is a qualified applicant and has provided the appropriate financial security may place a bid for CO₂ allowances. Information contained on the Qualification Application and Intent to Bid will be held confidential to the extent permitted by applicable state laws. See Qualification Application Section III and Intent to Bid Section III for additional information.

See also Auction Notice Sections 1.4 for additional information on eligibility for Auction 1 and 1.7.4.2 for additional information on disclosable bidding associations.

72. The treatment of disclosable bidding associations is problematic, especially going forward if the secondary market for RGGI allowances becomes as robust as expected. In the example on Page 13 of the auction notice, any buying and selling of RGGI allowances between unrelated (as defined in disclosable corporate associations) companies must be reported as a disclosable bidding association. A company will not know if a counterparty will be bidding in the auction. If they did know, this could

be construed as a violation of the prohibition on collusion and manipulation (Auction Notice Section 1.7.2) and a violation of the prohibition on releasing confidential information (Auction Notice section 1.7.3). According to Auction Notice 1.7.5 – Use of Disclosable Corporate and Bidding Associations: “The CO₂ allowance bid limit of the Applicant will be reduced by the maximum amount of CO₂ allowances the other applicant may bid for on the Applicant’s behalf.” If Company A has sold forward to Company B 10 million tons, then Company B’s allowed bidding limit is reduced by 10 million tons. If there are a lot of secondary transactions, this would quickly become a logistical nightmare to administer (e.g. netting of positions, daisy-chain transactions). Please advise.

Auction Notice Section 1.7.4.2 addresses disclosable bidding associations and includes the phrase, “relating to the CO₂ allowances being auctioned.” Any Applicant that has entered into a contract, forward or otherwise, with another party under which either party is to purchase CO₂ allowances *at the auction*, must disclose that bidding association in its Qualification Application.

See Auction Notice Sections 1.7.2, 1.7.4.1, and 1.7.4.2 for additional information.

73. In regards to the actual auction: if we have a book of business to sell credits for, do we apply as a corporation or association and how do I represent these clients in the aggregate?

Each applicant that wishes to participate in the auction must complete the Qualification Application and Intent to Bid for itself, selecting the appropriate applicant category depending upon the nature of its core business. Please refer to the answer to Question 72 with regard to disclosable associations.

74. Section 1.7.2 - Can you please explain in greater detail what types of associations are prohibited after the Qualification Application has been submitted? For example, is the trading of forwards on CO₂ prohibited during this time period?

Please refer to the answer to Question 72.

If an applicant continues negotiations, discussions, or communications related to an auction with any other applicant, in a manner that would materially affect the disclosures made by the Applicant in its Qualification Application, with the exception of any communications related to any remediation activities initiated by the RGGI CO₂ Budget Trading Programs Auction Manager, it must re-file a Qualification Application disclosing the new information. Any applicant that has material change(s) to its Qualification Application may not participate in any auction without re-filing a Qualification Application with the RGGI CO₂ Budget Trading Programs Auction Manager

See Auction Notice Section 1.7.2 for additional information.

75. Regarding the description of an entity being “concerned with another entity’s bid”, please confirm that, subject to Disclosable Corporate Associations, entities with whom Applicant has over-the-counter purchase and sale transactions, or futures transactions with exchanges, are not required to be disclosed.

Please refer to the answer to Question 72.

76. Under the Disclosable Bidding Association rules, what happens if Company A enters into an agreement with Company B, who also intends to participate in the auction, to buy 10 million of the allowances that Company B may be awarded in the auction, and the transaction is entered into AFTER Company A and Company B have sent in their respective Auction Qualification Applications?

Please refer to the answer to Question 74.

77. Form 4 - "Disclosable Corporate and Bidding Associations" of the Application requires bidders to identify certain corporate and bidding associations. Please provide clarification on the following issues related to Form 4:

(a) How can applicants identify other potential applicants such that they can comply with the disclosure requirements?

(b) Is a corporate association found if an entity owns a 20% equity interest in an entity but the interest is non-controlling?

(c) Is corporate association found if an entity owns a 20% passive equity interest in an entity?

(d) Is corporate association found if an entity owns a 20% passive equity interest in an entity that allows for limited voting rights (e.g., with the right to vote on dissolution of company) with no day to day operational control.

(e) What does "assistance" means in terms of bidding association? Please confirm that legal services related to review of the auction documents do not constitute "assistance."

Each applicant is expected to perform due diligence in identifying its corporate and contractual relationships.

Applicants that have disclosable corporate associations need to be aware that the 25% bid limit, as described in Auction Notice Section 1.7.4, clearly states that, "The total number of CO₂ allowances that an entity (i.e., an organization and its affiliates and/or agents) may bid for in a single auction is 25% of the CO₂ allowances offered for sale." Therefore, it is imperative that corporately associated applicants take measures to identify the other corporately associated applicants.

Auction Notice Section 1.7.4.1 provides definitions of corporate association that will be utilized for Auction 1. This definition states that, "An entity has a *direct corporate association* to another entity if it holds more than 20% of any class of listed shares..."

Auction Notice Section 1.7.4.2 provides the definition of bidding association that will be utilized for Auction 1. Certain types of assistance are excluded from this definition. Auction advisory services is one of these services and legal services falls within this category and need not be disclosed.

78. Our company will be bidding on behalf of several generating plants, some of which have co-owners that may or may not also be bidding. Should each project company (plant) be listed as a disclosable corporate association, even if they will not be

bidding? If our company is bidding on behalf of a co-owner and the co-owner WILL NOT be bidding, does the co-owner need to be listed as disclosable corporate association? As a disclosable bidding association? If the co-owner IS going to be bidding, does the co-owner need to be listed as disclosable corporate association? As a disclosable bidding association/

The questions provided in the Auction Notice, to assist in the determination of whether an applicant has a disclosable corporate association, clearly indicate that the corporate association must be with another applicant. Corporate associations must be disclosed only for those co-owners that also submit a Qualification Application.

Please refer to the answer to Question 72 for additional information on bidding associations.

See Auction Notice Sections 1.7.4.1 and 1.7.4.2 for additional information. Please refer to the answer to Question 77.

79. Form 1 of the CO₂ Allowance Auction Qualification Application requires the identity of the applicant to be disclosed. Does the owner of a multiple electric generation sources have the flexibility to determine whether or not to "register" CO₂ 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 entities regulated under each state's CO₂ Budget Trading Program ("CO₂ budget sources") on an individual basis and/or at the holding company level.

See Auction Notice Sections 1.7.4.1 and 1.7.4.2 for additional information on whether the applicant has a disclosable corporate or bidding association. Please refer to the answer to Questions 73 and 77.

80. How can a firm incorporated outside the US qualify to participate in the auctions? More specifically:

- 1) How does the firm receive a Federal Tax ID***
- 2) What are the other criteria required for a foreign firm to qualify for the auction?***
- 3) Are there any additional special requirements for the foreign firm to participate?***

An applicant that does not have a Federal Tax ID should enter "Not Applicable" or "N/A" in the appropriate field.

There are no special requirements for a foreign firm to participate in Auction 1.

81. We are an Electricity Utility with generation assets outside the US. However, we are interested in new carbon markets worldwide, and are considering the possibility of trading RGGI Allowances and participating on Auction1 or subsequent ones. Concerning pre-qualification for Auction1, we have two concrete questions:

As we do not own any generation assets within the US, we interpret that we should not qualificate under the "Owner of a Electric Generation Source" category

(Qualification Application Form 1 - General Information). Instead, we intend to select the "Other market participant" category, describing ourselves as a "Foreign Electricity Utility". Is this the right approach? Which category do you recommend to use in our case?

In the "Qualification Application" and "Intent to Bid" submission instructions, it's said that documents should be "notarized". Does this mean that documents shall be certified by a notary before sending them to the RGGI Auction Manager?. This would actually prevent us from participating on Auction1, as we cannot have the documents certified by a Notary here in Madrid and arriving to Worcester before Friday, August 8th. Is there a simpler way to fulfill this requirement? Would it be possible for us to send the documents without Notary certification by August 8th and then submit the notarized version by Friday August 29th?

In the example above, select the "Other market participant" category and describe yourself as a "Foreign Electricity Utility."

The Qualification Application and Intent to Bid must be received by the RGGI CO₂ Budget Trading Programs Auction Manager no later than 5:00 PM EDT on Friday, August 8, 2008. Submitting the Qualification Application and Intent to Bid without proper notarization will result in a deficiency finding. Applicants notified of a deficiency will have the opportunity to remediate. Instructions will be provided at the time of remediation notification. The remediated Qualification Application and/or Intent to Bid must be received no later than 5:00 PM EDT on Friday, August 29, 2008.

82. If a company bids on more than 25% of the allowances available in the auction, what occurs? Are all of that company's bids rejected? Will the lowest- or highest-priced bids be rejected until the company's bid quantity is below the 25% threshold?

The Auction Platform will not accept any bids exceeding the 25% bid limit. See Auction Notice Section 1.6.

83. Are auction financial settlements with Mellon Bank, and not with the individual states?

Mellon N.A. will be providing financial settlement services on behalf of RGGI, Inc. and the states offering CO₂ allowances for sale in Auction 1. See Auction Notice Sections 2.6 and 4.3 for additional information.

84. Can the Letter of Credit (LOC) document be posted/issued in Word format? Will RGGI accept comments on the actual form of the Letter of Credit?

The irrevocable LOC, Bond, and all Auction Notice appendices will be posted in Microsoft Word format on the Auction Website no later than 5:00 PM EDT on Friday, August 8, 2008.

No material changes will be permitted to the irrevocable LOC or Bond. To the extent the submitted irrevocable LOC and/or Bond differs from the forms provided as appendices in the Auction Notice, the applicant assumes the risk that the changed irrevocable LOC and/or Bond may be rejected.

85. Can we have a Microsoft Word copy of the Letter of Credit form and all annexes?

Please refer to the answer to Question 84.

86. Are we allowed to request edits to the Letter of Credit form, and when does this need to be done? What if our bank requires that changes be made to the proposed form of letter of credit before they will issue it?

Please refer to the answer to Question 84.

87. Can we have an email for PDF distribution of the Letter of Credit? The electronic copy is typically received one day before the original.

The original hardcopy of the irrevocable LOC must be received by RGGI, Inc. no later than 5:00 pm EDT on September 18th, 2008 and should be mailed to the following address: RGGI, Inc., 90 Church Street, 4th Floor, New York, NY 10007. A courtesy copy of the PDF may be sent for information purposes only to auctionmanager@worldenergy.com.

88. The General Information Form (Form 1) of the Auction Qualification Application is structured in a manner that does not allow an Applicant to accurately convey the information that is being asked for:

- 1. The Applicant is a power marketing company that does not own "Electric Generation Source(s)", but rather markets power on behalf of several power plants. Each of these plants is a separate affiliated project company. Therefore, we did not select "Owner of a (should be "an") Electric Generation Source(s)" as the "Appropriate Applicant Category (only one)". Rather, we selected "Other Market Participant" with an explanation of the above relationship in the "Describe the Nature of the Applicant's Core Business or Organization". Even though we did not select "Owner of a Electric Generation Source(s)", we listed the names of the plants and the EIA information on Page 5 of the application.**
- 2. The "Place of Information" is the state in which the company is incorporated, which seems to be redundant with the "State/Province" information box.**
- 3. The Applicant does not have a website independent from the parent company or the affiliated generation company, so in the box requesting the "URL for Applicant's Web Site" we gave the parent company's web address. The form did not allow for the input of any explanation for the web site provided.**

If the applicant does not own any electric generation sources, it should not select that applicant category in the Qualification Application. Additionally, if the applicant does not own any electric generation sources, it should not complete the table on the second page of Qualification Application, Form 1 – General Information. See also the answer to Question 72.

In the example above, the same information provided in the "Place of Incorporation" field should be provided in the "State/Province" field.

The parent company's web site is an acceptable response if the Applicant does not have its own website.

89. Will RGGI, Inc. maintain the Q/A interactive process throughout the balance of the pre-auction period? It would appear from the Auction Notice that the Q/A window will close on July 30, responses will be posted on August 6, and there will be no additional opportunity for procedural or substantive questions to be asked and answered between August 6th and the opening of the auction window. As with other major market programs such as this, the ability to seek greater clarity is critical to the success of the auction itself, and many questions can be expected to arise either based on RGGI's August 6th responses or during the period between the 6th and the opening of the auction window. We strongly suggest an open, iterative Q/A process leading up to the auction.

The question and answer process has ended for Auction 1. There is no question and answer process other than that provided for in Auction Notice Section 2.3.

90. The Qualification Application instructions are confusing as to whether the copies must be individually signed or not.

Please confirm that I must submit 1 original with blue ink signatures and initials and a notarized.

Then I make 12 copies of that 1 signed and notarized original.

And then we mail a total of 13 (1 original and 12 copies) packaged as 1 submittal.

One (1) complete original of the Qualification Application (coversheet plus forms 1 through 6) and one (1) complete original of the Intent to Bid (coversheet plus forms 1 through 3) must be signed by the Primary Authorized Auction Representative in blue ink and notarized. Each form must be also be initialed by the Primary Authorized Auction Representative.

The original and twelve (12) photocopies of the signed and notarized Qualification Application and the original and twelve (12) copies of the signed and notarized Intent to Bid must be submitted. All submittals must be received by the RGGI CO₂ Budget Trading Programs Auction Manager no later than 5:00 PM EDT Friday, August 8, 2008.

See Qualification Application Section II for additional information.

91. How many copies of each form need to be submitted by August 8?

Please refer to the answer to Question 90.

92. Does each copy need to be separately notarized, or can the original be notarized and the rest photocopied?

Please refer to the answer to Question 90.

93. Can I submit both the Qualification Application and the Intent to Bid in one envelope?

Please submit the Qualification Application and the Intent to Bid forms in one envelope.

94. Do the "Intent to Bid" and "Auction Qualification Application" need to be received by the auction manager or postmarked by 5:00pm on Friday August 8?

Please refer to the answer to Question 90.

95. Will companies be required to file an intent to bid and auction qualification application for each auction?

An auction-specific Intent to Bid will be released with each Auction Notice and must be submitted to indicate the intent to participate in that auction.

Each applicant must submit a Qualification Application in order to become qualified to participate in a CO₂ Allowance Auction. Once qualified, each applicant remains qualified unless there has been a material change to information contained in the previously submitted Qualification Application or unless directed otherwise in a future auction notice.

If a qualified applicant has a material change to the information disclosed in its Qualification Application it must submit an updated Qualification Application.

See Qualification Application Section I and Intent to Bid Section I for additional information. See also Auction Notice Section 1.5.2.

96. Are Bidder Training Seminar Session 1 and Session 2 going to be the same or are we required to attend both?

The training sessions will be identical and there is no requirement to attend either.

97. The application is to be completed by the Primary Authorized Auction Representative and enables the appointment of a Secondary Auction Representative. Since the application contains questions relating to high level corporate matters, we would prefer that a corporate officer sign it. However, we do not want the corporate officer to be inundated with routine auction notices.

Is it allowable for us to appoint another person to receive these routine notices or can these notices be sent to the Secondary Authorized Auction Representative?

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 CO₂ Allowance Auction(s). The principal mode of communication will be via email.

See Auction Notice Section 1.7.1 for additional information.

98. Is it allowable to have the authorized account representative who creates a user account in the RGGI CO₂ Allowance Tracking System (COATS) to be someone other than the Primary Authorized Auction Representative?

It is only a recommendation that the Primary Authorized Auction Representative be the same person designated as the Authorized Account Representative for the Applicant's RGGI COATS account.

See Auction Notice Section 1.7.1 for additional information.

99. Will we know who the other qualified bidders are?

Participating states and RGGI, Inc. will not release the names of qualified applicants prior to Auction 1.

100. Can an Applicant participate in future Auction if it is not qualified for Auction 1?

If an applicant is not qualified for Auction 1, it may submit a Qualification Application and Intent to Bid for a subsequent auction. Participation will be determined based on the requirements and eligibility criteria outlined in the Auction Notice for such auction.

101. Section 4.5 of the Auction Notice states that "Maryland, and all other states offering CO₂ allowances for sale in Auction 1, will not require purchasers of CO₂ allowances to use a purchase and sales contract"?

If a purchase and sale contract is not used, is there another form of documentation used to memorialize the transactions?

If there is not another form of documentation, what are the controlling terms of the transaction?

Any bid submitted into the Auction Platform, and not canceled prior to the close of the auction, is deemed a binding offer. The award of CO₂ allowances, by the states offering CO₂ allowances for sale in Auction 1, 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, subject to applicable state and federal law.

Please also refer to the answer to Question 35 in Part 1.

102. Is an executed Purchase & Sales agreement for Maryland required to bid?

Please refer to the answer to Question 35 in Part 1. See also the answer to Question 101.

103. Do we actually sign a contract, and who will be listed as seller on that contract?

Please refer to the answer to Question 101.

104. Section 1.2 of the Auction Notice states that "Any changes to the Auction Schedule will be reflected on the Auction Website". Is there any way that notices could be sent to the Authorized Representatives of each company alerting them to any changes in the Auction Schedule?

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 CO₂ Allowance Auction(s) including changes to the auction schedule. The principal mode of communication will be via email.

See Auction Notice Section 1.7.1 for additional information.

105. Section 1.3 - In selecting winning bidders, is there any preference given to residents of the participating states?

No preference will be given to any bidder.

See Auction Notice Section 1.6 for additional information.

106. Will there be an opportunity to ask for clarification on the answers to the above questions, if necessary?

Please refer to the answer to Question 89.

107. Bid increments are only allowed in 1000 allowance increments, and bidders are limited to bid on 25% (3,141,346) of the available allowances, how should bidders place bids for the 346 stranded allowances?

All bids must be submitted in multiples of 1,000 CO₂ allowances. Bidders do not submit bids for specific lots.

See Auction Notice Section 1.3 for additional information.

108. Should sections of forms which do not apply to a bidder be left blank, or can the bidder insert "not applicable"?

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

III. Auction Format Questions and Answers

Questions and answers provided in this section relate to the auction format and procedures to be utilized in Auction 1.

109. *Why are any marginal bid ties being broken by a “random” process, rather than pro-rating the allowances out to the tied bidders? We do not understand the “random” aspect of this procedure.*

Auction Notice Section 1.6.2 explains this process. See also the Final Auction Design Study Report located at <http://www.rggi.org/documents.htm> for additional information on tie-breaking.

Auction Notice Section 1.6.1 provides two auction examples. In the second example there are four tied bids, which in the aggregate exceed the remaining available supply of CO₂ allowances. Not all of the tied bids can be awarded CO₂ allowances. Each tied bidder receives a random number from one to four. In the second example, 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 can not 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.

110. *In the second auction example contained in the auction notice (Section 1.6.1), where a tie occurs, is it just coincidence that bidder D is selected first, or does the process choose companies first that will keep the cumulative demand below the supply?*

Please refer to Question 109.

The tie breaking process is random and no priority is given to any tied bids. See Auction Notice Sections 1.6.1 and 1.6.2 for additional information.

111. *Each bid price must be submitted in dollars and whole cents. Is the bid price for an individual allowance or for the lot of 1,000 allowances, i.e. is a bid at the reserve price \$1.86 or \$1,860.00?*

The bid price is the price for an individual CO₂ allowance in dollars and cents (e.g., \$1.86 per CO₂ allowance). See Auction Notice Section 1.6 for additional information. The bid quantity must be submitted as a multiple of 1,000 CO₂ allowances. Therefore, the bid value is the bid price times the bid quantity. Accordingly, a bid for a 1,000 CO₂ allowances at the reserve price would be \$1,860.00.

112. The total value of a bidder's bids cannot exceed the amount of a bidder's financial security. Consider this example: If a bidder has financial security of \$10,000, he can bid \$10 for 1,000 allowances and submit a second bid \$5 for another 1,000 allowances and still only be responsible for up to \$10,000 total. Those bids would not exceed the financial security total but interpreting the total value of a bidder's bids as \$10,000 for the first bid plus \$5,000 for the second bid would exceed the amount of the bidder's financial security. Which interpretation is correct?

Auction Notice Section 1.5.4 provides information that addresses this question. A bid consists of a price per CO₂ allowance, or bid price, and a quantity of CO₂ allowances, or bid quantity. The value of one bid is the bid price times the bid quantity. The total value of a bidder's bids is the total of the bid value of all the bidder's bids. The total value of a bidder's bids is compared against a bidder's financial security and a bidder can not submit bids that exceed the amount of financial security. Therefore, if as in the example above the bidder has posted \$10,000 of financial security and submitted a bid of 1,000 CO₂ allowances for \$10 per CO₂ allowance, the bidder's financial security is exhausted at the time the bid is submitted. An additional bid for 1,000 CO₂ allowances for \$5 per CO₂ allowance would not be accepted by the Auction Platform.

113. Section 1.6 - Can auction participants see the bids being entered by other participants during the auction?

No, this is a sealed bid auction.

See Auction Notice Section 1.6 for additional information.

IV. RGGI CO₂ Allowance Tracking System (RGGI COATS) Questions and Answers

Questions and answers provided in this section relate to RGGI COATS.

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

The CO₂ Budget Trading Programs do not currently provide for retirement of CO₂ allowances through a general account. However, CO₂ allowances not needed for compliance can be held indefinitely.

115. *Can non-compliance market participants retire allowances? If so, will there be reports available to show the retirements?*

Please refer to the answer to Question 114.

116. *Will there be a read-only level access to COATS accounts?*

Only account holders will have access to their individual RGGI COATS accounts. The RGGI COATS will contain reports that will provide CO₂ allowance and emission information to the general public. It will not be necessary to open an account to access these reports.

117. *The CO₂ Allowance Auction Notice for CO₂ Allowance Auction 1 on September 25, 2008 indicates that only “general” accounts will be available for Auction 1 and that compliance entities will eventually have to create “compliance” accounts at a future date. Please explain the difference between a “general” account and a “compliance” account. Does the fact that compliance accounts aren’t available at this time mean that participants will have to repeat some portion of or the entire qualification process at some point in the future?*

A general account is a CO₂ allowance account available to any party and will be the only account type available for Auction 1.

A compliance account is associated with CO₂ budget sources. These accounts are used for compliance with the requirements of each state’s CO₂ Budget Trading Program. Only one compliance account will be assigned to each CO₂ budget source.

A CO₂ budget source may continue to use a general account for auction purposes and transfer the CO₂ allowances from the general account into a compliance account at a later date. A qualified applicant that chooses to participate in any auction using an account other than the account designated in the Qualification Application, must re-file its Qualification Application with the material change.

118. *Can a COATS account have more than 2 qualified people allowed to access and administer the system.*

Yes. Each account in the RGGI COATS will be allowed to have one Authorized Account Representative (AAR), one Alternate Authorized Account Representative (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.

119. *Can there be more than 2 logins for RGGI-COATS, for the purposes of bidding? Or should we share logins?*

The RGGI COATS is a separate and distinct system from the auction platform. As stated in Auction Notice Section 3.1, a unique username and password to access the Auction Platform will be issued to the Primary (and Secondary, if applicable) Authorized Auction Representative of a qualified applicant. Specific auction platform log-in and bidding instructions will be provided during the bidder training session(s). Only Primary (and Secondary, if applicable) Authorized Auction Representatives will be able to submit bids on the auction platform.

Please refer to the answer to Question 118 for the number of allowable logins to the RGGI COATS.

120. *Section 1.5.1 - If we are creating a general account, are we required to list all Electric Generating Sources owned by our affiliates or is it more appropriate to list these on our application for a compliance account?*

To open a RGGI COATS general account, a list of all persons subject to a binding agreement for the AAR or any AAAR to represent their ownership interest with respect to the CO₂ allowances held in the general account shall be submitted. This listing would include electric generating sources if they are subject to a binding agreement for the AAR or AAAR to represent their ownership interest with respect to the CO₂ allowances held in the general account.

An applicant for a RGGI COATS compliance account is not required to list all electric generating sources owned by affiliates. A compliance account is associated with CO₂ budget sources. These accounts are used for compliance with the requirements of each state's CO₂ Budget Trading Program. Only one compliance account will be assigned to each CO₂ budget source.

The requirements above, referring to the RGGI COATS accounts, are distinct from the information requested in Qualification Application, Form 1 – General Information. In the Qualification Application all electric generating sources owned by an Applicant must be listed.

V. Other Questions and Answers

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

121. *Why are only 2009 vintage or allocation year CO₂ allowances being made available for the September 25, 2008 auction?*

This question is not being answered since it does not relate to the Auction Notice, Qualification Application, or Intent to Bid.

122. *Please identify the specific standards, regulations, and/or rules that the market monitor will apply?*

See Auction Notice Section 1.8.

123. *Regarding liquid biomass fuel (i.e. biodiesel) there is information available from the RGGI website, whereby an Oct '07 overview specifies:*

At this time, procedures have not yet been developed for deducting CO₂ emissions associated with the combustion of liquid biomass fuel. The net GHG emissions benefits of combusting liquid biofuels can vary significantly due to the wide range of liquid biofuels production processes and feedstocks. The participating states are jointly researching the appropriate manner of addressing liquid biofuels.

Has there been any status update on how the RGGI program addresses CO₂ emissions from facilities that fire biodiesel? Are these CO₂ emissions going to be incorporated into the program on a 1:1 ratio, such that there will be absolutely no difference between diesel-based CO₂ emissions versus biodiesel-based CO₂ emissions? Are there any RGGI program incentives to fire biodiesel? Any guidance related to CO₂ emissions based on biodiesel operation would be appreciated.

This question is not being answered since it does not relate to the Auction Notice, Qualification Application, or Intent to Bid.

124. *If the allowances bought at auction are not usable for compliance purposes for some reason (e.g., a federal program displaces rggi or there is an unfavorable court decision), will the amounts paid in to buy allowances be refunded?*

This question is not being answered since it does not relate to the Auction Notice, Qualification Application, or Intent to Bid. However, participating states will comply with all federal requirements and court decisions, if any.

125. *I am trying to gain a basic understanding of the RGGI allowances. The way to obtain credits is through the auctions. Are these credits, once obtained, resellable? How are the credits generated in the first place? Through allowances given to participating states? Could I, as an individual, buy credits through auction and then resell them to companies that need credits?*

After the auction, bidders awarded CO₂ allowances (not “credits” as referenced in the question) will be able to transfer CO₂ allowances to any account in the RGGI COATS and use them for compliance with the requirements of any of the participating states’ CO₂ Budget Trading Programs.

All parties are eligible to participate in Auction 1. See Auction Notice Section 1.4 for additional information.

126. Section 1.3 - Are the CO₂ allowances from the various states fungible? If not, could you please explain all differences? Can CO₂ allowances from any participating state be used in any RGGI state to meet compliance obligations.

Any CO₂ allowance issued by a participating state may be used to meet compliance obligations in any of the participating states' CO₂ Budget Trading Programs.

Auction 1 will offer approximately 12.5 million CO₂ allowances, including CO₂ allowances issued by Connecticut, Maine, Maryland, Massachusetts, Rhode Island, and Vermont. Any CO₂ allowances purchased in Auction 1 or subsequent auctions can be used for compliance in any of the RGGI states, even if that state does not offer CO₂ allowances in Auction 1.

127. Is there a "safety valve" which keeps these RGGI credits from exceeding a specified price in the auction as well as secondary market?

There is no price ceiling on CO₂ allowances (not "credits" as referenced in the question). See Auction Notice Section 1.6 for additional information..

128. Can RGGI credits auctioned and bought this year be used in other vintage years? For example, could we use RGGI credits bought this year in 2011?

I understand that you wanted only questions that were relevant to this upcoming auction. However, the information that I requested would affect the extent of how my company would participate in the auction. Thank you for your understanding.

The CO₂ Budget Trading Programs have no limit on the banking of CO₂ allowances (not "credits" as referenced in the question). CO₂ allowances can be used for compliance in future control periods.

129. When are the future auctions and how many allowances will be auctioned at them?

A schedule of future auctions, which may be updated, is located at:
http://www.rggi.org/auctions/documents/Submission_Schedule_July_11_2008.pdf.

130. Are allowances good for an annual vintage, which can be banked for subsequent years? (That is, a vintage 2009 credit can be used for 2009 and 2010 and 2011 but vintage 2010 can only be used for 2010 and 2011, and vintage 2011 only for 2011.) Or are allowances within a given compliance period completely identical? (That is, there is no difference between vintages 2009, '10, and '11.)

See the Overview of RGGI CO₂ Budget Trading Program, located at:
http://www.rggi.org/docs/program_summary_10_07.pdf

131. What recourse do we have if allowances are not transferred by 5pm on October 8, 2008?

The states offering CO₂ allowances for sale in Auction 1 will transfer the CO₂ allowances awarded in Auction 1 no later than 5:00 PM EDT on Wednesday, October 8, 2008.

132. What happens to RGGI if there is legal action taken against the program? Are funds returned to the buyers and the program suspended?

Please refer to the answer to Question 124.

133. Do you have detailed information about the state-by-state "call options" where depending on the market clearing price, an option may be triggered so that in-state emitters can buy a certain amount of allowances at a pre-determined strike price?

This question is not being answered since it does not relate to the Auction Notice, Qualification Application, or Intent to Bid. For more information on each state's CO₂ Budget Trading Program, contact each of the state staff representative. Contact information is located in Auction Notice Section 5 or at <http://www.rggi.org/contact.htm>.

134. Do you have detailed information about the Maryland "call options" where depending on the market clearing price, an option may be triggered so that Maryland emitters can buy a certain amount of allowances at a pre-determined strike price?

Please refer to the answer to Question 133.

135. Section 1.6 of the auction notice states that auction transactions are "subject to applicable state and federal law". What does this mean? Could you please be more specific about what the governing law is? Does the governing law depend on which state the CO₂ allowances were originally allocated by?

States offering CO₂ allowances for sale in Auction 1 are doing so pursuant to the authority of each state's specific laws and/or regulations. Please also see Auction Notice Section 1.1.

136. Section 1.3 - When participants purchase one lot of allowances, it includes allowances from all participating states?

Are the allowances being purchased from RGGI, Inc. or from each of the participating states (i.e., what is the chain of title)?

If purchasing from each state individually, will there really be 6 purchase/sale transaction for each lot?

Would the same controlling law apply to each purchase/sale transaction?

What would happen if there is a default with respect to a piece of one lot of allowances, but not with respect to the remainder of the lot of allowances?

CO₂ allowances will be sold in multiples of 1,000. Each lot of 1,000 CO₂ allowances will consist of CO₂ allowances from all of the states offering CO₂ allowances for sale in Auction 1.

See Auction Notice Section 1.3 for additional information.

- 137. Will you accept changing Attestation number 6 to read as follows: “All of the material information provided in this application is accurate, true, and not misleading, to the best of my knowledge.”?**

There will be no change to Qualification Application, Form 6 – Attestations. Each applicant should perform due diligence in completing all forms, including Form 6 – Attestations.

- 138. The Auction Schedule indicates that there will be a four day lag between Auction 1 and the release of Auction results. What will be going on during this waiting period? Are the Auction results subject to any approvals from the individual states? Could this be done sooner in future auctions?**

The states offering CO₂ allowances for sale in Auction 1 will be performing a post-auction review and approval process in consultation with the RGGI CO₂ Budget Trading Programs Auction Manager and the Market Monitor (see Auction Notice Section 1.8).

See Auction Notice Section 4.2 for additional information.

- 139. Can a third party entity post financial collateral for the Account Holder? If so, does the Account Holder maintain title to the allowance credits.**

Yes, a third party can post financial security for an applicant. The financial security must clearly indicate the applicant it is being issued for. The applicant will receive any awarded CO₂ allowances.

- 140. The applicant for our letter of credit is our parent company, but the letter of credit is clearly marked that it is issued for the benefit of the entity which will be participating in the auction. Will this be an issue? (With the request in the Notice that the Letter of Credit applicant must be the entity on the Qualification Application and Intent to Bid.)**

See the answer to Question 139.

- 141. Please explain the criteria for the definition of “Owner”. Does the provision of energy management services to, or an agreement for tolling services with an Electric Generation Source qualify an Applicant as an Owner?**

In the example above, please check “Other” on Qualification Application, Form 1 – General Information.

- 142. In Attestation number 10, what is a “compliance entity”?**

A compliance entity is an applicant that is an owner or operator of a facility that is or will be a CO₂ budget unit pursuant to state law and/or regulation in one or more of the participating states.

143. 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.

144. Question 5. 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.

145. In Attestation number 5, what does “never been found to be non-responsible” mean?

Please refer to the answer to Question 144.