

Regional Greenhouse Gas Initiative

an initiative of the Northeast and Mid-Atlantic States of the U.S.

Questions and Answers

for CO₂ Allowance Auction 2

on December 17, 2008

States offering CO₂ allowances for sale:

**Connecticut, Delaware, Maine, Maryland, Massachusetts,
New Hampshire, New Jersey, New York, Rhode Island, and Vermont**

Issued on October 22, 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 addresses questions submitted through the online question window for CO₂ Allowance Auction 2¹ as provided in Section 2.3 of the *Auction Notice for CO₂ Allowance Auction 2 on December 17, 2008* (“Auction Notice”).

According to Section 6.2 of the Auction Notice, “Electronic Question Submittal”, only questions which address the Auction Notice, *Qualification Application – Version 1.1* (“Qualification Application”) or the *Intent to Bid for CO₂ Allowance Auction 2* (“Intent to Bid”) will be answered. To the extent that responses to questions about the broader program framework will help to clarify the auction process, answers to those questions have been included as well.

The written responses provided in this document are considered formal responses to inquiries submitted during the process set forth in Auction Notice Section 6.2. Any information received outside these written responses is not considered a formal response by the states offering CO₂ allowances for sale in Allowance Auction 2 (“Auction 2”). Questions are presented verbatim with names redacted.

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 2.

1. *We were successful bidders in the previous RGGI auction. Do we need to re-submit all of the forms or does some of the information carry over to the other auctions?*

A qualified applicant from Auction 1 with no material change to the information previously submitted in its Qualification Application is not required to complete and submit a new Qualification Application. In order to participate in Auction 2, a previously qualified applicant with no material change to its Qualification Application must:

1. Complete and submit the Intent to Bid as set forth in Auction Notice Section 2.7; and
2. Meet the financial security requirements as set forth in Auction Notice Section 2.9.

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 Auction Notice Section 2.2.

Please refer to Form 1 of the Intent to Bid for criteria on what constitutes a material change.

2. *In the slides for the Webinar for Auction 2, on slide 70 there is a date listed as Wednesday, December 21, 2008 in the first bullet. Should that be Wednesday, December 24, 2008?*

The date on the slide is incorrect. All unused cash financial security will be returned no later than 5:00 PM ET² on Wednesday, December 31, 2008. A corrected version of the webinar slides was posted on Friday, October 17, 2008 at: www.rggi.org/co2-auctions/information.

¹ The online question window was open from 8:00 AM ET on Monday, October 13, 2008 until 5:00 PM EDT on Thursday, October 16, 2008.

3. ***Bidding Association: If there exists a corporate association as [Applicant] has with [Sister Company] and there is disclosable bidding association between [Applicant] and another firm (ABC), does [Sister Company] have to declare a bidding association with ABC as well and correspondingly does ABC have to declare a bidding association with [Sister Company]?***

A disclosable bidding association does not automatically apply to all other corporately associated applicants. In the example above, the Applicant, Sister Company, and ABC need to review the corporate and bidding association criteria contained in Auction Notice Sections 7.2.3.1 and 7.2.3.3, respectively, in order to determine if each has a bidding association that must be disclosed.

4. ***Bidding Association: For [Applicant] to declare a bidding association with any firm, does that firm have to be registered in COATS?***

A disclosable bidding association must be reported whether or not any of the associated parties hold a COATS account.

5. ***Regarding paragraph 5 in the “Form of Irrevocable Letter of Credit”, would it be possible to replace or substitute “Banking Day” in place of the existing “Business Day” language?***

No. The term “Business Day” is defined in Paragraph 9 of the “Form of Irrevocable Letter of Credit” which states:

““Business Day” shall mean any day on which commercial banks are not authorized or required to close in New York, New York and any day on which payments can be effected on the Fedwire system.”

6. ***Part A. Our organization would like to make a material change regarding the Primary Authorized Account Representative (PAAR). We would like to remove the current PAAR and make the current Secondary Authorized Account Representative (SAAR) the primary and put in a different employee as the SAAR. When we fill out the new Qualification Application with the new information, does this mean that the current PAAR still signs it (along with the current SAAR) or does the newly appointed PAAR sign (along with the new SAAR)? Do we have to make changes to the CO₂ Auction Tracking System (COATS) before sending in the qualification application?***

In the example above, the Applicant would be making a material change to the information submitted in its previous Qualification Application, and would therefore need to complete a new qualification application providing the names and complete contact information of the new primary authorized auction representative (PAAR) and secondary authorized auction representative (SAAR) in Form 2. Only the newly designated PAAR and SAAR are required to sign the forms. While it is not required, it is recommended that the PAAR be the same person designated as the COATS authorized account representative (AAR) for the Applicant's COATS account.

² ET, or EPT on the Auction Platform, refers to the prevailing local time in the Eastern Time Zone. All times in the Auction Notice dated before Sunday, November 2, 2008 use Eastern Daylight Time. All times in the Auction Notice dated after Sunday, November 2, 2008 use Eastern Standard Time.

Additional information is provided in the Intent to Bid, Form 1 – Material Change, and Auction Notice Section 2.5.

Part B. With regards to COATS, do we go into COATS and remove the current PAAR? Does the current PAAR have to do this or can the current SAAR make the changes? How do we rename the SAAR as the PAAR? Once the first two changes are done, do we then need to send in the registration request for the new SAAR as was done during auction 1?

It is recommended, but not required, that the PAAR be the same person as the authorized account representative (AAR) in the COATS.

A current authorized account representative (AAR), alternate authorized account representative (AAAR), or electronic submission agent in the COATS may update account representatives. For information on changing the AAR and AAAR in the COATS, please refer to the COATS user guide (www.rggi-coats.org).

- 7. What is the process for determining the auction reserve price? Is there a specific metric that will be used to determine if there is sufficient market data to base the reserve price on the market price? If so, what is this metric? As explained in Section 7.2.1 of the Auction Notice, the reserve price for Auction 2 is \$1.86 per CO₂ allowance.***

The Participating States have considered the recommendations of the market monitor and the following factors in determining that there are not enough data available to justify the calculation of a current market reserve price for Auction 2:

- the nascence of a secondary physical market for CO₂ allowances; and
- relatively low volumes of financial and physical transactions to-date, relative to the size of the regional CO₂ emissions budget.

For information on the process used to determine the auction reserve price, please refer to http://www.rggi.org/docs/20080317auction_design.pdf.

- 8. The Auction Notice states that, “Before CO₂ Allowance Auction 3, the Participating States will consider whether there are enough data available to justify the calculation of a current market reserve price.” If RGGI States decide to calculate a current market reserve price for Auction 3, what data sources will be used and how will market price and volume data be incorporated into this calculation?***

Before any future CO₂ allowance auction, the Participating States will consider whether there are enough data available to justify the calculation of a current market reserve price. Should the Participating States determine there are enough reliable data to justify the calculation of a current market reserve price in any auction, the Auction Notice for that auction will provide specific calculation details including any and all data sources and methods that will be used in such calculation.

- 9. The question has to do with remediated auction documents. I'm not sure I understand the term nor its consequences. Does this mean that we turn in the documents and if not correct or incomplete you point out the deficiencies, return to us and we resubmit by Mon, 11/24?**

Yes, guidance is provided in Auction Notice Sections 2.6 and 2.7.

Failure to remediate the Qualification Application may result in the applicant being denied qualification. Failure to remediate the Intent to Bid may result in being denied approval to participate in Auction 2.

- 10. Will the auction results information made public following the December 2008 auction be limited to clearing price and total quantity won? Is it RGGI's intention to release any additional information on future auctions?**

The Participating States made an announcement regarding the release of post-auction information for Auction 2 and for all subsequent auctions on October 17, 2008 in the document "Post-Auction Data Release" available at http://www.rggi.org/docs/Post_Auction_Data_Release.pdf.

- 11. The Auction Notice for CO₂ Allowances Auction 2 states that, "the Participating States will release certain aggregate information concerning the Auction 2 results as well as the names of Potential Bidders." What aggregate data will be released, and what information about Potential Bidders, besides names, will be released?**

Please refer to the answer to Question 10.

- 12. As the energy manager for several firms (asset owners) in the RGGI states, do we need to declare bidding associations with each of these firms or only those we will be purchasing allowances for? For example, if we represent 3 asset owners and in the upcoming auction we are only purchasing on behalf of one, do we need to do anything for the other two firms? If in a later auction, we intend to purchase allowances for the remaining two firms can we declare the bidding association prior to that particular auction.**

An applicant must disclose the bidding association with any party (including an asset owner) for whom the applicant will be purchasing CO₂ allowances in Auction 2. An applicant may report a future disclosable bidding association now or submit a new Qualification Application prior to the auction for which the bidding association applies.

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 2.

13. On slide 23 of the webinar you gave yesterday it notes: “The value of a bidder’s bids is the maximum value the bidder would be liable to pay in a uniform-price auction format. This is a different approach than utilized in Auction 1.” May you please detail how this procedure is different than Auction 1?

In Auction 1, the value of one bid was the bid price times the bid quantity. The total value of a bidder’s bids was the summation of the bid value of all its bids. The total value of a bidder’s bids could not exceed the amount of financial security posted.

This has changed for Auction 2. In order for each bidder to utilize its financial security more efficiently, the value of a bidder’s bids is now the maximum value the bidder would be liable to pay in a uniform-price auction format.

To calculate this value, a bidder’s bids are ranked by bid price from high to low and the bidder’s cumulative demand is calculated for each bid price. Each bid price is multiplied by the bidder’s cumulative demand at that bid price to calculate a bid value. The largest bid value calculated and therefore the maximum potential cost to the bidder, is the maximum bid value. The Auction Platform will automatically reject a bid that would cause the maximum bid value of a bidder’s bids to exceed the amount of a bidder’s financial security.

Numerical examples are provided in Auction Notice Section 7.2.2.

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

The following question was submitted regarding the COATS that relates to the auction process. A number of additional questions on the COATS were submitted that do not relate to the Auction Notice, Qualification Application, or Intent to Bid (see Auction Notice Section 6.2). Information on the functioning of the COATS is available in the user guide at http://www.rggi-coats.org/eats/rggi/image/help/_rggi/RGGIGettingStartedGuide.pdf.

14. A COATS general account was previously set up (acct no [Account Number Deleted]). Please explain the function of this account. Also please confirm we will be able to use this account for whatever function is necessary. The Added Authorized Account Reps ar[e]: [Names Deleted]. Are they still okay to rep us? Can they be the reps and I’m also a contact for emails?

A general account is a CO₂ allowance account available to any party. A general account can be used for the receipt, transfer, and banking of CO₂ allowances in the COATS as well as participation in any CO₂ allowance auction. A general account provides the same functionality as a compliance account but does not provide the CO₂ allowance compliance deduction process outlined in subdivision 6.5(b) of the model rule as promulgated in each state’s regulations.

An applicant must have either a general or compliance account to participate in Auction 2. Applicants may provide either a general or a compliance account number in their Qualification Application for the auction. The COATS account designated in the Qualification Application is the destination account for transfer of any CO₂ allowances awarded from the auction. An account number change would be considered a material change that requires a resubmission of the Qualification Application.

Compliance accounts are 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 associated with each CO₂ budget source. As of October 17, 2008, only Delaware, New Hampshire, Massachusetts and Rhode Island have approved the creation of compliance accounts in their respective states.

Only one Authorized Account Representative (AAR) and one Alternate Authorized Account Representative (AAAR) may be designated per account. The state CO₂ Budget Trading Programs and the COATS allow for the use of “electronic submission agents.” Electronic submission agents are delegated authority in the COATS per the terms under the state CO₂ Budget Trading Programs to make electronic submissions (including CO₂ allowance transfers) on behalf of the AAR and/or the AAAR, with the same rights and responsibilities as AARs/AAARs. Each AAR and AAAR is allowed to have up to five electronic submission agents in the COATS.

The COATS will send email confirmation of CO₂ allowance transfer and account detail changes to the email address on record in COATS for the AAR and AAAR of an account and to the email address on record for the electronic submission agent(s) identified by the AAR or AAAR in COATS.

V. Other Questions and Answers

Questions and answers provided in this section relate to other aspects of the auction. To the extent that responses to these questions address the broader program framework which will help clarify the auction process, answers to these questions have been included.

15. What is the schedule for establishing the RGGI offset project qualification procedure and creation of the RGGI offset registry?

For information about the offset component of the state CO₂ Budget Trading Programs, see www.rggi.org/offsets.

16. If I were to buy emission allowances in a RGGI auction how would I sell them to some entity that (later) might need to buy more allowances. IS there a secondary market, if so where?

The Participating States are not in a position to provide advice about secondary market relationships and/or transactions. However, any bidder that is awarded CO₂ allowances in the auction can independently trade those CO₂ allowances. Currently, secondary markets exist for CO₂ allowances. The COATS provides for the transfer of CO₂ allowances from one party to another whether purchased in the auction or the secondary market.

17. Since we are a fuel cell company, we can sell credits (put it up for auction) for others to purchase right? As I was reading some of the material posted, it all points to the buy side of things, not so much the sell side.

No, only the Participating States may offer CO₂ allowances (not “credits” as referenced in the question) for sale at a (RGGI) CO₂ allowance auction. Additional information on state CO₂ Budget Trading Programs can be found at http://rggi.org/docs/program_summary_10_07.pdf.

18. Where will RGGI's financial statements be posted when filed in November 2008 (per question 68 of Q&A part 2)? Is it possible to have the financials posted on the RGGI website?

Once they are filed, financial statements for RGGI, Inc. will be posted on the RGGI website at <http://www.rggi.org/rggi>. They will also be available through reporting services, such as guidestar.org.

19. Legally, who owns/controls RGGI Inc? Can you give us a sense for the governance structure? What is the legal relationship between the member states and RGGI Inc?

Regional Greenhouse Gas Initiative, Inc. ("RGGI, Inc.") is a non-profit corporation incorporated in Delaware and based in New York, retained by the Participating States to provide technical and administrative services in the development and implementation of state CO₂ Budget Trading Programs. RGGI, Inc. is governed by a 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>.

20. What documentation governs [Applicant's] relationship with RGGI Inc? It appears that our security deposit will be held in a Mellon account by RGGI Inc acting as agent for the member states. Given that, if [Applicant] were to have a dispute over collateral, or need to make a claim, can you provide clarity as to which entity would have our funds?

RGGI, Inc. acts as agent for the Participating States for the purpose of financial settlement. Financial security is deposited into an account at 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 CO₂ allowances for sale as payment for the CO₂ allowances purchased.

21. Is RGGI Inc our counterparty, and/or are the states jointly and/or severally our counterparty? Given this, are the states providing the funding for RGGI Inc's on-going operations. Our understanding is that RGGI Inc reports to its Board of Director. We are trying to get a sense of how RGGI Inc is funded. Can you provide further clarity?

Please refer to the answers to Questions 18 and 20.

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 CO₂ 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 CO₂ allowances from each of the Participating States. The award of CO₂ 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.