

# RGGI CO<sub>2</sub> BUDGET TRADING PROGRAMS

## Memorandum

To: Prospective CO<sub>2</sub> Allowance Auction 1 participants

Re: Preliminary General Information for CO<sub>2</sub> Allowance Auction 1

Date: July 11, 2008

This memorandum, along with the preliminary release of the *CO<sub>2</sub> Allowance Auction Qualification Application – Version 1* and *CO<sub>2</sub> Allowance Auction Intent to Bid for CO<sub>2</sub> Allowance Auction 1 on September 25, 2008*, provide general information for CO<sub>2</sub> Allowance Auction 1, scheduled for September 25, 2008 from 9:00 AM EDT until 12:00 PM EDT. The states anticipating offering CO<sub>2</sub> allowances in Auction 1 are Connecticut, Maine, Maryland, Massachusetts, Rhode Island, and Vermont.

All of these documents are for informational purposes only. Please be sure to read the official documents, in their entirety, when they are released on July 24, 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 (CO<sub>2</sub>), a greenhouse gas that causes global warming.

RGGI, Inc. is a non-profit corporation created to provide technical and administrative services to the CO<sub>2</sub> budget trading programs of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont.

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## **1 General Information**

This memorandum, along with the preliminary release of the *CO<sub>2</sub> Allowance Auction Qualification Application – Version 1* and *CO<sub>2</sub> Allowance Auction Intent to Bid for CO<sub>2</sub> Allowance Auction 1 on September 25, 2008*, provide general information for CO<sub>2</sub> Allowance Auction 1, scheduled for September 25, 2008 from 9:00 AM EDT until 12:00 PM EDT. The states anticipating offering CO<sub>2</sub> allowances in Auction 1 are Connecticut, Maine, Maryland, Massachusetts, Rhode Island, and Vermont.

All of these documents are for informational purposes only. Please be sure to read the official documents, in their entirety, when they are released on July 24, 2008.

All relevant documents referenced in this document can be found in an electronic format at [http://www.rggi.org/auction\\_information.html](http://www.rggi.org/auction_information.html) (“Auction Website”).

### **1.1 Introduction**

The Regional Greenhouse Gas Initiative (“RGGI”) is a cooperative effort to reduce carbon dioxide emissions from power plants by ten Northeastern and Mid-Atlantic States (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island, and Vermont – the “participating states”) through the implementation by each participating state of a linked CO<sub>2</sub> Budget Trading Program. Regional Greenhouse Gas Initiative, Inc. (“RGGI, Inc.”) is a non-profit corporation created to provide technical and administrative services to participating states in the development and implementation of the CO<sub>2</sub> Budget Trading Programs under the RGGI.

More details about RGGI and RGGI, Inc. can be found at <http://www.rggi.org> and <http://www.rggi.org/ro.htm>, respectively.

To support the CO<sub>2</sub> Budget Trading Programs, the participating states are implementing a regional auction platform to sell CO<sub>2</sub> allowances (“Auction Platform”). A subset of the participating states anticipates offering CO<sub>2</sub> allowances for sale in Auction 1. The states anticipating offering CO<sub>2</sub> allowances for sale Auction 1 are Connecticut, Maine, Maryland, Massachusetts, Rhode Island, and Vermont. Auction 1 is authorized by and will be conducted in accordance with the authority of each state anticipating offering CO<sub>2</sub> allowances for sale in Auction 1. Each state anticipating offering CO<sub>2</sub> allowances for sale in Auction 1 will retain the authority to make its own regulatory determinations in conducting the auction.

### **1.2 Auction Schedule**

Figure 1 presents the current schedule for all events associated with Auction 1 (“Auction Schedule”). Please note that some times and dates in the schedule, such as the Auction Platform training sessions, are subject to change. Any changes to the Auction Schedule will be reflected on the Auction Website.

<b>Event</b>	<b>Time and Date</b>
Release CO <sub>2</sub> Allowance Auction Notice for CO <sub>2</sub> Allowance Auction 1 on September 25, 2008	No later than 8:00 AM EDT Thursday, July 24, 2008
Release CO <sub>2</sub> Allowance Auction Qualification Application – Version 1	No later than 8:00 AM EDT Thursday, July 24, 2008
Release CO <sub>2</sub> Allowance Auction Intent to Bid for CO <sub>2</sub> Allowance Auction 1 on September 25, 2008	No later than 8:00 AM EDT Thursday, July 24, 2008
Online question window opens	8:00 AM EDT Thursday, July 24, 2008
RGGI CO <sub>2</sub> Allowance Tracking System begins accepting applications for general accounts	8:00 AM EDT Thursday, July 24, 2008
Bidder webinar	2:00 PM EDT to 4:00 PM EDT Thursday, July 24, 2008
Online question window closes	5:00 PM EDT Wednesday, July 30, 2008
Responses to submitted online questions posted	No later than 8:00 AM EDT Wednesday, August 6, 2008
Completed CO <sub>2</sub> Allowance Auction Qualification Application – Version 1 received by the RGGI CO <sub>2</sub> Budget Trading Programs Auction Manager	No later than 5:00 PM EDT Friday, August 8, 2008
Completed CO <sub>2</sub> Allowance Auction Intent to Bid for CO <sub>2</sub> Allowance Auction 1 on September 25, 2008 received by the RGGI CO <sub>2</sub> Budget Trading Programs Auction Manager	No later than 5:00 PM EDT Friday, August 8, 2008
Details of any necessary remediation of CO <sub>2</sub> Allowance Auction Qualification Application – Version 1 sent to applicants	No later than 5:00 PM EDT Friday, August 15, 2008
Remediated CO <sub>2</sub> Allowance Auction Qualification Application – Version 1 received by the RGGI CO <sub>2</sub> Budget Trading Programs Auction Manager	No later than 5:00 PM EDT Friday, August 29, 2008
Qualification status sent to applicants	No later than 5:00 PM EDT Wednesday, September 10, 2008
Distribution of usernames & passwords to qualified applicants	No later than 5:00 PM EDT Wednesday, September 10, 2008
Auction Platform training session #1	1:00 PM EDT to 3:00 PM EDT Friday, September 12, 2008
Auction Platform training session #2	1:00 PM EDT to 3:00 PM EDT Tuesday, September 16, 2008
Financial security due	No later than 5:00 PM EDT Thursday, September 18, 2008
Auction participation status sent to qualified applicants	No later than 5:00 PM EDT Monday, September 22, 2008
CO <sub>2</sub> Allowance Auction 1	9:00 AM EDT to 12:00 PM EDT Thursday, September 25, 2008
Auction results sent to bidders	No later than 5:00 PM EDT Monday, September 29, 2008
Unused cash security returned to bidders	No later than 5:00 PM EDT Wednesday, October 1, 2008
Optional cash settlement	No later than 5:00 PM EDT Thursday, October 2, 2008
Allowance transfer and confirmation	No later than 5:00 PM EDT Wednesday, October 8, 2008

**Figure 1: Auction Schedule**

### 1.3 Allowances to be Auctioned

Allocation year 2009 CO<sub>2</sub> allowances, as described in Figure 2, will be auctioned by the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1.

State	Allocation Year 2009 CO <sub>2</sub> Allowances to be Auctioned	%
Connecticut	1,372,530	11.0%
Maine	872,506	6.9%
Maryland	5,331,781	42.4%
Massachusetts	4,347,534	34.6%
Rhode Island	438,774	3.5%
Vermont	202,262	1.6%
<b>Total</b>	<b>12,565,387</b>	<b>100.0%</b>

*Figure 2: Allocation Year 2009 CO<sub>2</sub> Allowances to be Auctioned*

The CO<sub>2</sub> allowances will be auctioned in lots of 1,000 CO<sub>2</sub> allowances. Each lot of 1,000 CO<sub>2</sub> allowances will consist of CO<sub>2</sub> allowances from all of the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1 closely in proportion to the percentages outlined in Figure 2. While each lot will not be completely identical, the RGGI CO<sub>2</sub> Budget Trading Program Auction Manager will endeavor to make each lot as similar as possible in terms of the mix of CO<sub>2</sub> allowances from each of the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1. Bidders will not be able to specify which lots they are bidding on or will be awarded.

A total of 12,566 lots will be made available for sale. The 12,566<sup>th</sup> lot will consist of 387 CO<sub>2</sub> allowances and will be the final lot awarded in the auction. The bidder awarded this final lot will pay 387 times the clearing price<sup>1</sup> for this lot, instead of the usual 1,000 times the clearing price for all other lots.

### 1.4 Eligibility

All parties are eligible to participate in Auction 1. Eligibility in itself is not sufficient to be approved to bid in this auction. An eligible party must meet all other participation requirements.

### 1.5 Participation Requirements

In order to participate in Auction 1, a party must do the following.

1. Create and demonstrate that the Applicant has a general account in the RGGI CO<sub>2</sub> Allowance Tracking System;
2. Complete and submit the *CO<sub>2</sub> Allowance Auction Qualification Application – Version 1* and become qualified to participate in a CO<sub>2</sub> Allowance Auction by each of the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1;
3. Complete and submit the *CO<sub>2</sub> Allowance Auction Intent to Bid for CO<sub>2</sub> Allowance Auction 1 on September 25, 2008*; and
4. Submit financial security and have the financial security approved by each of the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1.

<sup>1</sup> The per CO<sub>2</sub> Allowance price at which all CO<sub>2</sub> Allowances offered for sale in the auction will be sold.

### **1.5.1 RGGI CO<sub>2</sub> Allowance Tracking System Account**

The Applicant must possess an active RGGI CO<sub>2</sub> Allowance Tracking System (RGGI COATS) account in order to submit a fully completed Qualification Application. The Applicant's RGGI COATS account is the account into which all awarded CO<sub>2</sub> allowances will be transferred.

Only general accounts will be available for Auction 1. Compliance accounts will not be created in time for Auction 1, rather compliance accounts will be created at a future date. Therefore, compliance entities expecting to use their compliance account for Auction 1 must instead open and use a general account for Auction 1.

To open a RGGI COATS general account, the Applicant should go to <http://www.rggi-coats.org> in order to request to be a user of RGGI COATS. The RGGI COATS user request process requires the Applicant to submit a User Login Request Form in hard copy to the RGGI COATS administrator before they may submit a general account application in RGGI COATS. Therefore, the Applicant is highly encouraged to start the RGGI COATS user application process immediately, to ensure there is enough time to obtain a RGGI COATS general account before submitting the *CO<sub>2</sub> Allowance Auction Qualification Application – Version 1*.

### **1.5.2 Qualification Application**

A fully completed *CO<sub>2</sub> Allowance Auction Qualification Application – Version 1* (“Qualification Application”) must be received by the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager before 5:00 PM EDT on Friday, August 8, 2008 for the Applicant to participate in Auction 1. Once qualified for Auction 1, the Applicant is qualified to participate in any future CO<sub>2</sub> Allowance Auction the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1 participate in, unless there has been a material change to information contained in the Qualification Application. For purposes of Auction 1, a material change is a change to any application information that is of decisional or informational significance.

If a participating state not currently offering CO<sub>2</sub> allowances in Auction 1 offers CO<sub>2</sub> allowances in a future auction, applicants to Auction 1 may need to submit a Qualification Application to the new participating states anticipating offering CO<sub>2</sub> allowances in that future auction. Instructions regarding this matter will be included in the auction notice of a future auction.

### **1.5.3 Intent to Bid**

A fully completed *CO<sub>2</sub> Allowance Auction Intent to Bid for CO<sub>2</sub> Allowance Auction 1 on September 25, 2008* (“Intent to Bid”) must be received by the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager before 5:00 PM EDT on Friday, August 8, 2008 for the Applicant to participate in Auction 1.

### **1.5.4 Financial Security**

Financial security, in United States dollars (USD), must be received before Thursday, September 18, 2008 at 5:00 PM EDT to participate in Auction 1. There are only three (3) acceptable forms of financial security: (1) bond, (2) cash in the form of a wire transfer or certified funds, such as a certified bank check or cashier's check, or (3) an irrevocable letter of credit (LOC) issued by a financial institution with a United States banking license. Applicants posting cash as financial security will not receive interest.

## 1.6 Auction Overview

Auction 1 will be conducted using an electronic, internet-based platform (“Auction Platform”) that bidders will use to submit their bids<sup>2</sup> in a uniform-price, sealed-bid (single-round) auction format. All bids are first ranked by their bid price from high to low. Then, cumulative demand<sup>3</sup> is noted for each bid. The clearing price and CO<sub>2</sub> allowance awards will be determined using these ranked bids according to the following possible scenarios.

1. If total demand<sup>4</sup> is less than or equal to the supply of CO<sub>2</sub> allowances made available for sale in the auction, the clearing price is the reserve price. All bids would be awarded CO<sub>2</sub> allowances.
2. If total demand is greater than the supply of CO<sub>2</sub> allowances made available for sale in the auction and,
  - a. the cumulative demand at a bid exactly equals the supply of CO<sub>2</sub> allowances made available for sale in the auction, the clearing price is the bid price of the bid, or bids in the event there are multiple bids with the same bid price, after the marginal bid(s).<sup>5</sup> CO<sub>2</sub> allowances are awarded to all bids with bid prices greater than the clearing price, or
  - b. the cumulative demand never exactly equals the supply of CO<sub>2</sub> allowances made available for sale in the auction at some point, the clearing price is the bid price of the marginal bid(s). CO<sub>2</sub> allowances are awarded to all bids with bid prices greater than the clearing price. In addition, CO<sub>2</sub> allowances are awarded to marginal bid(s) according to the following possible scenarios.
    - i. If there is one marginal bid at the clearing price, that bid will be partially fulfilled with the remaining available supply.
    - ii. If there are multiple marginal bids, the tie will be resolved by a random process. Each tied marginal bid will be assigned a number that is randomly generated by a computer. Allowances will be awarded to bids in increasing order by the value of their assigned random number until remaining available supply is exhausted. If the last accepted tied marginal bid is for more allowances than are available, that bid will be partially fulfilled with the remaining available supply.

Other features of Auction 1 are as follows:

- All bids that exist in the Auction Platform via user submission at the close of the auction will be considered binding offers and eligible for award. Contingent bids are not permitted.
- Each bid price must be submitted in dollars and whole cents.

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<sup>2</sup> A bid consists of a price per CO<sub>2</sub> Allowance, or bid price, and a quantity of CO<sub>2</sub> Allowances, or bid quantity.

<sup>3</sup> The cumulative demand at each bid is the sum of the bid quantities of all bids with bid prices greater than or equal to the bid price of a particular bid, including the bid quantity of a particular bid.

<sup>4</sup> The sum of the bid quantities of all bids in the auction.

<sup>5</sup> The marginal bid is the bid that causes cumulative demand for CO<sub>2</sub> Allowances to be greater than or equal to the supply of CO<sub>2</sub> Allowances made available for sale in the auction. If multiple bids cause cumulative demand for CO<sub>2</sub> Allowances to be greater than or equal to the supply of CO<sub>2</sub> Allowances made available for sale in the auction at the same price, then all of these tied bids are considered marginal bids.

- Each bid quantity must be submitted as a multiple of 1,000.
- Bidders can submit an unlimited number of bids; however, only one bid may be submitted for any given price.
- Bidders can cancel or change their bids at their discretion until the bidding window closes.
- Bid limitations
  - The reserve price is \$1.86 per CO<sub>2</sub> allowance.
  - The total value of a bidder's bids<sup>6</sup> cannot exceed the amount of a bidder's financial security.
  - The total number of allowances that a bidder (e.g., an entity and its affiliates and/or agents), may purchase is 25% of the allowances offered for sale. This translates to a maximum of 3,141,346 CO<sub>2</sub> allowances.
  - All bid limitations will be evaluated at the time of submittal. The Auction Platform will not allow bids that violate any bid limitations to be submitted.

### 1.6.1 Auction Examples

Figure 3 illustrates a uniform-price, sealed-bid (single-round) auction format and highlights many of the features of Auction 1.<sup>7</sup> The figure presents the results of an auction for 100,000 CO<sub>2</sub> allowances, which corresponds to 100 lots of 1,000 CO<sub>2</sub> allowances. In this example, the reserve price is \$3.00 per CO<sub>2</sub> allowance. For simplicity, purchase limitations other than the reserve price are not considered. Bidders A through E submitted their bids independently and blindly, in that they did not see any other bidder's bids.

All bids are ranked by bid price from high to low and cumulative demand is noted at each bid.

Bidder Name	Price Per CO <sub>2</sub> Allowance Bid	Quantity of CO <sub>2</sub> Allowances Bid	Value of Bid	Cumulative CO <sub>2</sub> Allowance Demand
Bidder E	\$5.00	20,000	\$100,000.00	20,000
Bidder A	\$4.50	10,000	\$45,000.00	30,000
Bidder B	\$4.10	10,000	\$41,000.00	40,000
Bidder D	\$4.05	20,000	\$81,000.00	60,000
Bidder E	\$4.00	10,000	\$40,000.00	70,000
Bidder A	\$3.95	10,000	\$39,500.00	80,000
Bidder C	\$3.85	10,000	\$38,500.00	90,000
Bidder E	\$3.80	10,000	\$38,000.00	100,000
Bidder D	\$3.75	5,000	\$18,750.00	125,000
Bidder A	\$3.75	10,000	\$37,500.00	125,000
Bidder B	\$3.75	10,000	\$37,500.00	125,000
Bidder A	\$3.25	30,000	\$97,500.00	155,000
Bidder C	\$3.00	40,000	\$120,000.00	195,000

**Figure 3: Uniform-price, Sealed-bid (Single-round) Auction Format Example No. 1**

<sup>6</sup> The value of one bid is the bid price times the bid quantity. The total value of a bidder's bids is the summation of the bid value of all bids.

<sup>7</sup> This is merely an example and the values and numbers used in the example were selected to illustrate the auction format and features and in no way should be interpreted as a forecast or opinion of any CO<sub>2</sub> Allowance Auction.

Bidder E's bid for CO<sub>2</sub> allowances at \$3.80 causes cumulative demand to exactly equal the supply of CO<sub>2</sub> allowances made available for sale in the auction, so that bid is the marginal bid and the clearing price is the bid price of the tied bids after the marginal bid, or \$3.75 per CO<sub>2</sub> allowance. CO<sub>2</sub> allowances are awarded to all bids with bid prices greater than \$3.75 per CO<sub>2</sub> allowance.

In summary, bidders would receive the following awards:

- Bidder A – 20,000 CO<sub>2</sub> allowances, or 20 lots, at a cost of \$75,000.
- Bidder B – 10,000 CO<sub>2</sub> allowances, or 10 lots, at a cost of \$37,500.
- Bidder C – 10,000 CO<sub>2</sub> allowances, or 10 lots, at a cost of \$37,500.
- Bidder D – 20,000 CO<sub>2</sub> allowances, or 20 lots, at a cost of \$75,000.
- Bidder E – 40,000 CO<sub>2</sub> allowances, or 40 lots, at a cost of \$150,000.

Figure 4 also illustrates a uniform-price, sealed-bid (single-round) auction format, but the example is designed to highlight the tiebreaking process. The figure presents the results of an auction for 100,000 CO<sub>2</sub> allowances, which corresponds to 100 lots of 1,000 CO<sub>2</sub> allowances. In this example, the reserve price is \$3.00 per CO<sub>2</sub> allowance. For simplicity, purchase limitations other than the reserve price are not considered. Bidders A through E submitted their bids independently and blindly, in that they did not see any other Bidder's bids.

All bids are ranked by bid price from high to low and cumulative demand is noted at each bid.

Bidder Name	Price Per CO <sub>2</sub> Allowance Bid	Quantity of CO <sub>2</sub> Allowances Bid	Value of Bid	Cumulative CO <sub>2</sub> Allowance Demand	Random Number
Bidder E	\$5.00	20,000	\$100,000.00	20,000	
Bidder A	\$4.50	10,000	\$45,000.00	30,000	
Bidder B	\$4.10	10,000	\$41,000.00	40,000	
Bidder D	\$4.05	20,000	\$81,000.00	60,000	
Bidder E	\$4.00	10,000	\$40,000.00	70,000	
Bidder A	\$3.95	10,000	\$39,500.00	80,000	
Bidder C	\$3.85	10,000	\$38,500.00	90,000	
Bidder E	\$3.75	10,000	\$37,500.00	125,000	(3)
Bidder D	\$3.75	5,000	\$18,750.00	125,000	(1)
Bidder A	\$3.75	10,000	\$37,500.00	125,000	(2)
Bidder B	\$3.75	10,000	\$37,500.00	125,000	(4)
Bidder A	\$3.25	30,000	\$97,500.00	155,000	
Bidder C	\$3.00	40,000	\$120,000.00	195,000	

**Figure 4: Uniform-price, Sealed-bid (Single-round) Auction Format Example No. 2**

Bidder E, D, A, and B's bid for CO<sub>2</sub> allowances at \$3.75 causes cumulative demand to be greater than the supply of CO<sub>2</sub> allowances made available for sale in the auction, so these bids are the marginal bids and the clearing price is the bid price of the marginal bids, or \$3.75 per CO<sub>2</sub> allowance. CO<sub>2</sub> allowances are awarded to all bids with bid prices greater than \$3.75 per CO<sub>2</sub> allowance.

In addition, the tie amongst the marginal bids, highlighted in blue, must be broken and awarded CO<sub>2</sub> allowances. Breaking the tie requires the generation of a random number that is assigned to each tied bid. The CO<sub>2</sub> allowances are awarded to each tied bidder in increasing order by the value of their assigned random number until no CO<sub>2</sub> allowances are left.

Bidder D received the random number 1; therefore the remaining CO<sub>2</sub> allowances are awarded to that bidder first. Bidder D's bid for 5,000 CO<sub>2</sub> allowances can be fully satisfied, leaving 5,000 CO<sub>2</sub> allowances to still be awarded. The bidder who received the random number 2 is Bidder A. Bidder A's bid for 10,000 CO<sub>2</sub> allowances can not be fully satisfied, but the bid is awarded the remaining 5,000 CO<sub>2</sub> allowances. No other tied marginal bid would be awarded any CO<sub>2</sub> allowances since the remaining available supply is exhausted.

In summary, bidders would receive the following awards:

- Bidder A – 25,000 CO<sub>2</sub> allowances, or 25 lots, at a cost of \$93,750.
- Bidder B – 10,000 CO<sub>2</sub> allowances, or 10 lots, at a cost of \$37,500.
- Bidder C – 10,000 CO<sub>2</sub> allowances, or 10 lots, at a cost of \$37,500.
- Bidder D – 25,000 CO<sub>2</sub> allowances, or 25 lots, at a cost of \$93,750.
- Bidder E – 30,000 CO<sub>2</sub> allowances, or 30 lots, at a cost of \$112,500.

### 1.6.2 Random Number Generation

Microsoft.net's random number generator, seeded with an integer representing the current time and date from the computer's system, will produce a sequence of random numbers that meet the statistical requirements for randomness. A detailed description of the random number generating process is outlined below.

The Auction Platform utilizes the built in random number generation capabilities of Microsoft.net. Specifically, the Auction Platform employs the random number generator implemented in Microsoft.net's Random class. In other words, an instance of the Random class produces a sequence of numbers, chosen with equal probability from a finite set of numbers, which meets certain statistical requirements for randomness.

The current implementation of the Random class is based on Donald E. Knuth's subtractive random number generator algorithm. For more information, see D. E. Knuth. *The Art of Computer Programming, Volume 2: Seminumerical Algorithms*. Addison-Wesley, Reading, MA, second edition, 1981.

The random number generation starts from a seed value. If the same seed is used repeatedly, the same series of numbers is generated.<sup>8</sup> Therefore, the random number generator will be seeded with an integer representing the current time and date from the computer's system clock in order to produce a total number of random integers equal to the total number of tied bidders in a CO<sub>2</sub> Allowance Auction. This ensures that a different seed is used for each new instance of Random, i.e. each time it is necessary to break an auction tie. The integer representing the current time and date from the computer's system clock will be created using

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<sup>8</sup> <http://msdn.microsoft.com/en-us/library/system.random.aspx>. Last accessed Tuesday, 3 June 2008.

`DateTime.Now.Ticks`.<sup>9</sup> Since only one instance of `Random` will be created for each auction, concerns regarding the creation of multiple `Random` objects generating identical sequences of random numbers when called in close succession (due to the system clock being of finite resolution) are not present.

It is important to note that a computer cannot generate truly random numbers. Instead, the computer returns a series of numbers based on a mathematical relationship that simulates "randomness." The "randomness" exhibited by the numbers is a function of the mathematical formula used by the random number generator, which can be assessed against standard tests of randomness. That is why in the literature the output of a random number generator is typically referred to as "pseudo-random numbers." If a very long sequence of numbers ( $10^{23}$  or 10 trillion) is produced, eventually the sequence will repeat itself. So, while it is true that chosen numbers are not completely random because a definite mathematical algorithm is used to generate them, they are sufficiently random for practical purposes.

## **1.7 Auction Procedures**

This section presents the procedures under which Auction 1 will be conducted ("Auction Procedures"). Participation in Auction 1 requires strict adherence to these procedures. In addition, the Qualification Application requires all applicants make a number of attestations that will apply from the time that the Qualification Application is submitted.

Any fraudulent, misleading, manipulative, collusive, or noncompetitive behavior in a CO<sub>2</sub> Allowance Auction or in the CO<sub>2</sub> allowance market may be investigated and prosecuted in accordance with any and all applicable regulations and laws.

### **1.7.1 Primary and Secondary Authorized Auction Representative**

The Primary Authorized Auction Representative shall represent the Applicant in any CO<sub>2</sub> Allowance Auction in which the Applicant participates. The Primary Authorized Auction Representative will be the recipient of a username and password for the Auction Platform, allowing that person to submit bids in the CO<sub>2</sub> Allowance Auction(s) for which the Applicant is approved to participate. The Primary Authorized Auction Representative is the person who will serve as the primary contact for all communications regarding the Qualification Application, the Intent to Bid, all notices and documentation, and any other information related to a CO<sub>2</sub> Allowance Auction(s). The principal mode of communications will be via email and the internet.

While not required, it is recommended that the Primary Authorized Auction Representative be the same person designated as the Authorized Account Representative for the Applicant's RGGI COATS account.

If so desired, the Applicant may designate a Secondary Authorized Auction Representative. The Secondary is authorized to represent the Applicant in any CO<sub>2</sub> Allowance Auction in which the Applicant participates. The Secondary Authorized Auction Representative will be the recipient of a username and password for the Auction Platform, allowing that person to submit bids in the CO<sub>2</sub> Allowance Auction(s) for which the Applicant is approved to participate. The Secondary

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<sup>9</sup> A single tick represents one hundred nanoseconds or one ten-millionth of a second. The value of this property represents the number of 100-nanosecond intervals that have elapsed since 12:00:00 midnight, January 1, 0001, which represents `DateTime.MinValue`. <http://msdn.microsoft.com/en-us/library/system.datetime.ticks.aspx>. Last accessed Tuesday, 3 June 2008

Authorized Auction Representative will also receive all communications regarding this application, all notices and documentation, and any other information related to a CO<sub>2</sub> Allowance Auction(s). The principal mode of communications will be via email and the internet.

The integrity of each CO<sub>2</sub> Allowance Auction depends upon each Authorized Auction Representative safeguarding confidential information and passwords used in each CO<sub>2</sub> Allowance Auction. The Authorized Auction Representative(s) must ensure that only authorized persons act on behalf of an Applicant in a CO<sub>2</sub> Allowance Auction.

### **1.7.2 Prohibition on Collusion and Manipulation**

The Auction Procedures do not prohibit applicants from entering into otherwise lawful associations<sup>10</sup> before the Qualification Application and Intent to Bid deadline, as long as the Applicant discloses the existence of the associations in its Qualification Application. If applicants continue negotiations, discussions, or communications related to the auction<sup>11</sup> with any other applicant in a manner that would materially affect the disclosures made by the Applicant in its Qualification Application after the relevant filing deadline, with the exception of any communications related to any remediation activities instigated by the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager, there will be no opportunity to re-file the Qualification Application indicating the material change(s). Each applicant who has material change(s) to the Qualification Application and has not re-filed the Qualification Application with the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager is in violation of the CO<sub>2</sub> Allowance Auction Procedures.

### **1.7.3 Prohibition on Releasing Confidential Information**

The integrity of Auction 1 requires that the Applicant distributes confidential information only to other individuals who are authorized to act on behalf of the Applicant. Confidential information includes, but is not limited to, qualification status, bidding strategy, the price and/or quantity amount to bid, and the amount of financial security posted to the extent such information is not generally available to the public.

If an applicant has retained an advisor, which is defined as an entity or person(s) advising or assisting the Applicant with bidding strategy in Auction 1, who is providing similar advice or assistance to another applicant, or who will be privy to confidential information relative to any other applicant, then the Applicant must ensure appropriate protections against the advisor serving as a conduit of information between or among multiple applicants, or coordinate the bidding strategies of multiple applicants.

Information contained in the Qualification Application and Intent to Bid will be held confidential to the extent permitted by applicable state laws. The Applicant must assert that they consider submitted information to be confidential by checking the box at the bottom of each form.

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<sup>10</sup> Detailed information on what an association is for the purposes of CO<sub>2</sub> Allowance Auction 1 is outlined in the Auction Notice.

<sup>11</sup> These interactions include, but are not limited to, communicating information such as bidding strategy, the price and/or quantity amount to bid, and the amount of financial security posted.

#### 1.7.4 25% Purchase Limit

The aggregate number of CO<sub>2</sub> allowances that entities (e.g., an organization and its affiliates and/or agents) may purchase in a single auction is equivalent to 25% of the CO<sub>2</sub> allowances offered for sale in any single auction.

The Auction Procedures do not prohibit an applicant from becoming associated by entering into otherwise lawful bidding associations with another applicant, entity, or person before filing the Qualification Application, as long as all applicants disclose the existence of all such associations in the Qualification Application.

For purposes of a CO<sub>2</sub> Allowance Auction, applicants are associated if the applicants have ties that could allow them to act in concert or that could prevent them from competing actively against each other in a CO<sub>2</sub> Allowance Auction. There are a number of types of disclosable corporate and bidding associations that must be reported in the Qualification Application. Failure to disclose any of these types of associations may result in a procedure violation and barring from this auction and/or future auctions.

##### 1.7.4.1 Disclosable Corporate Associations

The following definitions are provided to determine whether a disclosable corporate association exists:

- An entity has a *direct corporate association* to another entity if it holds more than 20% of any class of listed shares, if it holds the right to acquire such shares, if it holds any option to purchase shares, or if it holds or can appoint 20% of common directors, or if it holds voting power or if it controls the entity's affairs through some other means.
- An entity has an *indirect corporate association* to another entity if it is associated with another entity that is associated with the entity in question (or through a longer line of control; e.g., if the entity is associated with another entity that is associated with an entity that is associated with the entity in question, etc.). To determine whether an *indirect corporate association* must be disclosed based on an entity's percentage of ownership, the percentage ownership of the entity in the other entity is obtained by multiplying the percentages of ownership at each level.

To assist in the determination of whether such a disclosable *corporate association* exists, the following questions are provided. Answering any of the following questions affirmatively indicates that the Applicant has a *corporate association* that must be disclosed in the Qualification Application.

1. Is the Applicant *corporately associated*, directly or indirectly, with another applicant?
2. Is another applicant *corporately associated*, directly or indirectly, with the Applicant?
3. Is the Applicant *corporately associated*, directly or indirectly, with an entity or person that is *corporately associated*, directly or indirectly, with another applicant?
4. Is another applicant *corporately associated*, directly or indirectly, with an entity or person that is *corporately associated*, directly or indirectly, with the Applicant?

Any affirmative answer to any of these questions requires disclosure of the corporate association(s) in the Qualification Application. This includes but is not limited to disclosure of a

corporate parent, subsidiary, or sister company. In the case of indirect corporate associations, only those with a cumulative ownership percentage above 20% must be listed.

For example, Company A, Company B, and Company C all intend on participating in the upcoming CO<sub>2</sub> Allowance Auction. Company A is a subsidiary of Company B, which also owns Company C. Company A's association with both Company B and C must be disclosed. Company B and C must make similar disclosures in their Qualification Applications.

Information that must be disclosed includes:

- The name of the other applicant, entity, or person with which the Applicant has a corporate association
- The index number of the applicable association criterion (see the Qualification Application)
- A description of the type of corporate association, which may include the following:
  - Corporate parent
  - Subsidiary
  - Sister company
  - Partnership
  - Other (provide a concise description)

#### 1.7.4.2 Disclosable Bidding Associations

The following definitions are provided to determine whether a disclosable bidding association exists:

- An entity is *concerned* with another entity's bid if the entity has agreed to provide assistance with financing, is partnered with the other entity for bidding purposes, has entered into any explicit or implicit agreements, arrangements, or understandings of any kind relating to the CO<sub>2</sub> allowances being auctioned, or has agreed to provide assistance in any other way with the exception of investment or auction advisory services.
- An entity has a *disclosable bidding association* to another entity if the entity is *concerned* with another entity's bid.

To assist in the determination of whether such a disclosable bidding association exists, the following questions are provided. Answering any of the following questions affirmatively indicates that the Applicant has a disclosable bidding association with another applicant or entity that must be disclosed on the Qualification Application.

1. Is the Applicant *concerned* with another applicant's or person's bid?
2. Is another applicant *concerned* with the Applicant's bid?
3. Is an entity or person *concerned* with the Applicant's bid?

Any affirmative answer to any of these questions requires disclosure of the bidding association(s). This includes disclosure by the Applicant of any beneficial interest in CO<sub>2</sub> allowances that may be acquired by the Applicant through the CO<sub>2</sub> Allowance Auction or purchased by the Applicant for the benefit of others.

Bidding associations must be disclosed if the parties agree in principle on all material terms prior to the CO<sub>2</sub> Allowance Auction Qualification Application submittal deadline. Each applicant must identify the other applicant, entity, or person on its Qualification Application, even if the agreement has not been reduced to writing. If the parties have had discussions but have not agreed in principle by the CO<sub>2</sub> Allowance Auction Qualification Application submittal deadline, they should not include the names of parties to discussions on their Qualification Applications.

For example, Company A intends to participate in an upcoming CO<sub>2</sub> Allowance Auction. Company A has a signed agreement with Company B, who also intends to participate in the upcoming CO<sub>2</sub> Allowance Auction, to buy 10 million of the CO<sub>2</sub> allowances that Company B may be awarded from the auction. Company A's bidding association with Company B must be disclosed on its Qualification Application. Likewise, Company B must make a similar disclosure on its Qualification Application.

Information that must be disclosed includes:

- The name of the other applicant, entity, or person with which the Applicant has a bidding association
- The number of CO<sub>2</sub> allowances in which the Applicant has a beneficial interest or the number of CO<sub>2</sub> allowances the Applicant has agreed to purchase for another applicant
- A description of the type of bidding association, which may include the following:
  - Corporate parent
  - Subsidiary
  - Sister company
  - Partnership
  - Broker
  - Financier
  - Other (provide a concise description)

#### **1.7.5 Use of Disclosable Corporate and Bidding Associations**

The information disclosed on the Qualification Application will be used to enforce the 25% purchase limit. Depending on the type of association disclosed, the information will be used in two ways.

1. If it is a disclosable corporate association, each applicant will be given its own unique username and password. Bidding activity will be kept separate. Prior to the auction, the 25% purchase limit must be apportioned amongst the associated applicants (e.g., 15% for Company A and 10% for Company B). The purchase limit constraint will be static during the auction and not adjusted based on the activity of the other applicant(s). Apportioning the purchase limit between applicants is done by the Applicant in the Qualification Application.
2. If it is a disclosable bidding association, each applicant will be issued a separate username and password. The purchase limit of the applicant that is to receive the CO<sub>2</sub> allowances will be reduced to account for the full amount of CO<sub>2</sub> allowances the other applicant intends to buy on their behalf. This lower purchase limit for the applicant that is

to receive the CO<sub>2</sub> allowances will be static and unchanging regardless of what either applicant does during the CO<sub>2</sub> Allowance Auction. The purchase limit of the applicant delivering CO<sub>2</sub> allowances to another applicant is unchanged.

### **1.8 Market Monitor**

RGGI, Inc. has retained the services of a Market Monitor who will monitor the auction and provide ongoing monitoring of CO<sub>2</sub> allowance holdings and CO<sub>2</sub> allowance transaction activity, amongst other activities. The Market Monitor will monitor bidder behavior in each auction and report to the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1 any activities that may have a material impact on the efficiency and performance of the auction.

## **2 Pre-auction Process**

This section describes all the pre-auction activities and procedures for an applicant to become qualified and to prepare for Auction 1.

### **2.1 Auction Website**

All Auction 1 information will be located at [http://www.rggi.org/auction\\_information.html](http://www.rggi.org/auction_information.html). This includes, but is not limited to, the Auction Notice, Qualification Application, Intent to Bid, webinar presentation, and questions and answers to the questions submitted online. Figure 5 displays the Auction 1 website.

[Graphic to be added]

**Figure 5: Auction Website**

### **2.2 Qualification Application Review and Determination**

Each applicant wishing to participate in Auction 1 must submit a completed Qualification Application, which consists of a coversheet plus six (6) forms, by 5:00 PM EDT on Friday, August 8, 2008. Each applicant is responsible for allowing adequate time for filing their Qualification Application.

Each state anticipating offering CO<sub>2</sub> 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. The following steps will be taken to make such a determination.

1. Each applicant will be notified by 5:00 PM EDT on Monday, August 11, 2008 via email<sup>12</sup> that the Qualification Application has been received.
2. Failure to provide any information required in the Qualification Application will result in the Qualification Application being deemed incomplete or otherwise deficient. Each applicant will be notified via email by 5:00 PM EDT on Friday, August 15, 2008 whether or not the Qualification Application has been deemed incomplete or otherwise deficient.
3. If an applicant's Qualification Application is deemed incomplete or otherwise deficient, the communication will provide the reason(s) for the determination. The Applicant will be given until 5:00 PM EDT on Friday August 29, 2008 to remediate the Qualification Application by providing additional information and to cure any deficiencies. Deficiencies may consist of missing information but could also entail resolving inconsistencies between applications from associated applicants. Failure to remediate the Qualification Application may result in the Applicant being denied qualification.
4. Each state anticipating offering CO<sub>2</sub> allowances for sale in Auction 1 will review each applicant's (remediated, if necessary) Qualification Application. Each state will then make a determination as to grant or deny qualification to each applicant.
5. Each applicant will be notified via email by 5:00 PM EDT on Wednesday, September 10, 2008 as to whether their qualification has been granted or denied.

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<sup>12</sup> As noted in the Auction Notice, the Primary Authorized Auction Representative, and Secondary Authorized Auction Representative, if designated, will receive email contact on behalf of each applicant.

Each applicant granted qualification will be provided with a username and password to access the Auction Platform along with training materials and directions as to how to participate in the Auction Platform training.

### **2.3 Intent to Bid Review**

Those wishing to participate in the Auction 1 must submit a completed Intent to Bid, which consists of a coversheet plus four (4) forms, by 5:00 PM EDT on Friday, August 8, 2008. Applicants are responsible for allowing adequate time for filing their Intent to Bid.

Each state anticipating offering CO<sub>2</sub> allowances for sale in Auction 1 will review each applicant's Intent to Bid to ensure the document is complete. The following steps will be taken.

1. Each applicant will be notified by 5:00 PM EDT on Monday, August 11, 2008 via email that the Intent to Bid has been received.
2. Failure to provide any information required in the Intent to Bid will result in the Intent to Bid being declared incomplete. All applicants will be notified via email by 5:00 PM EDT on Friday, August 15, 2008 whether or not the Intent to Bid has been deemed incomplete.
3. If an applicant's Intent to Bid is deemed incomplete, the communication will provide the reason(s). The Applicant will be given until 5:00 PM EDT on Friday August 29, 2008 to complete the Intent to Bid by providing additional information. Failure to complete the Intent to Bid may result in the Applicant being denied qualification.
4. Each state anticipating offering CO<sub>2</sub> allowances for sale in Auction 1 will review each applicant's (remediated, if necessary) Intent to Bid. Each state will then review each Intent to Bid for completeness.
5. Each applicant will be notified via email by 5:00 PM EDT on Wednesday, September 10, 2008 as to whether or not their Intent to Bid is complete.

### **2.4 Electronic Question Submittal**

The Auction Website includes a link to submit questions, which is displayed in Figure 6. A blank email message, addressed to the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager, will be generated by clicking on this link. Questions can also be sent directly to [auctionmanager@worldenergy.com](mailto:auctionmanager@worldenergy.com). The question window opens on Thursday, July 24, 2008 at 8:00 AM EDT and closes at 5:00 PM EDT on Wednesday, July 30, 2008.

Email is the sole means to submit a question regarding the Auction Notice, Qualification Application, and Intent to Bid. Questions must be submitted in English and concern only these documents. All other questions will not be answered.

[Graphic to be added]

**Figure 6: On-line Question Submittal**

Relevant questions and their answers will be prepared and posted on the auction website. The schedule calls for the questions and answers to be posted no later than Wednesday, August 6, 2008 at 8:00 AM EDT.

## **2.5 Bidder Webinar**

There will be one bidder webinar prior to CO<sub>2</sub> Allowance Auction. The webinar will be open to anyone interested in participating in CO<sub>2</sub> Allowance Auction. During this webinar a presentation on the auction format, forms that need to be submitted, and review process will be provided. No questions will be taken during the webinar.

The time and date of the webinar is Thursday, July 24, 2008 from 2:00 PM EDT to 4:00 PM EDT. The presentation for the webinar will be posted on the Auction Website by 8:00 AM EDT on Thursday, July 24, 2008.

To view the slides online as the presenter goes through them, please go to <http://www.infiniteconferencing.com/Events/worldenergy>. Select the participant option and then enter participant code 555661 and the following information: name, company, email address, and title. If it is preferred to participate in the webinar only by phone, the teleconference access number is 1.888.875.4624 and the participant code is 555661#.

## **2.6 Financial Security**

Each applicant must submit financial security in USD by Thursday, September 18, 2008 at 5:00 PM EDT to participate in Auction 1. There are only three (3) acceptable forms of financial security: (1) bond, (2) cash in the form of a wire transfer or certified funds, such as a certified bank check or cashier's check, or (3) an irrevocable letter of credit (LOC) issued by a financial institution with a United States banking license. The total value of a bidder's bids cannot exceed the amount of a bidder's financial security.

Financial security will be retained until CO<sub>2</sub> Allowance Auction 1 settles. At that point, any unused cash balances will be returned to the applicants. Applicants posting cash as financial security will not receive interest. All irrevocable LOCs and bonds will be returned to applicants the day after they expire.

### **2.6.1 Providing Financial Security by Certified Funds**

Each applicant who chooses to provide financial security with certified funds in USD must send their certified bank check or cashier's check to:

Mellon N.A.  
500 Ross St.  
Pittsburgh, PA 15262

The certified bank check or cashier's check must be made out to "RGGI, Inc." and include Account No. NNNNNNN in the memo field. A certified bank check or cashier's check must be accompanied by Form 3 – Certified Funds Remittance Form for CO<sub>2</sub> Allowance Auction 1 contained in the Intent to Bid. Failure to include the Certified Funds Remittance Form could delay processing of the financial security and jeopardize an applicant's participation in Auction 1.

Certified funds must be in the form of a certified bank check or cashier's check. Certified funds must be in USD and must be received by Mellon N.A. by 5:00 PM EDT on Thursday, September 18, 2008. To avoid untimely payments, the Applicant should discuss arrangements (including bank closing schedules) with the Applicant's banker several days before they plan to send the

certified bank check or cashier's check, and allow sufficient time for the check to be received before the deadline.

### **2.6.2 Providing Financial Security by Wire Transfer**

Each applicant who chooses to provide financial security with a wire transfer in USD needs the following information:

ABA Routing Number: 043000261  
Receiving Bank: Mellon N.A.  
500 Ross St.  
Pittsburgh, PA 15262

Beneficiary: NNN-NNNN  
Title of Account

Originating Bank Information (OBI Field): (Skip one space between each information item)  
"RGGIAUCTION – No 1", Applicant Name, as reported on the Qualification Application

Wire Transfers must be received by Mellon N.A. by 5:00 PM EDT on Thursday, September 18, 2008. To avoid untimely payments, the Applicant should discuss arrangements (including bank closing schedules) with the Applicant's banker several days before they plan to make the wire transfer, and allow sufficient time for the transfer to be completed before the deadline. The Applicant is responsible for obtaining confirmation from the Applicant's financial institution that Mellon N.A. has timely received the financial security and deposited it in the proper account.

### **2.6.3 Providing Financial Security by Irrevocable Letter of Credit**

Each applicant who chooses to provide financial security with an irrevocable LOC issued by a financial institution with a United States banking license must send the irrevocable LOC to:

RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager  
c/o RGGI, Inc.  
90 Church Street, 4th Floor  
New York, NY 10007

A sample irrevocable LOC is provided in Appendix A. The expiration date of the irrevocable LOC must be no earlier than Monday, October 6, 2008. All irrevocable LOCs will be returned to bidders the day after they expire. The irrevocable LOC must be received by the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager at the above address by 5:00 PM EDT on Thursday, September 18, 2008. To avoid untimely payments, the Applicant should discuss arrangements (including bank closing schedules) with the Applicant's banker several days before they plan to make the deliver the irrevocable LOC, and allow sufficient time for the delivery to be completed before the deadline.

### **2.6.4 Providing Security Financial by Bond**

Each applicant who chooses to provide financial security with a bond issued by a financial institution with a United States banking license must send their bond to:

RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager  
c/o RGGI, Inc.  
90 Church Street, 4th Floor

New York, NY 10007

A sample bond is provided in Appendix C. The expiration date of the bond must be no earlier than Monday, October 6, 2008. All bonds will be returned to bidders the day after they expire. The bond must be received by the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager at the above address by 5:00 PM EDT on Thursday, September 18, 2008. To avoid untimely payments, the Applicant should discuss arrangements (including bank closing schedules) with the Applicant's banker several days before they plan to make the deliver the irrevocable bond, and allow sufficient time for the delivery to be completed before the deadline.

## **2.7 Auction Platform Training Sessions**

Auction Platform training will be provided only for applicants who have been qualified to participate in Auction 1. (These qualified parties will have received a username and password for the Auction Platform that will be used for the training.)

Training materials and directions as to how to participate in the Auction Platform training will be provided directly to a qualified parties via email. For the convenience of the applicants, identical training sessions will be held Friday, September 12, 2008 and Tuesday, September 16, 2008, both from 1:00 PM EDT to 3:00 PM EDT.

## **2.8 Auction Participation Notification**

As discussed previously in Section 1.5, posting of financial security is the final step in the participation process. Applicants who submit approved financial security will be notified no later than 5:00 PM EDT on Monday, September 22, 2008 that they are approved to participate in Auction 1.

### **3 Auction Process**

This section provides the Applicant with information on accessing the Auction Platform and submitting bids.

#### **3.1 Username and Password**

A unique username and password will be issued to the Primary (and Secondary, if applicable) Authorized Auction Representative of a qualified applicant. Username(s) and password(s) will be issued once an applicant has been qualified.

Usernames and passwords do not expire and will provide continuous access to the Auction Platform. Please note that access to the Auction Platform does not automatically provide access to Auction 1. Participation also requires submission and approval of a security deposit. Any qualified applicant that fails to post a security deposit by Thursday, September 18, 2008 will not be approved to participate in Auction 1.

A username and initial password are assigned to the Authorized Auction Representative(s) of a qualified applicant. Authorized Auction Representative(s) are encouraged to change their password to an Authorized Auction Representative(s)-generated password at their earliest convenience. The Authorized Account Representative(s) are able to change their password in the "Profile Setup" section. Please remember:

- If the Primary Authorized Auction Representative (or Secondary, if applicable) forgets their password, they must contact the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager.
- If the Primary Authorized Auction Representative (or Secondary, if applicable) expected but did not receive a username and password, they must contact the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager.

For any username and/or password issues, the RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager can be contacted at:

RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager  
c/o World Energy Solutions, Inc.  
446 Main Street, 14th Floor  
Worcester, MA 01608  
Phone: 1.800.578.0718  
Email: [auctionmanager@worldenergy.com](mailto:auctionmanager@worldenergy.com)

#### **3.2 Auction Platform Login**

The Auction Website provides a link to the Auction Platform login page. Once there, type in the assigned user name and password and click "Login." Figure 7 displays the Auction Platform login screen.

[Graphic to be added]

**Figure 7: Auction Platform Login Page**

All information on the Auction Platform is confidential and secure. Each user can only access their own information.

### 3.3 Auction Platform

Logging in directs a user to the Start Page on the Auction Platform. Navigation tabs across the top and links along the bottom of each page allow access to all of the areas available to a user: RFPs, Help, and My Profile. Figure 8 displays the start page. RFPs stands for request for pricing and is used by the Auction Platform to index and track all auction activity. Each auction is assigned a unique number by the Auction Platform for this purpose. This number is independent of any numbering sequence established by RGGI, Inc.

[Graphic to be added]

**Figure 8: Auction Platform Start Page**




All of the navigation tabs and links are accessible from each page on the platform.

A qualified applicant's contact information is input into the Auction Platform after approval and is accessible to the user when the user logs in. If a user wishes to edit this information, click on one of the "My Profile" links.

[Graphic to be added]

**Figure 9: Changing My Profile**

The resulting screen will offer two options: 1) "Change My Contact Information" and 2) "Change My Password."

1. When a user clicks on "Change My Contact Information," the user's current information will be displayed. If the user wishes to alter any information, click on the  button at the top center of the screen. Be sure to click  to keep the changes.
2. If the user wishes to change their password, click on "Change My Password" and type in the old password, as well as the new one. When finished, click  at the top center of the screen.
3. If the user does not wish to change the current information, exit the screen by clicking "cancel" rather than "save." This will help avoid making inadvertent changes.
4. Please note that changing any contact information in the Auction Platform will result in a material change to information submitted by the Applicant in its Qualification Application and will require resubmitting the Qualification Application.

### 3.4 Submitting a Bid

The first step to submitting a bid is to navigate to the RFPs page. This can be accomplished by clicking on the RFPs tab at the top of the page or the hyperlink at the bottom. Any active RFP (i.e., auction) that an applicant is approved to bid on appears on this page. Figure 10 shows the RFPs page and the active RFP (i.e., auctions) the Applicant can bid on. Additionally, the table shows auction start time as well as the time remaining until the auction closes.

The bidding window for the auction will open at 9:00 AM EDT and close precisely at 12:00 PM EDT. Bidders are responsible for allowing adequate time for submitting their bids.


[Graphic to be added]

**Figure 10: Active RFPs Page**

The next step to submit a bid is to access the active RFP (i.e., auction). This is done by clicking on the RFP number which is a hyperlink. The RFP number is unique to the Auction Platform and is used to index and track all auction activity. This action will open the RFP (i.e., auction), displaying critical information about the auction such as the auction start and end times, and the reserve price. Figure 11 shows the detailed view of an auction.


[Graphic to be added]

**Figure 11: RFP Detail View Page**

The penultimate step to submit a bid is to click on the  button. That will immediately navigate a user to the bid entry screen as shown in Figure 12.


[Graphic to be added]

**Figure 12: Bid Entry Screen**

Entering a bid is accomplished by entering the bid price and quantity in the appropriate fields as pictured in Figure 13. Entering a bid requires confirming the bid and then submitting it. Clicking on the  button initiates the process. At this time the bid is evaluated against the parameters set up for the auction, namely lot size, reserve price, financial security limit, and purchase limit. If the bid does not conform with any of these parameters, an appropriate error message is displayed allowing a bidder to correct their bid.


[Graphic to be added]

**Figure 13: Confirming a Bid**

If the bid passes these checks, the screen in Figure 14 appears showing the bid that has been entered. At this point, a bidder can either cancel the bid by using the browser's back button or submitting it clicking on the  button.

[Graphic to be added]

**Figure 14: Submitting a Bid**

If the bid has been successfully submitted the screen displayed in Figure 15 appears. A message in green indicates that the bid has been registered. Clicking on the  button navigates directly to the bid entry screen displayed previously, allowing a bidder to repeat the bid entry process.

[Graphic to be added]

**Figure 15: Successfully Registering a Bid**

Clicking on the Bid History hyperlink at the top of screen brings up the screen displayed in Figure 16. This screen shows all the bids that have been submitted by this bidder for this auction.

[Graphic to be added]

***Figure 16: Bid History***

### **3.5 Canceling a Bid**

To cancel any submitted bid, provided there is still time remaining in the auction, is accomplished by selecting the Cancel hyperlink to the right of the bid and then confirming its cancellation. Figure 17 displays the location of the cancel hyperlink.

[Graphic to be added]

***Figure 17: Canceling a Bid***

## **4 Post-auction Process**

### **4.1 CO<sub>2</sub> Allowance Auction Close**

Auction 1 will open at 9:00 AM EDT and close promptly at 12:00 PM EDT on Wednesday, September 25, 2008. Bidders are responsible for allowing adequate time for submitting their bids.

### **4.2 Bidder Notification**

Immediately after CO<sub>2</sub> Allowance Auction 1 results are approved by the states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1, the Primary (and Secondary, if applicable) Authorized Auction Representatives will be notified via email to log in to the Auction Platform to view their awards, if any. This will occur no later than Monday, September 29, 2008 at 5:00 PM EDT. Figure 18 displays this screen. Only awarded bids for the user are shown on this screen.

[Graphic to be added]

*Figure 18: Awarded Bids*

### **4.3 CO<sub>2</sub> Allowance Auction Financial Settlement**

Financial settlement of Auction 1 will commence immediately after bidders are notified of the auction results. Each key settlement event and activity is discussed in turn.

#### **4.3.1 Bidder Notification of Auction Results**

Bidder notification will be in the form of an email message to the Primary (and Secondary, if applicable) Authorized Auction Representatives requesting that they log in to the Auction Platform. The message will be sent out no later than Monday, September 29, 2008 at 5:00 PM EDT. Each bidder will see their awarded bids. The total cost of their bids and number of CO<sub>2</sub> allowances being awarded are also provided. The total cost represents the amount of funds that will be drawn from a bidder's financial security.

#### **4.3.2 Return of Financial Security**

All unused cash balances will be returned to bidders by Wednesday, October 1, 2008 via Automated Clearing House (ACH) credit. Information on where the cash will be sent must be provided on Form 2 – Financial Security contained in the Intent to Bid.

Expired irrevocable LOCs and bonds will be returned to applicants the day after they expire; otherwise they will be maintained by RGGI, Inc. for subsequent CO<sub>2</sub> Allowance Auction(s).

#### **4.3.3 Optional Cash Settlement**

Bidders who submit an irrevocable LOC or bond will be provided an opportunity to settle their transaction with a wire transfer in USD rather than a draw against their irrevocable LOC or bond. Wire transfers must be in United States dollars and must be received by Mellon N.A. by 5:00 PM EDT on Thursday, October 2, 2008. No action is required by a bidder if settlement is to be made by drawing against a bidder's irrevocable LOC or bond. Those electing to settle with cash need the following information:

ABA Routing Number: 043000261  
Receiving Bank: Mellon N.A.  
500 Ross St.  
Pittsburgh, PA 15262

Beneficiary: NNN-NNNN  
Title of Account

Originating Bank Information (OBI Field): (Skip one space between each information item)  
"RGGIAUCTION – No 1", Applicant Name, as reported on the Qualification Application

To avoid untimely payments, the Applicant should discuss arrangements (including bank closing schedules) with the Applicant's banker several days before they plan to make the wire transfer, and allow sufficient time for the transfer to be completed before the deadline. The Applicant is responsible for obtaining confirmation from their financial institution that Mellon N.A. has timely received their cash settlement and deposited it in the proper account.

#### **4.4 Allowance Transfer**

Once financial settlement is complete, the CO<sub>2</sub> allowances will be transferred to each winner's RGGI COATS account by 5:00 PM EDT on Wednesday, October 8, 2008. Once this transfer is complete, all awardees will be notified via email.

#### **4.5 Purchase and Sale Agreement**

Code of Maryland regulations 26.09.04.08B(g) requires that the Auction Notice include a standard CO<sub>2</sub> allowance purchase and sales contract, which can be found in Appendix B. As a participant in the current regional process, Maryland, and all other states anticipating offering CO<sub>2</sub> allowances for sale in Auction 1, will not require purchasers of CO<sub>2</sub> allowances to use a purchase and sales contract.

## **5 Contact Information**

For further information about a particular state's authority regarding their participation in Auction 1, please use the contact information in [Graphic to be added] Figure 19.

[Graphic to be added]

***Figure 19: Contact Information***

## **Appendix A – Sample Irrevocable Letter of Credit**

Applicants who elect to provide financial security with an irrevocable LOC in United States dollars issued by a financial institution with a United States banking license must send their irrevocable LOC to:

RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager  
c/o RGGI, Inc.  
90 Church Street, 4th Floor  
New York, NY 10007

A sample irrevocable LOC is provided in this appendix. The irrevocable LOC must be in United States dollars, issued by financial institution with a United States banking license, and must be received by RGGI, Inc. by 5:00 PM EDT on Thursday, September 18, 2008. To avoid untimely payments, applicants should discuss arrangements (including bank closing schedules) with their banker several days before they plan to make the deliver the irrevocable LOC, and allow sufficient time for the delivery to be initiated and completed before the deadline.

Instructions to applicants:

1. The entity named as “Applicant” in the irrevocable LOC must be identical in the Qualification Application and Intent to Bid.
2. The expiration date must be no earlier than Monday, October 6, 2008. All irrevocable LOCs will be returned to bidders the day after they expire.

## Form of Irrevocable Letter of Credit

Irrevocable Letter Of Credit No. \_\_\_\_\_

Date: \_\_\_\_\_, 20\_\_

Beneficiary:

RGGI, Inc.  
90 Church Street, 4th Floor  
New York, NY 10007

Ladies and Gentlemen:

By The Order Of:

[Applicant]

[Applicant's Address]

1. We hereby establish in your favor this irrevocable Letter of Credit (this "Letter of Credit") for the account of \_\_\_\_\_ (the "Applicant"), in the amount of USD \$\_\_\_\_\_, effective immediately and available to you at sight upon demand by all of you at our counters at \_\_\_\_\_ (Location) and expiring on \_\_\_\_\_, unless terminated earlier in accordance with the provisions hereof or otherwise extended.
2. This Letter of Credit is issued at the request of the Applicant, and we hereby irrevocably authorize you to draw on us, in accordance with the terms and conditions hereof, up to the maximum amount of this Letter of Credit, subject to reduction as provided in Paragraph 13 hereof. This Letter of Credit may be drawn by presenting the following documents:
  - a. Your Sight Draft drawn on us in the form of Annex 1 hereto (the "Sight Draft"); and
  - b. A dated Payment Certificate purportedly signed by a duly authorized officer of RGGI, Inc. in the form of Annex 2 hereto (the "Payment Certificate").
3. Demands presented by facsimile (to facsimile number \_\_\_\_\_) are acceptable; provided that if any such demand is presented by facsimile, the original Sight Draft and Payment Certificate shall be simultaneously forwarded by overnight courier service to our office located at the address stated above; provided further that the failure of the courier service to timely deliver shall not affect the efficacy of the demand.
4. A partial or full drawing hereunder may be made by you on any Business Day on or prior to the expiration of this Letter of Credit by delivering, by no later than 11:00 A.M. (New York, New York time ) on such Business Day to \_\_\_\_\_ (Bank),  
\_\_\_\_\_.

5. We hereby agree to honor a drawing hereunder made in compliance with the terms and conditions of this Letter of Credit by transferring in immediately available funds the amount specified in the draft delivered to us in connection with such drawing to such accounts at such banks in the United States as you may specify in your draft delivered to us pursuant to Paragraph 4 hereof, by 3:00 P.M. (New York, NY time) on the date of such drawing if delivery of the requisite document is made prior to 11:00 A.M. (New York, NY time) on a Business Day pursuant to Paragraph 3 hereinabove, but at the opening of business on the first Business Day next succeeding the date of such drawing if delivery of the requisite documents is made on or after 11:00 A.M. (New York, NY time) on any Business Day pursuant to Paragraph 4 hereinabove.
6. Only you may make any Payment Certificate and Sight Draft under this Letter of Credit.
7. All bank charges including but not limited to, fees or commissions, shall be for Applicant's account.
8. This Letter of Credit shall automatically terminate and be delivered to us for cancellation on the earliest of (i) the making by you and payment by us of the drawings in an amount equal to the maximum amount available to be made hereunder, (ii) the date we receive from you a Certificate of Expiration in the form of Annex 3 hereto, (iii) the above-stated expiration date hereof.
9. As used herein:

“Applicant” shall mean an Applicant to the CO<sub>2</sub> Allowance Auction who has successfully completed the CO<sub>2</sub> Allowance Auction Qualification Application.

“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.
10. This Letter of Credit is not transferable, and except as otherwise expressly stated herein, this Letter Of Credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 revision), International Chamber Of Commerce Publication 500 (Provided, however, that drawings permitted hereunder shall not be deemed to be drawings by installments within Article 41 of the UCP) and as to matters not governed by the UCP, shall be governed by and construed in accordance with the laws of the State Of New York and applicable U.S. Federal Law.
11. This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, changed, amplified or limited by reference to any document, instrument or agreement referred to herein, except for Annexes 1 through 3 hereto and the notices referred to herein; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except as set forth above.
12. The amount which may be drawn by you under this Letter of Credit shall be automatically reduced by the amount of any drawings paid through us referencing this Letter of Credit No. \_\_\_\_\_. Partial drawings are permitted hereunder.

13. We hereby agree with you that each duly completed Payment Certificate and Sight Draft drawn under and in compliance with the terms of this Letter of Credit will be duly honored upon presentation to us on or before the expiry date. The obligation of [issuing bank] under this Letter of Credit is the individual obligation of [issuing bank], and is in no way contingent upon reimbursement with respect thereto.
14. In the event of act of God, riot, civil commotion, insurrection, war, terrorism or by any strikes or lock outs, or any cause beyond our control, that interrupts our business, and causes the place for presentation of this Letter of Credit to be closed for business on the last day of presentation, the expiration date of this Letter of Credit shall be automatically extended without amendment to a date thirty (30) calendar days after the place for presentation reopens for business.
15. This original Letter of Credit has been sent to RGGI, Inc., 90 Church Street, 4th Floor, New York, NY 10007. The aggregate amount paid to the RGGI, Inc. during the validity of this Letter of Credit will not exceed the amount of this Letter of Credit.

Very truly yours,

[Name and address of issuing bank]

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Annex 1 to Exhibit A Irrevocable Letter of Credit**

**Sight Draft**

Letter of Credit No.: \_\_\_\_\_

Date of Letter of Credit: \_\_\_\_\_

Date of Draft: \_\_\_\_\_

To: (Bank)  
(Address)

Attention: \_\_\_\_\_

For Value Received

Pay on Demand to: RGGI, Inc., U.S. \_\_\_\_\_ Dollars (U.S. \$ \_\_\_\_\_). The amount of this draft does not exceed the amount available to be drawn by the Beneficiary under the Letter of Credit.

We acknowledge that, upon your honoring the drawing herein requested, the amount of the Letter of Credit available for drawing shall be automatically decreased by an amount equal to this drawing.

Charge to account of [Applicant].

Drawn under [Name of Bank] Letter of Credit No. \_\_\_\_\_.

Funds to be wired to:

ABA Routing Number: 043000261  
Receiving Bank: Mellon N.A.  
500 Ross St.  
Pittsburgh, PA 15262

Beneficiary: NNN-NNNN  
Title of Account

Originating Bank Information (OBI Field): (Skip one space between each information item)  
"RGGIAUCTION – No 1", Applicant Name, as reported on the Qualification Application

Very truly yours,

By \_\_\_\_\_  
Name:  
Title:  
Date:

**Annex 2 to Exhibit A Irrevocable Letter of Credit  
Payment Certificate**

To:

[Issuing Bank]

[Address]

Re: Irrevocable Letter of Credit No: \_\_\_\_\_ [Insert]

The undersigned, a duly authorized officer of the undersigned Beneficiary, hereby certifies to [Issuing Bank], with reference to the Standby Letter of Credit No: [Insert] ("Letter of Credit"), that RGGI, Inc. is authorized and entitled to draw any amount up to the maximum allowed by the attached Letter of Credit.

The terms used herein which are not specifically defined herein are defined in the Letter of Credit, a copy of which is annexed hereto.

IN WITNESS WHEREOF, the Beneficiary has executed and delivered this Payment Certificate as of the \_\_\_\_ day of \_\_\_\_\_.

Very truly yours,

By \_\_\_\_\_

Name:

Title:

Date:

**Annex 3 to Exhibit A Irrevocable Letter of Credit  
Certificate of Expiration**

Letter of Credit No.: \_\_\_\_\_

Date: \_\_\_\_\_, 20\_\_

To:            (Bank)  
                  (Address)

Attention:     \_\_\_\_\_

Ladies and Gentlemen:

The undersigned hereby certifies to you that the above referenced Letter of Credit may be cancelled without payment. Attached hereto is said Letter of Credit, marked cancelled.

Very truly yours,

By \_\_\_\_\_  
Name:  
Title:  
Date:

cc:            \_\_\_\_\_ (Applicant)

## **Appendix B – Maryland Purchase and Sale Agreement**

As discussed in Section 4.5, Code of Maryland regulations 26.09.04.08B(g) requires that the Auction Notice include a standard allowance purchase and sales contract which contained in this appendix.

Do not use

## Purchase and Sale Agreement

This Agreement ("Agreement") is effective this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ (the "Effective Date"), by and between \_\_\_\_\_ ("Purchaser") and \_\_\_\_\_ ("Seller").

### RECITALS

**WHEREAS**, Seller is a party to a Memorandum of Understanding ("MOU") dated April 20, 2007, by and among ten States in the Northeastern and Mid-Atlantic regions of the United States (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island, and Vermont – the "participating states"), which created the Regional Greenhouse Gas Initiative ("RGGI"). RGGI is a cooperative effort to reduce carbon dioxide ("CO<sub>2</sub>") emissions from power plants in those States; and

**WHEREAS**, Seller was allocated a certain number of CO<sub>2</sub> allowances pursuant to the RGGI MOU; and

**WHEREAS**, the participating states designed a uniform regional auction for the purpose of auctioning to successful bidders the CO<sub>2</sub> allowances allocated by the RGGI MOU. The auction was/will be held on September 25, 2008 ("Allowance Auction 1"); and

**WHEREAS**, Seller has adopted regulations and/or enacted legislation to implement Allowance Auction 1.

**WHEREAS**, Purchaser timely submitted a Notice of Intent to Bid and Financial Security to enable Purchaser to participate in the Allowance Auction 1 and was, in fact, a successful bidder at the Allowance Auction 1.

**WHEREAS**, Purchaser and Seller now wish to enter into this Agreement for the purpose of executing the sale of the CO<sub>2</sub> allowances successfully bid by Purchaser.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which is acknowledged by the parties hereto, Purchaser and Seller hereby agree as follows:

- I. Purchaser Price.** Purchaser agrees to purchase, and Seller agrees to sell, convey, grant, and transfer \_\_\_\_\_ CO<sub>2</sub> allowances at the unit price of \_\_\_\_\_ per allowance for a total purchase price of \_\_\_\_\_.
- II. Process for transfer or delivery of the allowances; payment provisions.** Seller and Purchaser shall comply with the procedures outlined in the CO<sub>2</sub> Allowance Auction Notice, dated July 24, 2008, ("Auction Notice"), attached hereto and made a part hereof, for notification, transfer and payment in connection with the allowance(s) that are the subject of this Agreement.
- III. Delay; failure to perform.** Failure of Purchaser to complete the transaction according to the terms outlined in the Auction Notice may result in forfeiture of Purchaser's Financial Security, as required by Seller's regulation or statute.
- IV. Liability.** Purchaser shall hold harmless Seller and its representatives, agents, employees, or contractors from and against any and all claims, demands, suits,

losses, liabilities, penalties, damages, obligations, payments, costs and expenses asserted against or suffered by Seller that are directly attributable to the acts or omissions of Purchaser, its representatives, agents, invitees, employees, or contractors in connection with this Agreement.

- V. **Disputes and Governing Law.** All disputes under this Agreement shall be resolved in accordance with the laws of the participating states, and, if not by the parties, shall be resolved by courts or competent jurisdiction in the participating states.

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed by their respective representatives hereunder, fully authorized, all as of the day and year first above written.

By: \_\_\_\_\_  
Purchaser

By: \_\_\_\_\_  
Seller

Do not use

## **Appendix C – Sample Bid Bond Form**

Applicants who elect to provide financial security with a bond must send their bond to:

RGGI CO<sub>2</sub> Budget Trading Programs Auction Manager  
c/o RGGI, Inc.  
90 Church Street, 4th Floor  
New York, NY 10007

A sample bond is provided in this appendix. The bond must be in United States dollars (USD) and must be received by RGGI, Inc. by 5:00 PM EDT on Thursday, September 18, 2008. To avoid untimely payments, applicants should discuss arrangements (including bank closing schedules) with their banker several days before they plan to make the deliver the bid bond, and allow sufficient time for the delivery to be initiated and completed before the deadline.

Instructions to applicants:

1. The entity named as “Applicant” in the bond must be identical in the Qualification Application and Intent to Bid.
2. The expiration date must be earlier than Monday, October 6, 2008. All bonds will be returned to bidders the day after they expire.

A sample bid bond will be provided in the final version of the Auction Notice.