

RGGI CO₂ BUDGET TRADING PROGRAMS

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

States offering CO₂ allowances for sale:

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

Released on August 1, 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.

Contents

I.	Questions and Answers Overview	1
II.	Process Questions and Answers	1
III.	Auction Format Questions and Answers	8
IV.	RGGI CO ₂ Allowance Tracking System (RGGI COATS) Questions and Answers	9

I. Questions and Answers Overview

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

Any relevant question submitted while the online question window was open that is not answered in Part 1 will be answered in *CO₂ Allowance Auction Questions and Answers for CO₂ Allowance Auction 1 on September 25, 2008 – Part 2 of 2* (“Part 2”). Part 2 will be released no later than 8:00 AM EDT on Wednesday, August 6, 2008.

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

II. Process Questions and Answers

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

- 1. On Form 1, page 4 of the Qualification Application, the field “Name of Applicant” is filled in with “Applicant Name Field” and the field does not allow for the input of the name of the applicant. Will this be fixed?**

Yes, a corrected Qualification Application was posted on the Auction Website at 1:30 PM EDT on Thursday, July 24, 2008. Please be sure to submit the corrected Qualification Application.

- 2. How will the amount of the security requirement be determined? Or, is the amount of security provided at the discretion of the party intending to bid in the auction? Will there be a minimum security required?**

The amount of financial security is determined by the applicant. The total value of a bidder's bids cannot exceed the amount of financial security posted. 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. See Auction Notice Section 1.5.4 Financial Security for additional information.

Yes, there is a minimum financial security. The minimum bid price that can be submitted is equal to the reserve price (i.e., \$1.86 per CO₂ allowance) and the minimum bid quantity that

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

can be submitted is 1,000 CO₂ allowances. Therefore, the minimum financial security is \$1,860.00. See Auction Notice Section 1.6 Auction Overview for additional information.

- 3. *On the Intent to Bid Form, Form 2 – Financial Security – how does the bidder determine the amount of security requested/required prior to the auction?***

Please refer to the answer to Question 2 for the response to this question.

- 4. *Please explain how to determine the amount of collateral in advance of the auction allocation?***

Please refer to the answer to Question 2 for the response to this question.

- 5. *Given the Aug 8 deadline for the Allowance Auction Qualification Package will answers to questions submitted be posted as soon as available?***

Yes, this document is the first of two documents that will be released to address relevant questions submitted while the online question window was open. Any relevant question submitted while the online question window was open that is not answered in Part 1 will be answered in Part 2. Part 2 will be released no later than 8:00 AM EDT on Wednesday, August 6, 2008. See Auction Notice Section 1.2 Auction Schedule for additional information.

- 6. *The schedule provided in the CO₂ Allowance Auction Notice for CO₂ Allowance Auction 1 on September 25, 2008 indicates that responses to questions submitted online will be posted no later than Wednesday, August 6, 2008 at 8:00 AM EDT. Will responses to questions be posted on a rolling basis (i.e. will answers be provided as soon they are reached by the respondents)? Or will all answers to all questions be released simultaneously?***

Please refer to the answer to Question 5 for the response to this question.

- 7. *Also, would it be possible to receive a response prior to the 6th of August? Given that the materials are due on the 8th of August, timing seems quite tight to guarantee that documents will be submitted on time to meet the deadlines.***

Please refer to the answer to Question 5 for the response to this question.

- 8. *Will all questions (without answers) be posted immediately, or do we have to wait for the answers to see the questions? Similarly, even if you do not answer all the questions, will we get to see all questions that others asked?***

Please refer to the answer to Question 5 for the response to this question.

- 9. *Once Intent to Bid document is signed is the party absolutely obligated to participate into the bidding process?***

No, an applicant, qualified applicant, or bidder who has posted financial security is never obligated to submit a bid or otherwise participate in an auction.

- 10. *Will an approved Allowance Auction Qualification Application provide access to auction information that would not otherwise be available such as the results of the***

auction? Does an approval of the Allowance Auction Intent to Bid application provide access to information not otherwise available?

The only additional information a qualified applicant will be provided is a username and password to access the Auction Platform and instructions on how to participate in the Auction Platform training. See Auction Notice Sections 2.4 Qualification Application Review and Determination and 2.5 Intent to Bid Review for additional information.

11. Existing agreements with World Energy - we already have an agreement with World Energy to participate in online auctions. Will participation in this auction fall under this agreement (i.e. will our bids be governed by our existing agreement with World Energy or be separate from this agreement)?

Participation in this auction will not fall under any existing agreement between a bidder and World Energy Solutions.

12. Will the questions to the auction manager be publicly attributed to the entity asking the question on the web site?

No, all relevant questions will be listed without attribution. See Auction Notice Section 2.3 Electronic Question Submittal of the Auction Notice for additional information.

13. Can a participant use the financial security it provides in the first auction for future auctions? For example, the expiration date of the LC or Bond could be set such that it provides financial security for subsequent RGGI auctions. Is this acceptable?

A qualified applicant can use financial security posted for Auction 1 for subsequent auctions provided the expiration date on the Bond or irrevocable Letter of Credit meets the minimum expiration date outlined in the applicable auction notice of the subsequent CO₂ allowance auction. See Auction Notice Sections 2.6 Financial Security, 2.6.1 Providing Financial Security by Bond, 2.6.4 Providing Financial Security by Irrevocable Letter of Credit for additional information.

14. Are there any limitations as to who can participate (i.e. providers outside of the RGGI region, etc.)?

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

15. In regards to the Bidders Conference Call tomorrow, where will this information be posted or do we need to complete paperwork previous to the call?

The webinar took place Thursday, July 24, 2008 from 2:00 PM EDT to 4:00 PM EDT. The webinar was open to anyone interested in participating in Auction 1. A copy of the presentation is located at the link in this footnote.² No questions were taken during the webinar.

² http://www.rggi.org/auctions/documents/Auction_Webinar_Presentation_July_24_2008.pdf

- 16. Form 2 of the CO₂ Allowance Auction Intent to Bid for CO₂ Allowance Auction 1 on September 25, 2008 document requires participants to identify the form (Bond, Cash, and Irrevocable Letter of Credit) of financial security that will be posted by the participant by September 18th, 2008. Is the notice of financial assurance that will be submitted on August 8th binding? What happens if a party submits a form of financial assurance on September 18th that is different from that identified in Form 2?**

The amount and form of financial security provided by the applicant on Thursday, September 18, 2008 does not have to be the same as reported by the applicant in the Intent to Bid. However, the Intent to Bid must be completed and must be received by the RGGI CO₂ Budget Trading Programs Auction Manager before 5:00 PM EDT on Friday, August 8, 2008. The amount of financial security provided on Thursday, September 18, 2008 will determine the limit of bidding activity in Auction 1. See Auction Notice Section 2.6 Financial Security for additional information.

- 17. Form 2 of the CO₂ Allowance Auction Intent to Bid for CO₂ Allowance Auction 1 on September 25, 2008 document requires participants to identify the amount of financial security that will be posted by the participant by September 18th, 2008. Is the notice of financial assurance that will be submitted on August 8th binding? What happens if a party submits an amount of financial assurance on September 18th that is different from that identified in Form 2?**

Please refer to the answer to Question 16 for the response to this question.

- 18. The Intent to Bid Form #2, Financial Security, requires that a bidder indicate the type of security (e.g. bond, cash, LC, etc.) to be provided, and the total dollar amount of financial security requested. The Intent to Bid forms are due August 8, 2008. Since the actual posting of financial security is not due until September 18, 2008, may a bidder change either or both the type of security and the dollar amount of security that was indicated on the Intent to Bid form on September 18th? For example, may a bidder who elected on August 8th to post a Letter of Credit for \$1,000,000, change to a Bond for \$2,000,000 on September 18th?**

Please refer to the answer to Question 16 for the response to this question.

- 19. Is the amount of Financial Security listed in Form 2 of "CO₂ Allowance Auction Intent to Bid" binding? At this point we have not decided how many allowances we desire to bid on, and the final amount of Financial Security we post might differ from what we input into the form today. Would that be a problem?**

Please refer to the answer to Question 16 for the response to this question.

- 20. Quick question on part of the "intent to bid" application. Form 2 of the application deals with financial security; why is it necessary to list the method and amount of financial security in this form? According to the "CO₂ Allowance Auction Notice" financial security is not due until September 18th.**

Please refer to the answer to Question 16 for the response to this question.

- 21. The Intent to Bid form requests the type of financial security and the amount of the financial security to be indicated. Does this August 8 indication constrain or limit the**

bidder -when the security is provided on the due date of September 18? i.e. Can the type and amount of security be changed from the Intent to Bid submittal?

Please refer to the answer to Question 16 for the response to this question.

22. If an applicant is not sure of the type of security to be provided, should the bidder simply check all the boxes?

Use best judgment to select the appropriate form(s) of financial security. Also, please refer to the answer to Question 16 for the response to this question.

23. Would the following be considered a change that would make us ineligible to bid into the auction on September 25: We indicate on the NOI that we intend to post, say, \$1M as a security deposit for the auction, but then end up actually posting more or less than that on September 18 because we changed the amount of allowances we think we want to bid on?

Please refer to the answer to Question 16 for the response to this question.

24. Why is it necessary to state the source and amount of financial security that will be posted? When this is not officially due until Sept 18th

Please refer to the answer to Question 16 for the response to this question.

25. Are there any penalties if the amount of financial security that is posted on Sept 18th does not match the amount that we list on the intent to bid application? Would it be better to over or under estimate the amount of financial security that will be posted?

Please refer to the answer to Question 16 for the response to this question.

26. Can an Applicant increase its financial security after 9/18/08 in order to submit a greater total bid value?

No, 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. See Auction Notice Section 2.6 Financial Security for additional information.

27. If the owner of a multiple electric generation sources acquires auction allowances on a holding company or limited liability company (LLC) basis, is the owner able to then freely allocate allowances amongst its affiliates, whether or not such affiliate is one of the individual electric generation sources identified on Form 1 of the CO₂ Allowance Auction Qualification Application? Will there be any restrictions on how allowances are distributed amongst the electric generation sources owned by or affiliated with a given applicant?

After the auction, successful bidders will be able to transfer CO₂ allowances to any account in the RGGI COATS. CO₂ allowances may be used for compliance with the requirements of any state's CO₂ Budget Trading Program. See Auction Notice Sections 1.7.4 25% Bid Limit, 1.7.4.1 Disclosable Corporate Associations, and 1.7.4.2 Disclosable Bidding Associations for additional information. Note, however, that there are special conditions associated with CO₂ allowances that are not auctioned, but are distributed under individual state set-aside

programs. Refer to each state's implementing regulation or legislation for the specific limitations, if any, that are associated with those CO₂ allowances.

28. *Can credits be transferred State to State? For example, if my book of business is located in NY and NY is not participating in the Auction in Sept, can we still trade these credits?*

Please refer to the answer to Question 27 for the response to this question.

29. *Are these RGGI credits transferable and can they be sold in secondary markets after the auction?*

Please refer to the answer to Question 27 for the response to this question.

30. *How will information marked confidential be treated?*

Information contained in the Qualification Application and Intent to Bid will be held confidential to the extent permitted by applicable state laws.

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

No material changes will be permitted. To the extent the submitted irrevocable Letter of Credit or Bond differs from the Form of Irrevocable Letter of Credit provided in Auction Notice Appendix D and Form of Bid Bond provided in Auction Notice Appendix A, respectively, the applicant assumes the risk that the submitted irrevocable Letter of Credit or Bond may be rejected.

32. *Will any changes or amendments to the Bid Bond Form or the Form of Irrevocable Letter of Credit, be considered?*

Please refer to the answer to Question 31 for the response to this question.

33. *May applicants submit an alternative form of Letters of Credit or Bonds? If so, will there be an approval process for such alternative forms?*

Please refer to the answer to Question 31 for the response to this question.

34. *Section 2.6.4 - Is there an opportunity to comment on the form of Letter of Credit that must be provided? What if our bank requires that language changes before they will issue a Letter of Credit?*

Please refer to the answer to Question 31 for the response to this question.

35. *Is the purpose of including the MD CO₂ purchase/sale agreement in the auction notice to meet a Maryland statutory requirement? Will it be used for anything?*

The purchase and sales agreement attached to the Auction Notice is only included to satisfy a Maryland regulatory requirement. Bidders awarded CO₂ allowances in Auction 1 (i.e. successful bidders) will not be required to execute this agreement.

36. We are planning to participate in the 1st RGGI auction so we are in the process of filling out the Qualification Application and we have a question regarding the EIA number that is required in the Form 1 when an applicant wants to register an Electric Generation Source: if our generator does not have an EIA nor a ORIS number, would a PTID number work?

If the generator does not have an EIA plant code, the field can be left blank. However, all other fields in that table must be filled in.

III. Auction Format Questions and Answers

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

37. In the Auction Format Example No. 2, for the allocation of allowances under the ties on marginal bids would Bidder D receive an additional 5,000 allowances and Bidder A also receive 5,000 allowances?

Yes, both Bidder D and Bidder A receive 5,000 allowances. See Auction Notice Section 1.6.1 Auction Examples for additional information.

38. Is there a price ceiling?

No, there is no price ceiling. See Auction Notice Section 1.6 Auction Overview for additional information.

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

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

39. What is the difference between a COATS “General” account and a “Compliance” account?

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

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

40. What is the difference between general and compliance COATS accounts?

Please refer to the answer to Question 39 for the response to this question.

41. Are participants required to open general accounts in every state offering allowances for auction or is only one general account sufficient?

Applicants need to open only one general account. See Auction Notice Section 1.5.1 RGGI CO₂ Allowance Tracking System Account for additional information.

42. For the COATS system what is the definition of an affiliated agent, and what rights and responsibilities would an affiliated agent have?

Affiliated Agents were incorrectly referenced in the RGGI COATS and the “Getting Started Guide.” These references have been revised to reflect the correct term, electronic submission agents.

The CO₂ Budget Trading Programs and the RGGI COATS allow for the use of “electronic submission agents.” Electronic submission agents are delegated authority in the RGGI COATS per the terms under the CO₂ Budget Trading Programs to make electronic submissions (including allowance transfers) on behalf of the Authorized Account Representative (AAR) and/or the Alternate Authorized Account Representative (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 RGGI COATS.

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

Only one AAR and one AAAR may be designated per account, independent of the number of account or source owners. Any person can hold more than one general account. An owner of more than one CO₂ budget source will have as many compliance accounts as sources, and it is the owner’s choice whether the AARs for those compliance accounts are the same or different persons. There will only be one compliance account for each CO₂ budget source under the CO₂ Budget Trading Programs.

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

Yes, an AAR can be any individual representing the owners of an account. An AAR must certify that they were selected as the AAR as applicable, by an agreement binding on the owners and operators or those with ownership interest with respect to the CO₂ allowances in that account.

45. We are filling out the application for the upcoming auction and need to create a RGGI COATS Account. Can you please provide the detailed information and application for that?

Please visit www.rggi-coats.com and find the "Getting Started Guide" under the "Reference" menu item.

46. I assume that the auction is open to companies like mine, who may wish to simply buy and resell the allowances, is that right? In that case, when in setting up a COATS account, do I put in my company name when asked, eventually, for the company that is authorizing me? I got the feeling that the authorizing company should have some generation capacity or other vested interest in the allowance; if that is true then I would not qualify.

Please refer to the answer to Question 14 for the response to this question.

Anyone can participate in Auction 1 and anyone can open a general account. In completing the process for creating a general account you are required to provide the following information:

Name, address, e-mail address, telephone number, and facsimile transmission number of the CO₂ authorized account representative and any alternate CO₂ authorized account representative;

At the option of the CO₂ authorized account representative, organization name and type of organization;

A list of all persons subject to a binding agreement for the CO₂ authorized account representative or any alternate CO₂ authorized account representative to represent their ownership interest with respect to the CO₂ allowances held in the general account.

Please visit www.rggi-coats.com and find the "Getting Started Guide" under the "Reference" menu item.

47. Is there intent to have an Agent that has been designated by the Authorized Account Representative to conduct transactions on their behalf -- as permitted for the Acid Rain and NOx Budget Programs?

Yes, electronic submission agents can conduct transactions on behalf of AARs and AAARs.

48. Can non-compliance entities bank allowances for an indefinite timeframe?

There are no banking limitations under the CO₂ Budget Trading Programs.

49. *Can general accounts hold/bank allowances for an indefinite time?*

Please refer to the answer to Question 48 for the response to this question.