

Regional Greenhouse Gas Initiative

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

CO₂ Allowance Auctions

Frequently Asked Questions

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



The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by participating states to reduce emissions of carbon dioxide (CO₂), a greenhouse gas that causes global warming.

RGGI, Inc. is a non-profit corporation created to provide technical and administrative services to the CO₂ Budget Trading Programs of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont.

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I. Frequently Asked Questions Overview

In the course of conducting CO₂ allowance auctions, RGGI, Inc. administered an online question and answer process. This document generalizes and summarizes some of the frequently asked questions (“FAQs”) received through the online question and answer process. For additional information, auction application forms, and notices of future auctions, please refer to the RGGI website: www.rggi.org.

Please note: These Questions and Answers are provided to assist applicants in understanding the auction process and the corresponding requirements. However, all the information needed to participate in a CO₂ allowance auction can be found in the current Auction Notice. **Please review the Auction Notice carefully before completing the Intent to Bid or Qualification Application forms.**

II. General Application Process

Questions and answers provided in this section relate to the process and procedures to become qualified and approved to participate in a CO₂ allowance auction.

1. *Who is eligible to participate in a CO₂ allowance auction?*

At this time, all parties are eligible to participate in CO₂ allowance auctions including but not limited to corporations, individuals, non-profit corporations, environmental organizations, brokers, and other interested parties.

2. *Can a firm incorporated outside the U.S. qualify to participate and bid in CO₂ allowance auctions? More specifically, are there any additional special requirements for a foreign firm to participate?*

There are no special requirements for a foreign firm to participate in CO₂ allowance auctions. An applicant that does not have a United States Federal Tax ID should enter “Not Applicable” or “N/A” in the appropriate field of the Qualification Application.

3. *Will the Maryland CO₂ purchase/sale agreement included in the Auction Notice be used for anything?*

No. The purchase and sales agreement attached to the Auction Notice is only included to satisfy a Maryland regulatory requirement. Bidders awarded CO₂ allowances in each auction (i.e. successful bidders) will not be required to execute this agreement.

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

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

5. *Do qualified applicants from previous CO₂ allowance auctions need to re-submit all of the Qualification Application or does some of the information carry over to future auctions?*

An applicant that has been qualified for a previous CO₂ allowance auction and has no material change to the information previously submitted in its Qualification Application is not

required to submit a new Qualification Application. In order to participate in future auctions, a previously qualified applicant with no material change to its Qualification Application must:

- a. Complete and submit the Intent to Bid; and
- b. Meet the financial security requirements.

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

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

6. *How will previously disclosed corporate and bidding associations be applied in upcoming auctions featuring two separate allowance offerings? When is a new Qualification Application required?*

Previously disclosed corporate and bidding associations will be carried forward and applied to the offerings for which the applicant intends to bid (current control period, future control period, or both). If previously disclosed corporate and bidding associations have changed, a previously qualified applicant must complete and submit a new Qualification Application.

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

Any changes to the Auction Schedule or auction documents for a CO₂ allowance auction(s) will be posted on the auction website. In addition, the Primary (and Secondary, if applicable) Authorized Auction Representative will both receive all communications regarding the Qualification Application, the Intent to Bid, all notices and documentation, and any other information related to a CO₂ allowance auction(s) including changes to the auction schedule. The principal mode of communication with Authorized Auction Representatives is via email.

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

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

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

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

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

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

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

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

III. Qualification Application

Questions and answers provided in this section relate to the Qualification Application that must be submitted and approved to participate in CO₂ allowance auctions.

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

Each of the states offering CO₂ allowances for sale in a CO₂ allowance auction will review each Qualification Application, Intent to Bid, and financial security for compliance with its own rules and/or requirements. The Participating States have developed a cooperative review process and a single set of criteria based on the requirements set forth in the Auction Notice. In order to qualify to participate in CO₂ allowance auctions, an applicant's Qualification Application must be approved by all Participating States.

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

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

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

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

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

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

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

The Participating States, through RGGI, Inc. release a Market Monitor Report shortly after each CO₂ allowance auction. The report includes aggregate information about the auction including the dispersion of projected demand, the dispersion of bids, and a summary of bid prices, showing the minimum, maximum, average and clearing price and the allowances awarded. The Market Monitor Report can be found at http://www.rggi.org/co2-auctions/market_monitor. All inquiries should be directed to RGGI, Inc.

6. Who receives communications from the Auction Manager?

The Primary (and Secondary, if applicable) Authorized Auction Representative will both receive all communications regarding the Qualification Application, the Intent to Bid, all notices and documentation, and any other information related to a CO₂ allowance auction(s). The principal mode of communication will be via email.

IV. Intent To Bid Form

Questions and answers provided in this section relate to the Intent to Bid that must be submitted to participate in a specific CO₂ allowance auction.

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

Yes.

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

No. An applicant is never obligated to submit a bid or otherwise participate in a CO₂ allowance auction.

V. Disclosable Association

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

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

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

2. Does an applicant that is an energy manager for several firms (asset owners) in the Participating States, need to declare associations with each of these firms or only those for which it will be purchasing CO₂ allowances?

An applicant must disclose in its qualification application the bidding association with any party (including an asset owner) for whom the applicant will be purchasing CO₂ allowances in an auction. An applicant may report a future disclosable bidding association now or

submit this information as a material change in a new Qualification Application prior to the auction for which the bidding association applies.

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

If an applicant continues or initiates negotiations, discussions, or communications related to a CO₂ allowance auction with any other applicant or party, in a manner that would materially affect the disclosures made by the applicant in its Qualification Application, with the exception of any communications related to any remediation activities initiated by the RGGI CO₂ Budget Trading Programs Auction Manager, it must re-file a Qualification Application disclosing the new information. Such applicant may not participate in any CO₂ allowance auction without re-filing a Qualification Application with the RGGI CO₂ Budget Trading Programs Auction Manager prior to the filing deadline.

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

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

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

Only Company C, Company D, and Company E intend on participating in the upcoming CO₂ Allowance Auction. Therefore, the relevant disclosable corporate associations are as follows.

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

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

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

Consider Company W, Company X, Company Y, and Company Z. All of these companies intend on participating in the upcoming CO₂ Allowance Auction and have disclosable corporate associations that result in the following bid limitations.

- Company W and Company X have a disclosable corporate association. These companies have agreed to bid limitations of 15% for Company W and 10% for Company X.
- Company X and Company Y have a disclosable corporate association. These companies have agreed to bid limitations of 10% for Company X and 15% for Company Y.
- Company Z does not have any disclosable corporate associations.

Company W has a signed agreement with Company Z to buy 1 million of the CO₂ allowances that Company Z may be awarded from the auction. This bidding association must be disclosed on both Company W's and Company Z's Qualification Applications. Company W's bid limitation is reduced by 1 million CO₂ allowances. Therefore, the final quantity of CO₂ allowance bid limitation for each bidder in the example, assuming the total number of CO₂ allowances offered for sale is "N" is as follows.

- Company W: $(N * .15) - 1$ million
- Company X: $(N * .10)$
- Company Y: $(N * .15)$
- Company Z: $(N * .25)$

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

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

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

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

8. *If I wish to participate in an auction that offers current and future allocation year CO₂ allowances for sale, am I required to bid on both allocation year CO₂ allowances?*

No. As required on the Intent to Bid form, an applicant wishing to participate in any auction must indicate that it wishes to bid on current allocation year CO₂ allowances only, future allocation year CO₂ allowances only, or both current and future allocation year CO₂ allowances.

VI. Financial Security

Questions and answers provided in this section relate to the financial security that must be submitted and approved to participate in a CO₂ allowance auction.

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

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

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

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

3. *Can a third party entity post financial collateral for an applicant? If so, does the applicant or the party posting financial security receive awarded CO₂ allowances?*

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

VII. Auction Format

Questions and answers provided in this section relate to the auction format and procedures to be utilized in a CO₂ allowance auction.

1. *Is there a bid price ceiling?*

No, there is no bid price ceiling.

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

No preference will be given to any bidder.

3. What if the total number of CO₂ allowances does not divide evenly into lots of 1,000?

All bids must be submitted in multiples of 1,000 CO₂ allowances. There is no way to submit bids for partial lots.

4. Is the bid price for an individual CO₂ allowance or for a lot of 1,000 allowances (e.g., is a bid at the reserve price \$1.86 or \$1,860.00)?

A bid price on the Auction Platform is to be entered for a single CO₂ allowance. The corresponding bid quantity must be submitted as a multiple of 1,000 CO₂ allowances.

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

No. CO₂ allowance auctions use a sealed bid auction format.

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

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

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

RGGI Inc., through The Bank of New York Mellon, provides financial settlement services on behalf of the Participating States offering CO₂ allowances for sale.

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

RGGI, Inc. will post the auction clearing price of each auction on the homepage of the RGGI website at <http://www.rggi.org> at 10:00 AM ET¹ on the second business day following that auction. For example, for an auction held on Wednesday, March 10, 2010 the clearing price will be posted at 10:00 AM ET on Friday, March 12, 2010. The release of the clearing price through the RGGI website is intended to ensure that all interested parties are provided market information at the same time, to the greatest extent possible.

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

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

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

VIII. RGGI CO₂ Allowance Tracking System

Questions and answers provided in this section relate to the RGGI CO₂ Allowance Tracking System (RGGI COATS).

1. *What is the difference between a RGGI COATS “General” account and a “Compliance” account?*

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

A compliance account is associated with an electric generation facility regulated under a state CO₂ Budget Trading Program (a “CO₂ budget source”). 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.

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

2. *Can CO₂ allowances be sold and transferred to other parties?*

Yes. CO₂ allowances may be sold to other parties. Transfer of CO₂ allowances occurs in the RGGI COATS (see <http://www.rggi-coats.org>). Note, however, that there may be special conditions associated with certain CO₂ allowances issued by a specific state that are not auctioned, but are distributed under individual state set-aside programs. Please refer to each state’s implementing regulation for any specific limitations that apply to certain CO₂ allowances issued by a specific state.

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

Only one Authorized Account Representative (AAR) and one Alternate Authorized Account Representative (AAAR) may be designated per account. Any person can hold more than one general account. An owner or operator of more than one CO₂ budget source will have a single compliance account for each CO₂ budget source, and it is the owner’s choice whether the AARs or AAARs for those compliance accounts are the same or different persons.

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

Yes, an AAR can be any individual. For a compliance account, an AAR must certify that he/she was selected as the AAR by an agreement binding on the owners and operators of a CO₂ budget source. For a general account, the AAR must certify that he/she was selected as the AAR by an agreement that is binding on all parties that have an ownership interest with respect to the CO₂ allowances in the account.

5. Can CO₂ allowances be held in an account indefinitely?

Yes, CO₂ allowances can be held indefinitely.

6. The “General Information” form of the Qualification Application requires the identity of the applicant to be disclosed. Does the owner of multiple electric generation sources have the flexibility to determine whether or not to “register” CO₂ budget sources on an individual basis or on a portfolio level (i.e. by submitting an application on behalf of a holding company or limited liability company (LLC))?

An owner of multiple electric generation sources has the flexibility to submit applications for CO₂ budget sources on an individual basis and/or at the holding company level.

7. Can general accounts retire CO₂ allowances? If so, will there be reports available to show the retirements?

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

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

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

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

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

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

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

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

For a RGGI COATS general account, it is required to list all persons, firms or entities subject to a binding agreement for the AAR or any AAAR to represent their ownership interest with respect to the CO₂ allowances held in the general account.

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

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

IX. RGGI, Inc.

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

1. *What is the nature of RGGI, Inc. and its role in the state CO₂ Budget Trading Programs?*

Regional Greenhouse Gas Initiative, Inc. (“RGGI, Inc.”) is a non-profit incorporated in Delaware and based in New York, created to provide technical and administrative services to Participating States in the development and implementation of the state CO₂ Budget Trading Programs. RGGI, Inc. receives funding from the Participating States and is required to file annual financial reports according to state and federal requirements. RGGI, Inc. is governed by a Board of Directors comprised of the Agency Heads of energy and environmental agencies from each Participating State. All actions or decisions regarding finances and business operations of RGGI Inc., including all monetary transactions, are controlled by the Board of Directors. Information on the current Board of Directors is available at: <http://www.rggi.org/rggi/board>. In addition, RGGI, Inc.’s Articles of Incorporation and Corporation By-Laws are available at: <http://www.rggi.org/rggi/legal>.

RGGI, Inc. has been retained and funded by each of the Participating States to provide technical and administrative services in the development and implementation of state CO₂ Budget Trading Programs. Any bid submitted into the Auction Platform, and not canceled prior to the close of the auction, is deemed a binding offer to purchase CO₂ allowances from each of the Participating States. The award of CO₂ allowances by each of the Participating States is deemed an acceptance of the offer. The controlling terms of the transaction are stated in the Auction Notice, the Qualification Application, and the Intent to Bid. The combination of offer, acceptance, payment, and terms constitute the contract between the applicant and each of the Participating States.

RGGI, Inc. acts as agent for the Participating States for the purpose of financial settlement. Financial security is deposited into an account at The Bank of New York Mellon under the title “RGGI, Inc. as agent for the Signatory States of the Regional Greenhouse Gas Initiative” and will be held in that account subject to the terms in the Auction Notice issued by the Participating States. Following financial settlement of each auction, excess financial security will be returned to bidders and the remainder of financial security will be transferred to the states offering CO₂ allowances for sale as payment for the CO₂ allowances purchased.

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

X. Other

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

1. Can companies offer CO₂ allowances or other kinds of credits through a RGGI CO₂ allowance auction?

No. Only the Participating States may offer CO₂ allowances for sale at a RGGI CO₂ allowance auction.

2. Are the CO₂ allowances issued by each of the Participating States fungible? Can CO₂ allowances from any Participating State be used in any Participating State to meet compliance obligations?

Yes. Any CO₂ allowance issued by a Participating State may be used to meet compliance obligations in any of the Participating States' CO₂ Budget Trading Programs.

3. Can any CO₂ allowance from the first compliance period (2009, 2010, or 2011) be used to meet obligations throughout the first compliance period?

As indicated in each of the Participating States regulations any CO₂ allowance from the first compliance period (2009 – 2011) may be used to meet compliance obligations during that time period or may be banked to meet future compliance obligations. CO₂ allowances from future compliance periods cannot be used to meet current compliance obligations.

4. What is the schedule for future auctions?

A schedule of upcoming auctions is located at http://www.rggi.org/co2-auctions/upcoming_auctions.

5. When bidders purchase one lot of CO₂ allowances, it includes CO₂ allowances from all Participating States. How does this work?

CO₂ allowances will be sold in multiples of 1,000. Each lot of 1,000 CO₂ allowances will consist of CO₂ allowances from all of the Participating States offering CO₂ allowances for sale in that auction.

6. Please define “Financial or Investment Institution”.

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

7. Please explain the meaning of “non-responsible”.

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

8. What is the definition of a compliance entity?

A compliance entity is an owner or operator of a facility that is a CO₂ budget source pursuant to state regulation in one or more of the Participating States.