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States Conduct First-in-the-Nation Auction of Carbon Dioxide Emission Allowances

(New York, NY)—At a bell-ringing ceremony held today at the New York Mercantile Exchange in lower Manhattan, the Regional Greenhouse Gas Initiative (RGGI) marked the opening of the first-in-the-nation auction for carbon dioxide emission allowances. The ceremony, which was attended by Governor David A. Paterson of New York and Governor Jon S. Corzine of New Jersey, Ian A. Bowles, Secretary for Massachusetts Executive Office of Energy and Environmental Affairs, Laurie Burt, Commissioner, Massachusetts Department of Environmental Protection, Robert Calendar, Vice President of the New York State Energy Research and Development Authority, Phil Giudice, Commissioner of Massachusetts Division of Energy Resources, Lisa Jackson, Commissioner, New Jersey Department of Environmental Protection, and Shari Wilson, Secretary, Maryland Department of Environmental Protection, served to mark the most serious effort yet in the United States to address climate change.

RGGI will reduce carbon dioxide (CO₂) emissions through a mandatory, market-based cap-and-trade program. Under RGGI, the ten participating states will stabilize power sector carbon emissions at their capped level, and then reduce the cap by 10 percent at a rate of 2.5 percent each year between 2015 and 2018. As promised in the 2005 RGGI Memorandum of Understanding, all participating states plan to have implementing regulations in place by January 1, 2009.

“Today marks the culmination of more than five years of research, design and development of the nation’s first carbon market,” said Jonathan Schrag, Executive Director of the Regional Greenhouse Gas Initiative, Inc. “It is fitting that our event took place on the shores of the river that Henry Hudson explored nearly 400 years ago. As with Hudson’s exploration then, these pioneering states are leading the way forward on the new, clean-energy economy that others will surely follow.”

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CO₂ allowances under RGGI will be distributed primarily via auctions rather than the free allocation methodology used in other emissions markets. By using an auction, participating states are able to provide benefits to consumers.

Revenues from the carbon allowance auctions will be invested by the participating states in energy efficiency programs, renewable energy stimulus efforts and other programs to benefit consumers. As a result, RGGI will deliver economic and environmental benefits and improve energy security through reduced use of fossil fuels.

The RGGI auction held today offered 12,565,387 allowances, including CO₂ allowances issued by Connecticut, Maine, Maryland, Massachusetts, Rhode Island and Vermont. The CO₂ allowances purchased at this auction can be used by a regulated facility for compliance in any of the RGGI states, even if that state did not offer allowances in this auction.

Other RGGI participating states will offer allowances for sale in future auctions as they complete their necessary rulemaking proceedings. A second auction is scheduled for December 2008, with all RGGI participating states expected to offer allowances for sale in the first 2009 auction. Future sales of CO₂ allowances are planned through a steady offering of allowances in quarterly auctions. States have committed to offer for sale before the end of 2011 all of the allowances they are putting into the auctions for the first three-year compliance period. Regulated power companies must hold enough allowances to match their CO₂ emissions for the first compliance period by March 1, 2012.

Auctions are proven market tools, and the RGGI auction design is based on a rigorous design study and stakeholder input. RGGI's open auctions will establish a transparent cost for allowances and incorporate an accounting of CO₂ emissions into the electricity markets in the region. Since electric generators factor the cost of allowances into power prices whether the allowances are distributed free or for a charge, the ratepayer benefits when allowances are auctioned and the revenue invested on their behalf to reduce energy demand. By distributing allowances through auction, RGGI improves upon the established European Union carbon market, which faced problems with the free allocation of carbon allowances.

RGGI has spurred action elsewhere. Seven western U.S. states and several Canadian provinces have embarked on the Western Climate Initiative, a cap-and-trade system to be implemented by 2012. Florida is also studying a cap-and-trade system, as are several Midwest states. The European Union has recently indicated it wants member nations to shift the European carbon cap-and-trade program to an auction-based format.

"Today's auction is a testament to the hard work of the states," continued Schrag. "They made a commitment in 2005 to have a program up and running by 2009 and with this first auction and the additional pre-compliance auction in December they have greatly exceeded expectations."

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The RGGI states have retained a professional independent market monitor, Potomac Economics, to oversee auctions and subsequent market activity. The monitor will observe the conduct of the auction qualification process as well as the auction itself, and will report on whether the auction was conducted in accordance with the participating states' regulations and the noticed auction procedures and whether the auction results represented a competitive outcome.

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.

For more information about RGGI and the individual CO₂ Budget Trading Programs, please visit www.rggi.org .

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