REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Financial Statements for the year ended December 31, 2008
Independent Auditors' Report

To the Board of Directors of the
Regional Greenhouse Gas Initiative, Inc.

We have audited the accompanying statement of financial position of the Regional Greenhouse Gas Initiative, Inc. (the "Corporation") as of December 31, 2008 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Greenhouse Gas Initiative, Inc. at December 31, 2008 and the results of its activities, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Condron O'Meara McGinty & Donnelly LLP

June 2, 2009
REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Financial Position
December 31, 2008

Assets

Current assets

Cash $422,569
State receivables 524,053
Prepaid expense and other 16,680
Total current assets 963,302

Cash held by the Corporation as agent 153,603,780

Total assets $154,567,082

Current Liabilities and Unrestricted Net Assets

Current liabilities

Accounts payable $183,248
Accrued expenses 174,306
Auction proceeds payable to states 62,336,329
Auction deposits returnable to bidders 91,261,125
Deferred state revenues 449,268
Grant advance – NYSERDA 142,666

Total current liabilities 154,546,942

Unrestricted net assets 20,140

Total current liabilities and unrestricted net assets $154,567,082

See notes to financial statements.
REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Activities
For the Year Ended December 31, 2008

Revenues
New York State Energy Research and Development Authority $ 608,100
State revenues 910,655
Interest 20,140
Total revenues 1,538,895

Expenses
Program services
   Direct 910,655
   Other 349,499
Management and general 258,601
Total expenses 1,518,755

Increase in unrestricted net assets 20,140

Unrestricted net assets, beginning of year -
Unrestricted net assets, end of year $ 20,140

See notes to financial statements.
REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2008

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Program Services</th>
<th>Management and General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Auctions</td>
<td>$ 390,000</td>
<td>-</td>
<td>$ 390,000</td>
</tr>
<tr>
<td>Emissions Allowance Tracking System</td>
<td>232,593</td>
<td>-</td>
<td>232,593</td>
</tr>
<tr>
<td>Legal fees</td>
<td>-</td>
<td>151,218</td>
<td>37,804</td>
</tr>
<tr>
<td>Market monitoring</td>
<td>184,662</td>
<td>-</td>
<td>184,662</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>-</td>
<td>73,670</td>
<td>31,573</td>
</tr>
<tr>
<td>Offsets monitoring</td>
<td>103,400</td>
<td>-</td>
<td>103,400</td>
</tr>
<tr>
<td>Outreach and communications</td>
<td>-</td>
<td>60,638</td>
<td>60,638</td>
</tr>
<tr>
<td>IT/Web design and consulting fees</td>
<td>-</td>
<td>39,862</td>
<td>17,083</td>
</tr>
<tr>
<td>Occupancy</td>
<td>-</td>
<td>-</td>
<td>44,382</td>
</tr>
<tr>
<td>Audit</td>
<td>-</td>
<td>-</td>
<td>37,535</td>
</tr>
<tr>
<td>Payroll taxes and employees’ benefits</td>
<td>-</td>
<td>17,584</td>
<td>7,536</td>
</tr>
<tr>
<td>Financial and accounting services</td>
<td>-</td>
<td>-</td>
<td>23,520</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>-</td>
<td>-</td>
<td>19,893</td>
</tr>
<tr>
<td>Meetings</td>
<td>-</td>
<td>-</td>
<td>15,931</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>-</td>
<td>15,786</td>
</tr>
<tr>
<td>Telephone, internet and service contracts</td>
<td>-</td>
<td>4,157</td>
<td>1,782</td>
</tr>
<tr>
<td>Travel</td>
<td>-</td>
<td>2,370</td>
<td>1,015</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>2,649</td>
</tr>
<tr>
<td>Office supplies</td>
<td>-</td>
<td>-</td>
<td>2,112</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$ 910,655</strong></td>
<td><strong>$ 349,499</strong></td>
<td><strong>$ 258,601</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>$1,518,755</strong></td>
</tr>
</tbody>
</table>

See notes to financial statements.
REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Statement of Cash Flows
For the Year Ended December 31, 2008

Cash flows from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in unrestricted net assets</td>
<td>$ 20,140</td>
</tr>
<tr>
<td>Adjustment to reconcile increase in unrestricted net assets to net cash provided by operating activities</td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in current assets</td>
<td></td>
</tr>
<tr>
<td>State receivables</td>
<td>(524,053)</td>
</tr>
<tr>
<td>Prepaid expense and other</td>
<td>10,114</td>
</tr>
<tr>
<td>Increase (decrease) in current liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>183,248</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>174,306</td>
</tr>
<tr>
<td>Auction proceeds payable to states</td>
<td>62,336,329</td>
</tr>
<tr>
<td>Auction deposits returnable to bidders</td>
<td>91,261,125</td>
</tr>
<tr>
<td>Deferred state revenues</td>
<td>449,268</td>
</tr>
<tr>
<td>Grant advance – NYSERDA</td>
<td>(142,068)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>153,768,409</td>
</tr>
</tbody>
</table>

Cash, beginning of year                                       | $257,940 |
Cash, end of year                                              | $154,026,349|

Consists of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 422,569</td>
</tr>
<tr>
<td>Cash held by the Corporation as agent</td>
<td>153,603,780</td>
</tr>
<tr>
<td>Total</td>
<td>$154,026,349</td>
</tr>
</tbody>
</table>

See notes to financial statements.
Note 1 – Nature of organization

Regional Greenhouse Gas Initiative, Inc. (the “Corporation”) is a non-profit, non-stock, corporation with no members established pursuant to a Memorandum of Understanding (the “MOU”) entered into by a number of U.S. states. The current signatories to the MOU are Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont, (the “Signatory States”). The exclusive purposes for which the Corporation is formed are to provide technical and scientific advisory services to the Signatory States in the development and implementation of a multi-state cap and trade, greenhouse gas control program, known as the Regional Greenhouse Gas Initiative (“RGGI”) (or its successor), to reduce air pollutants that contribute to climate change, and to perform any other charitable or scientific function related to the reduction of greenhouse gas emissions or the increase in carbon sequestration at the request of the Signatory States. The Internal Revenue Service has determined that the Corporation is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code (“IRC”) and is not a private foundation pursuant to Section 509 (a) (1) of the IRC. Contributions to the Corporation are deductible pursuant to Section 170 of the IRC.

The Corporation is governed by a Board of Directors, made up of two agency heads from each Signatory State who serve as directors of the Corporation ex officio. As provided in the By-laws of the Corporation, the directors serving ex officio are as follows: (1) the chair, or the commissioner designated by the chair, of the Signatory State’s energy regulatory agency; (2) the chief executive of the Signatory State’s environmental regulatory agency or department; or (3) in the event that the Governor of a Signatory State determines that a state official other than the aforementioned individuals is the appropriate representative to act as a director, the Governor of that Signatory State must notify the Chair of the Corporation in writing and such other official shall be a director from that Signatory State.

The Signatory States provide funds for the Corporation’s activities. Each Signatory State has entered into a contract with the Corporation, which establishes, among other things, the amount to be contributed by that Signatory State to the Corporation for its services and the specific technical and advisory services to be provided by the Corporation to or on behalf of that Signatory State.

The technical and scientific advisory services to be provided to the Signatory States generally include the development and implementation of (1) a regional system for tracking emissions and emissions allowances, to support emissions inventory management, allowance trading, compliance and program analysis and user security; (2) model offsets consistency applications and model offsets monitoring and verification submittal forms; (3) guidance for offset projects and an accreditation process for independent verifiers of offset projects; (4) a tracking system for offset project submittals, approvals and supporting documentation; (5) a regional allowance auction platform, including pre-auction services, conduct of the auction, and post-auction services; and (6) monitoring and auditing services for both allowance auctions and the secondary allowance market. The Corporation is authorized to subcontract with outside vendors to fulfill its duties under its contracts with Signatory States.
Note 1 – Nature of organization (continued)

The Corporation assists with regional allowance auctions (of which three have been conducted to date of our report) in a number of ways. In particular, the Corporation provides financial settlement services on behalf of the Signatory States offering emissions allowances at each auction. Financial security from auction participants is deposited into an account currently maintained at Bank of New York Mellon under the title “RGGI, Inc. as agent for the Signatory States of the Regional Greenhouse Gas Initiative” and is held in that account subject to the terms in the auction notice issued by the Signatory States offering emissions allowances. At the conclusion of each auction, the Corporation arranges for the transfer of funds in appropriate amounts to the Signatory States in payment for the emissions allowances purchased at that auction, and excess funds are returned to auction participants. The Corporation’s receipt and management of these funds is solely as agent for the Signatory States. The Corporation has no legal right to retain any portion of these funds or to transfer them to its own account. The interest earned, if any, will be used to defray the cost of future auctions.

The Corporation is a technical assistance organization only. It has no regulatory or enforcement authority with respect to any existing or future program of any Signatory State. All such sovereign authority is reserved to each Signatory State.

Note 2 – Summary of significant accounting policies

Basis of presentation

The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The following comprise the significant accounting policies of the Corporation.

Net assets

Under accounting principles generally accepted in the United States of America, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets consist of amounts that can be spent at the discretion of the Board of Directors. Temporarily restricted net assets consist of contributions that are restricted by the donor for a specific purpose or relate to future periods. Permanently restricted net assets consist of contributions that are restricted by the donor in perpetuity. The Corporation did not receive any temporarily or permanently restricted contributions during 2008.
REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Notes to Financial Statements (continued)
December 31, 2008

Note 2 – Summary of significant accounting policies (continued)

Allocation of expenses

The cost of providing the various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services. Program services are divided into two categories:

Direct program services

These are expenses incurred by the Corporation for direct costs related to the four main functions of the Corporation: auctions, emissions allowance tracking systems, market monitoring and offsets that are paid to outside contractors.

Other program services

These are expenses incurred by the Corporation for direct costs relating to the four main functions of the Corporation: auctions, emissions allowance tracking system, market monitoring and offsets that are incurred by the Corporation’s staff and legal counsel.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Concentration of credit risk

The Corporation’s financial instruments that are potentially exposed to concentrations of credit risk consist of cash and receivables. The Corporation places its cash and cash held by the Corporation as agent with what it believes to be quality financial institutions. The Corporation, through its banks, participates in either the transaction account guarantee program whereby funds maintained in its non-interest bearing transaction accounts in the United States are fully guaranteed by the FDIC through December 31, 2009 or collateralized state and municipal classified accounts to minimize any potential risk to its cash held as agent. The receivables consist of amounts due from the Signatory States. The Corporation believes no significant risk of loss is likely as a result of credit risk concentrations with respect to its cash and receivables.

Note 3 – Funding

The Corporation is funded by contributions from the ten (10) Signatory States’ of proportionate shares of the cost of the annual budget as approved by the Corporation’s Board of Directors. Each Signatory State has two seats on the Corporation’s Board of Directors, and these board members are usually selected from the directors of a State’s public utilities commission, environmental protection agency, or energy department, as described in note 1.
Note 3 – Funding (continued)

The total contributed by all Signatory States during 2008 was $910,655. As of December 31, 2008, several states owed $524,053, which is shown as state receivables on the Statement of Financial Position. In addition, several other states paid an aggregate of $449,268 in advance for proportional funding costs, which are shown as deferred state revenues on the Statement of Financial Position.

During December 2007, the Corporation signed a grant agreement ("Grant Agreement") with the New York State Energy Research and Development Authority ("NYSERDA") funding all of the start-up costs for the Corporation up to $3,000,000 over the first 18 months in consideration for the Corporation placing its corporate headquarters in New York State. In May 2008, the Corporation signed a five (5) year office space license agreement with the New York State Office of General Services for its headquarters in New York City, NY and has incurred $44,382 in occupancy costs and related charges for 2008.

Under the Grant Agreement, start-up costs include all staff and operating costs incurred in the 18-months from November 1, 2007 to April 30, 2009. NYSERDA gave the Corporation an advance of $300,000 in December 2007 to begin paying its start-up expenses under the Grant Agreement. Through December 31, 2008, NYSERDA paid the Corporation $766,033 in connection with this Grant Agreement.

Note 4 – Auction Process

One of the main functions of the Corporation is to administer the entire auction process of carbon dioxide (CO₂) allowances for the participating states. The Corporation administered two (2) auctions during 2008.

Each CO₂ allowance auction is conducted in accordance with the statutory and/or regulatory authority of each Signatory State offering CO₂ allowances for sale in that auction. These uniform price sealed quarterly auctions are designed to prevent price collusion by the bidders and are monitored by an independent third party vendor (see note 6).

Each state’s number of allowances is specified in the statutes and/or regulations authorizing its CO₂ allowance budget. Allowances of any participating state are recognized by each of the participating states even if that particular state is not participating in the auction.

Note 5 – Retirement Plan

The Corporation maintains a 403(b) plan whereby eligible employees may elect to defer contributions from their salary up to the limits established by the Internal Revenue Code. The Corporation will contribute up to 10% of an employee’s annual compensation. Employees are vested in the Corporation matching contribution after eighteen months of employment. The Corporation’s cost for the year ended December 31, 2008 totaled $10,083.
REGIONAL GREENHOUSE GAS INITIATIVE, INC.

Notes to Financial Statements (continued)
December 31, 2008

Note 6 – Commitments and Contingencies

The Corporation receives funding under contracts and agreements from Signatory States and NYSERDA. Payments received under these arrangements are subject to audit by each Signatory State. Upon audit, if discrepancies are discovered, the Corporation could be held responsible for reimbursing the amount in question. As of the date of this report, no audit has been requested by any of the Signatory States.

The auction platform was created and is monitored by an unrelated independent contractor who is responsible for the integrity of the process. In addition, this independent contractor is responsible for verifying the collateral issued by the underlying institution for each bid made by an auction bidder.

In addition, the Corporation has an agreement with an independent contractor to serve as the market monitor for the RGGI CO$_2$ allowance market. This independent contractor monitors the conduct of the market participants in both the primary auctions and the secondary market to identify indications of market manipulation or collusion. It also reviews the administration of the auctions performed by the independent contractor referred to in the preceding paragraph above.

At December 31, 2008, the Corporation, as agent for the Signatory States, held $153,603,780 in an agency account, which represented auction deposits from bidders. The related auction proceeds and unused deposits payable to the Signatory States and to auction bidders were disbursed in full to the appropriate parties during January 2009 in accordance with contractual guidelines.

The Corporation’s receipt and management of these funds was and is solely as agent for the Signatory States. The Corporation had and has no legal right to retain any portion of these funds or to transfer them to its own account.

Effective May 1, 2008, the Corporation has a five-year space license agreement with the New York State Office of General Services for space in common with the New York State Department of Public Service (DPS) for conducting its programs. The license may be renewed at the option of the Corporation for the period May 1, 2013 to December 31, 2015. However, the Corporation’s ability to extend its license is predicated on DPS’ ability to exercise its right of renewal under its lease.

During the license period, the Corporation is permitted to use the furniture, electronic, and computer equipment in the licensed space; therefore, the Corporation’s Statement of Financial Position has no capitalized fixed assets. The use of some of this equipment is subject to an additional monthly charge.

The Corporation has not accounted for this licensed space expense using the straight-line method because the difference between the amortized and paid amounts would be immaterial.
Note 6 – Commitments and Contingencies (continued)

Future minimum payments under the license agreement are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$ 52,164</td>
</tr>
<tr>
<td>2010</td>
<td>52,164</td>
</tr>
<tr>
<td>2011</td>
<td>49,443</td>
</tr>
<tr>
<td>2012</td>
<td>49,443</td>
</tr>
<tr>
<td>2013</td>
<td>16,481</td>
</tr>
</tbody>
</table>

Total | $ 219,695 |

Note 7 – Recent accounting pronouncement

The Financial Accounting Standards Board (FASB) has issued FASB interpretation No. 48 (FIN-48) “Accounting for Uncertainty in Income Taxes”. The implementation of FIN-48 has been deferred for a one-year period for nonprofit organizations by FASB staff position FIN 48-3. The deferred effective date is intended to give the FASB additional time to develop guidance on the application of FIN-48 by non-profit organizations.