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## Regional Greenhouse Gas Initiative Auction Announced

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**THE REGIONAL GREENHOUSE GAS INITIATIVE (RGGI)** participating states have banded together and have selected World Energy Resources, Inc. to conduct auctions of RGGI carbon allowances. The first auction will take place on September 10, 2008, and auctions will occur approximately quarterly thereafter.

RGGI is a program of ten Northeast and Mid-Atlantic states that will require power generating facilities to obtain a RGGI allowance for each ton of carbon emitted. The participating states could have allocated a significant portion of the RGGI allowances to affected sources free of charge, but instead have decided to auction all available allowances.

The first auction is open to “all market participants,” which is not clearly defined, but under Massachusetts Department of Energy Resources Regulations at 225 C.M.R. 13.08, includes any power plant wherever located, as well as brokers, environmental groups and financial and investment institutions. Future auctions may limit participation if determined necessary by the participating states. Those wishing to participate in the auction must provide financial security to ensure follow through on any purchases.

Allowances will be made available in lot sizes of 1,000. No single bidder may acquire more than 25% of the allowances offered for sale in any one auction.

The initial auction will offer allowances through a single-round, uniform-price, sealed-bid auction format, but this system might change in future auctions. In this type of auction, participants make secret bids for allowances at the price they are willing to pay. Bidders can enter multiple bids for allowances at different prices. Winning bidders are determined by ranking the bidders from highest to lowest, determining the number of allowances represented at each bidding level, and then awarding allowances to the bidders from highest to lowest until all allowances available in that auction are awarded. The highest rejected bid is the price that all bidders pay. (Allocation of allowances won must also conform to the requirement that no bidder can win more than 25% of the allotment.)

For example, if 100 allowances are available, and the bidding is as follows:

Bidder	Quantity	Bid Price
Bidder 1	Bids for 10 allowances	At \$100.00
Bidder 2	Bids for 25 allowances	At \$20.00
Bidder 3	Bids for 10 allowances	At \$10.00
Bidder 1	Bids for 15 allowances	At \$6.00
Bidder 3	Bids for 15 allowances	At \$5.00
Bidder 4	Bids for 15 allowances	At \$5.00
Bidder 5	Bids for 25 allowances	At \$4.00
Bidder 4	Bids for 10 allowances	At \$3.00
Bidder 6	Bids for 25 allowances	At \$3.00

Bidders 1, 2 and 3 would each receive 25 allowances at \$4.00, Bidder 4 would receive 15 allowances at \$4.00, Bidder 5 would receive 10 allowances at \$4.00 and Bidder 6 would receive no allowances.

All successful bidders would pay \$4.00 per allowance, the bid price of the highest rejected bid.



A reserved price of \$1.86 per allowance will be applied to the first auction. (This was set as 80% of what modeling showed to be expected allowance prices.) That reserve price could be changed going forward utilizing a market based price, but will not be reduced.

If allowances offered in a particular auction are not sold, they will be made available in a future auction, if certain limitations are met (that is, if a market-based reserve price formula is being utilized).

Proceeds from the auction of these allowances are likely to be substantial (there will be approximately 188 million allowances available each year) and the resulting funds will be under the control of each of the states. The states are under an obligation to utilize some proportion of the funds for “public benefits,” and most states have earmarked substantial portions of these funds for support of renewable energy projects, energy efficiency and other similar activities.

**For further information**

on the particulars of the auction, visit the RGGI website at: <http://www.rggi.org>.

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## **BROWN RUDNICK'S CLIMATE AND ENERGY**

**GROUP** is an interdisciplinary team of attorneys and professionals who are actively involved in matters relating to renewable energy project development and finance, emissions reduction schemes (e.g. NO<sub>x</sub>, SO<sub>2</sub>, RECs, RGGI, EU-ETS and Kyoto Protocol) and alternative energy sources.

Our 200 attorneys provide assistance across key areas of the law, including climate and energy, bankruptcy and finance, corporate and securities, complex litigation and arbitration, intellectual property, real estate, and government law and strategies.

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