

# **Attachment A: Detailed Auction Requirements and Instructions**

## **Auction Notice California Cap-and Trade Program and Québec Cap-and-Trade System Joint Auction of Greenhouse Gas Allowances**

Assembly Bill 32 (AB 32) requires California to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020. The California Scoping Plan and the subsequent Scoping Plan Update approved in 2014 lay out the steps to reduce California's GHG emissions by 2020, and maintain and continue those reductions beyond 2020. The Cap-and-Trade Regulation (California Regulation) is a key element of California's Scoping Plan. The California Cap-and-Trade Program is administered by the California Air Resources Board (ARB).

Similarly, Québec's Environment Quality Act requires that the province of Québec reduce GHG emissions. The Government of Québec approved the 2013-2020 Climate Change Action Plan (2020 CCAP) as a measure to fight climate change in 2013 and beyond, and adopted the Regulation respecting a cap-and-trade system for greenhouse gas emission allowances (Québec Regulation). The Québec Cap-and-Trade System is administered by Québec's ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques<sup>1</sup> (MDDELCC).

On January 1, 2014, the California Cap-and-Trade Program and Québec Cap-and-Trade System officially linked, enabling the mutual acceptance of compliance instruments issued by each jurisdiction, and the jurisdictions to hold joint auctions of GHG allowances. As part of California's Cap-and-Trade Program and the Québec Cap-and-Trade System, ARB and MDDELCC will hold joint GHG allowance auctions to allow market participants to acquire GHG allowances.

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<sup>1</sup> Ministry of Sustainable Development, Environment and the Fight against Climate Change.

This document (Attachment A) includes the detailed requirements and instructions for participating in a joint auction. California covered entities, opt-in covered entities, and voluntarily associated entities (CA entities) and Québec emitters and participants (QC entities) will follow a similar process to apply to participate in a joint auction; however there are minor distinctions that are outlined in this Attachment A. If you are a CA registered entity, always refer to the California Regulation. If you are a QC registered entity, always refer to the Québec Regulation.

## **I. Eligibility**

All entities eligible to participate in an auction under the California Cap-and-Trade Program or Québec Cap-and-Trade System are eligible to participate in a joint auction. California covered entities, opt-in covered entities, and voluntarily associated entities (CA entities) are eligible to participate in a joint auction. Québec emitters and participants (QC entities) are eligible to participate in a joint auction.

## **II. Administrative Requirements to Participate in an Auction**

Outlined below are requirements that must be met before being able to access the Auction Platform to submit an entity's application or confirm an entity's intent to bid in an auction.

### **A. Compliance Instrument Tracking System Service (CITSS) Account**

Before applying to participate in an auction, an entity must have an approved account in CITSS. Individuals that are authorized to submit an application or confirm an intent to bid for the entity, and/or bid on behalf of the entity must be approved as either the Primary Account Representative (PAR) or an Alternate Account Representative (AAR) on that account. Only the approved PAR and AARs that were designated on the CITSS account at the close of the application period and are still a PAR or AAR at the time the auction is conducted are allowed to submit bids on behalf of an entity during an auction.

An entity interested in participating in the auction that has not already obtained approval of a CITSS account is strongly advised to complete the CITSS account application process immediately. To submit a CITSS account application, an entity must designate at least two (2) individuals as account representatives, a PAR and at least one AAR. An individual registered as a General Market Participant – Individual in California, or a Participant – Natural Person in Québec, is allowed to act as the PAR and AAR on his or her own account. All individuals designated as account representatives must be approved users in CITSS.

Accounts in CITSS must be approved by the jurisdiction Registrar and the “Auction Participation” box discussed below must be selected no later than one (1) day prior to the end of an auction application period, which would leave the entity one (1) day for representatives to activate Auction Platform accounts and complete an auction application in the Auction Platform.

CITSS can be accessed at <https://www.wci-citss.org> or from the jurisdiction and WCI, Inc. webpages.

### **1. Select the “Auction Participation” Box in CITSS**

A PAR or AAR from each entity must select the “Auction Participation” box in CITSS to indicate the entity’s interest in participating in upcoming auctions. By selecting this box, an entity representative agrees to have the entity name, general account number, entity contact information, representative names, representative phone numbers, and representative email addresses transferred to the Auction Administrator and Financial Services Administrator for the purpose of facilitating participation in any upcoming auction.

The “Auction Participation” box must be selected no later than one (1) day prior to the end of the application period for an auction an entity wishes to participate in and must remain selected throughout the auction until allowances are transferred and the auction is closed. Once selected, the “Auction Participation” box will remain selected allowing participation in all subsequent auctions unless deselected by a PAR or AAR.

The PAR or an AAR may deselect the "Auction Participation" box if the entity wishes to stop sharing its information with the Auction Administrator and Financial Services Administrator and no longer wishes to participate in any future auctions. While an entity may change this setting at any time in CITSS, this setting must be deselected prior to the start of an application period for an auction to avoid having its information sent to the Auction Administrator and Financial Services Administrator.

During an application period, the entity and representatives information is sent to the Auction Administrator and Financial Services Administrator daily to reflect any approved changes or updates.

If you need any additional information on selecting or deselecting the “Auction Participation” box, please refer to the CITSS User Guide, Volume 2, available from the jurisdictions’ webpages.

## **2. CITSS Representative and Entity Account Information**

If during an auction application period, an entity needs to add, remove, or change the current PAR or AARs or update the entity information, and has not already selected the “Auction Participation” box in CITSS, the changes should be approved by the jurisdiction Registrar prior to selecting the “Auction Participation” box. This ensures that the entity account information transmitted to the Auction Administrator and Financial Services Administrator is current and accurate.

To update account representatives in CITSS, the following steps should be followed:

- Enter changes as needed in CITSS.
- Complete and submit the required Request to Change Account Representatives / Account Viewing Agents Form provided through CITSS and available on the jurisdiction webpages.
- Approval by the jurisdiction Registrar should occur within ten (10) business days of receiving all required documentation.
- Following approval of all account representatives, ensure that the “Auction Participation” box is selected in CITSS.

If a material change occurs to an entity’s account information after an auction application period closes, it may limit the entity’s ability to participate in the auction or for a PAR or AAR to represent an entity in an auction. Prior to each auction, the appropriate jurisdiction will verify the current account representatives associated with each entity that has been approved to participate in the auction. If there has been a change in account representatives, only those representatives that have completed the Auction Platform account activation process, were associated with the entity at the close of the auction application period, and are active representatives on the entity’s CITSS account will be allowed to submit bids during the auction or download reports specific to the auction. Any representatives that have been removed from a CITSS account will not be allowed to submit bids on behalf of the entity they no longer represent. Any representatives that were not approved as a PAR or AAR on a CITSS account prior to the end of an auction application period will not be allowed to submit bids on behalf of the entity.

## **3. Participation by Related Entities or Entities with Direct Corporate Associations**

For purposes of this Attachment, the term “direct corporate associates” refers to all entities and individuals with a direct corporate association as defined in the California Regulation pursuant to section 95833(a) and related entities as defined in Article 9 of the Québec Regulation.

Entities registered in CITSS must disclose all direct and indirect corporate associations, as defined in section 95833(a) and as specified in section 95830 of the California Regulation or Article 9 of the Québec Regulation, including those direct and indirect corporate associations registered in a linked jurisdiction.

Direct corporate associates are entities that meet at least one of the indicia of control in section 95833(a)(2), (a)(3), or (a)(5) of the California Regulation or Article 9 of the Québec Regulation, meaning generally those with ownership or voting power exceeding 50 percent of the other entity, regardless of whether or not the related entity is registered in the California Cap-and-Trade Program or Québec Cap-and-Trade System. Indirect corporate associates would include those related entities meeting the indicia of control in section 95833(a)(4) of the California Regulation or Article 9 of the Québec Regulation, meaning generally those with a percent of ownership or control between 20 and 50 percent, but only applies to those entities which are also registered in either the California Cap-and-Trade Program or the Québec Cap-and-Trade System. Entities that have direct corporate associations with other registered entities, including those registered in a linked jurisdiction, must share purchase and holding limits and declare all such associations with the applicable jurisdiction. Providing incomplete or inaccurate information regarding corporate associations will cause an entity's auction application to be rejected. Guidance on recent amendments to California's regulatory provision on corporate associations, including revisions that went into effect on July 1, 2014, is available in the [Corporate Disclosures \(July 2014 Amendments\)](#) document available from ARB's CITSS webpage at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).

For entities registered under the California Regulation, the Regulation requires ARB to provide a consolidated set of accounts to entities that have a direct corporate association. The consolidated set of accounts is referred to as a Consolidated Entity Account (CEA). Only the entity that has an approved account in CITSS can apply to participate in an auction.

For entities registered under the California Regulation, direct corporate associates may choose to register for separate entity accounts in CITSS, with purchase and holding limits shared among members of the corporate association group. Entities that choose not be in a CEA are referred to in the California Regulation as entities who have chosen to "opt-out" of consolidation. Each direct corporate associate with a separate CITSS account can apply to participate in an auction. Pursuant to section 95833(f)(6) of the California Regulation, entities with a direct corporate association may change their decision to consolidate accounts or opt-out of consolidation only once each year.

Any change to an entity's application information listed in section 95830(c) of the California Regulation and Article 7 to 12 of the Québec Regulation must be updated within thirty (30) calendar days from the effective date of the changes, or as otherwise specified in section 95830(f)(1) of the California Regulation for California entities. Pursuant to section 95833(e) and 95830(f)(1) of the California Regulation and Article 33 of the Québec Regulation, any changes to corporate associations related to entities registered in the California Cap-and-Trade Program or Québec Cap-and-Trade System must be updated within thirty (30) calendar days of the change or by the auction application deadline, whichever is sooner. If a change to the corporate association affects auction participation, that change, and any additional actions required by that change, must be approved prior to the end of an auction application period or the entity(ies) involved may not be able to participate in the auction. Additionally, if any change of ownership resulting in a change of corporate associations becomes effective after an application period ends and prior to the scheduled date for distribution of allowances resulting from an auction, the entities impacted by the change of ownership may not be able to participate in the auction.

More information on auction participation by entities with corporate associations can be found on the jurisdictions' webpages.

### **III. Account Representatives Auction Platform Account**

All account representatives that are authorized by an entity to act on behalf of the entity in an auction must have an active Auction Platform account. Only those representatives with an active Auction Platform account will be able to access the Auction Platform to submit an application or confirm an intent to bid for the entity, submit bids on behalf of the entity during an open bidding window, or download reports specific to the auction.

#### **A. Auction Platform Account Activation**

During the application period for each auction, entity and representatives information is transferred to the Auction Administrator for entities that have selected the "Auction Participation" box in CITSS. If an individual has previously activated his or her Auction Platform account, that individual will be able to access the Auction Platform using the established credentials. Representatives that have not previously been indicated as a PAR or AAR on any CITSS account with the "Auction Participation" box selected are sent an email inviting them to activate an Auction Platform account. If a representative does not create an Auction Platform account before the new user activation link expires, the representative will need to contact the Auction Administrator for a new link to be sent.

The username for an Auction Platform account is the email address the user has submitted in CITSS. If an account representative's email address changes, the individual will need to submit the requested change in CITSS, obtain jurisdiction Registrar approval, and activate a new Auction Platform account during the next auction application period. The Auction Platform account established under the prior email will be disabled. If an individual is removed as an account representative from an entity, the representative's Auction Platform access for that entity will be disabled and he or she will not be able to represent the entity or access entity reports in the Auction Platform.

Outlined below is the process to activate an Auction Platform account.

- During an open auction application period, account information, including entity and representatives details, is sent on a daily basis from CITSS to the Auction Administrator.
- Starting the day the application period opens for each auction, individuals that have not previously been indicated as a PAR or AAR on any CITSS account with the "Auction Participation" box selected will receive an account activation email from the Auction Administrator.
  - The email will be sent to the email address submitted when the CITSS user registration process was completed.
    - This email address will be the account representative's username in the Auction Platform.
  - The email provides an activation link to activate an account and establish an Auction Platform password and security questions.
  - The email will in most cases be received by the end of the next business day after an account representative's information is received by the Auction Administrator.
  - The activation link can only be used once.
  - The activation link will expire twenty-four (24) hours after receipt of the Auction Platform account activation email.
- If an individual previously activated an account in the Auction Platform but has changed his or her email in CITSS, he or she will need to activate a new account through the Auction Platform and will receive an account activation email after the Auction Administrator has received the updated information. The prior Auction Platform access and username will be disabled.
- Representatives added to a CITSS account after an auction application period has closed will not be sent an activation email until the next application period opens and will not be able to represent the entity in the Auction Platform during an auction.

## **B. Account Representatives Associated with Multiple Entities**

Regardless of the number of entities for which an individual acts as the PAR or an AAR, that individual will only establish one Auction Platform account. All associations with entities for which an individual is an approved PAR or AAR will be reflected in the Auction Platform, if the entity(ies) have selected the "Auction Participation" box in CITSS.

If an individual is an account representative on multiple entity accounts, each time the individual logs in to the Auction Platform he or she will need to select which entity to represent in that session. To submit information for another (different) entity, the individual will log out of the Auction Platform and then log back in selecting the other entity that he or she represents.

## **IV. Joint Auction Currency Management**

QC entities are able to participate in joint auctions using either United States Dollars (USD) or Canadian Dollars (CAD). CA entities may only participate in joint auctions using USD. To manage multiple currencies, an Auction Exchange Rate is determined prior to each joint auction. The value of all bids and bid guarantees submitted in CAD will be converted into USD in whole cents using the established Auction Exchange Rate to conduct the auction in a single currency, including the evaluation of bids on a common basis. All bid assessments, the settlement price, and the cost of all allowances awarded will be determined in USD. For any QC entity participating using CAD, the total cost of allowances is first determined in USD (USD settlement price multiplied by number of allowances awarded) and then converted to a CAD value based on the Auction Exchange Rate so the entity can complete financial settlement in CAD.

The Auction Exchange Rate (USD to CAD) in effect for the joint auction will be set the business day prior to the joint auction as the most recently available noon daily buying rate for U.S. and Canadian dollars as published by the Bank of Canada. For more information on how the Auction Exchange Rate is established and used to determine the Auction Reserve Price in both currencies (USD and CAD), refer to the Auction Notice available from the jurisdictions' webpages.

Examples of how joint auctions are settled are provided in Attachment B of this Auction Notice available from the jurisdictions' webpages.

**V. Participate in pre-auction training or review training materials (optional, but highly recommended)**

**A. Auction Participant Training Webinars**

There will be two (2) auction participant training webinars presenting the same auction related information, one presented by ARB staff in English and another presented by MDDELCC staff in French. The presentation for each webinar will include information regarding administrative and regulatory requirements for joint auction participation and training on completing the application and confirmation of intent to bid process, bid guarantee submission, bid submission, and financial settlement processes for joint auctions.

Each auction participant training webinar will be open via teleconference to anyone interested in participating in the auction. The details for the auction participant training webinars are provided in the Auction Notice.

**B. Auction Platform Training Materials**

Training materials available on the Auction Platform include a calendar of upcoming activities, Frequently Asked Questions (FAQs), and an Auction and Reserve Sale User Guide, which provides a high-level overview of the Auction Platform and the process for participating in an auction. All training materials will be available in both English and French.

**C. Electronic Question Submittal**

The Auction Platform includes a link to submit questions and comments to the Auction Administrator. Questions regarding the Auction Platform and bidding process can also be sent directly to the Auction Administrator Support Team at [auctionsupport@markit.com](mailto:auctionsupport@markit.com).

For all other questions regarding the California Cap-and-Trade Program, please contact the California Air Resources Board at (916) 322-7072.

For all other questions regarding the Québec Cap-and-Trade System, please contact the Québec Ministry of Sustainable Development, Environment and the Fight Against Climate Change at 1-800-561-1616 option 5.

## **VI. Auction Participation Process**

The auction participation process includes all actions taken to apply for participation in an auction, submit a bid guarantee, bid during the open bidding window, and settle amounts owed following an auction. The auction participation process consists of the following six (6) steps:

Step 1: In the Auction Platform, one entity representative (PAR or an AAR) completes the entity's application to participate in the auction (first time participant) or confirms the entity's intent to bid in the auction (previous auction participant). The application or confirmation of intent to bid in the Auction Platform consists of the following process:

Step 1a: Confirm an entity's intent to bid

Step 1b: Verify the entity and account representative information

Step 1c: Submit information about the form and currency<sup>2</sup> of bid guarantee to be submitted, and return instructions

Step 1d: Complete Attestation and submit auction application

Step 2: Submit a bid guarantee

Step 2a: Receive a notice that a financial services account has been established or verified

Step 2b: Download the Financial Services Delivery Instructions

Step 2c: Submit a bid guarantee to the Financial Services Administrator

Step 3: Receive notice of the entity's approval to participate

Step 4: Participate in the auction

Step 5: Access the auction results and download all reports

Step 6: Complete the financial settlement

### **Step 1: Apply to Participate in the Auction**

For each auction, the auction application period starts sixty (60) days prior to the auction with the release of the auction notice and ends thirty (30) days prior to the auction with the due date for submitting an auction application or confirming an entity's intent to bid in the Auction Platform. The due date for submitting an auction application or confirming an entity's intent to bid in the Auction Platform is the date and time the auction application period closes in the Auction Platform listed in the Auction Schedule provided in the Auction Notice available from the jurisdictions' webpages.

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<sup>2</sup> QC entities select the currency in which they will participate in a joint auction during the application or confirmation of intent to bid process. CA entities do not make a currency selection.

### First Time Auction Participant

Entities that have not previously been approved to participate in an auction must submit an application through the Auction Platform at least thirty (30) days prior to the first auction in which they wish to participate. Each entity must complete an application by the date and time the auction application period closes in the Auction Platform as listed in the Auction Schedule provided in the Auction Notice. The application process is described below.

### Previous Auction Participant

Once an entity has previously been approved to participate in an auction, the entity does not need to submit another application for subsequent auctions unless there is a material change to the application information. To participate in subsequent auctions, the entity must submit an intent to bid through the Auction Platform. Each entity must complete the confirmation of an intent to bid by the date and time the auction application period closes in the Auction Platform as listed in the Auction Schedule provided in the Auction Notice.

Both the application and the confirmation of intent to bid processes follow similar steps in the Auction Platform, as outlined below.

#### **Step 1a: Confirm Intent to Bid**

Either the PAR or an AAR must access the Auction Platform and identify the auction in which the entity intends to bid.

#### **Step 1b: Verify Entity and Account Representative Information**

The entity representative completing the application or confirmation of intent to bid process will review and confirm the entity account information in the Auction Platform, including the account representative details. Entity account and representatives information is transferred to the Auction Administrator from CITSS. Therefore, all changes to entity account information must be made and approved in CITSS to be properly reflected in the auction application pages in the Auction Platform. Material changes such as a change in an entity's legal name will require review and approval by the jurisdiction Registrar. It may take up to ten (10) business days before entity detail changes made in CITSS are approved and reflected in the Auction Platform. Updates in CITSS should be made as early as possible. All changes in CITSS and all hardcopy documentation accompanying changes in CITSS must be submitted a minimum of forty (40)

days prior to an auction being held,<sup>3</sup> to allow time for approval and subsequent confirmation of the information in the Auction Platform.

- a. An individual registered as a participant in the Québec Cap-and-Trade System or a General Market Participant - Individual in the California Cap-and-Trade Program that is applying to participate in an auction will be required to submit additional documentation to the Financial Services Administrator. The Financial Services Administrator will contact the account holder to obtain the required information.

### **Step 1c: Provide Information on Form and Currency of Bid Guarantee to be Submitted and Return Instructions**

The entity representative must select the form of bid guarantee that the entity intends to submit for the auction. Auction participants can identify one or a combination of the allowable forms of bid guarantee in the Auction Platform on the Bid Guarantee Page.

The forms of bid guarantees which may be submitted are specific to the jurisdiction in which the entity is registered.

For CA entities, bid guarantee instruments submitted for an auction must be in one or a combination of the following forms:

- Cash in the form of wire transfer;
- An irrevocable letter of credit (LOC) from a financial institution with a United States (U.S.) banking license;
- A bond issued by a financial institution with a U.S. banking license;
- A Surety Bond issued by an institution named in the current list of “Surety Companies Acceptable in Federal Bonds” as published in the Federal Register by the Audit Staff Bureau of Accounts, U.S. Treasury Department.

For QC entities, bid guarantee instruments submitted for an auction must be in one or a combination of the following forms:

- Cash in the form of a wire transfer;
- An irrevocable letter of credit (LOC) issued by a bank or financial services cooperative with a Canadian banking license;

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<sup>3</sup> Under the Québec Regulation, it is required that documents accompanying changes to CITSS information must be sent to the Minister not less than forty (40) days before an auction. Under the California Regulation, submitting changes to CITSS information to the California Registrar not less than forty (40) days prior to an auction is not required, but is highly recommended as changes submitted later may not allow for adequate time to complete the review and approval process.

- A letter of guarantee (LOG) issued by a bank or financial services cooperative with a Canadian banking license.

Based on the form of bid guarantee selected, the representative will also complete instructions for the return of any unused bid guarantee amounts or physical bid guarantee instruments after the auction is completed.

Unused cash on deposit will be returned through the Federal Reserve Wire Network (Fedwire) transfer. The return instructions require the following information:

- Beneficiary Account Name
- Beneficiary Account Number
- Beneficiary Bank Name
- Beneficiary Bank Routing Number
  - An American Bankers Association (ABA) number must be provided in the return instructions. Only an ABA number should be provided as the Beneficiary Bank Routing Number.

For Society for Worldwide Interbank Financial Telecommunication (SWIFT) wire transfers to a non U.S. bank, an entity will need to provide the ABA number of the intermediary bank as the “Beneficiary Bank Routing Number.” In addition, the entity must include specific direction that a SWIFT wire transfer is required, in the Comments field of the Auction Platform, to ensure funds are returned in a timely manner. In the Comments Field, the entity must also provide the beneficiary bank name and SWIFT routing number. It is recommended that the entity’s representative contacts the Financial Services Administrator to ensure all necessary information for return instructions has been received.

Physical bid guarantee instruments will be returned by FedEx delivery, and therefore must be returned to a physical address. The return instructions require the following information:

- Name of a contact individual
- Complete street address for mailing
  - Individual Name
  - Return Address (must be a physical address; no PO Box<sup>4</sup>)
  - Return City

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<sup>4</sup> The Financial Services Administrator cannot return physical bid guarantee instruments to a PO Box address by FedEx delivery as a signature is required to ensure security of the instrument and to allow for confirmation of receipt.

- Return Zip Code
- Return State/Province
- Return Country
- Return Contact Phone Number

If the applicant is a QC entity, the representative must also select the currency in which the bid guarantee will be submitted, either USD or CAD. Once a QC entity submits an application or confirmation of intent to bid with a currency for the bid guarantee selected (USD or CAD), that currency must be used for participation throughout the auction, including submitting the bid guarantee, submitting bids during the joint auction, and completing financial settlement. No changes in the currency selected when the auction application is submitted will be allowed.

All bid guarantees (cash, letters of credit, letters of guarantee, or bonds) will be submitted directly to the Financial Services Administrator, as described in Step 2, the “Submit Bid Guarantee” section of this Attachment.

#### **Step 1d: Complete the Attestation and Submit Auction Application**

When the information is complete and accurate, the entity representative will complete the required Attestation in the Auction Platform. Entity Attestations are specific to the jurisdiction in which the entity is registered.

If a representative needs to provide additional information in response to the Attestation, please contact the jurisdiction contacts provided in the Auction Notice.

After the Attestation has been completed, the representative must agree to the Auction Platform Terms of Use and Privacy Policy and can then submit the application or confirmation of intent to bid in the Auction Platform.

The Auction Administrator will confirm receipt of each auction application or confirmation of intent to bid on the day it is submitted in the Auction Platform via an email sent to the account representatives.

#### **Step 2: Submit Bid Guarantee**

##### **Step 2a: Receive Notice that a Financial Services Account has been Established or Verified**

After the application or confirmation of intent to bid is submitted, the Financial Services Administrator will complete the process to establish (first time participant)

or verify (previous participant) the entity's financial services account in which the entity's bid guarantee will be recorded. The account representatives will receive an email from the Auction Administrator notifying them when the account has been established or verified and directing them to download the Financial Services Delivery Instructions from the Auction Platform to obtain the information needed to submit the bid guarantee.

### **Step 2b: Download Financial Services Delivery Instructions**

The email received when a Financial Services Account is established or verified will direct the account representatives to download the Financial Services Delivery Instructions from the Auction Platform. The Financial Services Delivery Instructions will include all the information needed to submit the bid guarantee, including the Financial Services Account Number which must be referenced on the bid guarantee when submitted to the Financial Services Administrator, as well as wiring instructions for submitting cash by wire transfer and mailing instructions for physical bid guarantee instruments.

To download an entity's Financial Services Delivery Instructions, a PAR or AAR will log in to the Auction Platform. Under the Reports Module, the representative will select "Templates," then from the dropdown menu will select "Financial Services Delivery Instructions." An additional drop down menu will be displayed for the representative to select the current event. It is critical that the representative select the appropriate event, as one entity may have more than one Financial Services Account Number associated with different events.

### **Step 2c: Submit Bid Guarantee to Financial Services Administrator**

As previously described, auction applicants select one or a combination of the acceptable bid guarantee forms that they intend to submit when completing the application or confirmation of intent to bid process in the Auction Platform.

CA entities will submit a bid guarantee in USD. QC entities will select the currency they will use throughout the auction (either USD or CAD) when completing the application or confirmation of intent to bid in the Auction Platform. Once a currency is selected, a bid guarantee must be submitted to the Financial Services Administrator in the selected currency, bid prices must be entered during an auction in the same currency, and financial settlement must be completed in the same currency as selected.

After an application or confirmation of intent to bid has been submitted and following notification by email that the Financial Services Account has been established, each

entity or individual that wishes to participate in an auction must submit its bid guarantee directly to the Financial Services Administrator. The Financial Services Administrator acts as an agent for the jurisdictions for the purpose of financial administration for joint auctions. The Financial Services Administrator will receive and maintain all bid guarantees submitted as financial security. All cash bid guarantees submitted will be held in a non-interest bearing trust account with the Financial Services Administrator.

**Final bid guarantees must be received by the Financial Services Administrator in the currency selected during the auction application or confirmation of intent to bid process by no later than the date and time listed in the Auction Schedule provided in the Auction Notice.**

Applicants will receive an email from the Auction Administrator confirming that the bid guarantee has been accepted by the Financial Services Administrator. If a bid guarantee is not received by the deadline date and time listed in the Auction Schedule provided in the Auction Notice, the auction application will be rejected.

The amount of the bid guarantee provided to the Financial Services Administrator will be used to set bidding limitations in the auction. The amount of the bid guarantee must be greater than or equal to the maximum value of the bids to be submitted. For QC entities that are participating in the auction in CAD, the value of the bid guarantee and the maximum value of bids submitted during the auction will be evaluated in the USD equivalent of the CAD bid price submitted based on the Auction Exchange Rate. To determine the bid guarantee amount to provide, please see Attachment B to this Auction Notice available from the jurisdictions' webpages.

**A. Submitting a Cash Bid Guarantee (Wire Transfer)**

Cash wire transfers must be received by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the Auction Schedule provided in the Auction Notice, per the delivery instructions provided in the Financial Services Delivery Instructions and outlined below. See the Auction Schedule provided in the Auction Notice for the exact dates and time. Be advised that Automated Clearing House (ACH) transfers can take at least 24 hours to complete. If the cash wire transfer (Fedwire or ACH) is not received by the deadline for receipt of a bid guarantee it will not be accepted, regardless of the time the transfer was initiated.

Wire transfer details are specific to the jurisdiction in which the entity is registered and for QC entities, the currency in which the entity is participating in the auction. The wire transfer details are provided in the Financial Services Delivery Instructions downloaded

from the Auction Platform. **It is important that the wire details are set up exactly as provided in the entity's Financial Services Delivery Instructions for the Financial Services Administrator to receive the funds by the deadline for receipt of bid guarantees.**

The cash wire instruction for CA entities and for QC entities that are participating in USD are as follows:

- Receiving bank name: Deutsche Bank Trust Company Americas
- Receiving bank ABA routing number:<sup>5</sup>
- Receiving bank account number (DDA Number):
- Beneficiary Details: Trust and Agency Services
- Payment Details
  - Port: *Financial Services Account Number*
  - WCI Auction
  - *Financial Services Account Name*

The cash wire instruction for QC entities participating in CAD are as follows:

- Intermediary Bank: (Royal Bank of Canada)
- SWIFT Intermediary Bank Identifier Code (BIC): ROYC CA T2
- IBAN: DE28500700100959163708
- Beneficiary Bank: (Deutsche Bank Frankfurt)
- SWIFT ACC at Institution:<sup>6</sup>
- Beneficiary Bank Account #:
- Beneficiary Bank Account Name: DBTCA as FSA for Québec Minister of Sustainable Development BKTRUS33TSS
- Payment Details (including instructions on fees):
  - Port: *Financial Services Account Number*
  - WCI Auction
  - *Financial Services Account Name*

The Fedwire Transfer Payment Details used to wire cash to the Financial Services Administrator should be set up as described here with three entries to include the entity's financial services account number, the reference to WCI Auction,<sup>7</sup> and the financial services account name. The Financial Services Account Number and Account

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<sup>5</sup> The Receiving bank ABA routing number and account number are provided in the Financial Services Delivery Instructions.

<sup>6</sup> The Receiving bank SWIFT ACC routing number and account number are provided in the Financial Services Delivery Instructions.

<sup>7</sup> WCI Auction is how the Financial Services Administrator refers to the joint California-Québec auction. WCI refers to the Western Climate Initiative.

Name are provided in the entity's Financial Services Delivery Instructions downloaded from the Auction Platform.

If using an ACH transfer, you may not be able to include all payment details. In this case, include the **WCI Auction** reference to assist in the proper identification and delivery of the transfer. Due to the limited identifying information provided in an ACH transfer, it is recommended that an entity representative notifies the Financial Services Administrator in advance of the ACH wire transfer to inform it to ensure proper receipt of the funds.

For a QC entity, bid guarantee deposits require an international fund transfer. There are fees associated with an international fund transfer. All the fees associated with a cash wire must be paid in advance or they will be deducted from the amount of the bid guarantee wire transfer.

- The SWIFT instruction <<OUR>> indicates that the party making the transfer has paid the fees in advance.
- Communicate with your financial institution to verify how to proceed.

**NOTE: If you wire CAD cash, the money is sent to Deutsche Bank in Germany. Therefore it is very important that you do not use the New York postal address when completing the wire transfer form. If you must include a postal address, use:**

Postal address for CAD wires transfers only:  
Bank name: DEUTSCHE BANK A.G.  
Address: GR. GALLUSSTR. 10-14  
D-60311 FRANKFURT 1, GERMANY  
City: FRANKFURT  
Country: GERMANY  
Bank indicator: BANK  
SWIFT BIC: DEUTDEFF

Cash wire transfers that are returned by the Financial Services Administrator to an entity due to an error or incomplete wire details may result in a returned wire fee, which would be reflected in the wire amount returned to the entity. A returned wire fee is not an auction fee and is not received by either California or Québec. A returned wire fee is a common banking transaction fee not related to the California Cap-and-Trade Program or Québec Cap-and-Trade System, or the auction process.

**B. Submitting a Physical Bid Guarantee Instrument (Letters of Credit (LOC), Letters of Guarantee (LOG), and Bonds)**

Physical bid guarantee instruments must be received by the Financial Services Administrator in final form by the deadline date and time for receipt of bid guarantees as listed in the Auction Schedule provided in the Auction Notice, per the delivery instructions provided in the Financial Services Delivery Instructions and outlined below. See the Auction Schedule provided in the Auction Notice for the exact dates and time.

**NOTE: Complete and proper addressing is critical to ensure receipt of all physical bid guarantee instruments by the deadline date and time.**

**When sending physical bid guarantee instruments by FedEx, include the following full address for the Financial Services Administrator:**

Auction and Reserve Sale Financial Services Administrator  
c/o Deutsche Bank Trust Company Americas  
60 Wall Street, 16th Floor  
Mailstop: NYC60-1630  
New York, NY 10005-2836

**Please include your CITSS Entity Legal Name and Financial Services Account Number when mailing the bid guarantee form(s) to ensure the bid guarantee is properly associated to the entity's account.**

When an entity submits a physical bid guarantee instrument, the Financial Services Administrator will evaluate the instrument and identify any amendments that are necessary to meet the requirements. If a physical bid guarantee instrument must be amended, the amendment must be completed and submitted to the Financial Services Administrator prior to the deadline for receipt of bid guarantees. Amendments to physical bid guarantee instruments will not be accepted after the deadline date and time as listed in the Auction Schedule provided in the Auction Notice.

ARB and MDDELCC encourage entities to do the following:

- Submit a sample LOC, LOG, or bond to the Financial Services Administrator for review;
- Submit final documents early enough to provide time for amendment, if needed;
- Submit final documents via overnight delivery and retain a tracking number;
- Provide contact information of the issuing bank in the event that a draw down is directed; and,
- Confirm receipt of bid guarantees with the Financial Services Administrator.

If a bid guarantee is not received by the Financial Services Administrator in final form by the deadline date and time as listed in the Auction Schedule provided in the Auction Notice, the auction application will be rejected.

Physical bid guarantee instruments submitted by QC entities may be submitted in French or English. If the bid guarantee instrument is submitted in French, an English translation is requested to support timely review of the document. An entity submitting a bid guarantee instrument in French should work with the institution issuing the instrument to provide a translation. If the entity cannot obtain a translation from the institution issuing the instrument, please contact a representative of the Québec Cap-and-Trade System, ~~Ministère~~ ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques at [spede-bcc@mddelcc.gouv.qc.ca](mailto:spede-bcc@mddelcc.gouv.qc.ca), (418) 521-3860 (418) 521-3830, or 1-800-561-1616 option #5.

### **1. Submitting a Letter of Credit (LOC)**

For CA entities, a submitted LOC must be from a financial institution with a U.S. banking license. For QC entities, a submitted LOC must be from a bank or financial services cooperative with a Canadian banking license.

All bid guarantees in the form of a LOC require the following non-negotiable terms:

- The LOC must refer to the CITSS Entity Legal Name or CITSS Entity Operating Name as provided in the participant's application.
- Deutsche Bank National Trust Company must be listed as the beneficiary.
- The LOC must be irrevocable.
- The amount of the LOC must be included.
- The expiration or maturity date must be at least twenty-six (26) days<sup>8</sup> after the scheduled auction.
- There must be instructions included indicating where to submit the LOC for payment.
- The LOC must allow for presentment by facsimile (Fax) (delivery in person or by courier cannot be required).
- There must be a payment certificate/form of draw included as an exhibit or annex to the LOC.
- The LOC must be payable within three (3) business days.

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<sup>8</sup> Note that the earliest expiration date for physical bid guarantee instruments has been extended to 26 days after the auction, effective for the November 2014 auction.

- There must be a draw cut off time of no earlier than 9:00 AM Pacific Time (PT) / 12:00 PM (Noon) Eastern Time (ET) for same day draw.

If any of these terms are not met by the date and time listed in the Auction Schedule provided in the Auction Notice for receipt of all bid guarantees by the Financial Service Administrator, the submitted LOC will be rejected. **If the submitted LOC requires revisions, all revisions must be completed and received in physical form by the deadline for receipt of bid guarantees or the LOC will not be accepted.**

## **2. Submitting a Bond (CA entities only)**

Only entities registered under the California Cap-and-Trade Program may submit a bank bond or a surety bond as a bid guarantee. Entities may submit a bank bond or a surety bond, referred to collectively in this document as bond, as a bid guarantee. A bank bond must be issued by a financial institution with a U.S. banking license. A surety bond must be issued by an institution named in the current list of “Surety Companies Acceptable in Federal Bonds” as published in the Federal Register by the Audit Staff Bureau of Accounts, U.S. Treasury Department.

All bid guarantees in the form of a bond require the following non-negotiable terms:

- The bond must refer to the CITSS Entity Legal Name or CITSS Entity Operating Name as provided in the participant’s application.
- Deutsche Bank National Trust Company must be listed as the beneficiary/obligee.
- The party named as “Principal” in the bond must be identical to that named in the participant’s application.
- The expiration date must be at least twenty-six (26) days after the scheduled auction.
- The amount of the bond must be included.
- There must be instructions included indicating where to submit the bond for payment.
- There must be a payment certificate/form of draw included as an exhibit or annex to the bond.
- The Bond must allow for presentment by Fax (delivery in person or by courier cannot be required).
- The bond must be payable within three (3) business days.
- There must be a draw cut off time of no earlier than 9:00 AM Pacific Time (PT) / 12:00 PM (Noon) Eastern Time (ET) for same day draw.

If any of these terms are not met by the date and time listed in the Auction Schedule provided in the Auction Notice for all bid guarantees due to the Financial Service

Administrator, the submitted bond will be rejected. **If the submitted bond requires revisions, all revisions must be completed and received in physical form by the deadline for receipt of bid guarantees or the bond will not be accepted.**

### **3. Submitting a Letter of Guarantee (QC entities only)**

Only entities registered under the Québec Cap-and-Trade System may submit a Letter of Guarantee (LOG) as a bid guarantee.

All bid guarantees in the form of a LOG require the following non-negotiable terms:

- The LOG must refer to the CITSS Entity Legal Name or CITSS Entity Operating Name as provided in the participant's application.
- Deutsche Bank National Trust Company must be listed as the beneficiary/obligee.
- The party named as "Principal" in the LOG must be identical to that named in the participant's application.
- The expiration date must be at least twenty-six (26) days after the scheduled auction.
- The amount of the LOG must be included.
- There must be instructions included indicating where to submit the LOG for payment.
- There must be a payment certificate/form of draw included as an exhibit or annex to the LOG.
- The LOG must allow for presentment by Fax (delivery in person or by courier cannot be required).
- The LOG must be payable within three (3) business days.
- There must be a draw cut off time of no earlier than 9:00 am Pacific Time (PT) / 12:00 PM (Noon) Eastern Time (ET) for same day draw.

If any of these terms are not met by the date and time listed in the Auction Schedule provided in the Auction Notice for receipt of bid guarantees by the Financial Service Administrator, the submitted bond will be rejected. **If the submitted LOG requires revisions, all revisions must be completed and received in physical form by the deadline for receipt of bid guarantees or the LOG will not be accepted.**

### **C. Bid Guarantee Revision Process**

If a bid guarantee in the form of a LOC, LOG, or bond requires revision, all revisions must be completed and received in physical form by the deadline date and time for receipt of bid guarantees as listed in the Auction Schedule provided in the Auction Notice or it will not be accepted.

If a bid guarantee in the form of a LOC, LOG, or bond provided to the Financial Services Administrator needs to be revised:

- The applicant will be notified by the Financial Services Administrator of the need for revision.
- The applicant would contact the financial institution that issued the bid guarantee instrument and request an amendment.
- The revised bid guarantee must be received in physical form by the deadline for receipt of bid guarantees or it will be rejected. Emailed, scanned, and PDF versions of a bid guarantee or bid guarantee amendment will not be accepted as a bid guarantee.

Deutsche Bank can be contacted directly at the following:

- Phone: (212) 250-6645
- Email: [db.wcisupport@db.com](mailto:db.wcisupport@db.com)

### **Bid Guarantee Submittal Summary**

- An entity submitting a cash bid guarantee by wire transfer must provide all required wire transfer information listed in this document and in the Financial Services Delivery Instructions to ensure the bid guarantee is accepted and associated with the proper account.
- Cash wire transfers must be received by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the Auction Schedule provided in the Auction Notice.
- An entity is responsible to ensure proper addressing when mailing a physical bid guarantee instrument.
- An entity is responsible to ensure a physical bid guarantee instrument (LOC, LOG, or bond) is received in final form, including all required non-negotiable terms by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the Auction Schedule provided in the Auction Notice.
- A bid guarantee or bid guarantee amendment received after the deadline date and time for receipt of bid guarantees as listed in the Auction Schedule in the Auction Notice will not be accepted.
- Emailed, scanned, and PDF versions of a bid guarantee or a bid guarantee amendment will not be accepted as a bid guarantee.
- If a bid guarantee is not received by the deadline date and time for receipt of bid guarantees as listed in the Auction Schedule provided in the Auction Notice, the auction application will be rejected.

### **Step 3: Receive Notice of Entity's Approval to Participate**

Jurisdiction staff will review each applicant's information, CITSS account status, and bid guarantee and make a determination to approve or deny each entity's participation in the auction. Once ARB and MDDELCC approves or rejects an entity for auction participation, the PAR and all AARs for the entity will receive an email confirming the approval or denial to participate in the auction. This is anticipated to occur within two (2) business days of the auction date. Each entity that has completed an auction application or confirmed its intent to bid and been approved to participate in the auction is referred to as a "Qualified Bidder."

The reasons for possible denial of an entity's participation in an auction include, but are not limited to, the following:

- The entity does not have an active CITSS account.
- An entity's holding account has been revoked or is currently suspended.

- The entity is not represented by an active PAR or AAR with an Auction Platform account.
- The entity has not provided complete information on corporate associations.
- The entity has not submitted a bid guarantee to the Financial Services Administrator by the deadline date and time as listed in the Auction Schedule provided in the Auction Notice.

#### **Step 4: Participate in the Auction**

Current and future vintage allowances will be sold in separate auctions. The Current Auction and Advance Auction will occur simultaneously at the date and time identified in the Auction Notice. The auctions will be conducted through the electronic, internet-based Auction Platform using a single round, sealed bid auction format. Bid quantities must be submitted in multiples of 1,000 allowances.

An Auction Exchange Rate is determined prior to each joint auction to manage multiple currencies. The Auction Exchange Rate (USD to CAD) in effect for the joint auction will be set the business day prior to the joint auction as the most recently available noon daily buying rate for U.S. and Canadian dollars as published by the Bank of Canada.

##### **A. Bidding in the Auction**

Participants will be able to submit bids manually and upload bid schedules in a pre-defined Excel template in the Auction Platform during the 3-hour bidding window.

Other features of auctions are as follows:

- Auction participants will submit a bid which includes the vintage of the allowances, the number of bid lots (1 lot = 1,000 allowances), the bid currency, and the bid price.
  - To bid for allowances in the Current Auction, the bid vintage is selected as “Current.”
  - To bid for allowances in the Advance Auction, the bid vintage is selected as “2017.”
- CA entities will enter bids in USD in whole cents.
  - USD is preselected for manual bid entries and is the only option available for selection on the bid upload template spreadsheet.
- QC entities will enter bids in USD or CAD in whole cents, based on the currency of the bid guarantee selection they submitted in the auction application or confirmation of intent to bid process.
  - When adding a bid by manual bid entry, currency is preselected to the currency selected during the auction application process for QC entities.

- QC entities must select USD or CAD when completing a bid upload spreadsheet. If a QC entity attempts to upload a bid upload spreadsheet with bids in the incorrect currency, the spreadsheet will fail to upload to the Auction Platform.
- Auction participants are allowed to submit as many bids as they wish during the 3-hour bidding window. An uploaded Excel spreadsheet may contain a maximum of 1,000 bids. Multiple spreadsheets may be uploaded.
- Participants will be able to edit or withdraw confirmed bids during the 3-hour auction bidding window.
- Once the auction bidding window has been closed, no further bids may be entered and no changes to bids can be made.

## **B. Bidding Limitations**

The California and Québec Regulations include several bidding limitations related to the Auction Reserve Price, bid guarantee submitted, purchase limits, and holding limits. These bidding limits are described below.

Attachment B of this Auction Notice provides additional information and examples of how to determine a bid guarantee amount, and how holding limits and purchase limits are applied.

### **1. Auction Reserve Price Bid Limitation**

The Auction Reserve Price effective during the joint auction will be displayed in both USD and CAD at the time the Auction Exchange Rate for the joint auction is displayed the business day prior to the opening of the bidding window. The Auction Reserve Price will be determined as the higher of the California or Québec Annual Reserve Prices after applying the established Auction Exchange Rate. The Auction Reserve Price is the lowest price at which allowances offered in the Current Auction and Advance Auction will be sold. Bids submitted with a bid price below the Auction Reserve Price will not be accepted.

### **2. Bid Guarantee Bid Limitation**

The California Regulation requires that the bid guarantee submitted for an auction must be greater than or equal to the maximum value of the bids submitted. This also applies for QC entities participating in the auction. For QC entities that selected to bid in CAD, the bid guarantee and the maximum value of bids submitted are evaluated in USD based on the Auction Exchange Rate.

- The value of a set of bids equals the quantity of bid allowances submitted at or above a bid price times that price.

- The value of the set of bids is calculated at each bid price at which the bidder submits a bid.
- The maximum value of a set of bids is the highest value of a set of bids calculated at each price at which the bidder submits a bid.

To calculate the maximum value of a set of bids, a bidder's bids are ranked from highest to lowest bid price. The largest value calculated is the maximum value of the bidder's set of bids and is assessed against the value of the bid guarantee submitted. See Attachment B of this Auction Notice for an example of how to calculate an entity's bid guarantee. This determination occurs after the bidding window has been closed and before the settlement price is determined.

Submitted bids that contain bid quantities with a value in excess of the bid guarantee at the settlement price will be rejected, in bundles of 1,000 allowances, until the limit is met. Only that portion of the bid quantity that exceeds the limit will be rejected, not the entire bid quantity.

Bidders submit a single bid guarantee for both the Current Auction and Advance Auction. Once the Current Auction settlement price has been determined, the entity's total cost for allowances awarded in the Current Auction (settlement price multiplied by number of allowances awarded) will be determined and deducted from the bid guarantee amount, and any bid guarantee amount remaining will be applied to the Advance Auction. The bid guarantee is applied to the Current Auction then Advance Auction in the form of USD currency, regardless of the currency selected by the bidder.

The value of all bids and bid guarantees submitted in CAD will be converted into USD in whole cents in the settlement price determination process to be able to compare bids on a common basis. If bidding in CAD, the bid guarantee amount remaining to be applied to the Advance Auction is determined by subtracting the total cost for allowances awarded in the Current Auction determined in USD (USD settlement price multiplied by number of allowances awarded) from the USD value of the submitted bid guarantee.

### 3. Purchase Limit Bid Limitation

The purchase limits that apply to one entity or a group of entities with a direct corporate association for the Current Auction is as follows:

For CA entities:

- The purchase limit for electrical distribution utilities will be forty (40) percent of the allowances offered for auction;
- The purchase limit for covered entities and opt-in covered entities will be twenty (20) percent of the allowances offered for auction; and
- The purchase limit for all other auction participants is four (4) percent of the allowances offered for auction.

For QC entities:

- The purchase limit for covered entities who are not eligible for the allocation of allowances free of charge is forty (40) percent of the allowances offered for auction;
- The purchase limit for covered entities who are eligible for the allocation of allowances free of charge is twenty (20) percent of the allowances offered for auction; and
- The purchase limit for all other auction participants is four (4) percent of the allowances offered for auction.

For the Advance Auction of future vintage allowances, the purchase limit is twenty-five (25) percent of the allowances offered for auction for all participants.

Related entities that are part of a direct corporate association that have separate CITSS accounts must allocate shares of the purchase limit amongst themselves. This would apply to all QC entities with direct corporate associations, and to CA entities that have chosen to opt-out of account consolidation. Each entity will have a specified percentage share of the direct corporate associate group's purchase limit. The sum of the shares allocated among the entities must sum to one. Each associated entity's allocated purchase limit share multiplied by the auction purchase limit assigned to the association becomes the purchase limit for that entity. These purchase limits will be used to limit the quantity of GHG allowances that may be purchased by each of the bidders with a direct corporate association.

Jurisdictions will transmit a file to the Auction Administrator prior to the auction that contains the purchase limit cap for each auction participant. These caps will indicate how many allowances an auction participant may acquire before exceeding its purchase limit.

Submitted bids that contain bid quantities that would result in an entity exceeding its purchase limit will be rejected, in bundles of 1,000 allowances, until the limit is met. Only that portion of the bid quantity that exceeds the limit will be rejected, not the entire bid quantity. This determination occurs after the bidding window has been closed and before the settlement price is determined.

#### **4. Holding Limit Bid Limitation**

The holding limit is the maximum number of GHG allowances that may be held by an entity or jointly held by a group of entities with a direct corporate association. The holding limit will be calculated separately for each entity for the Current Auction and Advance Auction. Further detail on how the holding limit applies to an auction is provided in Attachment B of this Auction Notice.

Related entities that are part of a direct corporate association that have separate CITSS accounts must allocate shares of the holding limit amongst themselves. This would apply to all QC entities with direct corporate associations, and to California entities that have chosen to opt-out of account consolidation. This holding limit allocation results in each entity having a specified percentage share of the group's holding limit. The sum of the percentages allocated among the entities must sum to one.

Jurisdictions will transmit a file to the Auction Administrator prior to the auction that contains the holding limit cap for each auction participant. These caps will indicate how many allowances an auction participant may acquire before exceeding its holding limit. The holding limit cap will be based on CITSS account balances and limited exemption data available in CITSS at approximately 9:00 AM PT / (12:00 PM (Noon) ET) the day prior to the auction. The holding limit cap transmitted to the Auction Administrator is used solely for the purpose of administration of the holding limit bid limitation in the auction and will only reflect the account balances in CITSS the day before the auction. Any changes to CITSS account balances after the determination of the holding limit cap due to transfers of allowances will not be reflected in the Auction Platform on the day of the actual auction.

Submitted bids that contain bid quantities that would result in an entity exceeding its holding limit will be rejected, in bundles of 1,000 allowances, until the limit is met. Only that portion of the bid quantity that exceeds the limit will be rejected, not the entire bid quantity. This determination occurs after the bidding window has been closed and before the settlement price is determined.

### **C. Settlement Price and Bid Fulfillment Determination**

Joint auction bid evaluations and settlement price determinations will be conducted in USD. The value of all bids and bid guarantees submitted in CAD will be converted into USD in whole cents using the established Auction Exchange Rate to conduct the auction in a single currency, including the evaluation of bids on a common basis. All bid assessments, the settlement price, and the cost of all allowances awarded will be determined in USD. For any QC entity participating in CAD, the total cost of allowances is first determined in USD (USD settlement price multiplied by number of allowances awarded) and then converted to a CAD value based on the Auction Exchange Rate so the entity can complete financial settlement in CAD.

The process to determine the settlement price requires that the Auction Administrator rank qualified bids from all bidders from the highest qualified bid price to the lowest qualified bid price using the USD value of the bids. Allowances will be awarded to bidders, beginning with the highest qualified bid price and moving to successively lower qualified bid prices, until the entire supply of allowances is exhausted or all qualified bids have been filled.

Examples of how joint auctions are settled are provided in Attachment B of this Auction Notice available from the jurisdictions' webpages.

### **D. Auction Conduct**

#### **1. Non-Disclosure of Bidding Information**

Pursuant to Section 95914(c) of the California Regulation and in Article 51 of Québec's Regulation, an entity approved for auction participation shall not release any confidential information related to its auction participation, including:

- Intent to participate, or not participate, at auction, auction approval status, maintenance of continued auction approval;
- Bidding strategy;
- Bid price or bid quantity information;
- Information on the bid guarantee provided to the Financial Services Administrator.<sup>9</sup>

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<sup>9</sup> Section 95914(c) of the California Regulation prohibits the release of the information listed above by registered entities. The prohibition includes an entity's direct and indirect corporate associations, and their consultants and advisors identified pursuant to section 95923 of the California Regulation.

The California and Québec Regulations require that any entity participating in an auction that has retained the services of a consultant or advisor regarding auction bidding strategy must ensure the following:

- The entity must ensure against the consultant or advisor transferring information to other auction participants or coordinating the bidding strategy among participants;
- The entity will inform the consultant or advisor of the prohibition of sharing information to other auction participants and ensure the consultant or advisor has read and acknowledged the prohibition under penalty of perjury; and
- For an entity registered under the California Cap-and-Trade Program, the consultant or advisor must provide ARB with the following information at least fifteen (15) days prior to an auction: names of entities being advised, description of advisory services being performed, and assurance under penalty of perjury that the advisor is not transferring to or otherwise sharing information with other auction participants.
- Any entity that has retained the services of a consultant or advisor must disclose to ARB, if it is registered under the California Cap-and-Trade Program, or to MDDELCC, if it is registered under the Québec Cap-and-Trade System, information to identify the consultant or advisor, including name, contact information, physical work address, and employer, if applicable.

CA entities are required to inform ARB of the retention of a consultant or advisor, including a bidding advisor. The PAR or an AAR of the entity must submit the information required by the California Regulation. This can be accomplished using the [Corporate Associations and Structure Form](#), available on ARB's CITSS webpage. The Corporate Associations and Structure Form has been updated to reflect amendments to the Cap-and-Trade Regulation that went into effect July 1, 2014, including those related to bidding advisors. Guidance pursuant to the new and updated requirements is available in the [Corporate Disclosures \(July 2014 Amendments\)](#) document available from ARB's CITSS webpage at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).

The California Regulation, section 95914(c)(3), requires Cap-and-Trade consultants or advisors to self-disclose information related specifically to auction bidding strategy services. Consultants and advisors providing such services may submit the required information to ARB using the [Auction Bid Advisor Form](#) at the address on the form no later than fifteen (15) business days prior to the auction at which the bid advisor's services will be employed.

QC entities are required to inform MDDELCC of the retention of an advisor. The PAR or an AAR of the entity must submit the information, in writing, to MDDELCC no later

than ten (10) business days prior to the auction at which the bid advisor's services will be employed. They also must inform the MDDELCC if a new advisor is hired or if an advisor is terminated and no new advisor is hired.

#### **E. Market Monitoring**

WCI, Inc. has contracted with an independent market monitor, Monitoring Analytics, LLC, for the California Cap-and-Trade Program and the Québec Cap-and-Trade System. The purpose of the Market Monitor is to monitor, detect, and report issues relating to the operation of the GHG allowance auctions, California reserve sales, Québec sales by mutual agreement, and secondary markets.

The Market Monitor will monitor the GHG allowance auctions, and provide ongoing monitoring of GHG allowance holdings and market activity. The Market Monitor will monitor the secondary market to identify any indications of anti-competitive behavior, as well as to understand market activity and trades. The Market Monitor's findings will be provided to jurisdiction staff to review and take action, as needed. Jurisdiction staff will also monitor the auctions and reserve sales<sup>10</sup> during the bidding window and review submitted bids to determine if there are any indications of anti-competitive behavior.

Any fraudulent, manipulative, collusive, or noncompetitive behavior in a GHG allowance auction or reserve sale may be investigated and prosecuted in accordance with all applicable laws and regulations.

### **Step 5: Access Auction Results and Download Reports**

Following the auction, each jurisdiction and the Market Monitor will review the auction results. Each jurisdiction will review the conduct of the auction and certify whether the auction met the requirements of their respective regulation.

#### **A. Public Notification of Auction Results**

After certification, auction results will be accessible to the public through a Joint Auction Summary Results Report. The public results from an auction including the settlement price will be posted on jurisdictions' webpages. This posting is anticipated to occur at approximately the date and time listed in the Auction Schedule provided in the Auction Notice. In the event of a delay in posting the public auction results, a message will be posted on jurisdictions' webpages providing the new time for the release of the public notification of results.

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<sup>10</sup> Reserve sale is a general term used to refer to a California Reserve Sale or a Québec Sale By Mutual Agreement.

The public auction results will include the following:

- The names of the qualified bidders.
- The Current Auction and Advance Auction settlement prices.
- Aggregated or distributional information on purchases with the names of the entities withheld.

The public results from a joint auction will present the settlement price in USD and CAD. The settlement price determination in the Auction Platform is done in USD with the CAD value determined using the established Auction Exchange Rate.

- In addition to the Auction Summary Results Report posted at the time an auction is certified, California will issue a Post Joint Auction Public Proceeds Report which will provide details about the applicable exchange rate, the mechanics of determining the final proceeds, and the final amount of proceeds transferred to California and Québec.

#### **B. Notification of Entity Auction Results**

Following the posting of the public auction results, representatives of auction participants will receive an email notification that they can log in to the Auction Platform to view the entity's auction results in the entity's Organization Results Report. Additionally, a Financial Statement is available to serve as the financial settlement invoice for the auction and will include the number and total cost of allowances the entity has been awarded, if any.

#### **C. Download all Reports**

After receiving the email notification of the availability of the entity's Organization Results Report, the PAR or an AAR should download and save all reports that are available to an entity that has participated in a joint auction. The reports include: the Organization Results Report, the Financial Statement, and the Client Bid Audit Report. As these reports are confidential, they are not available to any parties other than the PAR and AARs that were associated with an entity for each auction. CITSS account representatives may change over time and access to historical reports cannot be provided to new representatives. To maintain a complete record of an entity's auction participation, it is recommended that all reports be downloaded and maintained by auction participants immediately after receiving the email notification of the availability of the entity's Organization Results Report.

## **Step 6: Complete Financial Settlement**

Financial settlement will begin once an auction is certified. Entities will complete the financial settlement process with the Financial Services Administrator for all allowances awarded in an auction. The financial settlement process will take place outside of the Auction Platform. The email notification of the availability of the Organization Results Report represents the beginning of the seven (7) day period in which an auction participant is required to complete payment of the amount due for allowances awarded to the Financial Services Administrator.

Entities submitting bids in CAD are required to complete financial settlement in CAD for any allowances awarded. In order to ensure that every bidder pays the exact same price per allowance, the total cost of allowances is determined as the USD settlement price multiplied by the number of allowances awarded and then the total cost of allowances is multiplied by the Auction Exchange Rate (*USD Settlement Price \* Allowances Awarded \* Auction Exchange Rate*). The same calculation is done for the Current and Advance Auction, and the total of both auctions gives the total amount due in CAD to complete financial settlement.

As part of the financial settlement process, the Auction Administrator will:

- Notify each qualified bidder of the availability of the entity's auction results. The entity's Organization Results Report and Financial Statement will include the following for both the Current Auction and the Advance Auction: the auction settlement price, number of allowances awarded, and cost of allowances awarded; as well as the total cost for all allowances awarded, the deadline for receipt of payment, and wiring instructions for submitting payment, if applicable.

As part of the financial settlement process, the Financial Services Administrator will:

- For those entities that submitted cash bid guarantees, use the cash submitted to settle for any amounts owed.
- For entities that submitted a physical bid guarantee instrument(s) (LOC, LOG, bonds), collect cash payment from winning bidders within seven (7) days of notification of the availability of the auction results.
- Use the physical bid guarantee instrument(s) submitted to cover payment for allowances awarded by any entity that fails to make cash payment within seven (7) days.
- Distribute auction proceeds from the sale of allowances to the jurisdictions.
- Distribute auction proceeds and provide a Consigned Allowances Statement to entities that consigned allowances for an auction (applicable to California Electrical Distribution Utilities, only).

Once all payments have been received, proceeds will be paid, and subsequently jurisdictions will transfer the number of allowances awarded into each winning bidder's CITSS General Holding Account, and/or Compliance Account, if needed to comply with the holding limit.

#### **A. Cash Settlement**

All final financial settlements must be made in cash by auction participants within seven (7) days of notification of the availability of the entity's auction results in the Auction Platform. The entity's auction results are provided in the Organization Results Report and Financial Statement which are downloaded from the Auction Platform. The wiring instructions for cash settlement will be included in the Organization Results Report which is downloaded from the Auction Platform. If cash in the form of a wire transfer was submitted for the bid guarantee, the cash funds on account will be used to settle any amount owed and any unused portion will be returned to the entity.

For a QC entity, cash in the form of a wire transfer submitted for payment must be in the currency in which the entity selected to participate in the auction. If a wire transfer is received in the incorrect currency it will not be accepted by the Financial Services Administrator.

For a QC entity, cash in the form of a wire transfer may require an international fund transfer. There are fees associated with an international fund transfer. All the fees associated with a cash wire must be paid in advance or they will be deducted from the amount submitted for financial settlement.

- The SWIFT instruction <<OUR>> indicates that the party making the transfer has paid the fees in advance.
- Communicate with your financial institution to verify how to proceed.

Settlement by submittal of a certified bank check or cashier's check to the Financial Services Administrator is not acceptable. If a check is received for cash settlement, the check will be returned.

Physical Bid guarantee instruments (LOC, LOG, bond) held on account by the Financial Services Administrator will be used to cover payment for allowances purchased by an entity or individual auction participant that fails to make cash payment within seven (7) days after receiving notification of the availability of the entity's auction results.

#### **B. Return of Bid Guarantee**

The Financial Services Administrator will return any unused bid guarantees based on the delivery instructions provided when the auction application was submitted in the

Auction Platform. Cash will be returned through wire transfer<sup>11</sup> and physical bid guarantee instruments in the form of a LOC, LOG, or bond will be returned directly to the auction participants through FedEx delivery by the Financial Services Administrator. The Financial Services Administrator will send an email to the representatives of auction participants in advance of sending back the unused bid guarantee so they can prepare for receipt of funds or physical bid guarantee instruments.

All unused bid guarantees for unsuccessful bidders, regardless of type, will be returned within approximately three (3) business days after the auction is certified.

For winning bidders that provided a cash bid guarantee, the funds will be applied against the final settlement amount owed. If there is cash remaining on account with the Financial Services Administrator after the awarded allowances are settled, it will be returned to the auction participant based on the wire instructions specified during the application process in the Auction Platform.

For winning bidders that provided bid guarantees in the form of a LOC, LOG, or bond, settlement for any amount owed must be provided in cash by wire transfer to the Financial Services Administrator. Following receipt of all amounts owed, the Financial Services Administrator will return physical bid guarantee instruments directly to the participants through FedEx delivery, based on the delivery instructions specified during the auction application process in the Auction Platform.

In the event that ARB and MDDELCC determine that the auction is not certified and will not be re-run, then all bid guarantee instruments and funds will be returned to the bidders.

## **VII. Considerations for CA Entities Consigning Allowances (California Cap-and-Trade Program Only)**

Entities with Limited Use Holding Accounts may consign allowances to the Executive Officer for sale at the quarterly auctions. Consigning allowances is a separate action available only to those entities identified in the California Regulation. All allowances in a Limited Use Holding Account must be consigned to auctions occurring during the year of their vintage. Each consigning entity agrees to accept the auction settlement price

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<sup>11</sup> If a cash wire transfer is returned to the Financial Services Administrator by an entity's financial institution due to an error or incomplete wire details provided by an entity, resulting in a fee charged to the Financial Services Administrator, the fee will be reflected in the total bid guarantee returned to an entity. A returned wire fee is not an auction fee, but is a common banking transaction fee not related to the California Cap-and-Trade Program, Québec Cap-and-Trade System, or the auction process.

for allowances sold at each auction. For each auction, allowances designated for consignment must have been transferred from the entity's Limited Use Holding Account to the Auction Holding Account in CITSS at least seventy-five (75) days before the auction. Any allowances transferred to the Auction Holding Account less than seventy-five (75) days before the scheduled auction will be consigned to the subsequent auction. Allowances transferred in CITSS cannot be indicated for consignment towards a future auction. If you need assistance in completing this transfer in CITSS, please refer to the CITSS User Guide, Volume III, available at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).

If you need assistance in the consignment process, please refer to the Guidance for Allowances Consignment to Auction fact sheet available at [http://www.arb.ca.gov/cc/capandtrade/auction/consignment\\_guidance\\_may\\_2014.pdf](http://www.arb.ca.gov/cc/capandtrade/auction/consignment_guidance_may_2014.pdf).

If an entity is only consigning allowances to the auction and does not wish to participate in the auction, the "Auction Participation" box in CITSS must still be selected to ensure that the entity's current account representative contact information is sent to the Financial Services Administrator to conduct the consignment process. The entity's CITSS account representatives will be contacted by the Financial Services Administrator to obtain or confirm the wire transfer instructions for receipt of consignment proceeds. To ensure the Financial Services Administrator has current contact information for the PAR and AARs of the consigning entity, ARB recommends that the entity ensures that the "Auction Participation" box in CITSS remains selected.

An entity that consigns allowances to an auction and also wishes to participate in the same auction must complete the process to apply for the auction by completing all required actions, including selecting the "Auction Participation" box in CITSS and submitting an application or confirming an intent to bid in the Auction Platform. Any information provided in the Auction Platform regarding the form of bid guarantee and instructions for the return of unused funds or physical bid guarantee instruments will be used to complete auction settlement for allowances awarded through the auction only. The Financial Services Administrator will contact each consigning entity to obtain or confirm wire instructions for the payment of consignment proceeds.