

Auction Notice

California Cap-and-Trade Program and Québec Cap-and-Trade System Joint Auction of Greenhouse Gas Allowances on November 19, 2014 Issued on September 19, 2014

~~Updated on September 29, 2014~~

Updated on November 21, 2014

Auction Summary

This document, Auction Notice for the California Cap-and-Trade Program and Québec Cap-and-Trade System Joint Auction of Greenhouse Gas Allowances on November 19, 2014¹ (Auction Notice), is the official notification for the November 19, 2014, joint greenhouse gas (GHG) allowance auction. The November 19, 2014, joint GHG allowance auction (November 2014 joint auction #1) will offer year 2014 current vintage allowances and year 2017 future vintage allowances for sale. In the Auction Platform, the November 2014 joint auction #1 is identified by the title Joint Auction/Enchère liée #1.

The November 2014 joint auction #1 was scheduled to take place from 10:00 AM Pacific Time (PT) / 1:00 PM Eastern Time (ET) until 1:00 PM PT / 4:00 PM ET, on November 19, 2014, and has been rescheduled to take place from 10:00 AM PT / 1:00 PM ET until 1:00 PM PT / 4:00 PM ET, on November 25, 2014. This Auction Notice provides information about eligibility, auction format, and allowances to be auctioned.

Allowances Offered for Sale and Annual Reserve Prices²

The number of allowances that will be available for sale during the November 2014 joint auction #1 and the Annual Reserve Prices for California (CA) and Québec (QC) are provided in Table 1 below. The Annual Reserve Price for each jurisdiction is the Annual Auction Reserve Price posted by each jurisdiction before the calendar year in which the reserve price is in effect. The CA Annual Reserve Price is presented in United States Dollars (USD). The QC Annual Reserve Price is presented in Canadian Dollars (CAD).

¹ The November 2014 Joint Auction #1 experienced technical difficulties and was cancelled and rescheduled to be held on November 25, 2014.

² In the Auction Platform, the Annual Reserve Price is titled “Announced Reserve Price.”

Table 1: Allowances Offered for Sale and Annual Reserve Prices

Auction	Number of Allowances	CA Annual Reserve Price (USD)	QC Annual Reserve Price (CAD)
Current Auction (2014 vintage)	23,070,987	\$11.34	\$11.39
Advance Auction (2017 vintage)	10,787,000	\$11.34	\$11.39

Allowances offered for sale in the November 2014 joint auction #1 are issued under the California Cap-and-Trade Program and the Québec Cap-and-Trade System. The number of allowances listed for the Current Auction includes California state- and Québec provincial-owned allowances and California allowances consigned by the electrical distribution utilities and potentially other parties as described in the California Cap-and-Trade Regulation (California Regulation).

Attachment A to this Auction Notice includes the detailed requirements and instructions for participating in a joint auction. Attachment B to this Auction Notice provides information and examples of how to determine the amount of a bid guarantee, how holding and purchase limits are applied, how U.S. and Canadian currencies are handled, and examples of how joint auctions are settled.

Background

Assembly Bill 32 (AB 32) requires California to reduce GHG emissions to 1990 levels by 2020. The California Regulation is a key element of California's climate plan. The California Regulation is designed to provide covered entities the flexibility to seek out and implement the lowest-cost options to reduce emissions. 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 2020 CCAP will enable Québec to pursue its shift toward a green economy and to strengthen the resilience of Québec society to climate change impacts. Québec has targeted for 2020 a GHG emission reduction of 20% below the 1990 level. The Cap-and-Trade System constitutes the Government of Québec's primary strategic tool for fighting climate change and it is funding Québec's 2013–2020 Climate Change Action Plan. 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 climatiques³ (MDDELCC).

On January 1, 2014, the California Cap-and-Trade Program and Québec Cap-and-Trade System officially linked, which enabled 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. For the purpose of this Auction Notice and attachments, California and Québec are broadly referred to as "jurisdictions."

General Terms Used in Auction Notice and Attachments

For the purpose of this Auction Notice and attachments, the following general terms are used to describe systems used and potential auction participants:

- "CA entity" refers to all entities registered under the California Cap-and-Trade Program: covered entities, opt-in covered entities, and voluntarily associated entities.
- "QC entity" refers to all entities registered under the Québec Cap-and-Trade System: emitters and participants.
- "Entity" refers to all entities and individuals registered under either the California Cap-and-Trade Program or Québec Cap-and-Trade System.
- "General Market Participant" refers to all voluntarily associated entities as defined in the California Regulation and participants as defined in the Québec Regulation. A General Market Participant may include a General Market Participant - Organization or General Market Participant - Individual.
- "Auction Platform" refers to the electronic platform through which auctions and reserve sales are conducted.

Auction Exchange Rate and Auction Reserve Price

To manage multiple currencies, an Auction Exchange Rate is determined prior to each joint auction. The Auction Exchange Rate (USD to CAD) in effect the day of the joint auction and for financial settlement by auction participants will be determined the business day prior to the joint auction⁴ and will be displayed in the Auction Platform. The Auction Exchange Rate (USD to CAD) in effect for the joint auction will be set as

³ Ministry of Sustainable Development, Environment and the Fight against Climate Change.

⁴ For the rescheduled auction, the Auction Exchange Rate and Auction Reserve Price in each currency will be as determined the business day prior to the original scheduled date of the November 2014 joint auction #1, November 19, 2014.

the most recently available noon daily buying rate for U.S. and Canadian dollars as published by the Bank of Canada.

The Auction Exchange Rate and the Auction Reserve Price (USD and CAD) effective during the joint auction will be displayed in the Auction Platform the business day prior to the joint auction. 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 current and future vintage allowances offered in the auction will be sold. Bids submitted with a Bid Price below the Auction Reserve Price will not be accepted.

As an example, based on the Annual Reserve Prices shown in Table 1, if the noon daily buying rate for USD and CAD as published by the Bank of Canada is 1.1000 (USD to CAD), then the California Annual Reserve Price at \$11.34 would be the higher of the California and Québec Annual Reserve Prices, as compared to the \$10.35 USD value of the Québec Annual Reserve Price ($\$11.39 \text{ CAD} / 1.1000 = \10.3545 USD , which rounds to \$10.35 USD). The amounts shown in bold in Table 2 below reflect the values that would be the Auction Reserve Price in this example of \$11.34 in USD and \$12.47 in CAD ($\$11.34 \text{ USD} * 1.1000 = \12.4740 , which rounds to \$12.47 CAD).

Table 2: Example Auction Exchange Rate and Auction Reserve Price Determination

Auction Exchange Rate (USD to CAD)	1.1000
California Annual Auction Reserve Price (USD)	\$11.34
California Annual Auction Reserve Price (CAD Value)	\$12.47
Québec Annual Auction Reserve Price (CAD)	\$11.39
Québec Annual Auction Reserve Price (USD Value)	\$10.35

The Auction Reserve Price presented in USD and CAD in Table 2 is NOT the Auction Reserve Price in effect for the November 2014 joint auction #1. The exchange rate of 1.1000 (USD to CAD) is for example purposes only, and not representative of the actual anticipated exchange rate for any auction. The actual Auction Reserve Price for the November 2014 joint auction #1 will be determined and displayed in the Auction Platform when the Auction Exchange Rate is displayed, the business day prior to the auction.

I. Auction 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. Auction Schedule

Table 3 presents the current schedule for activities associated with the November 2014 joint auction #1 (“Auction Schedule”). Any changes to the Auction Schedule will be communicated through an updated Auction Notice and by email to the Primary Account Representatives (PARs) and Alternate Account Representatives (AARs) of California and Québec Compliance Instrument Tracking System Service (CITSS) registered entities who have indicated an interest to participate in auctions by selecting the “Auction Participation” box in CITSS.

Table 3: Auction Schedule

Activities	Due Date	Time - Pacific Time (PT) / Eastern Time (ET)
Release Auction Notice/ Auction application period opens	Friday, September 19, 2014	12:00 PM (Noon) PT / 3:00 PM ET
Auction participant training webinars	Wednesday, October 1, 2014 (To be held in French)	7:00 AM – 9:00 AM PT / 10:00 AM – 12:00 PM (Noon) ET
	Thursday, October 2, 2014 (To be held in English)	10:00 AM – 12:00 PM (Noon) PT / 1:00 PM – 3:00 PM ET
Deadline for making changes in CITSS and for submitting all hard copy documents accompanying these changes ⁵	Friday, October 10, 2014	
Auction application period closes	Monday, October 20, 2014	8:59 PM PT / 11:59 PM ET
All bid guarantees due to Financial Services Administrator	Friday, November 7, 2014	No later than 2:00 PM PT / 5:00 PM ET

⁵ Under the Québec Cap-and-Trade System and 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 Cap-and-Trade Program and California Regulation submitting documents accompanying 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.

Activities	Due Date	Time - Pacific Time (PT) / Eastern Time (ET)
Auction participants approved and PAR and AARs notified	Monday, November 17, 2014	
Auction held	Wednesday, November 19, 2014 <u>Tuesday, November 25, 2014</u>	Bidding window open from 10:00 AM – 1:00 PM PT / 1:00 PM – 4:00 PM ET
Public Auction Summary Results Report released	Wednesday, November 26, 2014 <u>Wednesday, December 3, 2014</u>	12:00 PM (Noon) PT / 3:00 PM ET
Notification of availability of auction results sent to qualified bidders	Wednesday, November 26, 2014 <u>Wednesday, December 3, 2014</u>	12:00 PM (Noon) PT / 3:00 PM ET
Financial settlement in cash due to Financial Services Administrator	Friday, December 5, 2014⁶ <u>Wednesday, December 10, 2014</u>	No later than 2:00 PM PT / 5:00 PM ET
Distribution of auction proceeds completed by	Thursday, December 18, 2014 <u>Tuesday, December 23, 2014</u>	
Transfer of allowances into CITSS Accounts	Thursday, December 18, 2014 <u>Tuesday, December 23, 2014</u>	12:00 PM (Noon) PT / 3:00 PM ET
California Post Auction Public Proceeds Report released	Thursday, December 18, 2014 <u>Tuesday, December 23, 2014</u>	
Earliest date for bid guarantee expiration	Monday, December 15, 2014 (26 days after auction⁷)	

⁶ ~~The Financial Services Administrator must collect cash payments from successful bidders within seven (7) days of an entity being notified of the auction results as provided in the California and Québec Regulations. Due to the U.S. Thanksgiving holiday, entities will be provided additional time as specified in the Auction Schedule shown in Table 3 for financial settlement in cash for the November 2014 auction only.~~

Unlike for previous California-specific and Québec-specific auctions, with the first Joint Auction, the auction results shown in the Joint Auction Summary Results Report will not include information regarding auction proceeds because the exchange rate process to determine final proceeds payments in a joint auction will not be immediately available. Instead, as illustrated in the Auction Schedule, California will issue a separate California Post Auction Public Proceeds Report after the Joint Auction Summary Results 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.

III. Administrative Requirements to Participate in Auction

Administrative requirements to participate in a joint auction are outlined below.

A. Compliance Instrument Tracking System Service (CITSS) Account

An entity must have an approved account in CITSS before applying to participate in an auction. Additionally, the individuals that will be 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 PAR or an AAR on the entity's account. Potential applicants CITSS accounts must accurately reflect all required registration information, including a report of corporate associations.

Select the "Auction Participation" box in CITSS

Additionally, to participate in a joint auction, the PAR or an AAR must select the "Auction Participation" box in CITSS to allow CITSS account information to be transferred to the Auction Administrator and Financial Services Administrator. Additional information about administrative requirements and auction participation is provided in Attachment A of this Auction Notice, available from the jurisdiction webpages.

B. Account Representatives Auction Platform Account

All account representatives who 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

⁷ Note that the earliest expiration date for physical bid guarantees ~~has been extended to~~ is twenty-six (26) days after the original scheduled date of the auction, effective for the November 2014 auction.

bids on behalf of the entity during an open bidding window, or download reports specific to the auction.

Auction Platform Account Activation

During the application period for each auction, an entity's and its representatives' information is transferred to the Auction Administrator for entities that have selected the "Auction Participation" box in CITSS. 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 their 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 to send a new link. However, 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.

Procedures for Conducting the Auction

Each quarterly joint auction will be conducted using an electronic, internet-based Auction Platform that bidders use to apply to participate in an auction and submit bids in a single-round, sealed-bid auction format.

Each entity must submit an application for or confirm an intent to bid in an auction. When completing the application or confirmation of its intent to bid in a joint auction in the Auction Platform, QC entities must select the currency of the bid guarantee to be submitted, either USD or CAD. Once a QC entity submits an application or confirmation of its intent to bid with a currency for the bid guarantee selected (USD or CAD), that currency must be used when submitting the bid guarantee, submitting bids during the joint auction, and completing financial settlement. CA entities must provide a bid guarantee in USD and will not make a currency selection when submitting an auction application. **No changes to the currency selection made during the auction application process will be allowed after the auction application is submitted.**

Bid quantities can only be submitted in lots of 1,000 allowances. Current and future vintage allowances will be sold in separate auctions. Bids for both the Current Auction and the Advance Auction will be accepted during the same 3-hour bidding window.

Bid evaluations and settlement price determination for a joint auction 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 that is participating in the joint auction 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. The settlement price for the Current Auction will be determined first, followed by the determination of the settlement price for the Advance Auction.

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 (USD 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.

Examples of how joint auctions are settled are provided in Attachment B of this Auction Notice, available from the jurisdiction web pages.

Form and Manner for Submitting Bids

The November 2014 joint auction #1 includes the opening of the 3-hour bidding window in the Auction Platform at 10:00 AM PT / 1:00 PM ET and the closing of the window at 1:00 PM PT / 4:00 PM ET on November 19~~25~~, 2014. 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. CA entities may only submit bids in USD. QC entities may only submit bids in the currency selected during the auction application process. When submitting bids manually, the currency will be pre-selected in the proper currency. If attempting to upload a bid schedule that includes bids in a currency different from the currency selected, the spreadsheet upload will fail. Additional information on submitting bids is included in Attachment A of this Auction Notice.

Financial Settlement

Entities will complete the financial settlement process with the Financial Services Administrator for all allowances awarded in an auction once the auction is certified. Financial settlement must be completed in cash in the currency in which the entity

participated in the auction. Entities submitting bids in CAD are required to complete financial settlement in CAD for any allowances awarded.

The Auction Administrator will notify each qualified bidder of the availability of the entity's auction results. For those entities that submitted cash bid guarantees, the Financial Services Administrator will apply the cash submitted to settle for any amounts owed. For entities that submitted physical bid guarantees (Letter of Credit, Letter of Guarantee, or bond), the Financial Services Administrator must collect cash payment from winning bidders within seven (7) days of notification of the availability of the auction results. The deadline for receiving payment by wire transfer is listed in the Auction Schedule.

The Financial Services Administrator will draw down the physical bid guarantee submitted to cover payment for allowances awarded by any entity that fails to make cash payment within seven (7) days.

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 on administrative and regulatory requirements for joint auction participation as well as training on completing the auction application and confirmation of intent to bid, 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.

Auction Participant Training Webinar #1 (to be held in French)

Date: Wednesday, October 1, 2014

Time: 7:00 AM – 9:00 AM PT / 10:00 AM – 12:00 PM (Noon) ET

For the Auction Participant Training Webinar #1, an invitation to the training webinar will be sent to representatives of QC entities. If you are not a representative of a QC entity, but are interested in attending Webinar #1 which will be conducted in French, please communicate with QC staff at: spede-bcc@mddelcc.gouv.qc.ca.

Instructions for joining the webinar along with the training material will be transmitted before the event to people who previously registered to Webinar #1.

Auction Participant Training Webinar #2 (to be held in English)

Date: Thursday, October 2, 2014

Time: 10:00 AM – 12:00 PM (Noon) PT / 1:00 PM – 3:00 PM ET

For the Auction Participant Training Webinar #2, click here to join the Webinar
<https://www.accuconference.com/customer/join/>.

Enter the following information on the log-in screen and click “Connect Now”:

Conference Dial-in Number: 1-800-977-8002

Conference Code: 43656583

Name: Your name and affiliation (will appear only to the moderators)

For audio, please dial in using the Conference Dial-in Number and Conference Code provided below:

Conference Dial-in Number: 1-800-977-8002 (U.S. and Canada Toll Free)
or 404-920-6650 (direct).

Conference Code: 43656583#

The webinar will continue through the scheduled time period or until all questions are answered. The webinar may end prior to the scheduled end time if there are no webinar participants or all participant questions have been answered.

Additional information on the California Cap-and-Trade Program and the Québec Cap-and-Trade System is available on the jurisdiction web pages as follows:

California

Cap-and-Trade Program: <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>

Auction Information: <http://www.arb.ca.gov/cc/capandtrade/auction/auction.htm>

Québec

Cap-and-Trade System: <http://www.mddelcc.gouv.qc.ca/changements/carbone/Systeme-plafonnement-droits-GES-en.htm>

Carbon Market Website: <http://www.mddelcc.gouv.qc.ca/changements/carbone/index-en.htm>

Contact Information

For further information about participation in the November 2014 joint auction #1, please contact one of the following:

California Cap-and-Trade Program
Ms. Ashley Dunn, California Air Resources Board
adunn@arb.ca.gov
(916) 322-7156

Mr. Charles Seidler, California Air Resources Board
cseidler@arb.ca.gov
(916) 324-0931

Québec Cap-and-Trade System
Ministère du Développement durable de l'Environnement et de la Lutte contre,
les changements climatiques
spede-bcc@mddelcc.gouv.qc.ca
(418) 521-3830; or 1-800-561-1616 option #5