

# Auction Notice

## California Cap-and-Trade Program and Québec Cap-and-Trade System

### Joint Auction of Greenhouse Gas Allowances

#### On November 17, 2015

#### Issued on September 18, 2015

#### 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 17, 2015 (Auction Notice), is the official notification for the November 17, 2015, joint greenhouse gas (GHG) allowance auction (November 2015 Joint Auction #5). The November 2015 Joint Auction #5 will offer year 2015 vintage allowances in the Current Auction and year 2018 future vintage allowances in the Advance Auction. In the Auction Platform, the November 2015 Joint Auction #5 is identified by the title Joint Auction/Enchère liée #5. **The November 2015 Joint Auction #5 is 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. This Auction Notice provides information about eligibility, auction format, and allowances to be auctioned.**

#### Allowances Offered for Sale and Annual Reserve Prices

The number of allowances that will be available for sale during the November 2015 Joint Auction #5 and the Annual Reserve Prices for California (CA) and Québec (QC) are provided in Table 1. The auction of allowances from the current and previous budget years is known as the Current Auction. The auction of future vintage allowances is known as the Advance Auction. The Current Auction and Advance Auction will occur simultaneously at the date and time identified in this Auction Notice. 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).

**Table 1: Allowances Offered for Sale and Annual Reserve Prices**

<b>Auction</b>	<b>Number of Allowances</b>	<b>CA Annual Reserve Price (USD)</b>	<b>QC Annual Reserve Price (CAD)</b>
<b>Current Auction</b>	<b>75,113,008</b>	<b>\$12.10</b>	<b>\$12.08</b>
<b>Advance Auction</b>	<b>10,431,500</b>	<b>\$12.10</b>	<b>\$12.08</b>

Allowances offered for sale in the November 2015 Joint Auction #5 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 electrical distribution utilities and natural gas suppliers (consigning entities) and potentially other parties as described in the California Cap-and-Trade Regulation (California Regulation). The allowances listed for the Current Auction can include allowances that have been made available for auction from closed Compliance Instrument Tracking System Service (CITSS) accounts, allowances submitted for untimely surrender obligations, allowances that were originally freely allocated and have been returned as a result of an enforcement settlement, and allowances from previous budget years which were offered but not sold at previous auctions held by California or Québec. As a result, the allowances offered in the Current Auction may include allowances of vintages prior to the current year. For allowances awarded in the Current Auction, allowances will be transferred to successful bidders according to the requirements of the California Regulation and the Regulation respecting a cap-and-trade system for greenhouse gas emission allowances (Québec Regulation).

The November 2015 Joint Auction #5 will offer year 2015 vintage allowances in the Current Auction and year 2018 future vintage allowances in the Advance Auction. When submitting bids for the Current Auction, all bids are placed as “Current” vintage. When submitting bids for the Advance Auction, all bids are placed as “2018” vintage.

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. Attachment A and Attachment B are available from the jurisdiction webpages, addresses are provided in the Additional Information section of this Auction Notice.

## **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 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 climatiques<sup>1</sup> (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" means a person, firm, association, organization, partnership, business trust, corporation, limited liability company, company, or government agency.

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

- “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, which can be accessed at <https://www.wci-auction.org>.

### **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 auction 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 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. In the Auction Platform, the Auction Exchange Rate is displayed as USD to CAD FX Rate. 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.

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 \$12.10 would be the higher of the California and Québec Annual Reserve Prices, as compared to the \$10.98 USD value of the Québec Annual Reserve Price ( $\$12.08 \text{ CAD} / 1.1000 = \$10.9818 \text{ USD}$ , which rounds to \$10.98 USD). The amounts shown in bold in Table 2 below reflect the values that would be the Auction Reserve Price in this example of \$12.10 in USD and \$13.31 in CAD ( $\$12.10 \text{ USD} * 1.1000 = \$13.3100$ , which rounds to \$13.31 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)	<b>\$12.10</b>
California Annual Auction Reserve Price (CAD Value)	<b>\$13.31</b>
Québec Annual Auction Reserve Price (CAD)	\$12.08
Québec Annual Auction Reserve Price (USD Value)	\$10.98

The Auction Reserve Price presented in USD and CAD in Table 2 is NOT the Auction Reserve Price in effect for the November 2015 Joint Auction #5. 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 Auction Reserve Price in effect for the November 2015 Joint Auction #5 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 2015 Joint Auction #5 (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 CITSS registered entities who have indicated an interest in participating in auctions by selecting the “Auction Participation” box in CITSS.

**Table 3: Auction Schedule**

<b>Activities</b>	<b>Due Date</b>	<b>Time - Pacific Time (PT) / Eastern Time (ET)</b>
Auction Notice released/ Auction application period opens	Friday, September 18, 2015	12:00 PM (Noon) PT / 3:00 PM ET
Deadline for CA and QC entities <sup>2</sup> to make changes in CITSS and submit all hard copy documents accompanying these changes	Monday, October 19, 2015	
Deadline for CA entities to complete or provide an update to the Auction Application Attestation Disclosure	Monday, October 19, 2015	
Auction application period closes	Monday, October 19, 2015	8:59 PM PT / 11:59 PM ET
All bid guarantees due to Financial Services Administrator	Thursday, November 5, 2015	No later than 3:00 PM PT / 6:00 PM ET
Auction participants approved and PAR and AARs notified	Friday, November 13, 2015	
Auction Exchange Rate and Auction Reserve Price Posted to Auction Platform	Monday, November 16, 2015	
Auction held	Tuesday, November 17, 2015	Bidding window open from 10:00 AM – 1:00 PM PT / 1:00 PM – 4:00 PM ET
Joint Auction Summary Results Report released	Tuesday, November 24, 2015	12:00 PM (Noon) PT / 3:00 PM ET
Auction Certified / Auction results available to qualified bidders	Tuesday, November 24, 2015	12:00 PM (Noon) PT / 3:00 PM ET
Financial settlement in cash due to Financial Services Administrator	Thursday, December 3, 2015 <sup>3</sup>	No later than 3:00 PM PT / 6:00 PM ET

<sup>2</sup> Under the Québec Cap-and-Trade System and Québec Regulation it is required that changes related to the distribution of the holding limit or any new business relationships must be sent to the Minister not less than forty (40) days before an auction.

<sup>3</sup> 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 for financial settlement as specified in the Auction Schedule shown in Table 3 for the November 2015 Joint Auction #5.

<b>Activities</b>	<b>Due Date</b>	<b>Time - Pacific Time (PT) / Eastern Time (ET)</b>
Distribution of auction proceeds completed by	Wednesday, December 16, 2015	
Transfer of allowances into CITSS Accounts	Wednesday, December 16, 2015	
California and Québec Post Joint Auction Public Proceeds Reports released	Wednesday, December 16, 2015	
Earliest date for bid guarantee expiration	Monday, December 14, 2015 (26 days after 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. As illustrated in the Auction Schedule, California and Québec will each issue separate Post Joint Auction Public Proceeds Reports which will provide the final amount of jurisdiction proceeds when the exchange rate process is completed and proceeds are distributed.

### **III. Administrative Requirements to Participate in an 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, individuals must be approved as either the PAR or an AAR on the entity's account in order to submit an application for the entity or confirm its intent to bid, and/or bid on behalf of the entity. 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.

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

## **B. PAR/AAR Auction Platform Accounts**

Any PAR or AAR authorized by an entity to act on its behalf 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 for the entity or confirm its intent to bid, submit 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. 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 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 and request that a new link be sent.

The Auction Platform can be accessed at <https://www.wci-auction.org> or from the jurisdictions' and WCI, Inc.'s webpages.

## **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 its intent to bid in an auction. For CA entities, all changes in entity application information listed in Section 95912(d)(4) of the California Regulation, including those that require submittal of hard copy documentation such as disclosure of corporate associations and the Auction Attestation, must be submitted prior to the close of the auction application period. Attachment A to this Auction Notice includes more detailed requirements related to the disclosure of corporate associations and the Auction Attestation.

For QC entities, the Québec Regulation requires that all changes in CITSS and all hard copy documentation accompanying changes in CITSS must be submitted a minimum of thirty (30) days prior to the date the auction is held.



When completing the application or confirmation of intent to bid for 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.**

To manage bid guarantees and payment for allowances awarded, the Financial Services Administrator must establish or verify a Financial Services Account for each entity that applies to participate in an auction. Entities that have not previously established a Financial Services Account and those with changes in corporate disclosures may need to provide additional information to the Financial Services Administrator to support the account being established or verified. The Financial Services Administrator will send a request for these data directly to the PAR and AARs on the entity's CITSS account.

All final bid guarantees must be received by the Financial Services Administrator by no later than the date and time listed in the Auction Schedule.

The Jurisdictions will approve or deny applicants for an auction within two (2) business days prior to the date the auction is scheduled to take place.

Bid quantities can only be submitted in multiples of 1,000 allowances. Bids for both the Current Auction and the Advance Auction will be accepted during the same scheduled 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 to this Auction Notice, available from the jurisdiction webpages.

### **Form and Manner for Submitting Bids**

The November 2015 Joint Auction #5 includes the scheduled opening of the bidding window in the Auction Platform at 10:00 AM PT / 1:00 PM ET and closing of the bidding window at 1:00 PM PT / 4:00 PM ET on November 17, 2015. Participants will be able to submit bids manually and upload bid schedules in a pre-defined Excel template in the Auction Platform during the 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 to 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 entity's auction results will be available for download through the Auction Platform after certification of the auction as provided in the Auction Schedule. For those entities

that submitted cash bid guarantees, the Financial Services Administrator will apply the cash submitted to settle for any amounts owed. For winning bidders that submitted physical bid guarantees (Letter of Credit, Letter of Guarantee, or bond), the entity must complete financial settlement in cash within seven (7) days of certification of the auction and availability of the entity's 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 for any entity that fails to make cash payment within seven (7) days of certification of the auction.

### **Auction Participant Training Materials**

An Auction Participant Training presentation for CA entities is available on the ARB Auction Information webpage and a similar Auction Participant Training presentation for QC entities is available on the MDDELCC Carbon Market webpage. Each presentation includes information on administrative and regulatory requirements for auction participation, the auction application process, bid guarantee submission, bid submission, settlement price determination, and financial settlement processes for auctions.

Training materials are also available from the Auction Platform, and include a calendar of upcoming activities, Frequently Asked Questions (FAQs), the Auction Participant Training presentation, and an Auction and Reserve Sale User Guide. Training materials are available in English for CA participants and both English and French for QC participants.

### **Transfer of Allowances into CITSS Accounts**

Transfers of allowances into CITSS accounts will be conducted by each jurisdiction to each successful bidder's CITSS account. In a fully subscribed Current Auction, where there are multiple vintages offered for sale, successful bidders will receive awarded allowances including the quantity of each allowance vintage or type based on the proportion of the quantity of each jurisdiction's contribution to the total allowances offered in the auction. In an undersubscribed auction, the proportions by vintage in which bids are filled may vary due to the requirements of the California and Québec Regulations for the sale of allowances.

## **Additional Information**

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

### **California**

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

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

CITSS Information: <http://www.arb.ca.gov/citss>

For questions regarding the California Cap-and-Trade Program, please contact the California Air Resources Board Cap-and-Trade Hotline at (916) 322-2037.

### **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>

For questions regarding the Québec Cap-and-Trade System, please contact the Québec ministère du Développement durable de l'Environnement et de la Lutte contre, les changements climatiques at 1-800-561-1616 option 5.

### **Auction Contact Information**

For further information about participation in the November 2015 Joint Auction #5, please contact one of the following:

California Cap-and-Trade Program

Ms. Natalie Lee, California Air Resources Board

[nlee@arb.ca.gov](mailto:nlee@arb.ca.gov)

(916) 324-0230

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](mailto:spede-bcc@mddelcc.gouv.qc.ca)

(418) 521-3830; or 1-800-561-1616 option #5