

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

2014 Annual Auction Reserve Price Notice Issued on September 19, 2014

Please note: California and Québec are providing this Annual Auction Reserve Price Notice to support the first joint auction on November 19, 2014. The information in Table 1 represents the combined information posted by each jurisdiction in their previous 2014 Annual Auction Reserve Price Notices.

Auction Summary

The California Air Resources Board (ARB) and the ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques¹ (MDDELCC) will be holding joint auctions of greenhouse gas (GHG) allowances. This document, *2014 Annual Auction Reserve Price Notice*, specifies the California (CA) and Québec (QC) 2014 Annual Auction Reserve Prices and the number of allowances to be auctioned in 2014 for the quarterly auctions as part of the Current Auction and Advance Auction. The 2014 quarterly GHG allowance auctions will offer 2014 vintage allowances and 2017 vintage allowances for sale.

The 2014 Annual Auction Reserve Prices and the annual budget of 2014 and 2017 vintage allowances for sale in 2014 are shown in Table 1 below.

Table 1: 2014 Auction Data

Auction Data Description	Number of Allowances to be Auctioned	CA Annual Auction Reserve Price (USD)	QC Annual Auction Reserve Price (CAD)
Current Auction (2014 vintage)	85,177,025	\$11.34	\$11.39
Advance Auction (2017 vintage)	43,148,000	\$11.34	\$11.39

The Annual Auction Reserve Price

The Annual Auction Reserve Price refers to the Auction Reserve Price established and published annually by each jurisdiction. The Annual Auction Reserve Price is a

¹ Ministry of Sustainable Development, Environment and the Fight against Climate Change

predetermined minimum price at which allowances will be sold to auction participants in jurisdiction specific auctions. Each jurisdiction provides an Annual Auction Reserve Price that conforms to its Regulation.

Section 95911 of the California Cap-and-Trade Regulation stipulates that the “Auction Reserve Price in U.S. dollars shall be the U.S. dollar Auction Reserve Price for the previous calendar year increased annually by 5 percent plus the rate of inflation as measured by the most recently available twelve months of the Consumer Price Index for All Urban Consumers.” The rate of inflation used to calculate California’s 2014 Auction Reserve Price is 0.963 percent.

Article 49 of the Québec Cap-and-Trade Regulation stipulates that “The minimum price of the emission units is set at:

- (1) \$10 per emission unit, for auctions conducted in 2012;
- (2) for auctions conducted in any year after 2012, the price set in subparagraph 1 increased annually by 5% and adjusted in the manner provided for in section 83.3 of the Financial Administration Act (chapter A-6.001).” The rate of inflation used to calculate Québec’s 2014 Auction Reserve Price is 0.97 percent.

Auction Exchange Rate and Auction Reserve Price

Entities registered under the Québec Cap-and-Trade System (QC entities) may participate in joint auctions in either United States Dollars (USD) or Canadian Dollars (CAD). 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 available the business day prior to each joint auction. The Auction Reserve Price will be determined as the higher of the California or Québec Announced Reserve Prices after applying the established Auction Exchange Rate (USD to CAD).

Current Auction Budget

The current auction budget describes the approximate number of current vintage allowances to be sold in 2014. This number includes the jurisdiction-owned allowances

(approximately 13,021,417 million) and the allowances to be consigned by the California electrical distribution utilities (72,155,608). Twenty-five percent of the jurisdiction-owned allowances will be available at each auction. California utilities are required to notify ARB 75 days before each auction of the number of allowances they intend to consign. The total number of allowances to be auctioned in each joint auction will be published in the auction notice 60 days in advance. California electrical distribution utilities' allowances not consigned in the first three auctions in 2014 will be included in the November 19, 2014, auction.

The actual quantity and types of allowances in the current auction may fluctuate slightly during the year. There are several factors that may account for these fluctuations in the annual current auction budget. These include additional allowances that may be made available for auction from closed Compliance Instrument Tracking System Service accounts, allowances submitted for untimely surrender obligations, and the potential return of freely allocated allowances as the result of an enforcement settlement. In each of these situations, the vintages may not be the same as the current calendar year, or the allowances may not have a vintage if they were purchased from a jurisdiction's Reserve Sale.² There is also the small potential for a jurisdiction to allocate to a new entrant in the program, which would decrease the amount of the jurisdiction's allowances for auction.

In a simple case, where the current auction allowances are all the same vintage, each bid lot would be comprised of allowances from both jurisdictions proportional to the quantity of each jurisdiction's contribution to the total current vintage budget. For example, if the current vintage budget for an auction included 60 percent 2014 California allowances and 40 percent Québec 2014 allowances, each bid lot of 1000 allowances would include 600 California and 400 Québec allowances.

For a slightly more complex case, where there are multiple vintage types in the current auction, assume the current vintage split is still 60-40 between the jurisdictions. In this case, the Québec portion includes 20 percent 2015 allowances and 20 percent 2014 allowances for its total 40 percent. Each awarded bid lot of 1000 allowances would include 600 California 2014 vintage allowances, 200 Québec 2015 allowances, and 200 Québec 2014 allowances. This example can be expanded using the same logic of proportionality if there more than two types of vintages for a jurisdiction. In a situation where there are not enough allowances of a specific vintage to evenly distribute across all winning bid lots, a tiebreaker process is used to assign bid lots of that vintage to successful bidders.

² Québec Sales by Mutual Agreement are referred to as Reserve Sales for simplicity.

Information on the specific quantity and types of allowances within the current auction budget for each auction will be made available in each Auction Notice, which is posted 60 days prior to the auction on the jurisdictions' websites.

Advance Auction Budget

The advance auction budget represents 10 percent of the allowances from each of the jurisdictions' allowance budget for the year three years subsequent to the current calendar year. Since the combined annual allowance budget in 2017 is 431,480,000, the advance auction combined budget for 2014 is 43,148,000. These future vintage allowances will be equally divided for sale across the four Advance Auctions conducted in 2014.

2014 Quarterly Auction Dates

An Auction Notice will be published 60 days prior to each auction. The Auction Notice provides information about eligibility, auction format, and GHG allowances to be auctioned for the applicable auction.

Table 2 provides additional information specific to the scheduled quarterly auctions, including the three California and Québec auctions already conducted.

Table 2: California and Québec 2014 Quarterly Auction Critical Dates

	Auction Consignment Due Date for California EDUs	Auction Notice Posting Date	Auction Application Due Date	Auction Dates
California Auction	12/6/2013	12/20/2013	1/21/2014	2/19/2014
	3/3/2014	3/17/2014	4/16/2014	5/16/2014
	6/4/2014	6/19/2014	7/18/2014	8/18/2014
Québec Auction	n/a	1/03/2014	2/03/2014	3/04/2014
	n/a	3/28/2014	4/28/2014	5/27/2014
	n/a	6/27/2014	7/28/2014	8/26/2014
California and Québec Joint Auction	9/5/2014	9/19/2014	10/20/2014	11/19/2014

Contact Information

For further information about the Annual Auction Reserve Price, the Auction Reserve Price Determination for a joint auction, or the Current Auction and Advance Auction allowance budgets for auctions conducted in 2014, please contact one of the following:

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Québec Cap-and-Trade System

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