

# **Attachment A: Detailed Reserve Sale Requirements and Instructions**

## **Reserve Sale Notice California Cap-and-Trade Program Sale of Greenhouse Gas Allowances from the Allowance Price Containment Reserve**

AB 32 requires California to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020. The Cap-and-Trade Regulation (“Regulation”) is a key element of California’s climate plan. The Regulation is designed to provide covered entities the flexibility to seek out and implement the lowest-cost options to reduce emissions. As part of the Cap-and-Trade Program, California will conduct sales of allowances from the Allowance Price Containment Reserve (reserve sale). This attachment provides greater detail about participant eligibility, format of the reserve sale, and Allowance Price Containment Reserve (APCR) allowances offered for sale.

Pursuant to the Regulation, reserve sales will be conducted on the first business day six (6) weeks after each quarterly GHG allowance auction. If there are no qualified applicants or qualified bidders for any scheduled reserve sale, that reserve sale will not be held. The determination not to hold a reserve sale can be made at the close of the application period, at the due date for submittal of bid guarantees, or at the deadline for ARB approval of participants which is scheduled to occur two (2) days prior to each reserve sale. If a reserve sale will not be held, ARB will post a notification on the ARB Cap-and-Trade Auction Information webpage at [www.arb.ca.gov/auction](http://www.arb.ca.gov/auction) no later than two (2) days prior to the scheduled reserve sale.

### **I. Administrative Requirements to Participate in the Reserve Sale**

Outlined below are requirements that must be met prior to being able to access the Auction Platform to submit an entity’s application or confirm an entity’s intent to bid in a reserve sale.

#### **A. Eligibility**

California covered entities and opt-in covered entities, are eligible to participate in reserve sales. Voluntary associated entities and individuals are not eligible to participate in reserve sales. Approved offset registries, verification bodies, and offset verifiers are not eligible to participate in auctions or reserve sales as they are not allowed to hold compliance instruments under the Regulation.

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

Prior to applying to participate in a reserve sale, an entity must have an approved account in the CITSS and 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 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 during the application period and are still a PAR or AAR at the time the reserve sale is conducted are allowed to submit bids on behalf of an entity during a reserve sale.

An entity interested in participating in the reserve sale that has not already obtained approval of a CITSS account, is strongly advised to complete the 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. All individuals designated as account representatives must be an approved user in the CITSS.

Accounts in the CITSS must be approved by the California Registrar and have the “Auction Participation” box discussed below enabled no later than one (1) day prior to the end of a reserve sale application period which would leave the entity one (1) day to have representatives activate Auction Platform accounts and complete a reserve sale application in the Auction Platform.

CITSS can be accessed at <https://www.wci-citss.org> or from the ARB Cap-and-Trade Program webpage.

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

A PAR or AAR from each entity must select the “Auction Participation” box in the CITSS to indicate an interest to participate in upcoming auctions or reserve sales. By selecting this box, an entity representative is agreeing to have the entity name, general account number, entity contact information, representative names, representative phone numbers, and representative email addresses transferred to the Auction and Reserve Sale Administrator (Auction Administrator)<sup>1</sup> and Financial Services Administrator for the purpose of facilitating participation in an upcoming reserve sale.

The “Auction Participation” box must be enabled no later than one (1) day prior to the end of the application period for a reserve sale an entity wishes to participate in.

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<sup>1</sup> For simplicity the Auction and Reserve Sale Administrator is referred to as the Auction Administrator in all notices regarding auctions and reserve sales.

You may disable the "Auction Participation" box if you wish to stop sharing your entity's information with the Auction Administrator and Financial Services Administrator and wish to no longer participate in any future auctions or reserve sales. While you may change this setting at any time in the CITSS, this setting must be disabled prior to the start of an application period for an auction or reserve sale to avoid having your information sent to the Auction Administrator and Financial Services Administrator.

During an application period, the entity and representatives' information is sent on a daily basis to reflect any approved changes or updates. To ensure account representatives' continued access to the Auction Platform, the "Auction Participation" box must remain selected until the reserve sale is closed.

If you need any additional information on enabling or disabling the "Auction Participation" box, please refer to the CITSS User Guide Volume 2 available at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).

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

If an entity needs to add, remove, or change the current PAR or AARs or update their entity information, the changes should be approved prior to selecting the "Auction Participation" box in the CITSS. This ensures entity account information that is transmitted to the Auction Administrator is current and accurate.

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

- Enter changes as needed in the CITSS.
- Complete and submit the required Request to Change Account Representatives/ Account Viewing Agents Form provided through the CITSS and available at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).
- Approval by the California Registrar should occur within ten (10) business days of receiving all required documentation.
- Following approval of all representatives, ensure that the "Auction Participation" box is selected in the CITSS.

If a material change occurs to an entity's account information after an auction or reserve sale application period closes, it may limit the entity's ability to participate in the auction or reserve sale or for a PAR or AAR to represent an entity in an auction or reserve sale. Prior to each auction or reserve sale, ARB will verify the current account representatives associated with each entity that has been approved to participate in the auction or reserve sale. If there has been a change in account representatives, only those representatives that have completed the Auction Platform activation process, were

associated with the entity when the auction or reserve sale application was submitted, and are active representatives on the entity's CITSS account will be allowed to submit bids during the auction or reserve sale. 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.

### **3. Participation by Entities with Corporate Associations**

The Regulation requires ARB to provide a consolidated set of accounts to entities that have a direct corporate association. There is an option to not be part of a consolidated set of accounts. Entities must formally request the opt-out option. The Regulation also requires information about corporate structure and associations to be updated as any changes occur.

The nature of associated entities' registration in the CITSS determines their ability to participate in an auction or reserve sale. For entities that are registered in the CITSS under a single Consolidated Entity Account (CEA), the CEA is the only entity that can participate in an auction or reserve sale.<sup>2</sup> If an entity has opted-out of a CEA, both the CEA and the entity(ies) that opted-out of consolidation can participate in an auction or reserve sale. For any entities with a direct corporate association that are not consolidated, purchase limits<sup>3</sup> and holding limits will be assessed separately for each entity participating in an auction or reserve sale based on the information provided in the consolidated account forms submitted to ARB.

Providing incomplete or inaccurate information regarding direct corporate associations and consolidation of accounts will cause an entity's auction or reserve sale application to be rejected. ARB staff will try to resolve any potential issues related to consolidated or opt-out entities to ensure they can participate in an auction or reserve sale.

Any change to registration application information listed in Section 95830(c) of the Regulation must be updated within ten (10) working days of the change occurring. Pursuant to Section 95833(e), any changes to corporate associations must be reported to ARB within thirty (30) days of the change occurring. If a change to the corporate association affects auction or reserve sale participation, that change and any additional actions required by that change, must be approved no less than one (1) day prior to the end of an auction or reserve sale application period or the entity(ies) involved may not be able to participate in the auction or reserve sale. Additionally, if any change of ownership resulting in a change of corporate associations becomes effective after an

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<sup>2</sup> Only covered entities and opt-in covered entities are eligible to participate in reserve sales.

<sup>3</sup> Purchase limits apply to auctions only. There is no purchase limit applied to the purchase of APCR allowances offered at reserve sales.

application period ends and prior to the scheduled date for distribution of allowances resulting from an auction or reserve sale, the entities impacted by the change of ownership may not be able to participate in the auction or reserve sale.

## **II. Account Representatives Auction Platform Account**

All account representatives that are authorized by an entity to act on behalf of the entity in an auction or reserve sale 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 and submit bids on behalf of the entity during an open bidding window.

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

During the application period for each auction or reserve sale, entity and representatives information is transferred to the Auction Administrator for entities that have enabled the “Auction Participation” box in the CITSS. Representatives that have not previously been indicated as a PAR or AAR on any CITSS account that has selected the “Auction Participation” box in the CITSS are sent an email inviting them to activate their account. If an individual has previously activated their Auction Platform account, that individual will be able to access the Auction Platform using the established credentials.

The username for an Auction Platform account is the email the user has submitted in the CITSS. If the email changes, the individual will need to activate a new Auction Platform account during the next auction or reserve sale application period. If an individual is removed as an account representative from an entity, they will not be able to represent the entity in the Auction Platform.

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

- During an open auction or reserve sale application period, account information including entity and representatives details is sent on a daily basis from the CITSS to the Auction Administrator.
- Individuals that previously activated an account in the Auction Platform will be able to access the Auction Platform using their previously established credentials. Starting the first day after the application period opens for each auction or reserve sale, individuals that have not previously been indicated as a PAR or AAR on any CITSS account that has selected the “Auction Participation” box in the CITSS will receive an account activation email from the Auction Platform. The email provides an activation link to activate an account and establish an Auction Platform password.
  - The email address submitted in the CITSS user registration process will be the account representative’s username in the Auction Platform.

- If the “Auction Participation” box is selected during the application period, the representatives will receive the invitation to activate an account by the next business day.
- The activation link can only be used once, and will expire in twenty-four (24) hours of receipt of the Auction Platform account activation email.
- If an individual previously activated an account in the Auction Platform but has changed their email in the CITSS, they will need to activate a new account through the Auction Platform and will receive an account activation email after the Auction Platform has received the updated information. The prior Auction Platform access and username will be disabled.
- All current entity associations will be reflected in the Auction Platform for all accounts for which the individual is an approved PAR or AAR that have selected to have account information sent to the Auction Administrator.

**A. Account Representatives Associated with Multiple Entities**

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

If an individual is an account representative on multiple entity accounts, each time the individual logs in to the Auction Platform they will have to select which entity they will represent in that session. To submit information for another entity the individual will log out of the Auction Platform and then log back in selecting the other entity that they wish to represent.

**III. Reserve Sale Participation Process**

The reserve sale participation process includes all actions taken to apply for participation in a reserve sale, submit a bid guarantee, bid during the open bidding window, and settle amounts owed following the reserve sale. Outlined below are the steps that must be completed to participate in a reserve sale.

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

- Step 1a: Confirm intent to bid
- Step 1b: Verify entity and account representative information
- Step 1c: Provide information on form of bid guarantee to be submitted

- Step 1d: Complete attestation and submit reserve sale application
- Step 2: Review training materials
- Step 3: Submit bid guarantee
- Step 4: Receive notice of entity's approval to participate
- Step 5: Participate in the reserve sale
- Step 6: Access reserve sale results
- Step 7: Complete financial settlement

### **Step 1: Apply to Participate in the Reserve Sale**

For each reserve sale, the application period starts at least twenty eight (28) days prior to the reserve sale with the release of the reserve sale notice and ends approximately fourteen (14) days prior to the reserve sale with the due date for submitting a reserve sale application or confirming an entity's intent to bid in the Auction Platform. The due date for submitting a reserve sale application or confirming an entity's intent to bid in the Auction Platform is the date the reserve sale application window closes in the Auction Platform listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.

#### First Time Auction or Reserve Sale Participant

Entities that have not previously been approved to participate in an auction or reserve sale must submit a reserve sale application through the Auction Platform by the date and time listed in the Reserve Sale Notice. Each entity must complete the application no later than the end of the reserve sale application period as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice. The application process is described below.

#### Previous Auction or Reserve Sale Participant

Once an entity has previously been approved to participate in an auction or reserve sale, the entity does not need to submit another application for subsequent auctions or reserve sales unless there is a material change to the application information. To participate in subsequent auctions or reserve sales, 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 reserve sale application window closes in the Auction Platform as listed in the Reserve Sale Schedule provided in the Reserve Sale 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 reserve sale 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 the CITSS. Therefore, all changes to reserve sale application information must be made in the CITSS. Material changes such as a change in an entity's legal name will require review and approval by the California Registrar. It may take up to ten (10) business days before entity detail changes made in the CITSS are approved and reflected in the Auction Platform. Updates in the CITSS should be made as early as possible and a minimum of ten (10) business days before the close of the reserve sale application period to allow time for approval and subsequent confirmation of the information in the Auction Platform.

**Step 1c: Provide Information on Form of Bid Guarantee to be Submitted**

The entity representative must then select the form of bid guarantee that will be submitted for the reserve sale. Reserve sale participants can identify one or a combination of the forms of bid guarantee in the Auction Platform on the Bid Guarantee page. All physical forms of bid guarantee (LOCs or bonds) will be sent directly to the Financial Services Administrator, as described in Step 3, the "Submit Bid Guarantee" section of this Attachment.

**Step 1d: Complete the Attestation and Submit Reserve Sale Application**

When the information is complete and accurate, the entity representative will complete the attestation in the Auction Platform and submit the application or confirmation of intent to bid.

After the application or confirmation of intent to bid is submitted, ARB, the Auction Administrator, and the Financial Services Administrator will perform a number of tasks.

1. The Auction Administrator will confirm receipt of each reserve sale application or confirmation of intent to bid on the day it is received via an email sent to the account representatives.
2. The Financial Services Administrator will complete the process to establish (first time participant) or confirm (previous participant) the entity's

financial services account in which the entity's bid guarantee will be deposited.

- i. The account representatives will receive an email from the Auction Platform notifying them when the account has been established or verified and directing them to submit the bid guarantee. The representatives will also receive an email from the Auction Platform when the bid guarantee has been accepted.
3. ARB will review each applicant's information, CITSS account status, and bid guarantee and make a determination to approve or deny participation in the reserve sale. Each applicant will be notified via email within two (2) days of the reserve sale date, as to whether their reserve sale participation has been approved or denied by ARB. Each entity that has completed a reserve sale application or confirmed an intent to bid and been approved by ARB is referred to as a "Qualified Bidder."
  4. Prior to the reserve sale, ARB will verify that all accounts and representatives are still current and active in the CITSS.
    - Any entities that no longer have active accounts will not be allowed to participate in the reserve sale.
    - Any representatives that have been removed from a CITSS account will not be allowed to submit bids on behalf of an entity they no longer represent.

## **Step 2: Review Training Materials**

### **A. Reserve Sale Participant Training Materials**

Reserve sale participant training materials are available on ARB's Auction Information webpage at [www.arb.ca.gov/auction](http://www.arb.ca.gov/auction) including descriptions of the following:

- reserve sale format, application process, procedures, and requirements,
- how to apply for a reserve sale and submit bids in the Auction Platform, and
- how to submit a bid guarantee.

Training materials are also available on the Resources tab of the Auction Platform. Training materials available on the Auction Platform include 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 or reserve sale, Frequently Asked Questions (FAQs), and a calendar of upcoming activities.

### **B. 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 GHG Cap-and-Trade Program, please contact the California Air Resources Board at (916) 322-2037.

## **Step 3: Submit Bid Guarantee**

Reserve sale participants select one or a combination of the acceptable bid guarantee forms during the application or confirmation of intent to bid process completed in the Auction Platform on the Bid Guarantee page. 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 a reserve sale must submit its bid guarantee directly to the Financial Services Administrator. Partial financial services account information is provided in the email notification but the entity representatives must download the "Wiring Instructions" from the templates section of the Auction Platform to obtain complete account information that will be needed when submitting the bid guarantee.

The Financial Services Administrator acts as an agent for ARB for the purpose of financial administration for California GHG allowance auctions and reserve sales.

Financial guarantee instruments submitted for an auction or reserve sale must be in one or a combination of the following forms:

- Cash in the form of wire transfer or certified funds such as a bank check or cashier's check.
- An irrevocable letter of credit (LOC) from a financial institution with a U.S. banking license.
- A bank bond issued by a financial institution with a U.S. banking license.

On behalf of ARB, 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 United States Dollars ("USD") by no later than the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.**

When an entity submits a physical bid guarantee, LOC or bank bond, 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 prior to the bid guarantee submission deadline. ARB encourages entities to submit a sample LOC or bank bond to the Financial Services Administrator for review and to submit final documents early enough to provide time for amendment if needed. Applicants will receive an email from the Auction Platform confirming that their bid guarantee has been accepted by Deutsche Bank, the Financial Services Administrator.

The amount of the bid guarantee provided to the Financial Services Administrator will be used to set bidding limitations in the reserve sale. The amount of the bid guarantee must be greater than or equal to the maximum value of the bids to be submitted. To determine the bid guarantee amount to provide, please see Attachment B of this Reserve Sale Notice available at [http://www.arb.ca.gov/cc/capandtrade/auction/april-2014/reserve\\_sale\\_attachment\\_b.pdf](http://www.arb.ca.gov/cc/capandtrade/auction/april-2014/reserve_sale_attachment_b.pdf).

A bid guarantee will be returned if it does not meet the requirements and required terms for a bid guarantee at the date and time listed for all bid guarantees due to the Financial Service Administrator. Amendments of an LOC or Bank Bond will not be accepted after the date and time listed for all bid guarantees due to the Financial Service Administrator. If a bid guarantee is returned the reserve sale application will be rejected.

Unused bid guarantees will be returned by the Financial Services Administrator per the bid guarantee return instructions given during the application process, no later than twelve (12) days after the certification of the reserve sale.

#### **A. Submitting a Cash Bid Guarantee (Wire Transfer or Certified Funds)**

Cash wire transfers or certified funds must be received by the Financial Services Administrator, Deutsche Bank National Trust Company (Deutsche Bank), by the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice. Specific delivery instructions for cash or wire transfers, certified funds, certified bank checks or cashier's checks, Letter of Credit, or bank bonds are provided below.

##### **1. Submitting a Wire Transfer**

After receiving email notification that the entity's financial services account has been established or verified, the entity representatives will access the Auction Platform and download the "Wiring Instructions" from the templates section to obtain complete wiring instructions for submitting cash by wire transfer. **It is important that the wire details are set up exactly as provided in the entity's "Wiring Instructions" in order to deposit the funds by the bid guarantee submittal deadline.<sup>4</sup> See the Reserve Sale Schedule in the Reserve Sale Notice for the exact date and time.**

The cash wire details will include the following information:

- Originating Bank Information ("OBI Field")
- Receiving bank name (Deutsche Bank Trust Company Americas)
- ABA routing number
- DDA Number
- Beneficiary details
- Payment Details<sup>5</sup>
- Reference (CA ARB)

##### **2. Submitting a Certified Bank Check or Cashier's Check**

After receiving email notification that the entity's financial services account has been established or verified, the entity representatives will access the Auction Platform and download the "Wiring Instructions" from the templates section to obtain complete account information and mailing instructions for submitting cash by certified funds,

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<sup>4</sup> 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 a reserve sale fee, but is a common banking transaction fee not related to ARB or the reserve sale process.

<sup>5</sup> The Payment Details include the entity's account number and name that you will receive in the Wiring Instructions downloaded from the Auction Platform.

certified bank check or cashier's check. The entity's complete financial services account number is only available on the "Wiring Instructions." This account number must be referenced to ensure funds are deposited in a timely manner. The financial security will be deposited into the financial services account at the time the check clears.

All checks must be made out to "Deutsche Bank National Trust Company" and the submittal must include a reference to the entity's financial services account number.

Certified funds must be received by the Financial Services Administrator, Deutsche Bank National Trust Company (Deutsche Bank), by the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, at the address provided below.

**Mailing Address:**

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

**(Please include your CITSS Entity Legal Name and financial services account number when mailing the bid guarantee.)**

**B. Submitting a Letter of Credit (LOC) Bid Guarantee**

A LOC issued by a United States financial institution must be received by the Financial Services Administrator, Deutsche Bank, by the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, at the address provided below.

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

**Mailing Address:**

ARB Auction and Reserve Sale Financial Services Administrator  
c/o Deutsche Bank National Trust Company  
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 forms.)**

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-one (21) days after the scheduled auction or reserve sale.
- There must be instructions included indicating where to submit the LOC for payment.
- There must be a payment certificate/form of draw included as an exhibit or annex to the LOC.
- The LOC must be payable within one (1) business day.
- There must be a draw cut off time of no earlier than 9:00 am Pacific Time (PT) for same day draw.

**If the submitted LOC requires revision, all revisions must be completed and received in physical form by the bid guarantee submittal deadline or the LOC will not be accepted.** Please note if any of these terms are not met by the date and time listed for all bid guarantees due to the Financial Service Administrator the submitted LOC will be rejected.

### **C. Submitting a Bank Bond Bid Guarantee**

A bank bond issued by a United States financial institution must be received by the Financial Services Administrator, Deutsche Bank, by the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, at the address provided below.

***NOTE: Complete and proper addressing is critical to ensure receipt of the Bank Bond by the bid guarantee submittal deadline date and time.***

#### **Mailing Address:**

ARB Auction and Reserve Sale Financial Services Administrator  
 c/o Deutsche Bank National Trust Company  
 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 forms.)**

All bid guarantees in the form of a bank 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.
- The party named as "Principal" in the bank bond must be identical to that named in the participant's application.
- Deutsche Bank National Trust Company must be listed as the beneficiary/obligee.
- The expiration date must be at least twenty-one (21) days after the scheduled auction or reserve sale.
- The amount of the bank bond must be included.
- There must be instructions included indicating where to submit the bank bond for payment.
- There must be a payment certificate/form of draw included as an exhibit or annex to the bank bond.
- The bank bond must be payable within one (1) business day.

**If the submitted bank bond requires revision, all revisions must be completed and received in physical form by the bid guarantee submittal deadline or the bank bond will not be accepted.** Please note if any of these terms are not met by the date and time listed in the Reserve Sale Notice for all bid guarantees due to the Financial Service Administrator the submitted bank bond will be rejected.

#### **D. Bid Guarantee Revision Process**

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

- The participant will be notified by the Financial Services Administrator of the need for revision.
- The participant would contact their financial institution and request an amendment to their bid guarantee.
- **The revised bid guarantee must be received in physical form by the bid guarantee submittal deadline 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: [CAARB.inbox@db.com](mailto:CAARB.inbox@db.com)

### **Bid Guarantee Submittal Summary**

- An entity submitting a bid guarantee by wire must provide all information listed to ensure the bid guarantee is accepted and associated with the proper account.
- An entity is responsible to ensure a non-cash bid guarantee is received in physical form including all required non-negotiable terms by the Financial Services Administrator by the date and time listed in the Reserve Sale Schedule in the Reserve Sale Notice.
- A bid guarantee or bid guarantee amendment received after the date and time listed in the Reserve Sale Schedule in the Reserve Sale 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.
- An entity is responsible to ensure proper addressing of a bid guarantee. A bid guarantee received after the date and time listed in the Reserve Sale Schedule in the Reserve Sale Notice due to incorrect addressing to the Financial Services Administrator will not be accepted.
- If a bid guarantee is not received by the date and time listed in the Reserve Sale Schedule in the Reserve Sale Notice the reserve sale application will be rejected.

#### **Step 4: Receive Notice of Entity's Approval to Participate**

Once ARB approves or rejects an entity for reserve sale participation, the PAR and all AARs for the entity will receive an email confirming approval or denial to participate in the reserve sale.

The reasons for possible denial of an entity's participation in a reserve sale 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 that affects reserve sale participation.
- The entity has not submitted a bid guarantee to the Financial Services Administrator by the date and time listed in the Reserve Sale Notice.

### **Step 5: Participate in the Reserve Sale**

Reserve sales will be conducted using an electronic, internet-based Auction Platform that bidders will use to submit their bids. Bid quantities must be submitted in multiples of 1,000 California GHG APCR allowances.

Pursuant to the Regulation, ARB's Executive Officer shall divide all APCR allowances into three equal-sized tiers to be offered for sale by the Auction Administrator at each reserve sale.

Sales of APCR allowances in calendar year 2014 shall be conducted at the following prices:

- (A) Allowances from the first tier shall be offered for \$42.38 per allowance;
- (B) Allowances from the second tier shall be offered for \$47.68 per allowance;
- and
- (C) Allowances from the third tier shall be offered for \$52.98 per allowance.

The Auction Administrator will conduct sales from each tier in succession, beginning with the lowest priced tier and proceeding to the highest priced tier, until either all allowances are sold from the APCR or all the accepted bids are filled.

Examples of how reserve sales are settled are provided in Attachment B of this Reserve Sale Notice.

#### **A. Bidding in the Reserve Sale**

Each reserve sale includes the opening of the 3-hour bidding window in the Auction Platform at 10:00 AM PT and the closing of the window at 1:00 PM PT. A countdown clock in the Auction Platform will indicate the amount of time remaining until the start of the bidding window and once the reserve sale begins, the amount of time left in the bidding window. 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 reserve sales are as follows:

- Reserve sale participants will submit a bid including a number of bid lots (1 lot = 1,000 allowances) and the tier at which they bid to purchase the allowances.
- Reserve sale participants are allowed to submit as many bids as they wish during the 3-hour window.

- Participants will be able to edit or withdraw their confirmed bids during the 3-hour reserve sale bidding window.
- Once the reserve sale bidding window has been closed no further bids may be entered and no changes to bids can be made.

## **B. Bidding Limitations**

The Regulation includes bidding limitations for reserve sales related to the bid guarantee submitted and the holding limit. The determination of bidding limitations occurs after the bidding window has been closed and before the final purchase determinations are made. Submitted bids that contain bid quantities less than or equal to the holding limit, or that have a maximum value less than or equal to the bid guarantee amount will be accepted, in bundles of 1,000 allowances. All other bid lots (bundles of 1,000 allowances) will be rejected. These bidding limits are further described below.

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

### **1. Bid Guarantee Bid Limitation**

The bid guarantee for a reserve sale must be greater than or equal to the maximum value of the bids submitted. A bid guarantee that is less than the maximum value of submitted bids for the reserve sale is a violation of the California Cap-and-Trade Regulation. Submitted bids that contain bid quantities with a maximum value in excess of the bid guarantee will be rejected, in bundles of 1,000 allowances, until the bid guarantee limitation 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 final purchase determinations are made.

### **2. Holding Limit Bid Limitation**

The holding limit is the maximum number of California GHG allowances that may be held by an entity or jointly held by a group of entities with a direct corporate association. Submitted bids that contain bid quantities that would result in an entity exceeding their holding limit are in violation of the California Cap-and-Trade Regulation. Further detail on how the holding limit applies to a reserve sale is provided in Attachment B of this Notice.

Entities that are part of a direct corporate association that choose to opt out of account consolidation pursuant to section 95833(f)(3) of the Regulation must allocate shares of the holding limit among themselves. 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.

ARB will transmit a file to the Auction Administrator prior to the reserve sale that contains the holding limit cap for each reserve sale participant. These caps will indicate how many allowances a reserve sale participant may acquire before exceeding their holding limit. The holding limit cap will be based on the CITSS account balances, limited exemption data, and holding limit allocations to entities with a direct corporate association (if applicable) available in the CITSS at approximately 12:00 PM (Noon) PT the day prior to the reserve sale. 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 reserve sale and will only reflect the account balances in CITSS the day before the reserve sale. 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 reserve sale.

Submitted bids that contain bid quantities in excess of the 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 purchase determinations are made.

### **3. Purchase Limit Bid Limitation**

There is no purchase limit applied to the purchase of APCR allowances offered at reserve sales.

#### **Bid Limitations Summary**

- Submitted bids that contain bid quantities in excess of the bid guarantee submitted for the reserve sale is a violation of the California Cap-and-Trade Regulation.
- Submitted bids that contain bid quantities that would result an entity exceeding their holding limit are a violation of the California Cap-and-Trade Regulation.

### **C. Market Monitoring**

ARB has contracted with an independent market monitor, Monitoring Analytics, LLC. for the California Cap-and-Trade Program. The purpose of the Market Monitor is to

monitor, detect, and report issues relating to the operation of the GHG allowance auctions, reserve sales, and secondary markets.

The Market Monitor will monitor the GHG allowance auctions and reserve sales, 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 ARB staff to review and take action, as needed. ARB staff will also be monitoring the auctions and reserve sales during the bidding window and reviewing 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 6: Access Reserve Sale Results**

Following the reserve sale, ARB and the Market Monitor will review the reserve sale results. ARB's Executive Officer will review the conduct of the reserve sale and certify whether the reserve sale met the requirements of the Regulation. After certification, reserve sale results will be accessible.

##### **A. Public Notification of Reserve Sale Results**

The public results from a reserve sale including the total purchases by tier will be posted on the ARB webpage at [www.arb.ca.gov/auction](http://www.arb.ca.gov/auction) and the WCI, Inc. website at <http://www.wci-inc.org>. This posting is anticipated to occur at the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.

The reserve sale results will include the following:

- The names of the qualified bidders.
- The reserve sale prices per tier and allowances available in each tier.
- The total number of allowances sold from each tier.<sup>6</sup>

In the event of a delay in posting the public reserve sale results, a message will be posted on the ARB webpage and WCI, Inc. webpage providing the new time for the release of the public notification of results.

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<sup>6</sup> The total number of allowances will be provided only if the total represents purchases from a minimum of three (3) qualified bidders.

## **B. Notification of Entity Reserve Sale Results**

Following the posting of the public reserve sale results, representatives of reserve sale participants will receive an email notification that they can log in to the Auction Platform to view their entity's reserve sale results in the entity's Organization Results Report. The Organization Results Report acts as the financial settlement invoice for the reserve sale and will include the number of GHG allowances the entity has been awarded, if any.

### **Step 7: Complete Financial Settlement**

Financial settlement will begin once the ARB's Executive Officer has certified the reserve sale results. The Financial Services Administrator will settle for all allowances awarded in a reserve sale. The financial settlement process will take place outside of the Auction Platform. The Auction Platform will send an email notification of the availability of the Organization Results Report, which is the entity's financial settlement invoice and includes the total cost of the allowances awarded, if any. The email notification of the availability of the Organization Results Report represents receipt of the financial settlement invoice and is the beginning of the seven (7) day period in which a reserve sale participant is required to pay the amount due for allowances awarded in cash to the Financial Services Administrator.

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

- Notify each qualified bidder of the availability of the reserve sale results including the number of allowances purchased by tier, total allowances purchased, total purchase cost, and the deadline and method for submitting payment.

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

- Collect cash payment from winning bidders within seven (7) days of notification of the availability of the reserve sale results.
- Use the bid guarantee to cover payment for allowance purchases by any entity that fails to make cash payment within seven (7) days.
- Deposit reserve sale proceeds from the sale of ARB APCR allowances to the Greenhouse Gas Reduction Fund.

Once financial settlement is complete, ARB will transfer the number of allowances purchased into each winning bidder's CITSS compliance account.

## **A. Cash Settlement**

All final financial settlements must be made in cash by reserve sale participants within seven (7) days of notification of the availability of the Organization Results Report in 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 or a certified bank check was submitted for the bid guarantee, the cash funds on account will be used to settle any amount owed.

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.

Bid guarantees held on account by the Financial Services Administrator will be used to cover payment for allowances purchased by an entity that fails to make cash payment within seven (7) days after receiving notification of the availability of reserve sale results.

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

All bid guarantees for unsuccessful bidders, regardless of type, will be returned within approximately three (3) business days after the reserve sale is certified. Cash will be returned through wire transfer<sup>7</sup> and physical instruments in the form of a LOC or bank bond will be mailed directly to the reserve sale participants by the Financial Services Administrator based on the delivery instructions specified during the reserve sale application process in the Auction Platform.

For winning bidders that provided a cash bid guarantee, the cash 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 reserve sale 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 an LOC or bank bond, settlement for any amount owed must be provided in cash by wire transfer to the Financial Services Administrator. Following receipt of funds, the bid guarantee instruments will be returned directly to the participants by the Financial Services Administrator based on the delivery instructions specified during the reserve sale application process in the Auction Platform.

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<sup>7</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 a reserve sale fee, but is a common banking transaction fee not related to ARB or the reserve sale process.