



Cap-and-Trade Auction Webinar November 08, 2012

**Presented by ARB
Office of Communications**

AB 32: A Suite of Programs

- Low Carbon Fuel Standard
- Advanced Clean Cars
- Renewables Portfolio Standard
- Energy Efficiency
- Sustainable Communities (SB 375)
- High Global Warming Potential (GWP)
- Cap-and-Trade

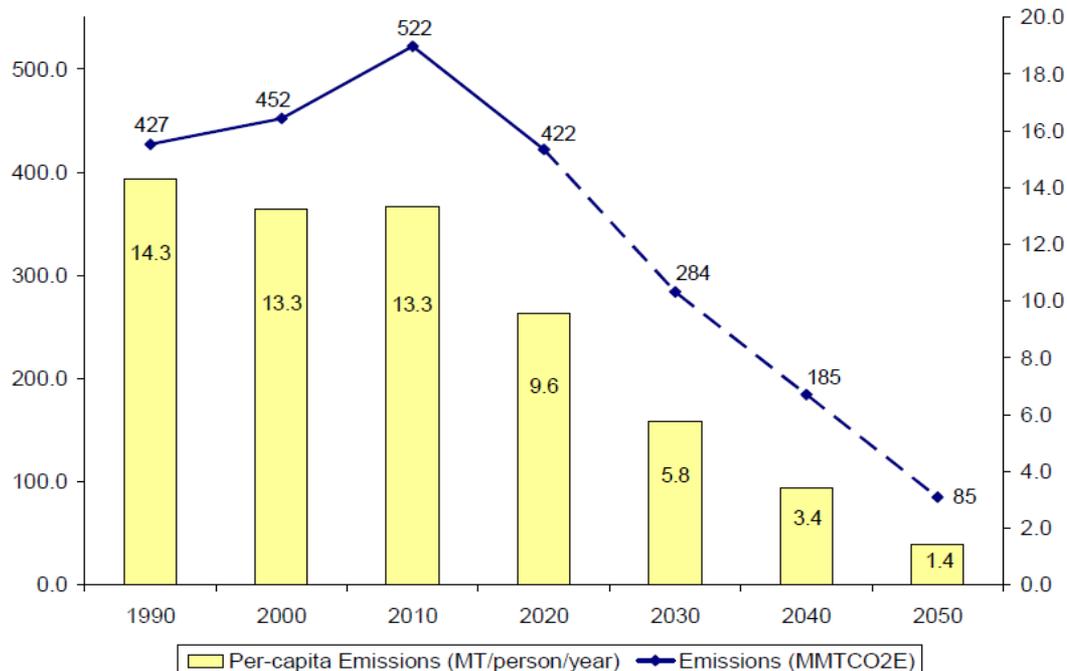


AB 32 Emissions Reduction Targets

A Vision for the Future

Scoping Plan

Figure 6: Emissions Trajectory Toward 2050



Cap-and-Trade Background

- Program uses market mechanisms to provide flexibility in reducing greenhouse gas emissions
- Allows covered parties to determine how best and how much to reduce their annual emissions
- One allowance permits release of one metric ton of carbon dioxide
- Most allowances are free at the beginning of the program
- Total number issued equals cap; cap drops two-to-three percent a year



Mandatory Emissions Reporting

- California's Mandatory Greenhouse Gas Reporting Rule is the foundation of cap-and-trade
- Facilities which emit more than 25,000 metric tons of carbon dioxide have reported those emissions since 2008 and are covered by cap-and-trade
- Those emissions reports are audited annually by Air Resources Board trained third-party verifiers (California's data base is the only one verified in this way)
- This inventory lets the ARB know almost to the ton how much greenhouse gas is being emitted by each facility and sector

Why an Auction?

- Puts a price on carbon, which can be included in companies' business plans
- Lets covered parties directly set the price
- Provides financial incentive to drive investment and innovation in clean energy
- As cap and number of allowances drop, entities seek actual reductions at lower cost per ton than allowances

What's for Sale

- State carbon allowances
- Allowances given to utilities, then sold on consignment for ratepayers benefit
- Allowances are labeled by “vintage”—the year they can first be used for compliance
- Carbon offsets are not offered at the auction

Auction Summary

GHG Allowances Offered for Sale in the November 2012 Auction

- Current Auction (2013 vintage) 23,126,110 (**Final**)
- Advance Auction (2015 vintage) 39,450,000
- **Reserve Price: \$10**
- **Entities must have CITSS account and be registered in auction platform**

Auction Format

- Electronic, internet-based Auction Platform
- Single-round, sealed-bid auction format
- Bid quantities can only be submitted in multiples of 1,000 California GHG allowances

Auction Platform Overview

- The Auction Platform has been designed to provide a state-of-the-art auction system for California's cap-and-trade program.
- The Auction Platform is the central connection for administration of the auction, designed and developed to integrate with the tracking software (CITSS)
- The Auction Platform allows participants to apply for, bid and review results for the auction.

CITSS – How Allowances are Tracked

- If it ain't in CITSS it ain't real.
- Like a bank with different 'vaults' for those registered: holding, compliance (surrender and retirement=final)
- All auction purchases and transactions on secondary markets are tracked in CITSS

Testing and Practice Auction

- Practice Auction gave auction participants a chance to use platform
- Continuously stress tested platform, website to find breaking point
- Cyber-security testing, including attempted hacking and intrusion

Training

- Participant Help Desk 7/09/12
- Practice Auction 8/30/12
- Stakeholder Webinar 9/25/12
- Bidders Conference 10/04/12
- Stakeholder Webinar 10/10/12

Auction Participation

- Step 1: Apply to participate (closed 10/15)
- Step 2: Participate in pre-auction training
- Step 3: Utilities consign allowances (11/05)
- Step 4: Submit bid guarantee (11/07)
- Step 5: Participate in the auction (11/14)
- Step 6: Receive auction results (11/19) and remit payment (11/30)

Bidding in the Auction

- Auction bidding window will be open 3 hours—10 a.m. to 1 p.m.
- Bids submitted manually online or uploaded from Excel bid form
- Bidding is blind—bidders see only their own bid information
- Bids submitted can be revised or withdrawn during the 3 hour bidding window
- Once the bidding window closes, all bids are final

Security: Purchase Limits

- All participants have individual purchase limits
- Utilities can buy no more than 40 percent of all allowances
- A covered industry party can buy no more than 15 percent of all allowances
- Each party with no compliance obligation can buy no more than 4 percent of all allowances
- No more than 25 percent of future vintage allowances for any participant.

Security: Holding Limits

- 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.
- Designed to head off undue market power, or “cornering the market”
- Formula in regulation

Confidential Information

- Access to bids is strictly limited to a handful of staff and platform operator
- Application is confidential
- Participants agree not to discuss their bidding strategy
- Release of public information held until auction is certified

Bid Rejection

- Violates reserve price floor
- Does not constitute an offer to purchase allowances
- Violates holding limit
- Violates purchase limit
- Exceeds bid guarantee



Settlement Price & Winning Bids

- Accepted bids are ranked from highest to lowest by price after bidding window closes
- Accepted bids are filled until reserve price is reached or all allowances are sold
- Settlement Price is the lowest accepted bid price above reserve price or before allowances are sold out

Security: Market Monitoring

- The market monitor will work with ARB to evaluate auctions and market activities.
- The Market Monitor will review bidding activity and work with ARB to identify any bidding or trends that may indicate manipulative or anti-competitive bidding behavior.
- After the auction, the Market Monitor will review and prepare a confidential report for ARB.
- The Market Monitor will also review activity in the secondary markets.

Auction Results

- Auction participants will receive email notification from the auction platform that ARB has certified the auction
- The auction results including the settlement price will be posted on the ARB website
- The auction report provides general results and statistics from the auction.

Post-Auction Schedule

- Public notice of auction results released Monday, November 19, 2012
- Financial settlement in cash due Friday, November 30, 2012
- Financial settlement complete Wednesday, December 5, 2012
- Transfer of allowances into CITSS Accounts Friday, December 7, 2012
- Utilities and the state receive proceeds December 10, 2012

What Information is Public?

- Number of allowances available at auction
- Number of allowances sold at auction
- List of qualified bidders
- Ratio of total quantity of allowances bid to total allowances available for sale
- Percent of allowances purchased by compliance entities
- Settlement Price

When Must Companies Hand in Allowances?

- The first surrender of allowances is in **Nov 2014**. It is 30% of a company's 2013 emissions.
- The next surrender of allowances will be **Nov 2015** (which will be 70% of 2013 emissions plus 100% of 2014 emissions.)

For More Information

- FAQs: <http://www.arb.ca.gov/cc/capandtrade/implementation/faq.pdf>
- <http://www.arb.ca.gov/cc/capandtrade/implementation/faq.pdf>
- General Auction
Page: http://www.arb.ca.gov/cc/capandtrade/auction/november_2012/auction_notice_updated.pdf
- Auction notice (attachments have lots of info): http://www.arb.ca.gov/cc/capandtrade/auction/november_2012/auction_notice.pdf
- Attachment A:
http://www.arb.ca.gov/cc/capandtrade/auction/november_2012/auction_notice_attachment_a.pdf
- Attachment
B: http://www.arb.ca.gov/cc/capandtrade/auction/november_2012/auction_notice_attachment_b.pdf

For More Information

- Auction Platform (some info available if you haven't been invited to the auction): <https://www.wci-auction.org/>
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- Bidders Conference
presentation: http://www.arb.ca.gov/cc/capandtrade/auction/november_2012/bidders_conference_presentation.pdf
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- Training Webinar
presentation: http://www.arb.ca.gov/cc/capandtrade/auction/november_2012/auction_participant_webinar.pdf
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