

Attachment A - Detailed Auction Requirements and Instructions

Auction Notice

California Cap-and-Trade Program Greenhouse Gas Allowance Auction on February 19, 2013 Issued on December 21, 2012

AB 32 requires California to reduce greenhouse gas 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, ARB will hold allowance auctions to allow market participants to acquire allowances directly from ARB.

This Attachment A includes the February 2013 auction schedule and detailed requirements and instructions for participating in the auction.

I. Auction Schedule

Table 1 presents the current schedule for all events associated with the February 2013 auction (“Auction Schedule”).

Table 1: February 19, 2013 Auction Schedule

Activities	Date	Time
Release Auction Notice	Friday, December 21, 2012	
Bidders’ conference and auction participant training webinar	Thursday, January 10, 2013	10:00 AM – 12:00 PM PT
Auction participant training webinar	Tuesday, January 15, 2013	1:00 – 3:00 PM PT
Auction application window closes in the Auction Platform	Tuesday, January 22, 2013	11:59 PM PT Tuesday, January 22, 2013
All bid guarantees due to Financial Services Administrator	Thursday, February 07, 2013	No later than 2:00 PM PT

ARB approves auction participants and participants notified	Friday, February 15, 2013	No later than 5:00 PM PT
Auction held	Tuesday, February 19, 2013	Bidding window open from 10:00 AM – 1:00 PM PT
Public notice of auction results released	Friday, February 22, 2013	12:00 (Noon) PT
Notification of financial settlement invoice sent to auction participants	Friday, February 22, 2013	12:00 (Noon) PT
Financial settlement in cash due to Financial Services Administrator	Friday, March 01, 2013	No later than 2:00 PM PT
Financial settlement complete	Wednesday, March 06, 2013	
Transfer of allowances into CITSS Accounts	Friday, March 08, 2013	12:00 (Noon) PT
Auction proceeds distributed	Monday, March 11, 2013	

II. Summary of Changes from November Auction

The following is a listing of changes from the November 2012 Auction to the February 2013 Auction:

- The Auction Platform now allows a Primary Account Representative (PAR) or an Alternate Account Representative (AAR) to represent multiple entities.
 - A representative can represent only one entity during a single session in the Auction Platform. Upon logging into the Auction Platform, a representative that represents multiple entities must select the entity that they will represent. To represent a different entity, the representative must log out of the Auction Platform and log back into the Auction Platform to select the new entity to represent.
- To indicate their interest to participate in any upcoming auction or reserve sales, an entity account representative must now select the "Auction Participation" box in the Compliance Instrument Tracking System Service (CITSS). By selecting this box, an entity representative is agreeing to have the entity name, entity contact information, account numbers, representative names, representative

phone numbers, and representative email addresses transferred to the Auction and Reserve Sale Administrator (Auction Administrator) and Financial Services Administrator for the purpose of facilitating the participation in any upcoming auction or reserve sale.

- **The “Auction Participation” box must be enabled no later than 31 days prior to the next auction or reserve sale if you wish to participate in the auction or reserve sale.**
- 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 auction or reserve sales. While you may change this setting at any time, this setting must be disabled at least 61 days prior to an auction or reserve sale to avoid having your information sent to the Auction Administrator and Financial Services Administrator.

III. Administrative Requirements to Participate in the Auction

A. Eligibility

California covered entities, opt-in covered entities, and voluntarily associated entities are eligible to participate in the February 2013 auction. Approved offset registries, verification bodies, and offset verifiers are not eligible to participate in auctions as they are not allowed to hold compliance instruments under the Regulation.

Prior to applying to participate in an auction, 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. To be designated as a PAR or an AAR, an individual must be an approved user in the CITSS. Voluntary associated entities that are participating in the auction as individuals will be required to submit additional documentation to the Financial Services Administrator as contained in Appendix A of the Regulation.

Entities that have not previously been approved to participate in an auction must submit an application through the Auction Platform at least 30 days prior to the auction. The application process includes confirming an intent to bid, verifying the entity and account representative information provided through the CITSS, providing the form of the bid guarantee that will be submitted, and completing an attestation. Once an auction

application is submitted, a Financial Services Administrator account is established and then ARB approves or disapproves the auction application.

Once an auction application is approved, an entity does not need to submit another application for subsequent auctions unless there is a material change to the auction application information.

To allow ARB adequate time to review and approve auction participation and Financial Services Administration reconciling of bid guarantee information submitted, each entity must confirm their intent to bid including verifying the entity and account representative information provided through the CITSS, providing the form of the bid guarantee that will be submitted, and completing an attestation. The intent to bid must be confirmed 30 days prior to an auction, the same as the initial application process, although a new Financial Services Administrator account will not be established.

B. Compliance Instrument Tracking System (CITSS) Account

An individual or entity must have an approved CITSS account to participate in the February 2013 auction. All 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 designated as the PAR or an AAR on the entity's CITSS account. The PAR and AARs on the CITSS account are the only individuals allowed to submit bids on behalf of an entity during an auction.

Outlined below are requirements that must be met in the CITSS prior to being able to access the Auction Platform to submit an entity's application or confirm an entity's intent to bid in the February 2013 auction. These requirements are specific to the CITSS; requirements that must be met in the Auction Platform will be discussed later in this Attachment.

- The entity must have an approved account in the CITSS.
- All entity and representative information must be current and accurate.
 - This includes all changes to entity or account representative information, including adding additional AARs.
 - If a material change occurs to an entity's account information after an auction application period closes, it may limit the entity's ability to participate in the auction or for a PAR or AAR to represent an entity in an auction.

- An entity must select the “Auction Participation” box in the CITSS to indicate an interest to participate in the auction (see *CITSS User Guide Volume 2 if further direction is needed*) no later than 31 days prior to the auction. The box must remain selected until the close of the auction application period.

Entity and representatives information is transmitted from the CITSS to the Auction Administrator to enable participation in an auction. Information will only be sent if the Auction Participation box in the CITSS has been selected. During the auction application period, the entity and representatives information is sent on a daily basis to reflect any approved changes or updates.

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

- 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.
- 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.

Prior to the auction, ARB will verify the current account representatives associated with each entity that has been approved to participate in the auction. 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 application was submitted, and are active representatives on the entity’s CITSS account will be allowed to submit bids during the auction. 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.

An entity or person interested in participating in the auction 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 2 individuals as account representatives, a PAR and at least one AAR. An

individual participating as a general market participant is allowed to act as the PAR and AAR on their own account.

- All individuals designated as account representatives must be approved CITSS Users.
- Accounts in the CITSS must be approved by the California Registrar at least 31 days preceding an auction and the “Auction Participation” box must be selected in the CITSS at least 31 days preceding an auction to allow the auction application to be submitted thirty (30) days prior to the auction. CITSS can be accessed at <https://www.wci-citss.org>. If final actions are taken or approved in the CITSS 31 days prior to an auction, an entity has only 1 day to complete an auction application in the Auction Platform.

C. 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. All entities that require consolidation of accounts were required to provide the Executive Officer by October 1, 2012, confirmation of any corporate associations, any intent to have accounts consolidated, and any changes in the PAR or AAR to represent the consolidated accounts. The Regulation also requires information about corporate associations and structure to be updated as any changes occur.

ARB staff is working with entities to ensure accounts are established as needed to be consolidated in time to allow participation in the February 2013 auction. The date for consolidation falls within the auction application period for the February 2013 auction and may affect entities’ ability to participate in the auction. Any entity that has a direct corporate association with one or more other entity participating in the Cap-and-Trade Program that has not completed the consolidated entity account form should contact ARB staff immediately.

The nature of associated entities’ registration in the CITSS determines their ability to participate in an auction. 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 the auction. 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. Purchase and holding limits will be assessed separately for each entity participating in the auction for any entities with a direct corporate association, including entities that opted out of a CEA, based on the information provided in the consolidated account forms submitted to ARB. Any changes to corporate associations must be reported to ARB within 30 days of a change to the information. If a change to the corporate association affects auction participation, that change and any additional actions required by that change, must be approved no less

than 31 days prior to an auction or the entity(ies) involved may not be able to participate in the auction.

More information on consolidated accounts can be found on ARB's Cap-and-Trade Program website at:

http://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/consol_accounts.pdf.

IV. Participating in the Auction

To participate in the February 2013 auction, entities must take the steps listed below. Earlier in this Attachment, we discussed requirements specific to the CITSS. In this section we discuss the process to participate in an auction as well as requirements that must be met in the Auction Platform.

For each auction there is an auction application period starting 60 days prior to the auction with the release of the auction notice and ending 30 days prior to the auction with the due date for submitting an auction application or confirming an entity's intent to bid in the Auction Platform.

The process for auction participation begins with establishing an account in the CITSS. Outlined below is the process to access or establish an Auction Platform account.

- During the open auction application period, account information including entity and representatives details is sent on a daily basis from the CITSS to the Auction Administrator to provide current entity and account representative information.
- Individuals that previously activated an account in the Auction Platform during the November auction application period will be able to access the Auction Platform using their previously established credentials. 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.
- Individuals that have not previously activated an account in the Auction Platform and are designated as a PAR or AAR will receive an auction account activation email from the Auction Platform. The email provides an activation link to activate an account and establish an Auction Platform password. This email is received after the CITSS account application information is transmitted to the Auction Administrator.
 - The email address submitted for each account representative in the CITSS user registration process will be used as the account representative's user name in the Auction Platform.

- The Activation Link will expire in 24 hours of receipt of the auction account activation email.
- If an individual previously had 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 activation email after the Auction Platform has received the updated information. The prior Auction Platform access and username will be disabled.
- All account representatives that are authorized by the entity to act on behalf of the entity in an auction should activate accounts and establish passwords. The PAR and AARs that activate their auction accounts will be able to submit bids on the behalf of an entity in the Auction Platform.

Outlined below are the steps in the Auction Platform to participate in an auction once an Auction Platform account is established.

The following steps cannot occur until after the auction application period opens:

Step 1: One entity representative accesses the Auction Platform and completes the entity's application to participate in the February 2013 auction (first time participant) or confirms the entity's intent to bid in the auction (prior participant)

Step 1a: Confirm intent to bid

Step 1b: Verify entity and account representative information

Step 1c: Provide information on format of bid guarantee to be submitted

Step 1d: Complete attestation and submit auction application

Step 1 must be completed by January 22, 2013, in the Auction Platform.

Step 2: Participate in pre-auction activities (optional, but recommended)

Step 3: Submit physical bid guarantee (***no later than February 7, 2013; 2:00 PM PT***)

Step 4: Receive notice of entity's approval to participate

Step 5: Participate in the auction

Step 6: Access auction results

Step 7: Financial Settlement

Step 1: Apply to Participate in the Auction

The first time an entity wishes to bid in an auction, one representative of that entity must complete an application within the Auction Platform. Once an entity is approved to bid in an auction, a representative must confirm the entity's intent to bid in the Auction Platform if they wish to bid in future auctions. For the February 2013 auction, the auction application or confirmation of the entity's intent to bid must be submitted in the Auction Platform by the PAR or an AAR by no later than 11:59 PM PT on Tuesday, January 22, 2013.

Both processes following similar steps in progression through 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 auction that the entity intends to bid in, the February 2013 auction.

Step 1b: Verify Entity and Account Representative Information Transferred from the CITSS

The representative must then review and confirm the entity account information in the Auction Platform including the account representative details. Individuals do not need to provide account details in the Auction Platform. Entity account and representatives information are imported into the Auction Platform from the CITSS. Therefore, all changes to auction application information must be made through the CITSS. Material changes such as a change in account representatives 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 auction application period to allow time for approval and subsequent confirmation of the information in the Auction Platform.

Step 1c: Provide Bid Guarantee Information

The entity representative must then select the form of bid guarantee that will be submitted. Auction 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 Physical Bid Guarantee” section of this Attachment.

Step 1d: Complete the Attestation and Submit Auction Application

If all information is complete and accurate, the entity representative will complete the attestation in the Auction Platform and the entity’s application or confirmation of an intent to bid for the auction is complete. After the application or confirmation is complete, ARB, the Auction Administrator, and the Financial Services Administrator will perform a number of tasks.

1. The Auction Administrator will confirm receipt of each auction application or confirmation of intent to bid via email on the day it is received.

2. ARB will review each applicant's application information and intent to bid and make a determination to approve or deny.
3. Each applicant will be notified via email within two (2) days of the auction date, as to whether their auction participation has been approved or denied.
4. ARB will verify representatives are still current and active in the CITSS prior to the auction. 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.

A. Potential Bidder

Each entity that has completed an auction application or confirmed an intent to bid and been approved is referred to as a "Potential Bidder."

B. Auction Participant Notification

Each potential bidder that has successfully met the financial guarantee requirements and established an account with the Financial Services Administrator, as described below, may bid in the February 2013 auction. Each potential bidder will be notified of their auction participation status prior to the auction.

C. Establishing an Account with the Financial Services Administrator

Information that is provided to the Auction Administrator will be supplied electronically to the Financial Services Administrator so that a Know-Your-Customer review can be performed and an account established with the Financial Services Administrator for the submission of the entity's bid guarantee.

Auction participants participating as an individual (as compared to an organization) will be required to furnish the Financial Services Administrator with additional identity documentation during the auction application process to comply with the USA PATRIOT Act. Please refer to the Individual Application Information page in the Auction Platform for instructions on where to send the required application information for individuals.

Step 2: Participate in Pre-Auction Activities (optional, but recommended)

A. Bidders' Conference and Auction Participant Training Webinar

ARB and the Auction Administrator will hold a bidders' conference and auction participant webinar prior for the February 2013 auction from 10:00 AM to 12:00 PM PT on Thursday, January 10, 2013. The bidders' conference and auction training will be open via teleconference to anyone interested in participating in the February 2013

auction. The bidders' conference will include discussion of the auction format and the application process, and auction procedures and requirements. The bidders' conference webinar will be followed by auction participant training, which will describe how to apply for an auction and submit bids in the Auction Platform, as well as how to submit a bid guarantee. The details for the bidders' conference and auction participant training webinar are provided below.

Bidders' Conference and Auction Participant Training Webinar #1

Date: Thursday, January 10, 2013

Time: 10:00 AM to 12:00 PM PT

Click here to join the Webinar: <http://markit.adobeconnect.com/r8v2a0yca8d/>
and sign in as a guest.

To dial-in, please use the Participant Phone numbers and Webinar Passcode listed below:

Participants U.S. and Canada Toll free: 877-397-0300

Participants International Toll: +1 719-325-4811

Passcode: 950244

B. Auction Participant Training Webinar

ARB and the Auction Administrator will hold an additional auction participant training webinar session to describe how to apply for an auction and submit bids in the Auction Platform, as well as how to submit a bid guarantee. This training session will include the same information as the training conducted immediately following the bidders' conference, and a question and answer period. This training webinar will be conducted on Tuesday, January 15, 2013. The details for the second training webinar session are provided below.

Auction Participant Training Webinar #2

Date: Tuesday, January 15, 2013

Time: 1:00 PM – 3:00 PM PT

Click here to join the Webinar: <http://markit.adobeconnect.com/r4qjg34d7ca/>
and sign in as a guest.

To dial-in, please use the Participant Phone numbers and Webinar Passcode listed below:

Participants U.S. and Canada Toll free: 800-324-5531

Participants International Toll: +1 719-325-2120
Passcode: 453520

Training materials will be available on the Resources tab of the Auction Platform. Training materials available in the public Auction Platform include an Auction 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), a training webinar video, and calendar of auction activities. Additional materials will be available to auction participants once they have received an account in the Auction Platform. This material will include a User's Guide with a step-by-step explanation of what to expect during an auction or reserve sale.

The Auction Platform includes a link to submit questions and comments to the Auction Administrator regarding the auction process. Questions regarding the Auction Platform and bidding process can also be sent directly to the Auction Administrator Support Team at 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 Physical Bid Guarantee

Bid guarantees must be received by the Financial Services Administrator in United States Dollars ("USD") by no later than 2:00 PM PT on Thursday, February 7, 2013. The amount of the bid guarantee provided to the Financial Services Administrator will be used to set bidding limitations in the auction. To determine the bid guarantee amount to provide in the February 2013 auction, please see Attachment B.

Financial guarantee instruments for the February 2013 auction 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 bond issued by a financial institution with a U.S. banking license.

Auction participants can select one or a combination of the forms during the auction application process 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.

Details of the three forms of bid guarantee are described below. The Financial Services Administrator acts as agent for ARB for the purpose of financial settlement for California GHG allowance auctions. All cash bid guarantees submitted will be held in a non-interest bearing trust account with the Financial Services Administrator. Each potential bidder should be sure to allow sufficient time for the delivery of the bid guarantee to the Financial Services Administrator by consulting with its banker well before the bid guarantee submission deadline of 2:00 PM PT Thursday, February 7, 2013.

On the behalf of ARB, the Financial Services Administrator receives and maintains any LOCs and bonds that are submitted as financial security. As part of the financial settlement of each auction, irrevocable LOCs and bonds will be returned according to the return instructions provided by the bidders in the Auction Platform, or are drawn down in the case of a failure to settle.

A. Submitting a Cash Bid Guarantee

Cash wire transfers or certified funds must be received by the Financial Services Administrator, Deutsche Bank National Trust Company (Deutsche Bank), by no later than 2:00 PM PT on Thursday, February 7, 2013, at the address provided below.

ARB Auction & Reserve Sale Financial Services Administrator
c/o Deutsche Bank National Trust Company
60 Wall Street, 27th Floor
New York, NY 10005-2836 USA

B. Submitting a Wire Transfer Bid Guarantee

The representatives of potential bidders will be emailed information for submitting cash by wire transfer after the entity has completed the auction application or intent to bid confirmation process in the Auction Platform. Additional details will be available through download from the Auction Platform.

The cash wire details will include the following information:

- Originating Bank Information (“OBI Field”)
- Beneficiary name
- Account number
- ABA routing number
- Payment Details¹

¹ The Payment Details include a Portfolio number that you will receive in the emailed instructions for submitting cash. It is important that the wire details are set up exactly as provided in your delivery instructions in order to deposit the funds.

Potential bidders will receive an email confirmation that their bid guarantee has been received by Deutsche Bank.

Unused wire transfer balances will be returned by Deutsche Bank via Fed Wire per the instructions given during the application process no later than twelve (12) days after the certification of the auction or after results and invoices are sent to successful auction participants by the Auction Administrator.

C. Submitting a Certified Bank Check or Cashier's Check Bid Guarantee

Certified funds in the form of a certified bank check or cashier's check must be received by Deutsche Bank no later than 2:00 PM PT on Thursday, February 7, 2013, in order to be deposited in a timely manner.

Potential bidders will be emailed the details for submitting cash by a certified bank check or cashier's check after the application process has been completed. All checks must be made out to "Deutsche Bank National Trust Company" and will be deposited into a trust account established on your behalf during the application process. The financial security will be credited at the time the check clears.

Unused cash balances will be returned by Deutsche Bank via Fed Wire per the bid guarantee return instructions given during the application process, not later than twelve (12) days after the certification of the auction or after results and invoices are sent to successful auction or reserve sale participants by the Auction Administrator.

D. Submitting a Letter of Credit Bid Guarantee

A LOC issued by a United States financial institution must be received by the Financial Services Administrator no later than 2:00 PM PT on Thursday, February 7, 2013.

All bid guarantees in the form of a LOC require the following non-negotiable terms:

- The party named as "Applicant" on the LOC must be identical to that named in the participant's auction 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 date must be at least 21 days after the scheduled auction.
- 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.
- There must be a draw cut off time of no earlier than 9:00 am Pacific Standard Time for same day draw.

The mailing/Federal Express instructions for LOC forms are as follows:

Payable to Deutsche Bank National Trust Company

Mailing Address:

ARB Auction and Reserve Sale Financial Services Administrator

c/o Deutsche Bank National Trust Company

60 Wall Street, 27th Floor

Mailstop: NYC60-2715

New York, NY 10005-2836

Phone: (212) 250-6645

Email: CAARB.inbox@db.com

Please note if any of these terms are not met, the submitted LOC may be rejected.

If a bid guarantee in the form of LOC provided to the Financial Services Administrator needs to be revised:

- Auction participants would be notified by the Financial Services Administrator.
- Auction participants would contact their financial institution in advance of the bid guarantee submittal deadline of Thursday, February 7, 2013, and request an amendment to their bid guarantee.

C. Submitting a Bond Bid Guarantee

A bond, issued by a United States financial institution, must be received by the Financial Services Administrator no later than 2:00 PM PT on Thursday, February 7, 2013.

All bid guarantees in the form of a bond require the following non-negotiable terms:

- The party named as "Principal" in the 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 21 days after the scheduled auction.
- The amount of the bond must be included.
- There must be instructions indicated within the bond form detailing where to submit the bond for payment.

- The party named as Principal must be identical to that named in the participant's application.

The mailing/Federal Express instructions for bond forms are as follows:

Payable to Deutsche Bank National Trust Company

Mailing Address:

ARB Auction and Reserve Sale Financial Services Administrator

c/o Deutsche Bank National Trust Company

60 Wall Street, 27th Floor

Mailstop: NYC60-2715

New York, NY 10005-2836

Phone: (212) 250-6645

Please note if any of these terms are not met, the submitted bond may be rejected.

If a bid guarantee in the form of bond provided to the Financial Services Administrator needs to be revised:

- Auction participants would be notified by the Financial Services Administrator.
- Auction participants would contact their financial institution in advance of the bid guarantee submittal deadline of Thursday, February 7, 2013, and request an amendment to their bid guarantee.

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

Once ARB approves an entity for auction participation, the PAR and all AARs for the entity that have active Auction Platform accounts will receive an email confirming approval or denial to participate in the auction.

The reasons for possible denial of an entity's participation in an auction include:

- The entity does not have an active CITSS account.
- An entity's holding account has been revoked or is currently suspended.

Step 5: Participate in the Auction

The February 2013 auction will be conducted using an electronic, internet-based Auction Platform that bidders will use to submit their bid in a single round, sealed bid auction format. Bid quantities must be submitted in multiples of 1,000 California GHG allowances.

Beginning with the highest bid and proceeding to successively lower bids, entities submitting bids at each price will be awarded allowances. The settlement price for all allowances will be the lowest price at which the entire supply of allowances is exhausted or the reserve price, whichever is reached first. Current and future vintage allowances will be sold in separate auctions. The February 2013 auction will offer 2013 vintage allowances and 2016 vintage allowances for sale. Examples of how auctions are settled are provided in Attachment B of this Notice.

A. Bidding in the Auction

The February 2013 auction 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 until the start of the bidding window and once the auction 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 the February 2013 auction are as follows:

- Auction participants will select their desired allowance vintage and enter the number of allowances (1 lot = 1,000 allowances) and the bid price.
- Auction participants will enter their bids in whole United States Dollars (“USD”) and whole cents.
- Auction 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 and submitted bid schedules during the 3-hour auction bidding window.
- Once the auction bidding window has been closed no further changes to bids or bid schedules can be made.

B. Bidding Limitations

The Regulation includes several bidding limitations related to the reserve price, bid guarantee submitted, purchase limit, and holding limit. These bidding limits are described below. Examples of how to review a bid schedule in respect to these bidding limits including how to determine your bid guarantee and how an auction would be settled are included in Attachment B.

Reserve Price Bid Limitations

The reserve price for the February 2013 auction for the Current Auction (vintage 2013) allowances and the Advance Auction (vintage 2016) allowances is \$10.71 per GHG allowance.

No allowances will be sold at bids lower than the auction reserve price. Please note that the Auction Platform will accept bids lower than the reserve price during the bidding window. Bids lower than the auction reserve price will be rejected during settlement.

Bid Guarantee Bid Limitations

The bid guarantee for the February 2013 auction must be greater than or equal to the maximum value of the bids to be submitted.

- The value of a set of bids equals the quantity of bids submitted at or above that price times that price. The value of the set of bids is calculated at each price at which the bidder will submit a bid.
- The maximum value of a set of bids is the highest value of a set of bids calculated at each price at which the bidder will submit a bid.

To calculate this value, bidder's bids are ranked from highest to lowest. The largest bid value calculated and therefore the maximum cost, is the total value of the bidder's bid and is counted against the bid guarantee limit. See Attachment B of this Notice for an example of how to calculate your bid guarantee. The Auction Platform will reject a bid that would cause the maximum bid value of the bidder's bids to exceed the amount of a bidder's bid guarantee.

Purchase Limit Bid Limitation

The purchase limits for the auction of current vintage allowances are as follows:

- The purchase limit for covered entities and opt-in covered entities will be fifteen (15) percent of the allowances offered for auction;
- The purchase for electrical distribution utilities will be forty (40) percent of the allowances offered for auction; and
- The purchase limit for all other auction participants is four (4) percent of the allowances offered for auction.

For the advance auction of future vintage allowances, the purchase limit is 25 percent of the allowances offered for auction for all participants.

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 purchase limit amongst themselves. Each entity will then have a specified percentage share of the association's purchase limit. The sum of the shares allocated among the entities must sum to one. Each associated entity's allocated purchase limit share multiplied by the auction purchase limit assigned to the association becomes the purchase limit for that entity. These purchase limits will be used to limit the quantity of

accepted GHG allowances bid by each of the bidders with a direct corporate association.

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. The holding limit will be calculated separately for each vintage year. 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 shares allocated among the entities must sum to one.

ARB will transmit a file to the Auction Administrator prior to the auction that contains the holding limit cap and purchase limit cap for each auction participant. These caps will indicate how many allowances an auction participant may acquire before exceeding their purchase limit and holding limit. The holding limit cap will be based on the account balances and limited exemption data available in the CITSS at approximately 12:00 (Noon) PT the day prior to the auction.

C. Auction Conduct

As provided in Section 95914(c) of the Regulation, an entity approved for auction participation shall not release any confidential information related to its auction participation, including:

- Qualification status;
- Bidding strategy;
- Bid price or bid quantity information;
- Information on the bid guarantee provided to the Financial Services Administrator; and
- Other information identified as confidential information in the auction application by the Auction Administrator.

The Regulation requires that any entity participating in an auction that has retained the services of an advisor regarding auction bidding strategy must ensure the following:

- The entity must ensure against the advisor transferring information to other auction participants or coordinating the bidding strategy among participants;
- The entity will inform the advisor of the prohibition of sharing information to other auction participants and ensure the advisor has read and acknowledged the prohibition under penalty of perjury; and
- Any entity that has retained the services of an advisor must inform the ARB of

the advisor's retention.

To inform ARB of the retention of an advisor, the PAR or an AAR of the entity must submit the information on the [Auction Bid Advisor Form](#) to ARB at the address on the form no later than ten (10) business days prior to the auction or reserve sale at which the bid advisor's services will be employed. This form can be used by entities to notify ARB if a new advisor is hired or if an advisor is terminated and no new advisor is hired.

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 on issues relating to the operation of the GHG allowance auctions, reserve sales, and secondary markets. The Market Monitor will monitor the GHG allowance auction 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 auction 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 Auction Results

A. Public Notification of Auction Results

The public results from the February 2013 auction including the settlement price will be posted on the ARB website at <http://www.arb.ca.gov/cc/capandtrade/auction/auction.htm> and the WCI, Inc. website at <http://www.wci-inc.org> when the auction is certified. This posting is anticipated to occur at approximately 12:00 (Noon) PT on Friday, February 22, 2013. The auction results will include the following:

- The names of the qualified bidders.
- The auction settlement price.
- Aggregated or distributional information on purchases with the names of the entities withheld.

In the event of a delay, a message will be posted on the ARB website and WCI, Inc. website providing the new time for the release of the settlement price. Immediately following the posting of the settlement price, bidders will receive an email notification that they can log into the Auction Platform to view their auction results. Each bidder will see the number of GHG allowances they have been awarded, if any.

B. Notification of Entity Auction Results

Following the auction, the Auction Administrator will notify ARB of the auction results and ARB and the Market Monitor will review the auction results. ARB's Executive Officer will review the conduct of the auction and certify whether the auction met the requirements of the Regulation. Immediately following the posting of the settlement price, bidders will receive an email notification that they can log into the Auction Platform to view their auction results.

If the auction results are rejected by the Executive Officer, a re-run of the auction may be scheduled and auction participants will be notified by the Auction Administrator and through an email notification.

Step 7: Financial Settlement

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

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

- Notify each winning bidder of the auction settlement price, number of allowances purchased, total purchase cost, and the deadline and method for submitting payment.
- Collect cash payment from winning bidders within seven (7) days of notification of the auction 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 auction proceeds from the sale of ARB allowances to the Greenhouse Gas Reduction Fund.
- Distribute auction proceeds to entities that consigned allowances for auction.

Once financial settlement is complete, ARB will transfer the number of allowances purchased into each winning bidder's CITSS Holding Account, and/or its Compliance Account, if needed to comply with the holding limit.

A. Cash Settlement

All final financial settlements must be made in cash by auction participants within seven (7) days of receipt of a settlement invoice in the Auction Platform. Bid guarantees held on account by the Financial Services Administrator will be used to cover payment for allowances purchased by an entity or individual auction participant that fails to make cash payment within seven (7) days after receiving notification of auction results.

The wiring instructions for cash settlement will be included on your settlement invoice in the Auction Platform. Cash settlement must be completed through the wiring instructions provided. Settlement by submittal of a certified bank check or cashier's check to the Financial Services Administrator is not acceptable. If a certified bank check was submitted for the bid guarantee, the bid guarantee will be applied against the final bid or settlement amount. If bid guarantee instruments in the form of letters of credit or bonds are submitted and a check is received for cash settlement, the check will be returned and the bid guarantee will be used to cover payment for allowances purchased at auction.

B. Return of Bid Guarantee

At the end of the auction, for winning bidders, all bid guarantee instruments in the form of letters of credit or bonds will be sent directly to the auction participants by the Financial Services Administrator based on the delivery instructions specified during the auction application process in the Auction Platform. The Financial Services Administrator will send an email to the auction participants in advance of sending back the bid guarantee for they can prepare for receipt of funds.

All cash bid guarantees will be applied against the final bid or settlement amount. If there is cash remaining on account with the Financial Services Administrator after the awarded allowances are settled, it will be returned to the auction participant based on the wire instructions specified during the auction application process in the Auction Platform.

For all other participants, bid guarantees in the form of letter of credit and bonds will be sent directly to the participants by the Financial Services Administrator based on the delivery instructions specified during the auction application process in the Auction Platform by no later than Tuesday, March 5, 2013. All cash guarantees will be returned

via a wire transfer based on the delivery instructions specified during the auction application process in the Auction Platform.

In the event that ARB determines that the auction is not certified and will not be re-run, then all bid guarantee instruments will be returned to the bidders.

GHG allowances will be transferred to each winning bidders account in the CITSS at the close of the auction. All winning bidders will be notified when this transfer is complete.

V. Considerations for Entities Consigning Allowances

Entities with Limited Use Holding Accounts may consign allowances to the Executive Officer for sale at the quarterly auctions. Each consigning entity agrees to accept the auction settlement price for allowances sold at the February 2013 auction. For the February 2013 auction, allowances designated for consignment pursuant to section 95892(c) of the Regulation must have been transferred to the Auction Holding Account at least seventy five (75) days before the auction.

Consigning allowances is a separate action available only to Electrical Distribution Utilities identified in the Regulation. All allowances in a Limited Use Holding Account must be consigned during the year of their vintage. If an entity is consigning allowances to the auction, they will be contacted by the Financial Services Administrator to confirm wire transfer instructions required for receipt of consignment proceeds. An entity that consigns allowances to an auction and also participates in the same auction may select Cash or Certified Funds as their form of bid guarantee in the Auction Platform and provide payment instructions for the return of unused funds. This information may be used to provide the Financial Services Administrator with wire instructions for the payment of consignment proceeds, upon confirmation by the Financial Services Administrator.

If an entity is only consigning allowances to the auction but submits an auction application for the purpose of providing the Financial Services Administrator with their wiring instructions, ARB will take no action in the Auction Platform. The PAR and all AARs for the entity consigning allowances that have active Auction Platform accounts will not receive an email from the Auction Administrator to participate in the auction since no action is taken.