

# **Attachment A: Detailed Auction Requirements and Instructions**

## **Auction Notice California Cap-and-Trade Program Greenhouse Gas Allowance Auction**

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, ARB will hold GHG allowance auctions (auctions) to allow market participants to acquire GHG allowances (allowances) directly from ARB. Attachment A includes the detailed requirements and instructions for participating in an auction.

### **I. Administrative Requirements to Participate in an Auction**

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 an auction.

#### **A. Eligibility**

California covered entities, opt-in covered entities, and voluntarily associated entities are eligible to participate in auctions. 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 an auction, an entity or individual 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 auction is conducted are allowed to submit bids on behalf of an entity during an auction.

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 two (2) individuals as account representatives, a PAR and at least one AAR. An individual participating as a General Market Participant – Individual is allowed to act as the PAR and AAR on their own account. 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 an auction application period which would leave the entity one (1) day to have representatives activate Auction Platform accounts and complete an auction 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 any upcoming auction or reserve sale.

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

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.

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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.

During an application period, the entity and representatives information is sent on a daily basis to reflect any approved changes or updates. The “Auction Participation” box must remain enabled until the close of the application period.

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 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. All entities that require consolidation of accounts were required to provide the ARB 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 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. 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 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.

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. 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 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.

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

[http://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/consol\\_accounts.pdf](http://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/consol_accounts.pdf).

## **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 or individual account holders and their representatives that are authorized to act in an auction must have an active Auction Platform account. Only those representatives with an active Auction Platform account will be able to access the Auction Platform to submit an application 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 will expire in 24 hours of receipt of the auction 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.
- Auction Platform passwords will need to be updated every sixty (60) days.

#### **B. 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. Auction Participation Process**

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

Step 1: In the Auction Platform, one entity representative (PAR or an AAR) completes the entity's application to participate in the auction (first time participant) or confirms the entity's intent to bid in the auction (previous auction or reserve sale participant). The process in the Auction Platform 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 auction application
- Step 2: Participate in pre-auction activities (optional, but highly recommended)
- Step 3: Submit physical bid guarantee
- Step 4: Receive notice of entity's approval to participate
- Step 5: Participate in the auction
- Step 6: Access auction results
- Step 7: Complete financial settlement

### **Step 1: Apply to Participate in the Auction**

For each auction, the auction application period starts sixty (60) days prior to the auction with the release of the auction notice and ends thirty (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 due date for submitting an auction application or confirming an entity's intent to bid in the Auction Platform is the date the auction application window closes in the Auction Platform listed in the Auction Schedule provided in the Auction Notice available at

[http://www.arb.ca.gov/cc/capandtrade/auction/november-2013/auction\\_notice.pdf](http://www.arb.ca.gov/cc/capandtrade/auction/november-2013/auction_notice.pdf).

#### First Time Auction or Reserve Sale Participant

Entities that have not previously been approved to participate in an auction or reserve sale must submit an application through the Auction Platform at least thirty (30) days prior to the first auction they wish to participate in. Each entity must complete the application no later than the end of the auction application period as listed in the Auction Schedule provided in the Auction 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 auction application window closes in the Auction Platform as listed in the Auction Schedule provided in the Auction 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 auction 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 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 auction application information must be made in the CITSS. Material changes such as a change in an entity's legal name or physical address 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 Information on Form of Bid Guarantee to be Submitted**

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 (letters of credit or bank 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**

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 auction 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.
  - ii. Voluntarily 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. During this step in the application process, the Auction Platform will provide access to the "ARB Auction Application Individual Participant Documentation Requirements Form" which must be downloaded, completed, and returned with any accompanying identity documentation to the Financial Services Administrator at the address included on the form.
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 auction. 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. Each entity that has completed an auction application or confirmed an intent to bid and been approved by ARB is referred to as a "Potential Bidder," also known as a "Qualified Bidder."
4. Prior to the auction, 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 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.

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

### **A. Auction Bidders' Conference and Participant Training Webinar**

ARB and the Auction Administrator will hold an auction bidders' conference and participant training webinar which will be open via teleconference to anyone interested in participating in the auction. The bidders' conference will include discussion of the auction format, application process, 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 in the Auction Notice.

### **B. Auction Platform Training Materials**

Training materials are available on the Resources tab of the Auction Platform. Training materials available on the publicly accessible home page of the Auction Platform include an Auction and Reserve Sale 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 upcoming activities. Additional materials will be available to auction and reserve sale participants once they have received an account in the Auction Platform. This material will include an Auction and Reserve Sale Platform User Guide with a step-by-step explanation of what to expect during an auction or reserve sale.

### **C. Electronic Question Submittal**

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](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 Physical Bid Guarantee**

Auction participants select one or a combination of the acceptable bid guarantee forms during the application 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 an auction 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 template from 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 Auction Schedule provided in the Auction 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. Potential bidders 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 auction. 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 Notice available at [http://www.arb.ca.gov/cc/capandtrade/auction/november-2013/auction\\_notice\\_attachment\\_b.pdf](http://www.arb.ca.gov/cc/capandtrade/auction/november-2013/auction_notice_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 Services Administrator. Amendments of a LOC or Bank Bond will not be accepted after

the date and time listed for all bid guarantees due to the Financial Services Administrator. If a bid guarantee is returned the auction 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 auction.

#### **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 Auction Schedule provided in the Auction Notice, per the delivery instructions 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>2</sup> See the Auction Schedule in the Auction Notice for the exact dates 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>3</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

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<sup>2</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 auction process.

<sup>3</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.

download the “Wiring Instructions” from the templates section to obtain complete account information and mailing instructions for submitting cash by certified funds, 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.

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 Auction Schedule provided in the Auction 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, ~~27th Floor~~ **16th Floor**

Mailstop: NYC60- 2745 **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 Auction Schedule provided in the Auction 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, ~~27th Floor~~ **16th Floor**

Mailstop: NYC60- 2745 **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 party named as “Applicant” on the LOC must be identical to that named 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 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 1 business day.
- There must be a draw cut off time of no earlier than 9:00 am Pacific Time for same day draw.

**If the submitted LOC requires revision, all revisions must be completed and received in physical form by the 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 in the Auction Notice 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 Auction Schedule provided in the Auction 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, ~~27th Floor~~ **16th Floor**  
Mailstop: NYC60- ~~2715~~ **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 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 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 1 business day.

**If the submitted bank bond requires revision, all revisions must be completed and received in physical form by the 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 Auction 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 Auction Schedule in the Auction Notice.
- A bid guarantee or bid guarantee amendment received after the date and time listed in the Auction Schedule in the Auction 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.
- The revised bid guarantee must be received by the bid guarantee submittal deadline or it will be rejected.
- An entity is responsible to ensure proper addressing of a physical bid guarantee. A bid guarantee received after the date and time listed in the Auction Schedule in the Auction 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 Auction Schedule in the Auction Notice the auction application will be rejected.

#### **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 an active Auction Platform account 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.
- 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 auction participation.
- The entity has not submitted a bid guarantee to the Financial Services Administrator by the date and time listed in the Auction Notice.

## **Step 5: Participate in the Auction**

The Current and Advance Auctions will occur simultaneously at the date and time identified in the Auction Notice. The auctions will be conducted through the electronic, internet-based Auction Platform using a single round, sealed bid auction format. Bid quantities must be submitted in multiples of 1,000 allowances.

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.

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. Information on the allowances to be offered at each auction will be provided in the Auction Notice for each auction. Examples of how auctions are settled are provided in Attachment B of this Notice.

### **A. Bidding in the Auction**

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 auctions 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. Desired allowances for the Current Auction will be selected as “Current” for 2013 vintage allowances and for the Advanced Auction as “2016” for 2016 vintage allowances. In future auctions, the Current Auction may include allowances from multiple vintage years.
- 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 bids may be entered and no changes to bids can be made.

## **B. Bidding Limitations**

The Regulation includes several bidding limitations related to the auction reserve price, bid guarantee submitted, purchase limits, and holding limits. 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 of this Notice.

### **1. Reserve Price Bid Limitation**

The auction reserve price for auctions conducted in 2013 for both 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.

### **2. Bid Guarantee Bid Limitation**

The bid guarantee for an auction 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 auction is a violation of the California Cap-and-Trade Regulation.

- 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 submits 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 submits 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 Auction Notice for an example of how to calculate your bid guarantee.

Submitted bids that contain bid quantities with a value in excess of the bid guarantee at the settlement price 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 bid window has been closed and before the settlement price is determined.

Bidders submit a single bid guarantee for both the Current Auction and Advance Auction. The Auction Administrator will evaluate the submitted bid guarantee for each

entity for the Current Auction. As an entity provides a single bid guarantee, any bid guarantee amount remaining once the Current Auction settlement price has been determined will be applied to the Advance Auction.

### **3. 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.

ARB will transmit a file to the Auction Administrator prior to the auction that contains the purchase limit cap for each auction participant. These caps will indicate how many allowances an auction participant may acquire before exceeding their purchase limit.

Submitted bids that contain bid quantities that would result in an entity exceeding its purchase limit are in violation of the California Cap-and-Trade Regulation, and 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 bid window has been closed and before the settlement price is determined.

### **4. 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 an entity exceeding its holding limit are in violation of the California Cap-and-Trade Regulation. The holding limit will be calculated separately for each vintage year. Further detail on how the holding limit applies to an auction 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 auction that contains the holding limit cap for each auction participant. These caps will indicate how many allowances an auction participant may acquire before exceeding their holding limit. The holding limit cap will be based on the CITSS account balances and limited exemption data available in the CITSS at approximately 12:00 PM (Noon) PT the day prior to the auction. 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 auction and will only reflect the account balances in CITSS the day before the auction. Any changes to CITSS account balances after the determination of the holding cap due to transfers of allowances will not be reflected in the Auction Platform on the day of the actual auction.

Submitted bids that contain bid quantities that would result an entity exceeding its 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 bid window has been closed and before the settlement price is determined.

#### **Bid Limitations Summary**

- A bid guarantee that is less than the maximum value of submitted bids for the auction is a violation of the California Cap-and-Trade Regulation.
- Submitted bids that contain bid quantities that would result in an entity exceeding its purchase limit are in violation of the California Cap-and-Trade Regulation.
- Submitted bids that contain bid quantities that would result an entity exceeding its holding limit are in violation of the California Cap-and-Trade Regulation.

## **C. Auction Conduct**

### **1. Non-Disclosure of Bidding Information**

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 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.

## **D. 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 Auction Results**

### **A. Public Notification of Auction Results**

Following the auction, 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. After certification, auction results will be accessible.

The public results from an auction including the settlement price 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 approximately the date and time listed in the Auction Schedule provided in the Auction Notice. 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 in posting the public auction results, a message will be posted on the ARB webpage and WCI, Inc. website providing the new time for the release of the public notification of results.

### **B. Notification of Entity Auction Results**

Following the posting of the public auction results, representatives of auction participants will receive an email notification that they can log in to the Auction Platform to view their entity's auction results in the entity's Organization Results Report. The Organization Results Report acts as the financial settlement invoice for the auction 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 auction results. The Financial Services Administrator will settle for all allowances awarded in an 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 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 report represents receipt of the financial 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 awarded 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 availability 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.
- Provide a Consigned Allowances Statement to all entities that consigned allowances for an auction.
- 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 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 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 or individual auction participant that fails to make cash payment within seven (7) days after receiving notification of the

availability of auction results. Bid guarantees provided in the form of a LOC or bank bond will be drawn down to cover payment for allowances purchased at auction.

#### **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 auction is certified. Cash will be returned through wire transfer<sup>4</sup> and physical instruments in the form of a LOC or bank bond will be mailed 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.

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 auction 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 a 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 physical bid guarantee instruments will be returned directly to the participants by the Financial Services Administrator 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.

The Financial Services Administrator will send an email to the auction participants in advance of sending back the bid guarantee so they can prepare for receipt of funds.

#### **IV. Considerations for Entities Consigning Allowances**

Entities with Limited Use Holding Accounts may consign allowances to the Executive Officer for sale at the quarterly auctions. Consigning allowances is a separate action available only to Electrical Distribution Utilities identified in the Regulation. All

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

allowances in a Limited Use Holding Account must be consigned during the year of their vintage. Each consigning entity agrees to accept the auction settlement price for allowances sold at each auction. For each auction, allowances designated for consignment must have been transferred from the entity's Limited Use Holding Account to the Auction Holding Account in the CITSS at least seventy five (75) days before the auction. If you need assistance in completing this transfer in the CITSS, please refer to the CITSS User Guide, Volume III, available at [www.arb.ca.gov/citss](http://www.arb.ca.gov/citss).

If an entity is only consigning allowances to the auction and does not wish to participate in the auction, they do not need to complete any actions in the Auction Platform. The entity's CITSS account representatives will be contacted by the Financial Services Administrator to obtain or confirm the wire transfer instructions for receipt of consignment proceeds. To ensure the Financial Services Administrator has current consignee contact information for the PAR and AARs, ARB recommends that the entity maintains the "Auction Participation" box in the CITSS as enabled.

An entity that consigns allowances to an auction and also wishes to participate in the same auction must complete the process to apply for the auction by completing all required actions in the CITSS and the Auction Platform. Any information provided in the Auction Platform regarding the form of bid guarantee and instructions for the return of unused funds or bid guarantee documents will be used to complete auction settlement for allowances awarded through the auction only. The Financial Services Administrator will contact each consigning entity to obtain or confirm wire instructions for the payment of consignment proceeds, regardless of whether or not they have completed an auction application and provided wiring instructions for the return of the bid guarantee.