

# November GHG Allowance Auction Bidder's Conference

Thursday, October 4, 2012

9:00 am – 12:00 pm

# Bidder's Conference Agenda

- Introductions
- Presentation
  - Auction Summary
  - Auction Process and Participation
  - Bid Guarantee Requirements
  - Settlement Price and Winning Bids Determination
  - Market Monitoring
  - Auction Results
  - Auction Platform
  - Financial Services Administration
  - Auction Resources and Training Materials
- Questions and Answer Session

# Auction Summary

- GHG Allowances Offered for Sale in the November 2012 Auction
  - Current Auction (2013 vintage) 21,804,539
  - Advance Auction (2015 vintage) 39,450,000
- Reserve Price
  - \$10 for both Current and Advance Auction
- Administrative Requirements
  - Eligibility: California covered entities, opt-in covered entities, and voluntarily associated entities
  - Entities must have CITSS account
- Auction Format
  - Electronic, internet-based Auction Platform
  - Single-round, sealed-bid auction format
  - Bid quantities can only be submitted in multiples of 1,000 California GHG allowances

# Auction Process and Participation

- Auction Schedule
- Auction Format
- Auction Eligibility
- Auction Conduct
- Auction Application
- Auction Participation
- Auction Bidding
- Bid Guarantee Requirements

# November Auction Schedule

Activities	Date	Time
Auction application window closes in the Auction Platform	Monday, October 15, 2012	11:59 PM PT
All bid guarantees due to Financial Service Administrator	Friday, November 2, 2012	No later than 2:00 PM PT
Consignees transfer consigned allowances from Limited Use Holding Account to Auction Holding Account in the CITSS	By Monday, November 5, 2012	No later than 5:00 PM PT
ARB approves auction participants and participants notified	Monday, November 12, 2012	No later than 5:00 PM PT
Auction held	Wednesday, November 14, 2012	Bidding window open from 10:00 AM – 1:00 PM PT

# November Auction Schedule (cont.)

Activities	Date	Time
Public notice of auction results released	Monday, November 19, 2012	
Notification of financial settlement invoice sent to auction participants	Monday, November 19, 2012	
Financial settlement in cash due to Financial Services Administrators	Friday, November 30, 2012	No later than 2:00 PM PT
Financial settlement complete	Wednesday, December 5, 2012	
Transfer of allowances into CITSS Accounts	Friday, December 7, 2012	
Auction proceeds distributed	Monday, December 10, 2012	

# Auction Format

- The November 14, 2012 auction is scheduled to take place from 10:00 AM Pacific Time (PT) until 1:00 PM PT.
- The minimum number of GHG allowances that will be available for sale during the November 2012 auction are:
  - Current Auction (2013 vintage): 21,804,539
  - Advance Auction (2015 vintage): 39,450,000
- Reserve Price: USD \$10 (for both current and future vintages)

# Auction Eligibility

- California covered entities, opt-in covered entities, and voluntarily associated entities are eligible to participate in the November 2012 GHG allowance auction.
- Prior to participating in an auction, the Primary Account Representative (PAR) and Alternate Account Representative (AAR) that will be authorized to bid on behalf of entities eligible to participate in the auction must be approved users in the Compliance Instrument Tracking System Service (CITSS) and the entity must have an entity account in the CITSS.

# Auction Conduct

- An entity shall not release any confidential information related to its auction participation, including:
  - Qualification status;
  - Bidding strategy;
  - Bid price or bid quantity information; or
  - Information on the bid guarantee provided to the Financial Services Administrator.
- If an entity participating in an auction has retained the services of an advisor regarding auction bidding strategy, then:
  - The entity must ensure the advisor does not release confidential information or share information with other auction participants; and
  - The entity must inform ARB that an advisor has been retained.

# Auction Application

- Step 1: Apply to participate in the auction (PAR or AAR)
  - Step 1a: Confirm intent to bid
  - Step 1b: Verify entity and account representative information
  - Step 1c: Submit bid guarantee information
  - Step 1d: Complete attestation and submit auction application
- Auction application must be submitted in the Auction Platform by the PAR or AAR by no later than 11:59 PM PT on Monday, October 15, 2012.

# Auction Participation

- Step 1: Apply to participate in the auction
- Step 2: Participate in pre-auction activities
- Step 3: Submit bid guarantee
- Step 4: Consign allowances (if applicable)
- Step 5: Participate in the auction
- Step 6: Receive auction results and remit payment

# Auction Bidding

- Auction bidding window will be open 3 hours
  - 10:00 a.m. to 1:00 p.m. PT
  - Bid submitted
  - Manual or upload of Excel bid schedule
- Amendments to bids
  - Bids submitted can be revised or withdrawn during the 3 hour bidding window
  - Once the bidding window closes, no further changes to bids or bid schedules are permissible

# Bid Guarantee Requirements

- Financial guarantee instruments for the November 14, 2012 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
- All bid guarantees must be sent directly to the Financial Services Administrator by November 2<sup>nd</sup>.

# Determining Bid Guarantee

## Application of Single Bid Guarantee

- Bidders submit a single bid guarantee that would be used first for the Current Auction and any remainder applied to bids in the Advance Auction if the bidder submits bids for both auctions.
- Bid guarantee determination example:

<b>Bidder</b>	<b>Bid Price</b>	<b>Bid Lots</b>	<b>Number of Allowances</b>	<b>Total Costs</b>
Entity E	\$ 16.30	300	300,000	\$4,890,000
Entity E	\$ 14.50	180	180,000	\$6,960,500
Entity E	\$ 12.75	85	85,000	<b>\$7,203,750</b>
Entity E	\$ 10.00	35	35,000	\$6,000,000

- Recommended bid guarantee is \$7,203,750.
- If the settlement price is \$10.00 and all allowances are won, then the bid guarantee remaining for the Advance Auction is \$1,203,750 (\$7,203,750 - \$6,000,000).

# Purchase Limits

- A purchase limit is the number of allowances one entity or a group of affiliated entities may purchase from the share of allowances sold at a quarterly auction.
- Purchase limits for Current Auction are:
  - 40 percent for electric utilities
  - 15 percent for other covered and opt-in entities
  - 4 percent for voluntary associated entities
- Purchase limit for advance auction of future vintage allowances is 25 percent of the allowances offered for auction for all participants.

# Determining Your Purchase Limit

## Purchase Limit Calculation

- Multiply your category's purchase limit (electric utility, covered or opt-in entity, or voluntarily associated entity) by the total amount of allowances available for auction.
- Example: electricity distribution utility category:
  - Total number of allowances for sale = 21,804,539 allowances
  - Purchase Limit =  $21,804,539 * 0.40$
  - Purchase Limit = 8,721,816

		Purchase Limit
Electricity Distribution Utility	40%	8,721,816
Covered Entity or Opt-In covered Entity	15%	3,270,681
Voluntary Associated Entity	4%	872,182

# Holding Limits

- Holding limit is the maximum number of California GHG allowances that may be held by an entity or jointly held by a group of entities with a direct corporate association.

# Determining Your Holding Limit

## Holding Limit Calculation

- Holding limits are based on the following formula:
  - Holding Limit =  $0.1 * \text{Base} + 0.025 * (\text{Annual Allowance Budget} - \text{Base})$ 
    - “Base” equals 25 million metric tons of CO<sub>2</sub>e
    - “Annual Allowance Budget” is the number of allowances issued for the current budget year.
      - For 2013 the annual budget is 162,800,000 allowances.
  - Holding Limit =  $0.1 * 25,000,000 + 0.025 * (162,800,000 - 25,000,000)$
  - 2013 Holding Limit = 5,945,000 allowances

# Limited Exemption Holding Limit

- Covered entities may exclude a limited number of allowances from the holding limit calculation by placing them in their Compliance Account.
  - Cumulative calculation of an entity's compliance obligations less the number of instruments it surrenders.
- Limited exemption is increased each year by the amount of the entity's emissions report and is decreased at the end of the year following the close of a compliance period, after the entity has completed its triennial surrender, by entity's total surrender obligation for the compliance period.

# Limited Exemption Holding Limit Determination

## Limited Exemption Holding Limit Calculation

- Holding Limit = 5,945,000 + [Limited Exemption - allowances in the Compliance Account]
- If an entity's Limited Exemption is equal to 4,000,000 metric tons and it holds 1,000,000 allowances in its Compliance Account:
  - Holding Limit = 5,945,000 + [4,000,000 – 1,000,000] = 8,945,000 allowances.
- If an entity's Compliance Account balance is 4,500,000 allowances:
  - Holding Limit = 5,945,000 + [4,000,000 – 4,500,000] = 5,445,000.

# Bid Limitations

- Bid rejected if it:
  - Violates reserve price floor
- Bid rejected in lots of 1,000 if it:
  - Violates holding limit if accepted
  - Violates purchase limit if accepted
  - Exceeds bid guarantee if accepted
- Bid rejected if it does not constitute an offer to purchase allowances
  - Bid for zero lots
  - Bid or bid price of \$0
  - Bid submitted with \$0 bid guarantee submitted

# Bid Limitations (Cont.)

- If a bid is rejected due to the holding limit or purchase limit or exceeding the bid guarantee:
  - The bid that would exceed the limit is reduced in lots of 1,000 until all bid limitations are met.
  - Bid guarantee limitation is assessed at all possible settlement prices.
  - Limits are evaluated based on allowance holdings the day prior to the auction.
    - Data anticipated to be extracted around Noon PT.
  - Account holders are responsible to ensure that there will be no holding limit violation once allowances are transferred after settlement.

# Bid Limitations Example

## Bid Limitations Example: Entity D

Holding Limit	5,945,000
Purchase Limit	1,560,000
Bid Guarantee	\$25,000,000

## Submitted Bids

Bid #	Bid Price	Bid Lots	Allowances	Cumulative Allowances	Cumulative Cost
Bid #1	\$17.80	900	900,000	900,000	\$16,020,000
Bid #2	\$15.20	780	780,000	1,680,000	\$25,536,000

## Accepted Bids

Bid #	Bid Price	Bid Lots	Allowances	Cumulative Allowances	Cumulative Cost
Bid #1	\$17.80	900	900,000	900,000	\$16,020,000
Bid #2	\$15.20	660	660,000	1,560,000	\$23,712,000

- At Bid #2, Cumulative Allowances are greater than Purchase Limit – bid rejected in lots of 1,000 until 660 lots.
- At Bid #2, Cumulative Costs are greater than Bid Guarantee – bid rejected in lots of 1,000 until 744 lots.

# Settlement Price and Winning Bids Determination

- Accepted bids are ranked from highest to lowest by price after close of bidding window.
- Accepted bids filled based on bid limitations until reserve price is reached or price at which total allowances sold is equal to or exceeds total allowances offered for sale.
- If total allowances bid exceeds total allowances offered, tie breaker process is used.

# Tie Breaker Process

Entity	Bid Price	Bid Lots	Share	Allowances from Share	Random Number	Allowances Assigned Randomly
A	\$ 12.75	135	61.36%	44,181	5	1
E	\$ 12.75	85	38.64%	27,818	77	0
		220		71,999		1

- Total allowances available at settlement price is 72,000.
- Share is determined based on share of total bids at settlement price.
- Allowances from share is determined as share multiplied by available allowances (rounded down to nearest whole allowance).
- Remaining allowances randomly distributed.

# Market Monitoring

- The market monitor will work with ARB to evaluate auctions and market activities.
- During an auction, the Market Monitor will review bidding activity and work with ARB to identify any bidding or trends of concern that may indicate manipulative or anti-competitive bidding behavior.
- After the auction, the Market Monitor will review and report to ARB on auction results.
- The Market Monitor will also review activity in the secondary markets.

# Auction Results

- The auction results including the settlement price for the November 14, 2012 auction will be posted on the ARB website and the WCI, Inc. website.
- The Auction Platform will provide reports of both the general auction results and a bidder's invoice for successful bids in an auction or reserve sale.
- The auction result report provides general results and statistics of the auction or reserve sale.

# Post-Auction Public Summary

## Results Report

- Number of allowances available at auction
- Number of allowances sold at auction
- List of qualified bidders
- Ratio of total quantity of allowances bid to total allowances available for sale
  - Total quantity of allowances bid would be for qualified bids and would not include any rejected bids
- Percent of allowances won by compliance entities (this category includes opt-ins)
- Settlement Price

# Auction Platform

- Auction Application Process
- Auction Participation
- Bid Submission
- Bid Guarantee

# Auction Application Process

- Auction Platform sends account representatives email to activate Auction Platform account
  - Auction Platform user name is account representative's email
  - Auction Platform password is established when activating Auction Platform account
  - Both account representatives should activate accounts and establish password
  - One account representative must submit an intent to bid and the auction application in the Auction Platform for the entity
- Application must be completed by October 15<sup>th</sup>

# Auction Participation

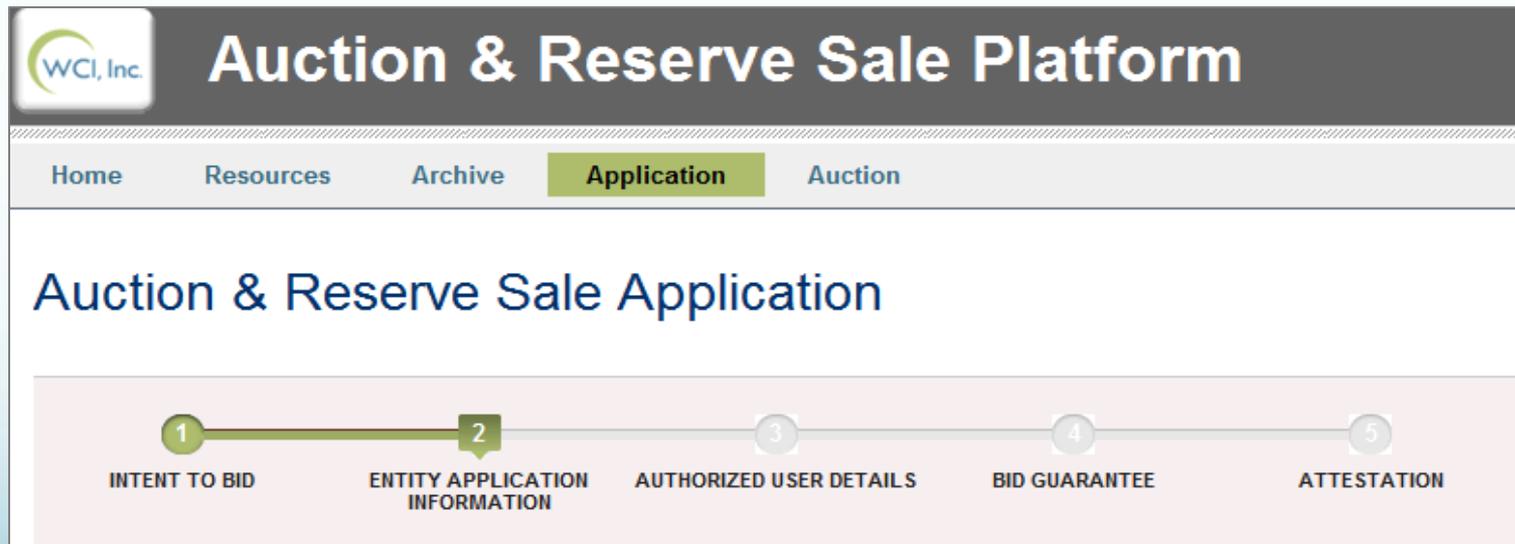
- Step 1: Apply to participate in the auction (PAR or AAR)
  - Step 1a: Confirm intent to bid
  - Step 1b: Verify entity and account representative information
  - Step 1c: Submit bid guarantee information
  - Step 1d: Complete attestation and submit auction application
- Step 2: Participate in pre-auction activities
- Step 3: Submit physical bid guarantee

# Auction Participation (cont.)

- Step 4: Consign allowances (if applicable)
- Step 5: Participate in the auction
- Step 6: Receive auction results and remit payment

# Auction Platform Application Overview

The Auction Platform application process is designed to be user friendly with visual cues and easily accessible information on how to proceed with the application process.



# Bid Submission

- Participants will be able to submit bids manually and upload bid schedules in the Auction Platform during the 3-hour bidding window.
- For each bid the following must be entered:
  - Number of Bid Lots (1 lot = 1,000 allowances)
  - Bid Price
  - Vintage
- The Number of Total Allowances will be calculated based on Number of Bid Lots entered.

# Bid Submission

- Auction participants will be prompted to enter their bids in whole United States Dollars (“USD”) and whole cents, only.
- Participants can edit or withdraw their bids submitted during the 3-hour auction bidding window.

The screenshot displays the 'Auction' section of a web application. At the top, there are navigation tabs: Home, Resources, Archive, Application, and Auction (highlighted). A status indicator 'AUCTION IS OPEN' with a green dot is visible in the top right.

Below the navigation, there are two summary boxes for 'Current Vintage: 2013 Year' and 'Future Vintage: 2015 Year'. Each box contains a table with columns for Reserve Price, Total Allowance, Total Allowance Bid, and Total Bids.

Reserve Price	Total Allowance	Total Allowance Bid	Total Bids
\$30.00	100,000,000	--	--

Reserve Price	Total Allowance	Total Allowance Bid	Total Bids
\$32.00	100,000,000	--	--

Below these boxes is a 'Bidding Closes In' section with a progress bar and a timer showing '02:28:08'. To the right, there are two time zones: PDT (09:31:50) and EDT (12:31:50).

The main section is titled 'Submitted Bids' and contains two buttons: 'Add Bid' and 'Upload Bids'. Below the buttons is a table with columns: Bid Number, User, Time, Currency, Bid Price, Bid Lot x 1000, Vintage, and Total Allowances. A single row is visible with Bid Number '1', User, Time '12:31:38', Currency 'USD', and Total Allowances '0'. A 'Submit' button is next to the row.

On the right side, there is a 'QUICK TIPS' section with the title 'Adding Bids'. The text reads: 'To add a single bid, select the Add Bid button and a new row will be created for your bid. To add multiple bids via spreadsheet, select the Upload Bids button to begin the simple three step process. Download Excel Template'.

# Bid Schedule Upload

- Bid schedules can be uploaded during the bidding window using the Upload Bids function.

The screenshot displays a web application window titled "Upload Bids". At the top, a progress bar indicates three steps: 1. SELECT DOCUMENT, 2. PROCESS SPREADSHEET, and 3. SUBMIT BIDS. Step 1 is currently active. Below the progress bar, there are three main content areas. The first area, labeled "1 SELECT DOCUMENT", contains a "Select Document" section with a text input field and a "Browse" button. Below this is a link for "Download Excel Template" and a note: "Note: After adding event data, save the template as an .xls or .xlsx file". The second area, labeled "2 PROCESS SPREADSHEET", is a large empty box with a large, faint number "2" in the center. The third area, labeled "3 SUBMIT BIDS", is a large empty box with a large, faint number "3" in the center. At the bottom of the window, a status bar shows the user is logged in as "TESTUSER" on "08/27/10" with a balance of "\$1,000".

# Auction Platform Bid Guarantee Submittal

## Bid Guarantee Information

Entities and individuals must indicate the form of bid guarantee (cash or wire transfer, letter of credit, or bond) in the Auction Platform as part of the auction application process, but will submit cash or physical bid guarantee documents to the Financial Services Administrator no later than November 2<sup>nd</sup>.

**Please submit your bid guarantee in one or a combination of the following forms from a financial institution.**

**Which form do you plan to submit?**

- Cash in the form of a wire transfer or certified funds, such as a bank check or cashier's check
- Irrevocable Letter of Credit
- Surety Bond / Bank Bond

# Auction Platform Emails

- Account Activation
- Application Received
- Application Reviewed
- Bid Guarantee Received
- Application Status for Upcoming Auction
- Organization Results Report
- Auction Certified
- Auction Final

# Financial Services Administration

- Bid Guarantee Requirements
- Bid Guarantee Review
- Bid Guarantee Revisions
- Auction Consignment
- Financial Settlement

# Bid Guarantee Requirements

- An applicant will receive an email during the auction application window with the subject line: Application reviewed by Financial Services Administrator.
- The email will include your bid guarantee account number as well as delivery instructions for submitting your bid guarantee.
- Upon receipt of this email, you can deposit your bid guarantee with the Financial Services Administrator.

# Bid Guarantee Requirements

## – Cash or Wire Transfer

- Cash wire transfers or certified funds must be received by the Financial Services Administrator no later than 2:00 Pacific Time on November 2<sup>nd</sup>.
- The cash wire details will include the following information:
  - Bank Name
  - Beneficiary name
  - Account number
  - ABA routing number
  - Payment Details

# Bid Guarantee Requirements

## – LOC or Bond

- LOC or Bond must be issued by a U.S. Financial Institution with a U.S. Banking License.
- The required terms for an LOC or Surety Bond are:
  - Party named as Applicant on LOC or Bond must be identical to that named in the participant's application.
  - Deutsche Bank National Trust Company must be named as beneficiary.
  - LOC must be irrevocable.

# Bid Guarantee Requirements

## – LOC or Bond (cont.)

- The amount of the LOC or Bond must be included.
- The expiration or maturity date must be no earlier than December 5th (i.e. 21 days after the scheduled auction or reserve sale).
- There must be instructions on where to submit the LOC or Bond for payment.
- LOC must include a payment certificate/form of draw as an annex or exhibit. There must be a cutoff time of no earlier than 9am PT for same day draw/payment.

# Bid Guarantee Review

- Deutsche Bank will review and communicate any deficiencies with bid guarantees submitted to the bidder.
- The bidder will need to work with their financial institution to resolve deficiencies.
- Bidders that intend to submit either an LOC or Bond are encouraged to remit it as soon as they are notified that their account has been established with Deutsche Bank.

# Bid Guarantee Revisions

- If a bid guarantee 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 Friday, November 2, 2012, and request an amendment to their bid guarantee.
- If a bidder after submitting a bid guarantee finds they need to revise the guarantee, they should contact the Financial Services Administrator.

# Auction Consignment

- Consignment
  - Must have CITSS account to receive allowances
  - Must transfer from Limited Use Holding Account to Auction Holding Account
- Consignment Proceeds
  - Financial Services Administrator will email the Primary and Alternative Account Representative to obtain wire instructions for consignment proceeds prior to auction.
  - If you are a bidder and have completed the wire payment instructions as part of the application process, you can advise the Financial Services Administrator to utilize these instructions for distributing consignment proceeds.

# Auction Consignment (cont.)

- If bidding in auction but need proceeds to be sent to different account than bid guarantee return, participants can provide the Financial Services Administrator with wire payment instructions.
- If not bidding in an auction:
  - You may provide wiring instructions
  - Alternatively, you may submit intent to bid for auction and submit bid guarantee of zero dollars
- Any payment instructions given to Financial Service Administrator outside of auction platform will need to be confirmed by PAR and AAR.

# Financial Settlement Invoice

- Auction Information
  - Settlement Price
  - # of Successful Bids
  - Total Bid Cost
- Account Information
  - Bid Guarantee
  - Amount Due to Financial Services Administrator
  - Wiring Instructions
- Bid Information
  - Successful Bids – Quantity and Cost
  - Instrument Vintage
  - Bid Price

# Auction Resources & Training Material

- Training materials are available on the Resources tab of the Auction Platform.
- Training materials available in the public Auction Platform include:
  - Auction Guide
  - Frequently Asked Questions (FAQs)
  - Training webinar video
  - Calendar of auction activities
- Additional materials will be available to auction participants once they have received an account in the Auction Platform.

# Auction Participant Training Webinar #2

- Date: Wednesday, October 10<sup>th</sup>, 2012
- Time: 10:00 AM – 12:00 PM PT
- Dial-in information:
  - Participants US and Canada Toll free: 888-523-1227
  - Participants International Toll: +1 719-457-2665
  - Conference ID: 1560064
- Webinar details in Attachment A of the Auction Notice

# Auction and Financial Services Contact Information

- Auction Administrator
  - Email support available 24 hours M-F  
auctionsupport@markit.com
  - Call from 8AM to 6PM PT (1-877-762-7548)
- Financial Services Administrator
  - Email support CAARB.inbox@db.com
  - Call 212-250-6645

# Air Resources Board Contact Information

- If you have any questions about completing the CITSS registration and account application process, please contact the California CITSS Help Desk at: [CACITSSHelpDesk@arb.ca.gov](mailto:CACITSSHelpDesk@arb.ca.gov) or by phone at: (916) 324-7659.
- If you have policy related questions regarding the Cap-and-Trade Program, please contact the Air Resources Board at (916) 322-2037.

# Question and Answer Session