Attachment A: Detailed Reserve Sale Requirements and Instructions

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

Assembly Bill 32 (AB 32) requires California to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020. The California Scoping Plan and the subsequent Scoping Plan Update approved in 2014 lay out the steps to reduce California's GHG emissions by 2020, and maintain and continue those reductions beyond 2020. The Cap-and-Trade Regulation (Regulation) is a key element of California's Scoping Plan. The California Cap-and-Trade Program is administered by the California Air Resources Board (ARB). As part of California's Cap-and-Trade Program, ARB will hold quarterly sales of allowances from the Allowance Price Containment Reserve (reserve sale). This document (Attachment A) includes the detailed requirements and instructions for participating in a reserve sale.

Reserve sales will be held pursuant to the schedule in Appendix C of the Regulation; dates may be adjusted up to four (4) days as described in the Regulation. Reserve sales will be conducted through the electronic, internet-based Auction and Reserve Sale Platform (Auction Platform).[1] If there are no qualified applicants or qualified bidders for any scheduled reserve sale, that reserve sale will not be held. The determination not to hold a reserve sale can be made by ARB at the close of the application period, at the due date for submittal of bid guarantees, or at the deadline for ARB approval of participants which is scheduled to occur within two (2) days prior to each reserve sale. If a reserve sale will not be held, ARB will post a notification on the ARB Auction Information webpage at www.arb.ca.gov/auction no later than two (2) days prior to the scheduled reserve sale.

I. Eligibility

California covered entities and opt-in covered entities are eligible to participate in reserve sales. Voluntarily associated entities and individuals are not eligible to participate in reserve sales. Approved offset project registries, verification bodies, and

[1] For simplicity, the Auction and Reserve Sale Platform is referred to as the Auction Platform in all notices regarding auctions and reserve sales.

offset verifiers are not eligible to participate in reserve sales as they are not allowed to hold compliance instruments under the Regulation.

II. Administrative Requirements to Participate in a Reserve Sale

Outlined below are requirements that must be met before being able to access the Auction Platform to submit an entity's application for a reserve sale.

A. Compliance Instrument Tracking System Service (CITSS) Account

An entity must have an approved account in CITSS before applying to participate in a reserve sale. Additionally, individuals must be approved as either the Primary Account Representative (PAR) or an Alternate Account Representative (AAR) on the entity's account in order to submit an application for the entity, and/or bid on behalf of the entity. Only the approved PAR and AARs that were designated on the CITSS account at the close of the application period and are still a PAR or AAR at the time the reserve sale is held are allowed to submit bids on behalf of an entity during a reserve sale.

A covered entity or opt-in covered entity interested in participating in the reserve sale that has not already obtained approval of a CITSS account is strongly advised to complete the CITSS account application process immediately. To submit a CITSS account application, an entity must designate at least two (2) individuals as account representatives, a PAR and at least one AAR. All individuals designated as account representatives must be approved users in CITSS.

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

CITSS can be accessed at https://www.wci-citss.org or from the ARB CITSS webpage at www.arb.ca.gov/citss.

1. Select the "Auction Participation" Box in CITSS

A PAR or AAR from each entity must select the "Auction Participation" box in CITSS to indicate the entity's interest in participating in upcoming auctions or reserve sales. By selecting this box, an entity representative agrees to have the entity name, general holding account number, entity contact information, representative names, representative phone numbers, and representative email addresses transferred to the

Auction and Reserve Sale Administrator (Auction Administrator)[2] and Financial Services Administrator for the purpose of facilitating participation in any upcoming auction or reserve sale.

The “Auction Participation” box must be selected no later than one (1) day prior to the end of the application period for a reserve sale an entity wishes to participate in and must remain selected throughout the reserve sale until Allowance Price Containment Reserve (APCR) allowances are transferred and the reserve sale is closed. Once selected, the “Auction Participation” box will remain selected allowing participation in all subsequent auctions or reserve sales unless deselected by a PAR or AAR.

The PAR or an AAR may deselect the "Auction Participation" box if the entity wishes to stop sharing its information with the Auction Administrator and Financial Services Administrator and no longer wishes to participate in any future auctions or reserve sales. While an entity may change this setting at any time in CITSS, this setting must be deselected prior to the start of an application period for an auction or reserve sale to avoid the transfer of the entity’s information to the Auction Administrator and Financial Services Administrator.

During an application period, the entity and representative information is sent to the Auction Administrator and Financial Services Administrator daily to reflect any approved changes or updates.

If you need any additional information on selecting or deselecting the “Auction Participation” box, please refer to the CITSS User Guide, Volume 2, available from the ARB CITSS webpage.

2. CITSS Representative and Entity Account Information

If during a reserve sale application period, an entity needs to add, remove, or change the current PAR or AARs, or update the entity information, and has not already selected the “Auction Participation” box in CITSS, the changes should be approved by the California Registrar prior to selecting the “Auction Participation” box. This ensures that the entity account information transmitted to the Auction Administrator and Financial Services Administrator is current and accurate. As the application period for a reserve sale is approximately ten (10) calendar days, if changes in representatives or entity

[2] For simplicity the Auction and Reserve Sale Administrator is referred to as the Auction Administrator in all notices regarding auctions and reserve sales.

information are needed, it is recommended that an entity PAR or AAR contact ARB staff to alert them of the changes proposed.

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

- Enter changes as needed in CITSS.
- Complete and submit any forms or hard copy documentation required to make changes in auction application information listed in Section 95912(d)(4).
- Approval by the California Registrar should occur within ten (10) business days of receiving all required documentation.
- Following approval of all changes, ensure that the “Auction Participation” box is selected in CITSS.

If a material change occurs to an entity’s account information after a reserve sale application period closes, it may limit the entity’s ability to participate in the reserve sale or for a PAR or AAR to represent an entity in the reserve sale. Prior to each reserve sale, ARB will verify the current account representatives associated with each entity that has been approved to participate in the reserve sale. If there has been a change in account representatives, only those representatives that have completed the Auction Platform account activation process, were associated with the entity at the close of the reserve sale application period, and are active representatives on the entity’s CITSS account will be allowed to submit bids during the reserve sale or download reports specific to the 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. Any representatives that were not approved as a PAR or AAR on a CITSS account prior to the end of a reserve sale application period will not be allowed to submit bids on behalf of the entity.

3. Participation by Entities with Direct Corporate Associations

For purposes of this Attachment A, the term “direct corporate associates” refers to all entities with a direct corporate association as defined in the Regulation pursuant to section 95833(a).

Entities registered in CITSS must disclose all direct and indirect corporate associations, as defined in section 95833(a) and as specified in section 95830 of the Regulation, including those direct and indirect corporate associations registered in a linked jurisdiction. As the California Cap-and-Trade Program and Québec Cap-and-Trade System officially linked on January 1, 2014, entities must disclose corporate associations with entities registered under the California Cap-and-Trade Program and entities registered under the Québec Cap-and-Trade System.

Direct corporate associates are entities that meet at least one of the indicia of control in section 95833(a)(2), (a)(3), or (a)(5) of the Regulation, meaning generally those with ownership or voting power exceeding 50 percent of the other entity regardless of whether or not the related entity is registered in the California Cap-and-Trade Program or Québec Cap-and-Trade System. Indirect corporate associates would include those related entities meeting the indicia of control in section 95833(a)(4) of the Regulation, meaning generally those with a percent of ownership or control between 20 and 50 percent, but only applies to those entities which are also registered in either the California Cap-and-Trade Program or the Québec Cap-and-Trade System. Entities that have direct corporate associations with other registered entities, including those registered in a linked jurisdiction, must share purchase and holding limits and declare all such associations. Providing incomplete or inaccurate information regarding corporate associations will cause an entity's reserve sale application to be rejected. Guidance on California's regulatory provision on corporate associations, including revisions that went into effect on July 1, 2014 and January 1, 2015, is available in the Corporate Disclosures Guidance (Updated February 2015) available from the ARB CITSS webpage.

The Regulation requires ARB to provide a consolidated set of accounts to entities that have a direct corporate association. Direct corporate associates may choose to register for separate entity accounts in CITSS, with purchase and holding limits shared among members of the corporate association group. Entities that choose not be in a consolidated account are referred to in the Regulation as entities who have chosen to "opt-out" of consolidation. Any entity that has an approved CITSS account and is a covered entity or opt-in covered entity can apply to participate in a reserve sale. Pursuant to section 95833(f)(6) of the Regulation, entities with a direct corporate association may change their decision to consolidate accounts or opt-out of consolidation only once each year.

Any change to an entity's application information listed in section 95830(c) of the Regulation must be updated within thirty (30) calendar days from the effective date of the changes, or as otherwise specified in section 95830(f)(1) of the Regulation. Pursuant to section 95833(e) and 95830(f)(1) of the Regulation, any changes to corporate associations related to entities registered in the Cap-and-Trade Program or a linked jurisdiction must be updated within thirty (30) calendar days of the change or by the reserve sale application deadline, whichever is sooner. If a change to the corporate association affects reserve sale participation, that change, and any additional actions required by that change, must be approved prior to the end of a reserve sale application period or the entity(ies) involved may not be able to participate in the reserve sale.

Additionally, if any change of ownership becomes effective after an application period ends and prior to the scheduled date for distribution of APCR allowances resulting from a reserve sale, the entities impacted by the change of ownership may not be able to participate in the reserve sale.

III. PAR/AAR Auction Platform Accounts

Any PAR or AAR authorized by an entity to act on its behalf in a reserve sale must have an active Auction Platform account. Only those representatives with an active Auction Platform account will be able to access the Auction Platform to submit an application for the entity, submit bids on behalf of the entity during an open bidding window, or download reports specific to the reserve sale.

A. Auction Platform Account Activation

During the application period for each reserve sale, entity and representative information is transferred to the Auction Administrator for entities that have selected the "Auction Participation" box in CITSS. If an individual has previously activated his or her Auction Platform account, that individual will be able to access the Auction Platform using the established credentials. Representatives that have not previously been indicated as a PAR or AAR on any CITSS account with the "Auction Participation" box selected are sent an email inviting them to activate an Auction Platform account. If a representative does not create an Auction Platform account before the new user activation link expires, the representative will need to contact the Auction Administrator and request that a new link be sent.

The username for an Auction Platform account is the email address the user has submitted in CITSS. If an individual previously activated an account in the Auction Platform but changes his or her email in CITSS, the prior Auction Platform access under the previous email will be disabled. He or she will need to activate a new account in the Auction Platform and will receive an account activation email after the Auction Administrator has received the updated information during the next open application period for an auction or reserve sale that the entity is eligible to participate in and for which the entity has selected the "Auction Participation" box in CITSS. If an individual is removed as an account representative from an entity, the representative's Auction Platform access for that entity will be disabled and he or she will not be able to represent the entity or access entity reports in the Auction Platform.

Representatives added to a CITSS account after a reserve sale application period has closed will not be sent an activation email until the next application period opens, and will not be able to represent the entity in the Auction Platform during the reserve sale.

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

- During an open reserve sale application period entity and representative information is transferred on a daily basis from CITSS to the Auction Administrator.
- Starting the day the application period opens for each reserve sale, individuals that represent entities eligible to participate in the reserve sale and that have not previously been indicated as a PAR or AAR on any CITSS account with the "Auction Participation" box selected will receive an account activation email from the Auction Administrator.
    - The email will be sent to the email address submitted when the CITSS user registration process was completed.
        - This email address will be the account representative's username in the Auction Platform.
    - The email provides an activation link to activate an account and establish an Auction Platform password and security questions.
    - The email will in most cases be received by the end of the next business day after an account representative's information is received by the Auction Administrator.
    - The activation link can only be used once.
    - The activation link will expire twenty-four (24) hours after receipt of the Auction Platform account activation email.

B. Account Representatives Associated with Multiple Entities

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

If an individual is an account representative on multiple entity accounts, each time the individual logs in to the Auction Platform he or she will need to select which entity to represent in that session. To submit information for another (different) entity that he or she represents, the individual will log out of the Auction Platform and then log back in selecting the other entity.

IV. Reserve Sale Training Resources

A. Reserve Sale Participant Training Materials

A Reserve Sale Participant Training presentation is available on the ARB Auction Information webpage and includes information on administrative and regulatory

requirements for reserve sale participation, the reserve sale application process, bid guarantee submission, bid submission, bid fulfillment and purchase determinations, and financial settlement processes for reserve sales.

Training materials are also available from the Auction Platform, and include a calendar of upcoming activities, Frequently Asked Questions (FAQs), the Reserve Sale Participant Training presentation, and an Auction and Reserve Sale User Guide.

V. Reserve Sale Participation Process

The reserve sale participation process includes all actions taken to apply for participation in a reserve sale, submit a bid guarantee, bid during the open bidding window, and settle amounts owed following the reserve sale. The reserve sale participation process consists of the following steps:

Step 1: Apply to participate in the reserve sale:
- Step 1a: Confirm the event in which the entity intends to bid
- Step 1b: Verify entity and account representative information
- Step 1c: Provide information on the form of bid guarantee to be submitted and return instructions
- Step 1d: Complete the Attestation response in the Auction Platform and submit the reserve sale application

Step 2: Submit a bid guarantee:
- Step 2a: Receive notice that a Financial Services Account has been established or verified
- Step 2b: Download Financial Services Delivery Instructions
- Step 2c: Submit a bid guarantee to the Financial Services Administrator

Step 3: Receive notice of entity's approval to participate

Step 4: Participate in the reserve sale

Step 5: Access reserve sale results and download all reports

Step 6: Complete financial settlement

Step 1: Apply to Participate in the Reserve Sale

In the Auction Platform, one entity representative (PAR or an AAR) completes the entity's application to participate in the reserve sale. For each reserve sale, the reserve sale application period starts thirty (30) days prior to the reserve sale with the release of the reserve sale notice and ends twenty (20) days prior to the reserve sale with the due date for submitting a reserve sale application in the Auction Platform. The due date for submitting a reserve sale application in the Auction Platform is the date and time the reserve sale application period closes in the Auction Platform as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.

The application process is outlined below.

Step 1a: Confirm the Event in Which the Entity Intends to Bid
Either the PAR or an AAR must access the Auction Platform and identify the reserve sale in which the entity intends to bid.

Step 1b: Verify Entity and Account Representative Information
The entity representative completing the application will review and confirm the entity information in the Auction Platform, including the account representative details. Entity and representative information is transferred to the Auction Administrator from CITSS. Therefore, all changes to entity account information must be made and approved in CITSS to be properly reflected in the reserve sale application pages in the Auction Platform. Material changes such as a change in an entity's legal name will require review and approval by the California Registrar. It may take up to ten (10) business days before entity detail changes made in CITSS are approved and reflected in the Auction Platform. Updates in CITSS should be made as early as possible to allow time for approval and subsequent submittal of the reserve sale application in the Auction Platform. All changes in entity application information listed in Section 95912(d)(4) of the Regulation, including those that require submittal of hard copy documentation, such as disclosure of corporate associations, must be submitted prior to the close of the reserve sale application period.

Step 1c: Provide Information on Form of Bid Guarantee to be Submitted and Return Instructions
The entity representative must select the form of bid guarantee that the entity intends to submit for the reserve sale. Reserve sale participants can identify one or a combination of the allowable forms of bid guarantee in the Auction Platform on the Bid Guarantee Page. A bid guarantee submitted for a reserve sale must be in one or a combination of the following forms:

- Cash in the form of wire transfer;
- An irrevocable letter of credit (LOC) from a financial institution with a United States (U.S.) banking license;
- A bond issued by a financial institution with a U.S. banking license;
- A Surety Bond issued by an institution named in the current list of "Surety Companies Acceptable in Federal Bonds" as published in the Federal Register by the Audit Staff Bureau of Accounts, U.S. Treasury Department.

Based on the form of bid guarantee selected, the representative will also complete instructions for the return of any unused bid guarantee amounts or physical bid guarantee instruments after the reserve sale is completed.

When a cash bid guarantee is provided, unused cash on deposit will be returned through a Federal Reserve Wire Network (Fedwire) transfer. The return instructions typically require the following information:

- Beneficiary Account Name
- Beneficiary Account Number
- Beneficiary Bank Name
- Beneficiary Bank Routing Number
    - An American Bankers Association (ABA) number must be provided in the return instructions. Only an ABA number should be provided as the Beneficiary Bank Routing Number.

If an entity is using a non-U.S. financial institution, additional information may be required and can be submitted in the "Comments" field of the Auction Platform. It is recommended that the entity's representative contact the Financial Services Administrator to ensure all necessary information for return instructions has been received.

Physical bid guarantee instruments will be returned by FedEx or DHL delivery, and therefore must be returned to a physical address. The return instructions require the following information:

- Name of a contact individual
- Complete street address for mailing
    - Return Address (must be a physical address; no PO Box[3])
    - Return City
    - Return Zip Code
    - Return State/Province
    - Return Country
- Return Contact Phone Number

All bid guarantees (cash, letters of credit, or bonds) will be submitted directly to the Financial Services Administrator, as described in Step 2, the "Submit a Bid Guarantee" section of this Attachment A.

[3] The Financial Services Administrator cannot return physical bid guarantee instruments to a PO Box address by FedEx or DHL delivery as a signature is required to ensure security of the instrument and to allow for confirmation of receipt.

Step 1d: Complete the Attestation Response in the Auction Platform and Submit the Reserve Sale Application

The Auction Platform includes a step that is required to indicate updates or submittal of the Auction Attestation applicable to auction applications. The Attestation requirement does not apply to reserve sales, but an entity must provide a response in this step to continue the application process. Representatives of entities applying for a reserve sale should select “No” to respond to the Attestation step in the Auction Platform.

After the Attestation response in the Auction Platform has been completed, the representative must agree to the Auction Platform Terms of Use and Privacy Policy and can then submit the reserve sale application in the Auction Platform.

The Auction Administrator will confirm receipt of each reserve sale application on the day it is submitted in the Auction Platform via an email sent to the account representatives.

Step 2: Submit a Bid Guarantee

Step 2a: Receive Notice that a Financial Services Account has been Established or Verified

After the application is submitted, the Financial Services Administrator will complete the process to establish (first time participant) or verify (previous participant) the entity’s Financial Services Account in which the entity’s bid guarantee will be recorded.

The Financial Services Administrator acts as an agent for ARB for the purpose of financial administration of auctions and reserve sales. The Financial Services Administrator must establish or verify a Financial Services Account for each entity that applies to participate in a reserve sale. First time auction or reserve sale applicants or applicants with changes in corporate disclosures may need to provide additional information to the Financial Services Administrator to support the account being established or verified.

The PAR and all AARs will receive an email from the Auction Administrator notifying them when the Financial Services Account has been established or verified and directing them to download the Financial Services Delivery Instructions from the Auction Platform to obtain the information needed to submit the bid guarantee.

Step 2b: Download Financial Services Delivery Instructions

The email received when a Financial Services Account is established or verified will direct the PAR and AARs to download the entity's Financial Services Delivery Instructions from the Auction Platform. The Financial Services Delivery Instructions will include the information needed to submit the bid guarantee, including the Financial Services Account Number, which must be referenced when submitting a bid guarantee to the Financial Services Administrator, as well as wiring instructions for submitting cash by wire transfer and mailing instructions for submitting physical bid guarantee instruments.

To download an entity's Financial Services Delivery Instructions, a PAR or AAR will log in to the Auction Platform. Under the Reports Module, the representative will select "Templates," then from the dropdown menu will select "Financial Services Delivery Instructions." An additional drop down menu will be displayed for the representative to select the current event. It is critical that the representative select the appropriate event, as one entity may have more than one Financial Services Account Number associated with different events.

Step 2c: Submit a Bid Guarantee to the Financial Services Administrator

As previously described, reserve sale applicants select one or a combination of the acceptable bid guarantee forms that they intend to submit when completing the application in the Auction Platform.

After an application has been submitted and following notification by email that the Financial Services Account has been established, each entity that wishes to participate in a reserve sale must submit a bid guarantee directly to the Financial Services Administrator. The Financial Services Administrator will receive and maintain all bid guarantees submitted as financial security. All cash bid guarantees submitted will be held in a non-interest bearing trust account with the Financial Services Administrator.

Final bid guarantees must be received by the Financial Services Administrator in United States Dollars (USD) by no later than the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.

Applicants will receive an email from the Auction Administrator confirming that the bid guarantee has been successfully processed by the Financial Services Administrator. If a bid guarantee is not received by the deadline date and time

listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, the reserve sale application will be rejected.

The amount of the bid guarantee provided to the Financial Services Administrator will be used to set bidding limitations in the reserve sale. The amount of the bid guarantee must be greater than or equal to the maximum value of the bids to be submitted. To determine the bid guarantee amount to provide, examples are provided in Attachment B to the Reserve Sale Notice available from the ARB Auction Information webpage.

A. Submitting a Cash Bid Guarantee (Wire Transfer)

Cash wire transfers must be received by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, per the wiring instructions provided in the Financial Services Delivery Instructions and outlined below. See the Reserve Sale Schedule provided in the Reserve Sale Notice for the exact dates and time. Be advised that Automated Clearing House (ACH) transfers can take at least 24 hours to complete. If the cash wire transfer (Fedwire or ACH) is not received by the deadline for receipt of a bid guarantee, it will not be accepted, regardless of the time the transfer was initiated.

Wire transfer instructions are provided in the Financial Services Delivery Instructions downloaded from the Auction Platform. **It is important that the wire transfer details are set up exactly as provided in the entity's Financial Services Delivery Instructions for the Financial Services Administrator to receive the funds by the deadline for receipt of bid guarantees.**

Fedwire transfer details must include the following information:

- Receiving Bank Name: Deutsche Bank Trust Company Americas[4]
- Receiving Bank ABA Routing Number:[5]
- Receiving Bank Account Number (DDA Number):
- Beneficiary Details: Trust and Agency Services
- Payment Details
    - Port: *Financial Services Account Number*
    - WCI Auction[6]
    - *Financial Services Account Name*

[4] Receiving Bank Name must be entered exactly as shown for a cash wire transfer.
[5] The Receiving Bank ABA Routing Number and Account Number are provided in the Financial Services Delivery Instructions.
[6] WCI Auction is how the Financial Services Administrator refers to the reserve sale. WCI refers to the Western Climate Initiative.

If using a Fedwire transfer to wire cash to the Financial Services Administrator, the Fedwire Transfer Payment Details section should be set up with three entries: the entity's Financial Services Account Number, the reference to WCI Auction, and the Financial Services Account Name. The Financial Services Account Number and Account Name are provided in the entity's Financial Services Delivery Instructions downloaded from the Auction Platform.

If using an ACH transfer to wire cash, you may not be able to include all payment details. In this case, include the **WCI Auction** reference to assist in the proper identification and delivery of the transfer. Due to the limited identifying information provided in an ACH transfer, it is recommended that an entity representative notify the Financial Services Administrator in advance of the ACH transfer to ensure proper receipt of the funds.

If an entity is using a non-U.S. financial institution, additional information may be required for wire transfer details, and can be submitted in the "Comments" field of the Auction Platform. Only ABA information should be provided in the Receiving Bank ABA routing number field in the Auction Platform. Contact the Financial Services Administrator if you have questions on how to provide complete wire transfer instructions.

Cash wire transfers that are returned by the Financial Services Administrator to an entity due to an error or incomplete wire transfer 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, and is not received by ARB. A returned wire fee is a common banking transaction fee not related to the California Cap-and-Trade Program or the reserve sale process.

B. Submitting a Physical Bid Guarantee Instrument (Letters of Credit (LOC) and Bonds)

Physical bid guarantee instruments must be received by the Financial Services Administrator in final form by the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, per the delivery instructions provided in the Financial Services Delivery Instructions and outlined below. See the Reserve Sale Schedule provided in the Reserve Sale Notice for the exact dates and time.

NOTE: **Deutsche Bank Trust Company Americas** is the institution name required for receipt of funds via cash wire transfer and for delivery of physical bid guarantees, while

Deutsche Bank National Trust Company is used as the Beneficiary Bank Name provided for a physical bid guarantee. Entities submitting physical bid guarantees should be careful that both the Beneficiary Bank Name and the institution name included in the mailing address are correct, since the names are not the same. Refer to the Financial Services Delivery Instructions provided in the Auction Platform for complete information. **Complete and proper addressing is critical to ensure receipt of all physical bid guarantee instruments by the deadline date and time.**

When sending physical bid guarantee instruments, include the following full address for the Financial Services Administrator:

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

Please include your CITSS Entity Legal Name and Financial Services Account Number when mailing the bid guarantee form(s) to ensure the bid guarantee is properly associated to the entity's account.

When an entity submits a physical bid guarantee instrument, 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 and received in physical form by the Financial Services Administrator by the deadline for receipt of bid guarantees. Amendments to physical bid guarantee instruments will not be accepted after the deadline date and time as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.

ARB encourages entities to do the following:

- Submit a sample LOC or bond to the Financial Services Administrator for review;
- Submit final documents early enough to provide time for amendment, if needed;
- Submit final documents via overnight delivery and retain a tracking number;
- Provide contact information for the issuing bank in the event that a draw on the physical bid guarantee is required to complete financial settlement for allowances awarded; and,
- Confirm receipt of bid guarantees with the Financial Services Administrator.

If a bid guarantee is not received by the Financial Services Administrator in final form by the deadline date and time as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, the reserve sale application will be rejected.

1. Submitting a Letter of Credit (LOC)

A LOC submitted as a bid guarantee must be issued by a financial institution with a U.S. banking license.

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

- The LOC must refer to the CITSS Entity Legal Name or CITSS Entity Operating Name as provided in the participant's reserve sale application.
- **Deutsche Bank National Trust Company** must be listed as the beneficiary.[7]
- The LOC must be irrevocable.
- The amount of the LOC must be included.
- The expiration or maturity date must be at least twenty-six (26) days after the scheduled reserve sale.
- There must be instructions included indicating where to submit the LOC for payment.
- The LOC must allow for presentment by facsimile (Fax) (delivery in person or by courier cannot be required).
- There must be a payment certificate/form of draw included as an exhibit or annex to the LOC.
- The LOC must be payable within three (3) business days.
- There must be a draw cut off time of no earlier than 9:00 AM Pacific Time (PT) / 12:00 PM (Noon) Eastern Time (ET) for same day draw.

If any of these terms are not met by the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice for receipt of all bid guarantees by the Financial Service Administrator, the submitted LOC will be rejected. **If the submitted LOC requires revisions, all revisions must be completed and received in physical form by the deadline for receipt of bid guarantees or the LOC will not be accepted**.

2. Submitting a Bond

Entities may submit a bank bond or a Surety Bond, referred to collectively in this document as bond, as a bid guarantee. A bank bond must be issued by a financial institution with a U.S. banking license. A Surety Bond must be issued by an institution

[7] The Beneficiary Bank Name must be entered exactly as shown, which differs slightly from the institution name provided in the mailing address. Refer to the Financial Services Delivery Instructions provided in the Auction Platform for complete information.

named in the current list of “Surety Companies Acceptable in Federal Bonds” as published in the Federal Register by the Audit Staff Bureau of Accounts, U.S. Treasury Department.

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

- The bond must refer to the CITSS Entity Legal Name or CITSS Entity Operating Name as provided in the participant’s application.
- **Deutsche Bank National Trust Company** must be listed as the beneficiary/obligee.[8]
- The party named as “Principal” in the bond must be identical to that named in the participant’s reserve sale application.
- The expiration date must be at least twenty-six (26) days after the scheduled reserve sale.
- The amount of the bond must be included.
- There must be instructions included indicating where to submit the bond for payment.
- There must be a payment certificate/form of draw included as an exhibit or annex to the bond.
- The bond must allow for presentment by Fax (delivery in person or by courier cannot be required).
- The bond must be payable within three (3) business days.
- There must be a draw cut off time of no earlier than 9:00 AM Pacific Time (PT) / 12:00 PM (Noon) Eastern Time (ET) for same day draw.

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

C. Bid Guarantee Revision Process

If a bid guarantee in the form of a LOC or bond requires revision, all revisions must be completed and received in physical form by the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice or the bid guarantee will not be accepted.

[8] The Beneficiary Bank Name must be entered exactly as shown, which differs slightly from the institution name provided in the mailing address. Refer to the Financial Services Delivery Instructions provided in the Auction Platform for complete information.

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

- The applicant will be notified by the Financial Services Administrator of the need for revision.
- The applicant would contact the financial institution that issued the bid guarantee instrument and request an amendment.
- The revised bid guarantee must be received in physical form by the deadline for receipt of bid guarantees 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: (714) 247–6054
- Email: db.wcisupport@db.com

Bid Guarantee Submittal Summary

- An entity submitting a cash bid guarantee by wire transfer must provide all required wire transfer information listed in this document and in the Financial Services Delivery Instructions to ensure the bid guarantee is accepted and associated with the proper account.
- Cash wire transfers must be received by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.
- An entity is responsible to ensure proper addressing when mailing a physical bid guarantee instrument.
- An entity is responsible to ensure a physical bid guarantee instrument (LOC or bond) is received in final form, including all required non-negotiable terms by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.
- A bid guarantee or bid guarantee amendment received after the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice will not be accepted.
- Emailed, scanned, and PDF versions of a bid guarantee or a bid guarantee amendment will not be accepted as a bid guarantee.
- If a bid guarantee is not received by the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, the reserve sale application will be rejected.

Step 3: Receive Notice of Entity's Approval to Participate
ARB staff will review each applicant's information, CITSS account status, and bid guarantee and make a determination to approve or deny each entity's participation in the reserve sale. Once ARB approves or rejects an entity for reserve sale participation, the PAR and all AARs for the entity will receive an email confirming approval or denial to participate in the reserve sale. This is anticipated to occur within two (2) business days of the reserve sale date. Each entity that has completed a reserve sale application and been approved to participate in the reserve sale is referred to as a "qualified bidder."

The reasons for possible denial of an entity's participation in a reserve sale include, but are not limited to, the following:

- The entity does not have an active CITSS account.
- An entity's general 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.
- The entity has not submitted a bid guarantee to the Financial Services Administrator by the deadline date and time as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.

Step 4: Participate in the Reserve Sale
Each quarterly reserve sale will be conducted using an electronic, internet-based Auction Platform. Pursuant to the Regulation, ARB's Executive Officer shall divide all APCR allowances into three equal-sized tiers to be offered for sale by the Auction Administrator at each reserve sale.

Sales of APCR allowances in calendar year 2015 shall be conducted at the following prices:

(A) Allowances from the first tier shall be offered for $45.20 per allowance;
(B) Allowances from the second tier shall be offered for $50.86 per allowance; and
(C) Allowances from the third tier shall be offered for $56.51 per allowance.

A. Bidding in the Reserve Sale
Participants will be able to submit bids manually and upload bid schedules in a pre-defined Excel template in the Auction Platform during the scheduled bidding window.

To bid in the reserve sale:

- Reserve sale participants will submit a bid which includes a number of bid lots (1 lot = 1,000 APCR allowances) and the tier at which they bid to purchase the APCR allowances.
- Reserve sale participants are allowed to submit as many bids as they wish during the reserve sale bidding window.
    - An uploaded Excel spreadsheet may contain a maximum of 1,000 bids.
    - Multiple spreadsheets may be uploaded.
- Participants will be able to edit or withdraw confirmed bids during the reserve sale bidding window.
- Once the reserve sale bidding window has been closed, no further bids may be entered and no changes to bids can be made.

B. Bidding Limitations

The Regulation includes bidding limitations for reserve sales related to the bid guarantee submitted and the current vintage holding limit. These bidding limits are described below. Attachment B to the Reserve Sale Notice provides additional information and examples of how to determine a bid guarantee amount and how the current vintage holding limit is applied.

1. Bid Guarantee Bid Limitation

The Regulation requires that the bid guarantee submitted for a reserve sale must be greater than or equal to the maximum value of the bids submitted. Submitted bids that contain bid quantities with a value in excess of the bid guarantee will be rejected, in bundles of 1,000 APCR 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.

2. Purchase Limit Bid Limitation

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

3. Holding Limit Bid Limitation

The holding limit is the maximum number of GHG allowances that may be held by an entity or jointly held by a group of entities with a direct corporate association. Allowances purchased in the reserve sale are subject to the current vintage holding limit detailed in section 95920(c)(1) of the Regulation. The current vintage holding limit applies to allowances from the current calendar year, previous calendar years, and allowances purchased from the APCR. Further detail on how the holding limit applies to a reserve sale is provided in Attachment B to the Reserve Sale Notice.

Related entities that are part of a direct corporate association that have separate CITSS accounts must allocate shares of the holding limit amongst themselves. This would apply to all entities that have chosen to opt-out of account consolidation. This holding limit allocation results in each entity having a specified percentage share of the group's holding limit. The sum of the percentages allocated among the entities must sum to one.

ARB will transmit a file to the Auction Administrator prior to the reserve sale that contains the holding limit cap for each reserve sale participant. These caps will indicate how many allowances a reserve sale participant may acquire before exceeding its holding limit. The holding limit cap will be based on CITSS account balances and limited exemption data available in CITSS at approximately 12:00 PM (Noon) PT the day prior to the reserve sale. The holding limit cap transmitted to the Auction Administrator is used solely for the purpose of administration of the holding limit bid limitation in the reserve sale and will only reflect the account balances in CITSS the day before the reserve sale. Any changes to CITSS account balances after the determination of the holding limit cap due to transfers of allowances will not be reflected in the Auction Platform on the day of the actual reserve sale.

C. Auction Administrator Application of the Bidding Limitations

Submitted bids that contain bid quantities in excess of the holding limit or have a maximum value in excess of the bid guarantee will be rejected, in bundles of 1,000 allowances, until all bid limitations are met. Only that portion of the bid quantity that exceeds one or more limit will be rejected, not the entire bid quantity. "Qualified bids" are the bids that remain after the submitted bids have been evaluated and reduced to meet all limits. Only qualified bids are used in the reserve sale settlement process. Determination of qualified bids occurs after the bid window has been closed and before the final bid fulfillment and purchase determinations are made.

D. Bid Fulfillment

Sales from each tier are conducted in succession beginning with the lowest price tier and proceeding to the highest-priced tier, until either all available APCR allowances are sold or all the qualified bids are filled.

Examples of how reserve sales are settled are provided in Attachment B to the Reserve Sale Notice available from the ARB Auction Information webpage.

D. Reserve Sale Conduct

1. Non-Disclosure of Bidding Information

Pursuant to Section 95914(c) of the Regulation, an entity approved for reserve sale participation shall not release any confidential information related to its reserve sale participation, including:

- Intent to participate, or not participate, at reserve sale, and reserve sale approval status;
- Bidding strategy;
- Bid quantity or tier information;
- Information on the bid guarantee provided to the Financial Services Administrator.[9]

Section 95923 of the Regulation requires that any entity participating in a reserve sale that has retained the services of a consultant or advisor regarding reserve sale bidding strategy must ensure the following:

- The entity must ensure against the consultant or advisor transferring information to other reserve sale participants or coordinating the bidding strategy among participants;
- The entity will inform the consultant or advisor of the prohibition of sharing information to other reserve sale participants and ensure the consultant or advisor has read and acknowledged the prohibition under penalty of perjury; and
- The consultant or advisor must provide ARB with the following information at least fifteen (15) days prior to a reserve sale: names of entities being advised, description of advisory services being performed, and assurance under penalty of perjury that the advisor is not transferring to or otherwise sharing information with other reserve sale participants.
- Any entity that has retained the services of a consultant or advisor must disclose to ARB information to identify the consultant or advisor, including name, contact information, physical work address, and employer, if applicable.

Entities are required to inform ARB of the retention of a consultant or advisor, including a bidding advisor. The PAR or an AAR of the entity must submit the information required by the Regulation. This can be accomplished using the *Corporate Associations and Structure Form*, available on the ARB CITSS webpage. The Corporate Associations and Structure Form has been updated to reflect amendments to the Regulation that went into effect July 1, 2014 and January 1, 2015, including those

[9] Section 95914(c) of the Regulation prohibits the release of the information listed above by registered entities. The prohibition includes an entity's direct and indirect corporate associations, and their consultants and advisors identified pursuant to section 95923 of the Regulation.

related to bidding advisors. Guidance on these California regulatory requirements is available in the Corporate Disclosures Guidance (Updated February 2015) available from the ARB CITSS webpage.

Section 95914(c)(3) of the Regulation requires Cap-and-Trade consultants or advisors to self-disclose information related specifically to auction and reserve sale bidding strategy services. Consultants and advisors providing such services may submit the required information to ARB using the *Auction Bid Advisor Form* at the address on the form no later than fifteen (15) business days prior to the reserve sale at which the bid advisor's services will be employed.

E. Market Monitoring

WCI, Inc. 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 monitor the auctions and reserve sales during the bidding window and review 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 5: Access Reserve Sale Results and Download All Reports

Following the reserve sale, ARB and the Market Monitor will review the reserve sale results. ARB's Executive Officer will review the conduct of the reserve sale and determine whether the reserve sale met the requirements of the Regulation.

A. Public Notification of Reserve Sale Results

Reserve sale results will be accessible to the public through a Reserve Sale Summary Results Report, which will include the total purchases by tier and will be posted on the ARB Auction Information webpage. This posting is anticipated to occur at approximately the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice. In the event of a delay in posting the Reserve Sale Summary

Results Report, a message will be posted on the ARB Auction Information webpage providing the new time for the release.

The reserve sale results will include the following:

- The names of the qualified bidders.
- The reserve sale prices per tier and APCR allowances available in each tier.
- The total number of APCR allowances sold from each tier.[10]

B. Notification of Entity Reserve Sale Results

Following the posting of the Reserve Sale Summary Results Report, ARB will certify the reserve sale in the Auction Platform and representatives of reserve sale qualified bidders will be able to view and download the entity's reserve sale results in the entity's Organization Results Report available through the Auction Platform. Additionally, a Financial Statement is available to serve as the financial settlement invoice for the reserve sale and will include the number and total cost of APCR allowances the entity has purchased, if any.

C. Download all Reports

Immediately following certification of a reserve sale and availability of the entity's results in the Auction Platform, an entity's PAR or an AAR should download and save all Auction Platform reports that are available to an entity that has participated in a reserve sale. The reports include: the Organization Results Report, the Financial Statement, and the Client Bid Audit Report. As these reports are confidential, they are not available to any parties other than the PAR and AARs that were associated with an entity for each auction and reserve sale. CITSS account representatives may change over time and access to historical reports cannot be provided to new representatives. To maintain a complete record of an entity's auction and reserve sale participation, it is recommended that all reports be downloaded and maintained by auction and reserve sale participants as soon as each event is certified and all reports become available in the Auction Platform.

Step 6: Complete Financial Settlement

Entities will complete the financial settlement process with the Financial Services Administrator for all APCR allowances purchased in a reserve sale once the reserve sale is certified. Financial settlement must be completed in cash.

[10] The total number of APCR allowances will be provided only if the total represents purchases from a minimum of three (3) qualified bidders.

The availability of the Organization Results Report represents the beginning of the seven (7) day period in which a reserve sale participant is required to complete payment of the amount due for APCR allowances purchased to the Financial Services Administrator.

The entity's Organization Results Report will include the following:

- Reserve Sale Information
    - Tier Prices
    - # of Successful Bids by Tier and Successful Bid Allowances
    - Total Bid Cost (By Tier and Combined Total)
- Account Information
    - Entity Information
    - Bid Guarantee Submitted by Type (cash, LOC, or bond)
    - Amount Due to Financial Services Administrator (if any)
    - Amount Due by Date (if an amount is due)
- Wiring Instructions for Submitting Payment
    - Deadline for receipt of payment (if payment is required).
- Bid Information

The entity's Financial Statement will include all of the above except bid information.

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

- For those entities that submitted cash bid guarantees, use the cash submitted to settle for any amounts owed.
- For entities that submitted a physical bid guarantee instrument(s) (LOC or bond), collect cash payment for any amounts owed from winning bidders within seven (7) days of the availability of the reserve sale results.
- Draw on the physical bid guarantee instrument(s) for any entities that fail to submit payment for amounts owed within seven (7) days of availability of the reserve sale results.
- Distribute reserve sale proceeds from the sale of allowances.

Once all payments have been received, proceeds will be paid, and subsequently ARB will transfer the number of APCR allowances purchased into each winning bidder's CITSS Compliance Account.

A. Cash Settlement

All final financial settlements must be completed in cash by reserve sale participants within seven (7) days of the availability of the entity's reserve sale results 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 was submitted for the bid guarantee, the cash funds on account will be used to settle any amount owed and any unused portion will be returned to the entity.

The Financial Services Administrator will not accept payment in the form of a certified bank check or cashier's check for APCR allowances purchased in a reserve sale. If a check is received for cash settlement, the check will be returned.

If an entity fails to make cash payment within seven (7) days after availability of the entity's reserve sale results, physical bid guarantee instruments (LOC and bonds) held on account by the Financial Services Administrator will be used to cover payment for APCR allowances purchased in the reserve sale.

B. Return of Bid Guarantee

The Financial Services Administrator will return any unused bid guarantees based on the return instructions provided when the reserve sale application was submitted in the Auction Platform. Cash will be returned through wire transfer[11] and physical bid guarantee instruments in the form of a LOC or bond will be returned directly to the reserve sale participants through FedEx or DHL delivery by the Financial Services Administrator. The Financial Services Administrator will send an email to the representatives of reserve sale participants in advance of sending back the unused bid guarantee so they can prepare for receipt of funds or physical bid guarantee instruments.

All bid guarantees submitted by unsuccessful bidders, regardless of type, will be returned within approximately three (3) business days after the reserve sale is certified.

For winning bidders that provided a cash bid guarantee, the funds will be applied against the final settlement amount owed. If there is cash remaining after the amount owed for APCR allowances purchased has been deducted, the unused cash will be returned to the reserve sale participant through wire transfer based on the return instructions provided during the application process in the Auction Platform.

For winning bidders that provided bid guarantees in the form of a LOC or bond, following receipt of all amounts owed, the Financial Services Administrator will return physical bid guarantee instruments directly to the participants through FedEx or DHL

[11] 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 transfer details provided by an entity, resulting in a fee charged to the Financial Services Administrator, the fee will be reflected in the total bid guarantee returned to an entity. A returned wire fee is not a reserve sale fee, but is a common banking transaction fee not related to the California Cap-and-Trade Program or the reserve sale process.

delivery, based on the return instructions provided during the application process in the Auction Platform.