

CA-QC Practice Auction Notice

California Cap-and-Trade Program and Québec Cap-and-Trade System

Joint Auction of Greenhouse Gas Allowances on August 7, 2014

Issued on July 29, 2014

Auction Summary

This document, the CA-QC Practice Auction Notice for the California Cap-and-Trade Program and Québec Cap-and-Trade System Practice Auction of Greenhouse Gas Allowances on August 7, 2014 (Practice Auction Notice), is the official notification for the August 7, 2014 practice greenhouse gas (GHG) allowance auction. The August 7, 2014 practice GHG allowance auction (CA-QC Practice Auction) will demonstrate how joint auctions are anticipated to be conducted.

The intent of the CA-QC Practice Auction is to introduce stakeholders to the anticipated processes and materials for a joint auction. Content in this Practice Auction Notice provides the anticipated content for a joint auction notice. Where the CA-QC Practice Auction requirements differ from the requirements of an actual CA-QC joint auction, additional notes and directions are found in a red box.

The CA-QC Practice Auction is NOT the same event as the California or Québec jurisdiction-specific August 2014 auctions. Please ensure that the detailed requirements and deadlines as provided in each respective Auction Notice and Auction Schedule are followed closely to allow participation in the CA-QC Practice Auction and jurisdiction-specific August 2014 auctions.

The CA-QC Practice Auction is scheduled to take place from 10:00 AM Pacific Time (PT)/1:00 PM Eastern Time (ET) until 1:00 PM PT/4:00 PM ET. This *Practice Auction Notice* provides information about eligibility, auction format, and allowances presented as offered for sale.

Allowances Offered for Sale and Annual Reserve Prices¹

The number of allowances that will be represented as being offered in the CA-QC Practice Auction and the Annual Reserve Prices for California (CA) and Québec (QC) are provided in Table 1 below. These allowances are fictional and do not exist. The Annual Reserve Price for each jurisdiction is the Annual Auction Reserve Price posted by each jurisdiction before the calendar year in which the reserve price is in effect. The CA Annual Reserve Price is presented in United States Dollars (USD). The QC Annual Reserve Price is presented in Canadian Dollars (CAD).

Table 1: Allowances Presented as Offered for Sale and Annual Reserve Prices in the CA-QC Practice Auction

Auction	Number of Allowances	CA Annual Reserve Price (USD)	QC Annual Reserve Price (CAD)
Current Auction (2014 vintage)	25,000,000	\$11.34	\$11.39
Advance Auction (2017 vintage)	15,000,000	\$11.34	\$11.39

Allowances presented as offered during the CA-QC Practice Auction are fictitious instruments. Allowances offered for sale in a joint auction would be issued under the California Cap-and-Trade Program and the Québec Cap-and-Trade System and would include California state- and Québec provincial-owned allowances and California allowances consigned by the electrical distribution utilities and, potentially, other parties as described in the California Cap-and-Trade Regulation (California Regulation).

Attachment A to this Notice includes the detailed requirements and instructions anticipated for participating in a joint auction. Attachment B to this Notice provides information and examples of how to determine the amount of a bid guarantee, how holding and purchase limits are applied, how U.S. and Canadian currencies are handled, and examples of how joint auctions are settled.

Attachment A and Attachment B are “draft” documents that are anticipated to be attached to the Notice for the first joint auction. The Attachments are not specific to the CA-QC Practice Auction. In this Practice Auction Notice, comments are provided to clearly illustrate how the CA-QC Practice Auction is different from an anticipated joint auction. In Attachment A and Attachment B, where CA-QC Practice Auction

¹ In the Auction Platform, the Annual Reserve Price is titled “Announced Reserve Price.”

requirements and joint auction requirements are different, red text box notes and additional direction are provided.

Background

Assembly Bill 32 (AB 32) requires California to reduce greenhouse gas (GHG) emissions to 1990 levels by 2020. The California Cap-and-Trade Regulation (California Regulation) is a key element of California's climate plan. The California Regulation is designed to provide covered entities the flexibility to seek out and implement the lowest-cost options to reduce emissions. The California Cap-and-Trade Program is administered by the California Air Resources Board (ARB).

Similarly, Québec's Environment Quality Act requires that the province of Québec reduce GHG emissions. The Government of Québec approved the 2013-2020 Climate Change Action Plan (2020 CCAP) as a measure to fight climate change in 2013 and beyond, and adopted the *Regulation respecting a cap-and-trade system for greenhouse gas emission allowances* (Québec Regulation). The 2020 CCAP will enable Québec to pursue its shift toward a green economy and to strengthen the resilience of Québec society to climate change impacts. Québec has targeted for 2020 a GHG emission reduction of 20% below the 1990 level. The Cap-and-Trade System constitutes the Government of Québec's primary strategic tool for fighting climate change and it is funding Québec's 2013–2020 Climate Change Action Plan. The Québec Cap-and-Trade System is administered by Québec's ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques² (MDDELCC).

On January 1, 2014, the California Cap-and-Trade Program and Québec Cap-and-Trade System officially linked, enabling the mutual acceptance of compliance instruments issued by each jurisdiction, and the jurisdictions to hold joint auctions of GHG allowances. As part of California's Cap-and-Trade Program and the Québec Cap-and-Trade System, ARB and MDDELCC will hold joint GHG allowance auctions to allow market participants to acquire GHG allowances. For the purpose of this Notice and attachments, California and Québec are broadly referred to as "jurisdictions."

Auction Exchange Rate and Auction Reserve Price

To manage multiple currencies, an Auction Exchange Rate is determined prior to each joint auction. The Auction Exchange Rate (USD to CAD) in effect the day of the joint auction and for financial settlement by auction participants will be determined the business day prior to the joint auction and will be displayed in the Auction Platform. The Auction Exchange Rate (USD to CAD) in effect for the joint auction will be set as the

² Ministry of Sustainable Development, Environment and the Fight against Climate Change.

most recently available noon daily buying rate for U.S. and Canadian dollars as published by the Bank of Canada.

The Auction Exchange Rate and the Auction Reserve Price (USD and CAD) effective during the joint auction will be displayed in the Auction Platform the business day prior to the joint auction. The Auction Reserve Price will be determined as the higher of the California or Québec Annual Reserve Prices after applying the established Auction Exchange Rate. The Auction Reserve Price is the lowest price at which current and advance allowances offered in the auction will be sold. Bids submitted with a Bid Price below the Auction Reserve Price will not be accepted.

As an example, based on the Annual Reserve Prices shown in Table 1 above, if the noon daily buying rate for USD and CAD as published by the Bank of Canada is 1.1000 (USD to CAD), then the California Annual Reserve Price at \$11.34 would be the higher of the California and Québec Annual Reserve Prices, as compared to the \$10.35 USD value of the Québec Annual Reserve Price (\$11.39 CAD/1.1000 = \$10.3545 USD, which rounds to \$10.35 USD). The amounts shown in bold in Table 2 below reflect the values that would be the Auction Reserve Price in this example (\$11.34 in USD and \$12.47 in CAD).

These reserve prices are NOT the Auction Reserve Price in effect for the CA-QC Practice Auction. The exchange rate of 1.1000 (USD to CAD) is for example purposes only, and not representative of the actual anticipated exchange rate for any auction. The actual Auction Reserve Price for the CA-QC Practice Auction will be determined and displayed in the Auction Platform when the Auction Exchange Rate is displayed the business day prior to the auction.

Table 2: Example Auction Exchange Rate and Auction Reserve Price Determination

Auction Exchange Rate (USD to CAD)	1.1000
California Annual Auction Reserve Price (USD)	\$11.34
California Annual Auction Reserve Price (CAD Value)	\$12.47
Québec Annual Auction Reserve Price (CAD)	\$11.39
Québec Annual Auction Reserve Price (USD Value)	\$10.35

Auction Eligibility

All entities eligible to participate in an auction under the California Cap-and-Trade Program or Québec Cap-and-Trade System are eligible to participate in a joint auction.

California covered entities, opt-in covered entities, and voluntarily associated entities (CA entities) are eligible to participate in a joint auction. Québec emitters and participants (QC entities) are eligible to participate in a joint auction.

General Terms Used in Auction Notice and Attachments

For the purpose of this Notice and attachments, the following general terms are used to describe potential auction participants:

- “CA entity” is used to refer to all entities registered under the California Cap-and-Trade Program: covered entities, opt-in covered entities, and voluntarily associated entities.
- “QC entity” is used to refer to all entities registered under the Québec Cap-and-Trade System: emitters and participants.
- “Entity” is used to refer to all entities and individuals registered under either the California Cap-and-Trade Program or Québec Cap-and-Trade System.
- “General Market Participant” is used to refer to all voluntarily associated entities as defined in the California Cap-and-Trade Program and participants as defined in the Québec Cap-and-Trade System. A General Market Participant may include a General Market Participant - Organization or General Market Participant - Individual.

Auction Schedule

Comments on CA-QC Practice Auction Schedule

- The Practice Auction Schedule in Table 3 is specific to the CA-QC Practice Auction and is presented in a substantially compressed time frame compared to an anticipated joint auction.
- The Auction Schedule for a joint auction is based on regulatory requirements. The Auction Schedule for a joint auction will be similar to the auction schedules included in the auction notices posted by California and Québec for their respective jurisdiction-specific auctions to be held in August 2014.

Table 3 presents the current schedule for activities associated with the CA-QC Practice Auction (“Practice Auction Schedule”). Any changes to the current schedule of events will be communicated through an updated Auction Notice and by email to the Primary Account Representatives (PARs) and Alternate Account Representatives (AARs) of California and Québec Compliance Instrument Tracking System Service (CITSS) registered entities who have indicated an interest to participate in auctions by selecting the “Auction Participation” box in CITSS.

Table 3: Practice Auction Schedule

Activities	Due Date	Time - Pacific Time (PT) / Eastern Time (ET)
Release of Practice Auction Notice Auction application period opens in the Auction Platform	Tuesday, July 29, 2014	10:00 AM PT / 1:00 PM ET
Auction application period closes in the Auction Platform	Thursday, July 31, 2014	6:00 PM PT / 9:00 PM ET
Auction participants approved and PAR and AARs notified	Wednesday, August 6, 2014	No later than 2:00 PM PT / 5:00 PM ET
Practice Auction held	Thursday, August 7, 2014	Bidding window open 10:00 AM PT – 1:00 PM PT / 1:00 PM ET – 4:00 PM ET
Begin Practice Auction Survey	Friday, August 8, 2014	
End Practice Auction Survey	Tuesday, August 12, 2014	

Administrative Requirements to Participate in Auction

Comments on CA-QC Practice Auction Requirements

- Administrative requirements for the CA-QC Practice Auction are the same as anticipated for a joint auction.
- Because the CA-QC Practice Auction Schedule is very short, it is recommended that any entity that wants to participate in the CA-QC Practice Auction immediately select the CITSS “Auction Participation” box, if it is not already selected.
- To allow an Auction Platform account to be activated, the Auction Participation Box must be selected by 12:00 PM (Noon) PT on Thursday, July 31, 2014.

Administrative requirements to participate in a joint auction are outlined below.

A. Compliance Instrument Tracking System Service (CITSS) Account

Prior to applying to participate in an auction, an entity must have an approved account in 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 PAR or an AAR on that account. Potential applicants must be registered with the appropriate jurisdiction (California or Québec), and accounts must accurately reflect all required registration information, including a report of corporate associations. An

individual registered as a voluntarily associated entity in the California Cap-and-Trade Program or a participant in the Québec Cap-and-Trade System will be required to submit additional documentation to the Financial Services Administrator prior to the end of the auction application period.

Comments on CA-QC Practice Auction Requirements

- Individuals registered as a voluntarily associated entity in the California Cap-and-Trade Program or a participant in the Québec Cap-and-Trade System will not submit additional documentation for participation in the CA-QC Practice Auction.

B. Select the “Auction Participation” box in CITSS

Additionally, in order to participate in a joint auction, the PAR or an AAR must select the “Auction Participation” box in CITSS to allow CITSS account information to be transferred to the Auction Administrator and Financial Services Administrator. Additional information about administrative requirements and auction participation is provided in Attachment A of this Notice available from the jurisdiction webpages.

C. Account Representatives Auction Platform Account

All account representatives that are authorized by an entity to act on behalf of the entity 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, submit bids on behalf of the entity during an open bidding window, or download reports specific to the auction.

Auction Platform Account Activation

During the application period for each auction, entity and representatives information is transferred to the Auction Administrator for entities that have selected the “Auction Participation” box in CITSS. 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 their 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 for a new link to be sent. However, if an individual has previously activated his or her Auction Platform account, that individual will still be able to access the Auction Platform using the established credentials.

Procedures for Conducting the Auction

Each quarterly joint auction will be conducted using an electronic, internet-based Auction Platform that bidders use to apply to participate in an auction and submit their bids in a single-round, sealed-bid auction format.

Each entity must submit an application for or confirm an intent to bid in an auction. In the process to apply for a joint auction or submit an intent to bid, QC entities must select the currency of a bid guarantee to be submitted. QC entities may provide a bid guarantee in USD or CAD. Once a QC entity selects the currency (USD or CAD) for the bid guarantee submission in the Auction Platform, that currency must be used when submitting a bid guarantee, submitting bids during the joint auction, and completing financial settlement. CA entities must provide a bid guarantee in USD and will not make a currency selection when submitting an auction application. **No changes in the currency selected during the auction application will be allowed after the auction application is submitted.**

Comments on CA-QC Practice Auction Requirements

- The requirements for submitting bids in the CA-QC Practice Auction are the same as anticipated for a joint auction.

When bidding, bid quantities can only be submitted in lots of 1,000 allowances. Current and future vintage allowances will be sold in separate auctions. Bids for both the Current Auction and the Advance Auction will be accepted during the same 3-hour bidding window.

Joint auction bid evaluations and settlement price determination will be conducted in USD. The value of all bids and bid guarantees submitted in CAD will be converted into USD in whole cents using the established Auction Exchange Rate to conduct the auction in a single currency, including the evaluation of bids on a common basis. All bid assessments, the settlement price, and the cost of all allowances awarded will be determined in USD. For any QC entity that submitted a bid guarantee in CAD, the total cost of allowances is first determined in USD (USD settlement price multiplied by number of allowances awarded) and then converted to a CAD value based on the Auction Exchange Rate so the entity can complete financial settlement in CAD.

The process to determine the settlement price requires that the Auction Administrator rank qualified bids from all bidders from the highest qualified bid price to the lowest qualified bid price using the USD value of the bids. Allowances will be awarded to bidders, beginning with the highest qualified bid price and moving to successively lower qualified bid prices, until the entire supply of allowances is exhausted or all qualified bids have been filled. The settlement price for the Current Auction will be determined first, followed by the determination of the settlement price for the Advance Auction.

Bidders submit a single bid guarantee for both the Current Auction and Advance Auction. Because an entity provides a single bid guarantee, once the Current Auction settlement price and the entity's total cost for allowances awarded (USD settlement price multiplied by number of allowances awarded) in the Current Auction has been determined, any bid guarantee amount remaining after the cost for allowances awarded in the Current Auction is deducted will be applied to the Advance Auction. The bid guarantee is applied to the Current Auction then Advance Auction in the form of USD currency, regardless of the currency selected by the bidder.

Comments on Practice Auction Requirements

- No bid guarantee will be submitted to the Financial Services Administrator for the CA-QC Practice Auction.

Examples of how joint auctions are settled are provided in Attachment B of this Notice available from the jurisdiction web pages.

Form and Manner for Submitting Bids

The CA-QC Practice Auction includes the opening of the 3-hour bidding window in the Auction Platform at 10:00 AM PT / 1:00 PM ET and the closing of the window at 1:00 PM PT / 4:00 PM ET on August 7, 2014. 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. CA entities may only submit bids in USD. QC entities may only submit bids in the bid guarantee currency selected in the auction application process. When submitting bids manually, the currency will be pre-selected in the proper currency. If attempting to upload a bid schedule that includes bids in a currency different than the bid guarantee currency selected, the spreadsheet upload will fail. Additional information on submitting bids is included in Attachment A of this Notice.

Comments on CA-QC Practice Auction Requirements

- The requirements for submitting bids for the CA-QC Practice Auction are the same as anticipated for a joint auction.

Financial Settlement

Comments on Practice Auction Requirements

- No entity results will be released and no financial settlement will be completed for the CA-QC Practice Auction.

The Financial Services Administrator will settle for all allowances awarded in an auction once an auction is certified. Financial settlement must be completed in cash in the currency in which the entity participated in the auction. Entities submitting bids in CAD

are required to complete financial settlement in CAD for any allowances awarded.

The Auction Administrator will notify each qualified bidder of the availability of the entity's auction results. For those entities that submitted cash bid guarantees, the Financial Services Administrator will use the cash submitted to settle for any amounts owed. For entities that submitted physical bid guarantees (LOC, LOG, bonds), the Financial Services Administrator will collect cash payment from winning bidders within seven (7) days of notification of the availability of the auction results. The deadline for receiving payment by wire transfer is listed in the Auction Schedule.

The Financial Services Administrator will draw down the physical bid guarantee submitted to cover payment for allowances awarded by any entity that fails to make cash payment within seven (7) days.

Contact Information

For further information about participation in the CA-QC Practice Auction, please contact one of the following:

California Cap-and-Trade Program
Ms. Ashley Dunn, California Air Resources Board
adunn@arb.ca.gov
(916) 322-7156

Québec Cap-and-Trade System
Ministère du Développement durable de l'Environnement et de la Lutte contre,
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spede-bcc@mddelcc.gouv.qc.ca
(418) 521-3860; or 1-800-561-1616 option #5