

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

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 conduct sales of allowances from the Allowance Price Containment Reserve (reserve sale).

NOTE: In July 2014, amendments to the Regulation became effective including revisions to some of the reserve sale requirements. All revised requirements are effective for the September 2014 reserve sale and are incorporated in this document, Attachment A. This document (Attachment A) includes the detailed requirements and instructions for participating in a reserve sale.

Pursuant to the Regulation, reserve sales will be conducted on the first business day six (6) weeks after each quarterly GHG allowance auction. 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 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 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 registries, verification bodies, and 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 the Reserve Sale

Outlined below are requirements that must be met prior to being able to access the Auction Platform to submit an entity's application or confirm an entity's intent to bid in a reserve sale.

A. Compliance Instrument Tracking System Service (CITSS) Account

Before applying to participate in a reserve sale, an entity must have an approved account in CITSS. Individuals that are authorized to submit an application or confirm an intent to bid for the entity, and/or bid on behalf of the entity must be approved as either the Primary Account Representative (PAR) or an Alternate Account Representative (AAR) on that account. Only the approved PAR and AARs that were designated on the CITSS account at the close of the application period and are still a PAR or AAR at the time the reserve sale is conducted are allowed to submit bids on behalf of an entity during a reserve sale.

An 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 one (1) day for the entity representatives to activate Auction Platform accounts and complete a reserve sale application for the entity in the Auction Platform.

CITSS can be accessed at <https://www.wci-citss.org> or from the ARB Cap-and-Trade Program webpage.

1. Select the "Auction Participation" Box in 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 account number, entity contact information, representative names, representative phone numbers, and representative email addresses transferred to the Auction and Reserve

Sale Administrator (Auction Administrator)¹ and Financial Services Administrator for the purpose of facilitating participation in an 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 allowances are transferred and the reserve sale is closed. Once selected, the “Auction Participation” box will remain selected allowing participation in all subsequent auctions 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 having its information sent to the Auction Administrator and Financial Services Administrator.

During an application period, the entity and representatives 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 at www.arb.ca.gov/citss.

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.

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

- Enter changes as needed in CITSS.

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

- Complete and submit the required Request to Change Account Representatives/ Account Viewing Agents Form provided through CITSS and available at www.arb.ca.gov/citss.
- Approval by the California Registrar should occur within ten (10) business days of receiving all required documentation.
- Following approval of all account representatives, 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 an auction or 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 when the reserve sale application period closed, 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, the term “direct corporate associates” is used to refer 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) of the Regulation, including those direct and indirect corporate associations registered in a jurisdiction to which California has linked pursuant to subarticle 12 of the Regulation. 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 associates 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 recent amendments to California's regulatory provision on corporate associations, including revisions that went into effect on July 1, 2014, is available in the [Corporate Disclosures \(July 2014 Amendments\)](#) document available from ARB's CITSS webpage at www.arb.ca.gov/citss.

The Regulation requires ARB to provide a consolidated set of accounts to entities that have a direct corporate association. The consolidated set of accounts is referred to as a Consolidated Entity Account (CEA). 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 to be in a CEA are referred to in the Regulation as entities who have chosen to "opt-out" of consolidation. Each direct corporate associate with a separate CITSS account can apply to participate in an auction or 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 auction or 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 resulting in a change of corporate associations becomes effective after an application period ends and prior to the scheduled date for distribution of allowances resulting from a reserve sale, the entities impacted by the change of ownership may not be able to participate in the reserve sale.

More information on reserve sale participation by entities with corporate associations can be found on ARB's Cap-and-Trade Program webpage at <http://www.arb.ca.gov/citss>.

III. Account Representatives Auction Platform Account

All account representatives that are authorized by an entity to act on behalf of the entity 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 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 reserve sale.

A. Auction Platform Account Activation

During the application period for each reserve sale, entity and representatives' 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 him or her 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 for a new link to be sent.

The username for an Auction Platform account is the email address the user has submitted in CITSS. If an account representative's email address changes, the individual will need to submit the requested change in CITSS, obtain California Registrar approval, and activate a new Auction Platform account during the next auction or reserve sale application period. The Auction Platform account established under the prior email will be disabled. 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.

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

- During an open reserve sale application period, account information, including entity and representatives details, is sent on a daily basis from CITSS to the Auction Administrator.
 - Starting the day the application period opens for each reserve sale, individuals 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 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.
 - If an individual previously activated an account in the Auction Platform but has changed his or her email in CITSS, he or she will need to activate a new account through the Auction Platform and will receive an account activation email after the Auction Administrator has received the updated information. The prior Auction Platform access and username will be disabled.
 - 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 current reserve sale.

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 entity, the individual will log out of the Auction Platform and then log back in selecting the other entity that he or she represents.

IV. Participate in pre-reserve sale training or review training materials (optional, but highly recommended)

A. Review Reserve Sale Participant Training Materials

Reserve sale participant training materials are available on ARB's Auction Information webpage at www.arb.ca.gov/auction, including descriptions of the following:

- reserve sale format, application process, procedures, and requirements,
- how to apply for a reserve sale and submit bids in the Auction Platform, and
- how to submit a bid guarantee.

Training materials are also available on the Resources tab of the Auction Platform. Training materials available on the Auction Platform include a calendar of upcoming activities, Frequently Asked Questions (FAQs), and an Auction and Reserve Sale User Guide, which provides a high-level overview of the Auction Platform and the process for participating in an auction or reserve sale.

B. Electronic Question Submittal

The Auction Platform includes a link to submit questions and comments to the Auction Administrator. Questions regarding the Auction Platform and reserve sale bidding process can also be sent directly to the Auction Administrator Support Team at auctionsupport@markit.com.

For all other questions regarding the California Cap-and-Trade Program, please contact the California Air Resources Board at (916) 322-7072.

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 six (6) steps:

Step 1: In the Auction Platform, one entity representative (PAR or an AAR) completes the entity's application to participate in the reserve sale (first time participant) or confirms the entity's intent to bid in the reserve sale (previous auction or reserve sale participant). The application or confirmation of intent to bid in the Auction Platform consists of steps 1a through 1d:

Step 1a: Confirm intent to bid

Step 1b: Verify entity and account representative information

Step 1c: Submit information on form of bid guarantee to be submitted, and return instructions

- Step 1d: Complete Attestation and submit reserve sale application
- Step 2: Submit 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 bid guarantee to 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

For each reserve sale, the application period starts at least 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 or confirming an entity's intent to bid in the Auction Platform. The due date for submitting a reserve sale application or confirming an entity's intent to bid in the Auction Platform is the date the reserve sale application period closes in the Auction Platform as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice, available at http://www.arb.ca.gov/cc/capandtrade/auction/sept-2014/reserve_sale_notice.pdf.

First Time Auction or Reserve Sale Participant

Entities that have not previously been approved to participate in an auction or reserve sale must submit a reserve sale application through the Auction Platform at least twenty (20) days prior to the first reserve sale in which they wish to participate. Each entity must complete an application by 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 described below.

Previous Auction or Reserve Sale Participant

Once an entity has previously been approved to participate in an auction or reserve sale, the entity does not need to submit another application for subsequent auctions or reserve sales unless there is a material change to the application information. To participate in subsequent auctions or reserve sales, the entity must submit an intent to bid through the Auction Platform. Each entity must complete the confirmation of an intent to bid by the date and time the reserve sale application period closes in the Auction Platform as listed in the Reserve Sale Schedule provided in the Reserve Sale Notice.

Both the application and the confirmation of intent to bid processes follow similar steps in the Auction Platform, as outlined below.

Step 1a: Confirm Intent to Bid

Either the PAR or an AAR must access the Auction Platform and identify the reserve sale in which the entity intends to bid.

Step 1b: Verify Entity and Account Representative Information

The entity representative completing the application or confirmation of intent to bid process will review and confirm the entity account information in the Auction Platform, including the account representative details. Entity account and representatives information is transferred to the Auction Administrator from 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. All changes in CITSS and all hardcopy documentation accompanying changes in CITSS should be submitted a minimum of ten (10) business days before the close of the reserve sale application period to allow time for approval and subsequent confirmation of the information in the Auction Platform. Due to a reserve sale application period being only ten (10) days, all changes in CITSS and all hardcopy documentation accompanying changes in CITSS should be submitted prior to the opening 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 he or she 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. The 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(s) 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.

Unused cash on deposit will be returned through wire transfer. The return instructions require the following information:

- Beneficiary Account Name
- Beneficiary Account Number
- Beneficiary Bank Name
- Beneficiary Bank Routing Number

Physical bid guarantee instruments will be returned by FedEx 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
 - Individual Name
 - Return Address (must be a physical address; no PO Boxes²)
 - 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 Bid Guarantee” section of this Attachment.

Step 1d: Complete the Attestation and Submit Reserve Sale Application

The Auction Platform does not currently reflect the updated Attestation from section 95912(d)(4)(E) of the amended Regulation, which became effective on July 1, 2014. However, since the Attestation is applicable to auction participation applications, rather than reserve sales, representatives of entities applying for the

² The Financial Services Administrator cannot return physical bid guarantee instruments to a PO Box address by FedEx delivery as a signature is required to ensure security of the instrument and to allow for confirmation of receipt.

September 2014 Reserve Sale should select “No” to respond to the attestation in the Auction Platform. Selecting “No” requires a comment to allow an entity to select the “Submit” button to submit its application. An entity can enter “not applicable” in the comment field.

After the Attestation has been completed, the representative must agree to the Auction Platform Terms of Use and Privacy Policy and can then submit the application or confirmation of intent to bid in the Auction Platform.

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

Step 2: Submit Bid Guarantee

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

After the application or confirmation of intent to bid 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 account representatives will receive an email from the Auction Administrator notifying them when the 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 account representatives to download the Financial Services Delivery Instructions from the Auction Platform. The Financial Services Delivery Instructions will include all the information needed to submit the bid guarantee including the Financial Services Account number which must be referenced on the bid guarantee when submitted to the Financial Services Administrator, as well as wiring instructions for submitting cash by wire transfer and mailing instructions for physical bid guarantee instruments.

- i. 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 Bid Guarantee to Financial Services Administrator

After an application or confirmation of intent to bid has been submitted and following notification by email that the Financial Services Account has been established, each entity that wishes to participate in a reserve sale must submit its bid guarantee directly to the Financial Services Administrator. The Financial Services Administrator acts as an agent for ARB for the purpose of financial administration for auctions and reserve sales. 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 accepted 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, please see Attachment B of this Notice available at http://www.arb.ca.gov/cc/capandtrade/auction/sept-2014/reserve_sale_notice_attachment_b.pdf.

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 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. Be advised that Automated Clearing House (ACH) transfers can take up to 24 hours to complete. If the wire transfer is not received by the deadline for receipt of bid guarantees, it will not be accepted, regardless of the time the transfer was initiated.

Wire transfer details are provided in the Financial Services Delivery Instructions downloaded from the Auction Platform. **It is important that the wire 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.**

The cash wire details must include the following information:

- Receiving bank name: **Deutsche Bank Trust Company Americas**³
- Receiving bank ABA routing number:⁴
- Receiving bank account number (DDA Number):
- Beneficiary Details: Trust and Agency Services
- Payment Details
 - Port: *Financial Services Account Number*
 - WCI Auction
 - *Financial Services Account Name*

The Wire Transfer Payment Details used to wire cash to the Financial Services Administrator should be set up as described here with three entries to include 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, 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.

Cash wire transfers that are returned by the Financial Services Administrator to an entity due to an error or incomplete wire details may result in a returned wire fee, which would be reflected in the wire amount returned to the entity. A returned wire fee is not a

³ Receiving Bank Name must be entered exactly as shown, which differs slightly from the mailing address for the Financial Services Administrator.

⁴ Receiving bank ABA routing number and account number are provided in the Financial Services Delivery Instructions.

reserve sale fee, but 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 date and time.

NOTE: 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 by FedEx, 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 submitted to the Financial Services Administrator prior to 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, 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 from 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 application.
- Deutsche Bank National Trust Company must be listed as the beneficiary.
- The LOC must be irrevocable.
- The amount of the LOC must be included.
- The expiration or maturity date must be at least twenty-six (26) days⁵ 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 (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

⁵ Note that the earliest expiration date for physical bid guarantee instruments has been extended to 26 days after the reserve sale, effective for the September 2014 reserve sale.

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.
- The party named as “Principal” in the bond must be identical to that named in the participant’s application.
- The expiration date must be at least twenty-six (26) days⁶ 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 (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 revisions, 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 it will not be accepted.

⁶ Note that the earliest expiration date for physical bid guarantee instruments has been extended to 26 days after the reserve sale, effective for the September 2014 reserve sale.

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 big 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: (212) 250-6645
- 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 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 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 by the deadline date and time for receipt of bid guarantees as listed in the Reserve Sale Schedule 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 the entity's approval or denial to participate in the reserve sale. Each entity that has completed a reserve sale application or confirmed an intent to bid 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 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

Reserve sales will be conducted using an electronic, internet-based Auction Platform that bidders will use to submit their bids. Bid quantities must be submitted in multiples of 1,000 California GHG APCR allowances.

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 2014 shall be conducted at the following prices:

- (A) Allowances from the first tier shall be offered for \$42.38 per allowance;
- (B) Allowances from the second tier shall be offered for \$47.68 per allowance;
- and
- (C) Allowances from the third tier shall be offered for \$52.98 per allowance.

The Auction Administrator will conduct sales from each tier in succession, beginning with the lowest priced tier and proceeding to the highest priced tier, until either all allowances are sold from the APCR or all the accepted bids are filled.

Examples of how reserve sales are settled are provided in Attachment B of this Reserve Sale Notice.

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 3-hour bidding window.

Other features of reserve sales are as follows:

- Reserve sale participants will submit a bid including a number of bid lots (1 lot = 1,000 allowances) and the tier at which they bid to purchase the allowances.
- Reserve sale participants are allowed to submit as many bids as they wish during the 3-hour window.
- Participants will be able to edit or withdraw their confirmed bids during the 3-hour 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 holding limit. These bidding limits are described below.

Attachment B of this Reserve Sale Notice provides additional information and examples of how to determine a bid guarantee amount and how holding limits are applied.

1. Bid Guarantee Bid Limitation

The bid guarantee 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 maximum value in excess of the bid guarantee will be rejected, in bundles of 1,000 allowances, until the bid guarantee limitation is met. Only that portion of the bid quantity that exceeds the limit will be rejected, not the entire bid quantity.

This determination occurs after the bidding window has been closed and before the final purchase determinations are made.

2. 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. Further detail on how the holding limit applies to a reserve sale is provided in Attachment B of this Notice.

Entities that are part of a direct corporate association that choose to opt out of account consolidation pursuant to section 95833(f)(3) of the Regulation must allocate shares of the holding limit among themselves. This holding limit allocation results in each entity having a specified percentage share of the group's holding limit. The sum of the percentages distributed 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 their holding limit. The holding limit cap will be based on CITSS account balances, limited exemption data, and holding limit allocations to entities with a direct corporate association (if applicable) 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.

Submitted bids that contain bid quantities that would result in an entity exceeding its holding limit will be rejected, in bundles of 1,000 allowances, until the limit is met. Only that portion of the bid quantity that exceeds the limit will be rejected, not the entire bid quantity. This determination occurs after the bidding window has been closed and before the purchase determinations are made.

3. Purchase Limit Bid Limitation

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

B. Reserve Sale Conduct

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, reserve sale approval status, maintenance of continued reserve sale approval;
- Bidding strategy;
- Bid price or bid quantity information; and,
- Information on the bid guarantee provided to the Financial Services Administrator.

Pursuant to section 95923 of the Regulation, 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.

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 Cap-and-Trade Regulation that went into effect July 1, 2014, including those related to bidding advisors. Guidance pursuant to the new and updated requirements is available on ARB's CITSS webpage at [Corporate Disclosures \(July 2014 Amendments\)](#).

The Regulation, section 95914(c)(3), requires Cap-and-Trade consultants or advisors to self-disclose information related specifically to 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.

C. Bid Fulfillment Determination

Sales from each tier are conducted separately starting with the lowest price tier and proceeding through each higher priced tier. There are three potential outcomes for sales within each tier.

Examples of how reserve sale bid fulfillment is determined are provided in Attachment B of this Notice available from the ARB webpage.

D. Market Monitoring

ARB has contracted with an independent market monitor, Monitoring Analytics, LLC., for the California Cap-and-Trade Program. The purpose of the Market Monitor is to monitor, detect, and report issues relating to the operation of the GHG allowance auctions, reserve sales, and secondary markets.

The Market Monitor will monitor the GHG allowance auctions and reserve sales, and provide ongoing monitoring of GHG allowance holdings and market activity. The Market Monitor will monitor the secondary market to identify any indications of anti-competitive behavior, as well as to understand market activity and trades. The Market Monitor's findings will be provided to ARB staff to review and take action, as needed. ARB staff will also 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 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 certify whether the reserve sale met the requirements of the Regulation. After certification, reserve sale results will be accessible.

A. Public Notification of Reserve Sale Results

The public results from a reserve sale including the total purchases by tier will be posted on the ARB webpage at www.arb.ca.gov/auction. This posting is anticipated to occur

approximately at the date and time listed in the Reserve Sale Schedule provided in the Reserve Sale Notice. The reserve sale results will include the following:

- The names of the qualified bidders.
- The reserve sale prices per tier and allowances available in each tier.
- The total number of allowances sold from each tier.⁷

In the event of a delay in posting the public reserve sale results, a message will be posted on the ARB webpage providing the new time for the release of the public notification of results.

B. Notification of Entity Reserve Sale Results

Following the posting of the public reserve sale results, representatives of reserve sale participants will receive an email notification that they can log in to the Auction Platform to view the entity's reserve sale results in the entity's Organization Results Report. Additionally, a Financial Statement is available to serve as the financial settlement invoice for the reserve sale and will include the number of allowances the entity has purchased, if any.

C. Download all Reports

After receiving the email notification of the availability of the entity's Organization Results Report, the 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 reserve sale. CITSS account representatives may change over time and access to historical Auction Platform 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 Auction Platform reports be downloaded and maintained by auction and reserve sale participants immediately after receiving the email notification of the availability of the entity's Organization Results Report.

Step 6: Complete Financial Settlement

Financial settlement will begin once ARB's Executive Officer has certified the reserve sale results. The Financial Services Administrator will settle for all allowances purchased in a reserve sale. The financial settlement process will take place outside of

⁷ The total number of allowances will be provided only if the total represents purchases from a minimum of three (3) qualified bidders.

the Auction Platform. The email notification of 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 allowances purchased to the Financial Services Administrator.

As part of the financial settlement process, the Auction Administrator will:

- Notify each qualified bidder of the availability of the reserve sale results. The entity's Organization Results Report and Financial Statement will include the number of allowances purchased by tier, total allowances purchased, total purchase cost, and the deadline for receipt of payment, and wiring instructions for submitting payment, if applicable.

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 physical bid guarantee instruments (LOC or bonds), collect cash payment from winning bidders within seven (7) days of notification of the availability of the reserve sale results.
- Use the physical bid guarantee instrument(s) submitted to cover payment for allowance purchases by any entity that fails to make cash payment within seven (7) days.
- Deposit reserve sale proceeds from the sale of ARB APCR allowances into the Greenhouse Gas Reduction Fund.

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

A. Cash Settlement

All final financial settlements must be made in cash by reserve sale participants within seven (7) days of notification of the availability of the entity's reserve sale results in the Auction Platform. The entity's reserve sale results are provided in the Organization Results Report and Financial Statement which are downloaded from the Auction Platform. The wiring instructions for cash settlement will be included in the Organization Results Report. 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.

Settlement by submittal of a certified bank check or cashier's check to the Financial Services Administrator is not acceptable. If a check is received for cash settlement, the check will be returned.

Physical bid guarantee instruments (LOCs or bonds) held on account by the Financial Services Administrator will be used to cover payment for allowances purchased by a reserve sale participant that fails to make cash payment within seven (7) days after receiving notification of the availability of the entity's reserve sale results.

B. Return of Bid Guarantee

The Financial Services Administrator will return any unused bid guarantees based on the delivery instructions provided when the reserve sale application was submitted in the Auction Platform. Cash will be returned through wire transfer⁸ and physical bid guarantee instruments in the form of a LOC or bond will be mailed directly to the reserve sale participants 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 unused bid guarantees for 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 on account with the Financial Services Administrator after the purchased allowances are settled for, it will be returned to the reserve sale participant based on the wire instructions specified during the application process in the Auction Platform.

For winning bidders that provided bid guarantees in the form of a LOC or bond, settlement for any amount owed must be provided in cash by wire transfer to the Financial Services Administrator. Following receipt of all amounts owed, the Financial Services Administrator will return physical bid guarantee instruments directly to the participants through FedEx delivery, based on the delivery instructions specified during the reserve sale application process in the Auction Platform.

⁸ If a cash wire transfer is returned to the Financial Services Administrator by an entity's financial institution due to an error or incomplete wire details provided by an entity, resulting in a fee charged to the Financial Services Administrator, the fee will be reflected in the total bid guarantee returned to an entity. A returned wire fee is not 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.

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