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Edmund G. Brown Jr.
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Notice to Prospective Proposers

Request for Proposal RFP No. 10-123

“Cap-and-Trade Auction and Reserve Sale Operator”

November 8, 2011

ARB is issuing this notice to post Questions and Answers to the Cap-and-Trade Auction and Reserve Sale Operator Request for Proposal (RFP). This RFP was originally issued as RFP 10-108. The questions and responses in this notice are from the bidders' conference held on September 20, 2011 for RFP 10-108, and responses have been revised to reflect the context of the reissued RFP. As the Scope of Work has not been substantially revised, the questions and answers are applicable to RFP 10-123, although some dates may be different due to reissuing the RFP.

Responses to questions may refer to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation (cap-and-trade regulation). The current text of the adopted regulation is available at: <http://www.arb.ca.gov/regact/2010/capandtrade10/ctfro.pdf>.

This notice is published online in the California State Contracts Register at <http://www.eprocure.dgs.ca.gov/CSCRAAds.htm>. To ensure receipt of any addenda that may be issued, interested parties are encouraged to register online at <http://www.bidsync.com/help/bidsync/freebids.html>. Any questions are to be addressed to the contact listed below.

Air Resources Board
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Thank you.

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

Request for Proposal No. 10-123

Cap-and-Trade Auction and Reserve Sale Operator Follow-up Questions & Answers

Q1. In RFP Section III.B Cost Proposal Requirements it states that, “ARB’s budget for the proposed contract is limited to \$750,000...” Is this an annual budget or the budget for the first two (2) years of the contract combined?

A1. The total budgeted amount of the contract is \$750,000 for the 24 month duration of the contract.

Q2. In RFP Section III.B.1.c Cost Proposal Requirements it states that the Respondent should, “Provide cost of each task and/or deliverable listed in Section 1, C, Scope of Work.” This requirement as stated in the RFP and reflected in the sample tables for the cost proposal (RFP Section III.B.3 Sample Tables for Cost Proposal) is difficult since the Scope of Work contains tasks that are only provided once and some that are repetitive. For example:

1. Design Processes and Procedures for Auction and Reserve Sale – Performed once.
2. Develop Qualification Information and Applications – Some elements are performed once and some are repeated six (6) times.
3. Conduct the Bidder Qualification Process – Repeated six (6) times.
4. Receive Bids for Auction and Reserve Sale – Repeated six (6) times.
5. Conduct the Quarterly GHG Allowance Auctions – Repeated six (6) times.
6. Determine Auction Settlement Price and GHG allowance Awarded – Repeated six (6) times.
7. Correct GHG Allowance Auctions – Repeated up to six (6) times.
8. Conduct Quarterly Reserve Sales – Repeated six (6) times.
9. Communication – Repeated six (6) times.
10. Prepare a System Security Plan – Repeated once.

Therefore, to be able to provide a total cost over the two (2) year contract, certain tasks would need to be multiplied by six (6) to yield a total contract cost. Would ARB be willing to break the costs into two (2) phases: (1) Cost for the planning activities as well as the first auction & reserve sale; and (2) Cost for each subsequent auction & reserve sale? Cost by task could still be provided for the first phase to allow for billing by task/deliverable and an

invoice would be submitted at the completion of an auction & reserve sale during the second phase.

A2. The proposed costs must be broken down in the Work Plan and Work Schedule component of the RFP and should be presented as one-time and recurring costs.

Q3. In RFP Section I.C.2 Scope of Work it states that, “Any party wishing to participate in an auction must submit an auction registration application at least 30 days prior to the auction.” Would ARB consider allowing a party to register once and become qualified for all subsequent auctions?

A3. The current draft of the cap-and-trade regulation (§ 95912) provides that once the Executive Officer has approved an entity’s auction registration, the entity need not complete another application for subsequent auctions unless there is a material change to the information contained in the application or the Executive Officer has made a determination restricting an entity’s auction participation pursuant to section 95914(c).

Q4. Is it the ARB’s preference to select the same provider for both the Auction and Reserve Sale Operator and the Financial Service Contractor?

A4. ARB does not have a preference to select the same service provider for both the Auction and Reserve Sale Operator and the Financial Services for Auction and Reserve Sale services.

Q5. Will the ARB provide the Auction and Reserve Sale Operator with a list of potential auction participants or does the ARB expect the Auction and Reserve Sale Operator to solicit interest in the auction?

A5. ARB will not provide the Contractor a list of potential, qualified bidders. The Contractor must develop a list of potential, qualified bidders after 1) publishing a public notice of an auction no later than 60 days prior to each auction; 2) communicating the notice of auction to any parties requesting such notification; and 3) hosting and facilitating at least one bidders’ conference for auction participants no later than 40 days prior to each auction.

Q6. How long does the ARB expect the auction to be open for? Will auctions open and close intra-day or will they be open for multiple days?

A6. ARB does not specify in the cap-and-trade regulation how long an allowance auction will be open for, thus there is not a requirement in the RFP. The Contractor will be required to design and specify processes and procedures for the GHG allowance auction and reserve sale. The duration of the allowance auction would

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be an example of a component that may be included in the designed processes and procedures.

Q7. Will the Auction and Reserve Sale Operator be permitted to charge auction participants a fee to participate in the auction?

A7. The Auction and Reserve Sale Operator will not be permitted to charge a fee to auction participants.

Q8. Is the ARB expecting a response from bidders for section 1 (“Minimum Qualifications”) of the Technical Proposal Requirements on page 30 of the RFP, or are responses expected in section 5?

A8. The Proposer should provide a detailed response, outlining information as to how the Proposer meets each of the minimum qualifications in Section 1, Minimum Qualifications, of the proposal.

Q9. Does the ARB expect the Auction and Reserve Sale Operator to enter into contracts directly with auction participants or will participants contract directly with the ARB?

A9. As a result of this RFP, ARB will enter into an agreement with only the awarded bidder.

Q10. The scope of work for the Auction and Reserve Sale Operator does not include platform / system testing with market participants. Will the Operator be required to conduct "dry run" or other testing with market participants? If so, when will this testing commence?

A10. There is no specific requirement that the operator conduct a "dry run" or other testing with market participants. The Contractor is required to develop the procedures and conduct auctions and reserve sales that include the capability to ensure the auction and reserve sale platform and tools are clear, simple, and designed to minimize the risk of errors. If a proposer believes that conducting a "dry-run" helps meet the requirements of the RFP, a proposer may include this option in the developed procedures. If testing is proposed, then this activity should be included in the Work Plan and Work Schedule component of a submitted proposal.

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Q11. Does having worked on a contractual basis for an entity subject to the provisions of the MRR or cap-and-trade regulation amount to a COI?

A11. A current financial interest in an entity subject to the provisions of the MRR or cap-and-trade regulation such as ownership, financial investment or services delivered to a client, could amount to a conflict of interest.

This provision is not intended to prohibit any entity from submitting a proposal. If needed, the successful bidder will be allowed to divest itself prior to contract award.

Q12. Is this a personal statement pertaining to the “personal or financial interest” of the person signing? Or is the statement meant to pertain to the firm for which the signatory works?

Does financial interest extend to owning shares of an entity through a mutual fund or 401K fund? I ask because if that is true, and there are some 800 entities covered under the MRR or cap-and-trade regulation, then it would be very difficult to know if there was a conflict.

A12. A financial interest could include ownership, financial investment or services delivered to a client.

The RFP requirements in Exhibit E, Section 9.D apply to the organization. Exhibit E, Section 8.E requires that Contractor’s employees performing work described in the RFP complete and sign Exhibit E, Attachment 1 prior to beginning work under the contract.

Any ownership amount could be considered a potential conflict. However, this provision is not intended to apply to a publicly traded or publicly available mutual fund or other collective investment fund, or a widely held pension or mutual fund, provided that the interest holder neither exercises control nor has the ability to exercise control over the financial interests held in the fund.

This provision is not intended to prohibit any entity from submitting a proposal. If needed, the successful bidder will be allowed to divest itself prior to contract award.