

California Cap-and-Trade Program Implementation Frequently Asked Questions June 25, 2012

California's Cap-and-Trade Regulation took effect on January 1, 2012. The enforceable compliance obligation begins on January 1, 2013, for Greenhouse Gas (GHG) emissions. In February 2012, staff initiated the rulemaking process to propose amendments to the Cap-and-Trade Regulation. Changes to program implementation that may occur based on the proposed amendments have been referenced in this FAQ document where appropriate. These changes will occur only if approved by the Air Resources Board (ARB) at the June 28 Board hearing. ARB has developed the following compilation of Frequently Asked Questions (FAQs) to assist program stakeholders. These FAQs provide information on systems for allowance tracking, auctions and reserve sales, and related financial services. Separate guidance will be provided specific to regulatory changes and compliance.

The FAQs are organized under the following general topics and primary components of California's cap-and-trade program:

- General Program Schedule
- The Compliance Instrument Tracking System Service (CITSS)
- Auctions and Reserve Sales
- Bid Guarantee Process

General Program Schedule

1. What are some of the key dates in 2012 for cap-and-trade program implementation?

- Cap-and-trade program registration: January 2012.
- CITSS user registration and account application available: July 2012.
- CITSS basic market functions (allowance issuance and transfers) available: September 2012.
- Auction notice: September 15, 2012.
- Auction registration deadline: October 15, 2012.
- Auction training/bidders conference: October 2012.
- Bid guarantees for auction due: November 2, 2012.
- First auction conducted: November 14, 2012.

* All dates are tentative and subject to change, with the exception of the auction date.

Additional information on the schedule for development of the primary components required for program implementation is provided in the Project Development Schedule available at:

<http://www.arb.ca.gov/cc/capandtrade/markettrackingsystem/markettrackingsystem.htm>.

2. What are the requirements for program registration?

The Cap-and-Trade Regulation requires all covered entities to register for the cap-and-trade program by January 31, 2012. All California covered entities should have completed cap-and-trade program registration with the Air Resources Board (ARB) by January 31, 2012. ARB provided an online registration form for covered entities to comply with this requirement.

ARB staff is also developing the Compliance Instrument Tracking System Service (CITSS) to support the Cap-and-Trade Regulation. CITSS will provide accounts for market participants to hold and retire compliance instruments (allowances and offsets), and to participate in transactions of compliance instruments with other account holders. Registration in the CITSS is scheduled to be available in July 2012. ARB will provide training on the CITSS account registration process prior to availability.

The Compliance Instrument Tracking System Service

1. What is the Compliance Instrument Tracking System Service (CITSS)?

The Compliance Instrument Tracking System Service (CITSS) is a key component that supports the implementation of the cap-and-trade program. The CITSS is the record of ownership of compliance instruments; records information related to accounts; enables and record compliance instrument transfers; facilitates compliance verification; and supports market oversight through the collection of relevant information. The functionalities included in the CITSS are described in the draft Generic Business Requirements posted on the Western Climate Initiative (WCI) website at:

<http://www.westernclimateinitiative.org/component/remository/Markets-Committee-Documents/>.

2. What is the difference between cap-and-trade program registration (due January 31, 2012) and CITSS registration?

The Cap-and-Trade Regulation requires all covered entities to register for the cap-and-trade program by January 31, 2012. Program registration does not register entities for the CITSS or for CITSS accounts. Registration and creation of accounts in the CITSS will occur through the CITSS and is anticipated to start in July 2012.

3. Does California have separate business requirements in addition to the draft Generic Business Requirements posted on the Western Climate Initiative, Incorporated (WCI, Inc.) website?

No. The functionality anticipated for California through the CITSS is based on the draft Generic Business Requirements posted on the WCI website. The business requirements were developed with extensive input from ARB staff to ensure the needs of California's cap-and-trade program are met through the system design.

4. When is the CITSS going to be operational?

To support California's program implementation, the CITSS functionalities will be released in phases. User registration and account application are expected to be available in July 2012. User registration is required in CITSS prior to applying for entity compliance instrument accounts. Basic market functions (allowance issuance and transfers) are anticipated to be available in September 2012. Additional functionalities, including public reports, are anticipated to be available by November 2012.

5. When will stakeholders be able to register in the CITSS?

The CITSS user registration is anticipated to be available in July 2012.

6. What information will be needed for CITSS user registration?

Guidance on user registration in the CITSS will be provided during CITSS training sessions in Summer 2012. CITSS user registration will include the submittal of information online and in hard-copy form. ARB anticipates that, at minimum, each applicant will provide the following in the CITSS online system:

- Name
- Date of Birth*
- Addresses (business and primary residence)*
- Employer name, contact information, and address*
- Telephone numbers and e-mail address
- Requested username and password

In addition, each applicant will need to provide information and notarized documentation to allow ARB to complete a "Know Your Customer" verification.

7. What information will be needed to comply with the Know Your Customer requirements of the regulation?

The information necessary to comply with the Know Your Customer requirements of the regulation is submitted through the CITSS registration process and includes online data entry and hard copy documentation. The hard copy documentation required will be sent to ARB with a signed Proof of Identity Form, which is generated from the CITSS. Program participants are encouraged to gather the required documentation and have the documentation notarized as soon as possible, so that all documentation will be available in July 2012 when CITSS user registration is anticipated to be available. To notarize your proof of identity documentation, request a Jurat from a notary public. The following list identifies the data that must be documented and acceptable forms of documentation.

- To provide documentation of your name, primary residence address, and date of birth, as well as photographic evidence, acceptable forms of documentation include photocopies of your driver's license, identity card, passport, or other government-issued identity document that includes an expiration date and contains the required information. Multiple forms of documentation may be necessary to document all required information.

* Proposed amendment to Cap-and-Trade Regulation

- To provide documentation of your employer name, address and contact information, acceptable forms of documentation include photocopies of a recent paycheck with your employer name and address clearly printed, or an employment verification letter containing the name of the employer, address, and contact information of a supervisor. Information such as pay, benefits, and social security number may be redacted from this documentation, if included.
- To provide documentation of an open bank account, acceptable forms of documentation include photocopies of a recent bank statement, a letter from the bank documenting an open bank account, or a voided check from an open bank account in your name. Information such as balances and transactions may be redacted from this documentation, if included.

8. What early steps can I take to prepare for the CITSS application for compliance instrument accounts?

Applying for compliance instrument accounts in the CITSS will take place after user registration. Only an approved CITSS user will be able to enter account application information on behalf of an entity or individual. Once an application for accounts is approved, compliance instrument accounts will be established. The information provided below will be needed to apply for compliance instrument accounts in the CITSS. Program participants are encouraged to gather the listed information and develop necessary documentation so that all materials will be available in July 2012 when CITSS account application is anticipated to be available:

- Legal and Operating names of the entity
- Physical and mailing addresses*
- CA GHG emissions reporting identifiers
- Contact information (telephone numbers and email addresses)
- Date and place of incorporation (if applicable)*
- Names and addresses of the entity's directors and officers*
- Names and contact information for persons controlling over 10% of voting rights attached to the outstanding voting securities of the entity*
- North American Industry Classification System (NAICS) code
- A business number assigned by a CA state agency, i.e., the CA Secretary of State, if one has been assigned*
- U.S. Federal Tax Employer ID Number*
- Data Universal Numbering System (DUNS) number*
- A Primary Account Representative (PAR) and an Alternate Account Representative (AAR) (both must be selected from approved registered CITSS users)
- Description of corporate associations and parent and subsidiary companies*
- Website address, if any

* Proposed amendment to Cap-and-Trade Regulation

9. Is ARB planning to test the CITSS with market participants prior to the first auction?

Yes. ARB held a first round of stakeholder testing of CITSS functions in April 2012 and plans to involve program stakeholders in demonstrations and additional testing of the CITSS in Fall of 2012.

10. Will the CITSS enable users to conduct activities such as the recording of a transfer of compliance instruments?

Yes. Participants are required to report compliance instrument transfers to the CITSS. One of the key components of the CITSS is the functionality to securely record the transfer of compliance instruments between accounts held by registered CITSS entities.

11. How will serial numbers for compliance instruments be presented in the CITSS?

Compliance instrument serial numbers will be displayed to account holders based on their attributes. As CITSS requirements are refined, the specific attributes and the order in which attributes are presented may change, but provided below is an example of how attributes may be displayed. Some attributes are presented by the type of compliance instrument. For example, the issuing jurisdiction is displayed for offset credits, but not for allowances.

Vintage [A]	Issuing Jurisdiction [B]	Type [C]	Sub-type [D]	Category [E]	Project Code
2013	-	Allowance		N/A	N/A
-	-	Allowance	ERA	N/A	N/A
-	-	Allowance	Reserve	N/A	N/A
2012	CA	Offset		Livestock	PR05685

12. How does the CITSS integrate and track compliance offset credits?

The CITSS will track compliance offset credits just as it tracks all other compliance instruments (allowances).

13. Will the CITSS enable entities holding compliance instruments the ability to download a complete inventory of compliance instruments within their accounts?

The downloading of an inventory of compliance instruments will be included with the CITSS basic market functions, anticipated to be available in September 2012.

14. How does the CITSS integrate and work with other services such as auctions?

The CITSS will provide and receive information as required to complete the auction and reserve sale processes. The auction integration process for the CITSS will be fully defined by ARB, the Auction Administrator, and WCI Partner jurisdictions.

- 15. Who will provide support services for questions about the CITSS?**
ARB will be responsible for operational services for the CITSS, such as hosting, maintenance, and help desk support. Some or all of these services may be provided by ARB through a contractor. For questions or comments related to the CITSS, please contact the Help Desk at 916-324-7659 or CACITSSHelpDesk@arb.ca.gov for assistance.
- 16. What requirements or plans are in place to ensure business continuity for the CITSS?**
The contractor providing hosting services is required to provide a System Security Plan and Disaster Recovery Plan to plan and implement business continuity for the CITSS.
- 17. What requirements or plans are in place to ensure the CITSS is secure?**
The contractor providing hosting services, SRA International, Inc., will provide these services in conformance with industry standards and best practices for hardware, software, and network security commensurate with the sensitivity of the application and data (e.g. financial institution and banking industry practices).

Auctions and Reserve Sales

As part of the cap-and-trade program, ARB will hold allowance auctions and reserve sales to allow market participants to acquire allowances directly from ARB. ARB plans to conduct the first quarterly auction on November 14, 2012. ARB plans to conduct the first quarterly reserve sale on March 8, 2013. The Auction and Reserve Sale Administrator (Auction Administrator) will administer all auctions and reserve sales. Auction and reserve sale participants will have to register for the auction, or submit a bid for reserve sales, and meet financial regulatory requirements in order to participate in an auction or reserve sale.

- 1. Is ARB providing auction and financial services for the auctions and reserve sales?**
ARB has contracted with Markit North America to act as the Auction Administrator and Deutsche Bank to act as the Financial Services for Auction and Reserve Sale Administrator (Financial Services Administrator).
- 2. When is the first auction scheduled?**
The first allowance auction is scheduled to take place on November 14, 2012.
- 3. Will the CITSS be used to operate auctions?**
No. Auction operations are separate from the CITSS, as well as all other functions of the cap-and-trade system, in order to prevent any conflicts of interest. The Auction Administrator, Markit North America, will maintain the Auction and Reserve Sale Platform (Auction Platform) and will receive required data through ARB to support the auction process.

4. Will registration in the CITSS allow participation in an auction, or is an additional application for the auction required?

An entity must complete an auction participant application through the Auction Administrator to be eligible to participate in an auction. Each entity must first register in the CITSS to receive a CITSS user ID and CITSS account(s) and then subsequently apply to participate in the auction. Details of the auction participant application will be provided in the public notice of the auction, which will be posted no later than sixty (60) days prior to each auction by the Auction Administrator, in coordination with ARB.

5. What is the deadline to apply to participate in an auction?

Any party wishing to participate in an auction must complete an auction application at least thirty (30) days prior to the auction.

6. How long will it take for ARB to transfer allowances issued through an auction or reserve sale into a CITSS account?

ARB will transfer the allowances to the purchaser's account after the auction is completed and approved by the ARB Executive Officer, and the proceeds are transferred to the Air Pollution Control Fund Account. The Financial Services Administrator must receive cash payment to settle all winning bids within seven (7) days of each bidder being notified of the auction results.* It is anticipated that ARB will transfer allowances into accounts of successful bidders within two (2) business days of receipt of funds. The process to transfer allowances issued through a reserve sale is the same.

7. Will ARB test all systems and processes (CITSS, auction, financial services, etc.) together prior to the first auction?

Yes. ARB plans to test all systems and processes (CITSS, auction, financial services, etc.) together prior to the first auction.

8. What requirements or plans are in place to ensure security and business continuity for the auction platform?

The Auction Administrator must prepare a System Security Plan describing the security approach for all proposed services. The System Security Plan is required to include a business continuity/contingency component. The System Security Plan is required to address:

- General Information about System Environment, Interconnections/Information Sharing, Applicable Laws or Regulations, Information Sensitivity, Responsible Parties, General System Description;
- Security Controls pertaining to Risk Assessment and Management, User Rules or Behavior, Implementation Phase, Operation and Maintenance Phase;
- Operational Controls pertaining to Personnel Security, Physical and Environmental Protection, Input/ Output Controls, Contingency Plans, Maintenance, Integrity, Documentation, Training, Incident Response;

* Proposed amendment to Cap-and-Trade Regulation

- Technical Controls pertaining to User Identification and Authentication, Logical Access Controls, Audit Trails; and
- Security Vulnerability Assessments and Penetration Testing.

9. Who is eligible to participate in Reserve Sales?

Reserve sales are open only to covered and opt-in entities with compliance accounts.

10. How does an entity participate in Reserve Sales?

An entity must complete a participant application through the Auction Administrator to be eligible to participate in a reserve sale. Each entity must first register in the CITSS to receive a CITSS user ID and CITSS account(s) and then subsequently apply to participate in the reserve sale. Account holders that participate in a reserve sale must submit a bid guarantee at least twelve (12) days before the scheduled reserve sale.* The participants will be subject to the same financial assurance application process and requirements as auction participants. The Auction Administrator will work with ARB and the Financial Services Administrator to complete and communicate the financial assurance application procedures required for reserve sales well in advance of the first scheduled reserve sale.

11. When will Reserve Sales be conducted?

The first reserve sale will be conducted on March 8, 2013. Subsequent reserve sales will be conducted on the first day six weeks after each scheduled quarterly allowance auction that is also a business day in California.

12. Who will provide support services for questions regarding auctions, reserve sales, and financial services?

The Auction Administrator, Markit North America, will provide primary support services for all aspects of auction and reserve sales.

Bid Guarantee Process

As part of the cap-and-trade program, auction registrants must submit a financial qualification application to the Financial Services Administrator, including a bid guarantee, to participate in auction and reserve sales.

1. Will a bid guarantee need to be provided for each auction and reserve sale?

Yes. Auction participants must provide a bid guarantee to the Financial Services Administrator at least twelve (12) days* prior to an auction or reserve sale. The bid guarantee submitted by any entity registered with California must be in U.S. dollars. Bid guarantee instruments must be submitted in one or a combination of the following forms:

- Cash in the form of a wire transfer or certified funds such as a bank check or cashier's check.
- An irrevocable letter of credit issued by a financial institution with a United States banking license.
- A bond issued by a financial institution with a United States banking license.*

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2. What is the process for posting the bid guarantees required from all bidders prior to each auction or reserve sale?

Details related to financial services including the posting of bid guarantees will be provided by the Auction Administrator, Markit North America, and the Financial Services Administrator, Deutsche Bank, in coordination with ARB. This information will be provided in the auction notice that will be released no later than sixty (60) days prior to each auction. The same process will be used to post bid guarantees for reserve sales.

3. Will the posting of bid guarantees required from all bidders prior to an auction be managed through the CITSS?

The posting of bid guarantees will not be managed through the CITSS. Participants will inform the Financial Services Administrator of the form and amount of the bid guarantee through the Auction Platform. The posting of bid guarantees will be managed by the Financial Services Administrator, Deutsche Bank, through their secure systems.

4. What is the deadline to post a bid guarantee for an auction?

Bid guarantees must be provided to the Financial Services Administrator no later than twelve (12) days* prior to the start of an auction to allow for verification of all bid guarantees prior to the auction. Specific requirements for bid guarantees will be provided in the auction notice that will be released no later than sixty (60) days prior to each auction.

5. Can an auction participant submit one bid guarantee for bids in both the current and advance auctions?

Yes. If an auction participant submits a single bid guarantee instrument to cover bids in both current and advance auctions, the auction administrator will apply the value of the bid guarantee to the current auction first with the remaining value used to determine acceptance of bids in the advance auction.*

6. Will bid guarantees be held in an interest bearing account? If so, how is the interest used?

All bid guarantees in cash will be held in a non-interest bearing trust account held with Deutsche Bank, a financial institution with a United States banking license and whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC).

7. When will winning bidders communicate the manner in which they choose to financially settle amounts owed from successful bids (e.g. draw on bid guarantee or cash settlement)?

The winning bidder will receive a settlement invoice of the amount owed following certification of the auction. All final financial settlements will be made in cash within seven (7) days* of receipt of a settlement invoice. Bid guarantees will be used to cover payment for allowance purchases by an entity that fails to make cash payment within seven (7) days* after receiving notification of auction results.

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8. When will bid guarantees posted for an auction or reserve sale be returned to participants, if applicable?

Any unused bid guarantees will be returned to the auction participants after all invoices have been settled and proceeds have been appropriately distributed. ARB expects this to occur within twelve (12) days after certification of the auction or reserve sale. All bid guarantee instruments in the form of letters of credit or bonds will be sent directly to the participant based on the delivery instructions specified during auction registration. Unused cash guarantees will be returned via a wire transfer based on the delivery instructions specified during auction registration.