

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

2017 Annual Auction Reserve Price Notice Issued on December 1, 2016

Auction Summary

The California Air Resources Board (ARB) and the ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques¹ (MDDELCC) will be holding joint auctions of greenhouse gas (GHG) allowances. This document, *2017 Annual Auction Reserve Price Notice*, specifies the California (CA) and Québec (QC) 2017 Annual Auction Reserve Prices and the number of allowances to be auctioned in 2017 for the quarterly auctions as part of the Current Auction and Advance Auction. The 2017 quarterly GHG allowance auctions will offer 2017 vintage allowances and 2020 vintage allowances for sale.

The 2017 Annual Auction Reserve Prices² and the annual budget of 2017 and 2020 vintage allowances for sale in 2017 are shown in Table 1 below.

Table 1: 2017 Auction Data

Auction	Number of Allowances to be Auctioned	CA Annual Auction Reserve Price (USD)	QC Annual Auction Reserve Price (CAD)
Current Auction	256,962,568	13.57	13.56
Advance Auction (2020 vintage)	38,894,000	13.57	13.56

The Annual Auction Reserve Price

The Annual Auction Reserve Price refers to the Auction Reserve Price established and published annually by each jurisdiction. The Annual Auction Reserve Price is a predetermined minimum price at which allowances will be sold to auction participants in jurisdiction specific auctions. Each jurisdiction provides an Annual Auction Reserve Price that conforms to its Regulation.

Section 95911 of the California Cap-and-Trade Regulation stipulates that the "Auction Reserve Price in U.S. dollars shall be the U.S. dollar Auction Reserve Price for the previous calendar year increased annually by 5 percent plus the rate of inflation as measured by the most recently available twelve months of the Consumer Price Index for

¹ Ministry of Sustainable Development, Environment and the Fight against Climate Change

² The "Reserve Price" is the term used by California to define the "minimum price" as defined in the Québec regulation.

All Urban Consumers.” The rate of inflation used to calculate California’s 2017 Auction Reserve Price is 1.64 percent.

Article 49 of the Québec Cap-and-Trade Regulation stipulates that “The minimum price of the emission units is set at:

- (1) \$10 per emission unit, for auctions conducted in 2012;
- (2) for auctions conducted in any year after 2012, the price set in subparagraph 1 increased annually by 5 percent and adjusted in the manner provided for in section 83.3 of the Financial Administration Act (chapter A-6.001).”

The rate of inflation used to calculate Québec’s 2017 Auction Reserve Price is 0.74 percent.

Auction Exchange Rate and Auction Reserve Price

Entities registered under the Québec Cap-and-Trade System (QC entities) may participate in joint auctions in either United States Dollars (USD) or Canadian Dollars (CAD). To manage multiple currencies, an Auction Exchange Rate is determined prior to each joint auction. The Auction Exchange Rate (USD to CAD) in effect the day of a joint auction and for financial settlement by auction participants will be determined the business day prior to each joint auction and will be displayed in the Auction Platform. The Auction Exchange Rate (USD to CAD) in effect for a joint auction will be set as the most recently available noon daily buying rate for U.S. and Canadian dollars as published by the Bank of Canada. Effective March 1, 2017, the Bank of Canada will no longer publish a noon exchange rate, but will instead publish a single exchange rate each day; this rate will be used as the Auction Exchange Rate for subsequent 2017 auctions.

The Auction Exchange Rate and the Auction Reserve Price (USD and CAD) effective during a joint auction will be available the business day prior to each joint auction. The Auction Reserve Price will be determined as the higher of the California or Québec Announced Reserve Prices after applying the established Auction Exchange Rate (USD to CAD).

Current Auction Budget

The Current Auction budget describes the approximate number of current vintage allowances to be sold in 2017. This number includes the jurisdiction-owned allowances (176,055,596) and the allowances to be consigned by California electrical distribution utilities and natural gas suppliers (consigning entities) (80,906,972). Twenty-five percent of the jurisdiction-owned allowances will be available at each auction. California consigning entities are required to notify ARB 75 days before each auction of the number of allowances they intend to consign. The total number of allowances to be

auctioned in each joint auction will be published in the auction notice 60 days in advance. Allowances from California consigning entities not consigned in the first three auctions in 2017 will be included in the November 14, 2017 auction.

Current Auction Allowances Offered for Sale

The actual quantity of allowances in the Current Auction may fluctuate during the year. Additionally, the vintages and types of allowances offered for sale may fluctuate. There are several factors that may account for these fluctuations in the allowances offered for sale at each auction. Allowances may come from allowances issued under the California Cap-and-Trade Program and the Québec Cap-and-Trade System that remain unsold from an undersubscribed 2016 Current Auction and are returned to auction after two consecutive Current Auctions have resulted in a settlement price above the Auction Reserve Price. Additional allowances may also be made available for auction from closed Compliance Instrument Tracking System Service (CITSS) accounts, allowances submitted for untimely surrender obligations, and the potential return of freely allocated allowances as the result of an enforcement settlement. In each of these situations, the vintages may not be the same as the current calendar year, or the allowances may be an allowance type with no vintage if they were purchased from a jurisdiction's Reserve Sale.³ There may also be a small potential for a jurisdiction to allocate allowances to a new entrant in the program, which would decrease the amount of the jurisdiction's allowances for auction.

Information on the specific quantity of allowances by vintage and type available for sale in the Current Auction budget for each auction will be made available in each Auction Notice, which is posted 60 days prior to the auction on the jurisdictions' websites.

Allowances offered that are sold are transferred into CITSS accounts by each jurisdiction to each successful bidder's CITSS account. In a simple case, where the Current Auction allowances are all the same vintage, each bid lot would be comprised of allowances from both jurisdictions proportional to the quantity of each jurisdiction's contribution to the total allowances offered for sale in the Current Auction. For example, if the allowances offered for sale in the Current Auction included 60 percent 2017 California allowances and 40 percent Québec 2017 allowances, each bid lot of 1000 allowances received would include 600 California and 400 Québec allowances.

For a slightly more complex case, where there are multiple vintages in the Current Auction, assume the allowances offered split is still 60-40 between the jurisdictions. In this case, the Québec portion includes 20 percent 2016 allowances and 20 percent 2017 allowances for its total 40 percent. Each awarded bid lot of 1000 allowances would include 600 California 2017 vintage allowances, 200 Québec 2016 vintage allowances, and 200 Québec 2017 vintage allowances. This example can be expanded

³ Québec Sales by Mutual Agreement are referred to as Reserve Sales for simplicity.

using the same logic of proportionality if there are more than two allowance vintages or types for a jurisdiction. In a situation where there are not enough allowances sold of the specific vintage or type to evenly distribute across all successful bidders, the number of allowances assigned to successful bidders is determined by multiplying the successful bidder's share of Current Auction qualified bids by the number of allowances of that allowance vintage or type sold, rounded to the nearest whole number. Assignments of allowances may be adjusted by no more than one allowance added to or removed from the total allowances assigned until the number of allowances assigned to successful bidders equals the number of allowances sold of the specific vintage or type.

Advance Auction Budget

The Advance Auction budget represents 10 percent of the allowances from each of the jurisdictions' allowance budget for the year three years subsequent to the current calendar year. Since the combined annual allowance budget in 2020 is 388,940,000, the Advance Auction combined budget for auctions conducted in 2017 is 38,894,000 2020 vintage allowances. These future vintage allowances will be equally divided for sale across the four Advance Auctions conducted in 2017.

2017 Quarterly Auction Dates

An *Auction Notice* will be published 60 days prior to each auction. The *Auction Notice* provides information about the number of GHG allowances to be auctioned and the auction calendar for the applicable auction.

With the Auction Notices, additional background information, detailed instructions and examples will be posted in two supporting documents that provide information applicable to the 2017 auctions. The 2017 Detailed Auction Requirements and Instructions document will provide background information on the California Cap-and-Trade Program and Québec Cap-and-Trade System, as well as detailed requirements and instructions for participating in a joint auction. The 2017 Auction Examples document will provide information and examples of how to determine the amount of a bid guarantee, how holding and purchase limits are applied, how U.S. and Canadian currencies are handled, and examples of how joint auctions are settled.

The Auction Notices and supporting documentation will be available on the [California](#) and [Quebec](#) webpages.

Table 2 provides additional information specific to the scheduled quarterly auctions.

Table 2: California and Québec 2017 Quarterly Auction Critical Dates

Auction Consignment Due Date for Consigning Entities	Auction Notice Posting Date Auction Application Period Opens	Auction Application Due Date Auction Application Period Closes	Auction Dates
12/09/2016	12/22/2016	01/23/2017	02/22/2017
03/02/2017	03/17/2017	04/18/2017	05/16/2017
06/01/2017	06/16/2017	07/17/2017	08/15/2017
08/31/2017	09/15/2017	10/16/2017	11/14/2017

Contact Information⁴

For further information about the Annual Auction Reserve Price, the Auction Reserve Price Determination for a joint auction, or the Current Auction and Advance Auction allowance budgets for auctions conducted in 2017, please contact one of the following:

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⁴ When contacting jurisdiction staff, please do not use email to transmit personal or confidential information; it is not a secure means of transmission. If it is necessary to transmit personal or confidential information, please contact listed jurisdiction staff for information on how to provide this information securely.