



May 2015 Joint Auction #3
Multiple Vintage Allowances Offered in the Current Auction
Frequently Asked Questions

Background

In each quarterly auction, as in the May 2015 Joint Auction #3, future vintage allowances will be auctioned separately from allowances from current and previous vintages. The auction of allowances from the current and previous budget years is known as the Current Auction. The auction of future vintage allowances is known as the Advance Auction. The Current Auction and Advance Auction will occur simultaneously at the date and time identified in the Auction Notice. The May 2015 Joint Auction #3 will offer years 2013 and 2015 vintage allowances in the Current Auction and year 2018 future vintage allowances in the Advance Auction.

Why are there multiple vintages in the Current Auction?

The regulations of the respective jurisdictions provide that the allowances offered for the Current Auction may include California state- and Québec provincial-owned allowances and California allowances consigned by electrical distribution utilities and natural gas suppliers (consigning entities) and potentially other parties as described in the California Cap-and-Trade Regulation (California Regulation).

Pursuant to the California Regulation, allowances listed for the Current Auction may include allowances that have been made available for auction from closed Compliance Instrument Tracking System Service (CITSS) accounts pursuant to section 95831(c), accounts containing allowances in excess of the holding limit pursuant to section 95920(b)(5), or accounts suspended or revoked pursuant to section 95921(g)(3), allowances submitted for untimely surrender obligations pursuant to section 95857(d), and unsold previous budget year allowances from previous auctions pursuant to section 95911(f)(3) and (4).

Québec's Regulation provides similar circumstances under which prior vintage allowances may be included in a Current Auction. These include emission units (allowances) allocated to an emitter for a covered establishment that was closed permanently pursuant to Section 18, untimely surrender obligations per Section 22, emissions units held by an emitter in excess of its holding limit per Section 32 or by a participant whose CITSS account is suspended or revoked per Section 13. Additionally, emissions units that remain unsold and which vintage becomes the vintage of the current year can be included in a Current Auction per Section 54.

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As a result, the allowances offered in the Current Auction may include allowances of vintages prior to the current year.

What are the requirements for the sale of allowances offered for auction under the California Cap-and-Trade Program that remain unsold following an auction?

California's Regulation specifies how allowances that remain unsold following an auction will be handled. Allowances consigned to auction pursuant to section 95921(g)(3) that remain unsold at auction will be held in the Auction Holding Account and offered in the next auction.

Allowances that were originally designated by ARB for sale at auction pursuant to section 95910(c)(1)(B) which remain unsold will be re-designated for auction after two consecutive auctions have resulted in an auction settlement price above the Auction Reserve Price. The number of allowances re-designated to a subsequent auction will not exceed 25 percent of allowances already designated by ARB for that auction. If future vintage allowances remain unsold at the end of the calendar year for which they were designated for sale at Advance Auction, they will remain in the Auction Holding Account until their vintage year. They will then be designated for the Current Auction.

What are the requirements for allowances that are transferred to the California Auction Holding Account during a budget year to be made available for auctions by the California Cap-and-Trade Program?

Allowances that have been made available for auction as a result of transfer from closed CITSS accounts pursuant to section 95831(c), accounts containing allowances in excess of the holding limit pursuant to section 95920(b)(5), or accounts suspended or revoked pursuant to section 95921(g)(3), are to be made available in the next scheduled auction.

Allowances submitted for untimely surrender obligations pursuant to section 95857(d) are placed in the Auction Holding Account and designated to auction as state-owned allowances pursuant to section 95910(c)(1)(B) and (c)(2)(B) and (C).

What are the requirements for allowances offered for auction under the Québec Cap-and-Trade System that remain unsold following an auction?

Article 54 of the Québec Regulation provides that allowances of the vintage of the current year or a previous year that remain unsold after an auction may be put up for sale as soon as the final sales price (auction settlement price) of the emission units has

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been above the minimum price (Auction Reserve Price) for two consecutive auctions. The quantity of such allowances put up for sale cannot exceed 25 percent of the quantity of emission units initially planned for the auction. Emission units of a vintage year subsequent to the year of the auction are put up for sale again when their vintage becomes the vintage of the current year.

Why are only 2013 and 2015 vintage allowances made available in the May 2015 Joint Auction, but not 2014 allowances? Will there be 2014 allowances available in any Current Auctions conducted in the future?

There may be 2013 and/or 2014 vintage allowances available in any Current Auction conducted in the future. The California Regulation prescribes when and how prior year allowances are auctioned with the order for distributing allowances by source and vintage to successful bidders following conclusion of a Current Auction. The Québec Regulation allows for discretion in determining both the allowances that will be offered in an auction as well as the order for distribution to successful bidders. The Auction Notice posted 60 days before each auction will disclose the amounts of each vintage offered in that auction.

During the May 2015 Joint Auction #3, can I bid for only 2013 allowances?

No. When submitting bids for the Current Auction, all bids are submitted for all allowances offered in the Current Auction. Bidders cannot specify 2013 or 2015 when placing a bid in the Current Auction.

How will California and Québec award allowances for successful bids in the Current Auction when there are multiple vintages?

Following each joint auction, each successful bidder is awarded allowances based on the proportions offered by each jurisdiction in the auction. For allowances awarded in the Current Auction, allowances will be transferred to successful bidders from each jurisdiction according to the requirements of their individual regulations.

When more than one vintage is included in the Current Auction, the proportion of any vintage included in each jurisdiction's transfer may vary depending on the outcome of the Current Auction. If the Current Auction is fully subscribed, the proportion of each vintage of allowances received will be approximately equal to the proportion of each vintage of allowances offered in the Current Auction, with minor differences to account for rounding and any random distribution of allowances in a tie-breaker. If the Current Auction is undersubscribed, the proportions awarded are affected by the extent of the

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undersubscription and by the regulatory provisions that specify each jurisdiction's order for transferring allowances based on source or vintage.

The California Regulation specifies the order in which different allowance vintages and sources are distributed. Article 52 of the Québec Regulation describes the award of allowances following an auction, but does not specify the order in which different allowance vintages and sources are distributed, allowing discretion in establishing the order for distribution of allowances to successful bidders.

Pursuant to section 95911(f), of the California Regulation, if the quantity of bids accepted by the Auction Administrator is less than the number of allowances offered for sale in the Current Auction, for the portion of allowances offered for sale by California, winning bids will be fulfilled with allowances from sources in the following order:

- (A) Allowances consigned to auction pursuant to section 95910(d)(2);
- (B) Allowances consigned from limited use holding accounts pursuant to section 95910(d)(1);
- (C) Allowances re-designated to the auction pursuant to section 95911(f)(3); and
- (D) Allowances designated by ARB for auction.

Therefore, in an undersubscribed auction, for those allowances offered by California, the source of a specific vintage will determine the percentage of that vintage distributed to successful bidders.

Article 52 of the Québec Regulation describes the award of allowances following an auction, but does not specify the order in which different allowance vintages and sources are distributed, allowing discretion in establishing the priorities for distribution of allowances to successful bidders. Québec has determined that for the May 2015 Joint Auction #3, 2013 vintage allowances will be awarded first, followed by 2015 vintage allowances.

The following are three simple examples to illustrate the concept of the difference in awarded allowances under a fully subscribed or undersubscribed auction.

For Case #1 and Case #2, the Current Auction Total Budget is 1,000,000 allowances, with California and Québec each contributing 500,000 allowances, and each jurisdiction's portion including 100,000 vintage 2013 allowances and 400,000 vintage 2015 allowances. As such, the following are the allowances offered:

2013 Vintage = 200,000 (20.0% of Current Auction Total Budget)

2015 Vintage = 800,000 (80.0% of Current Auction Total Budget)

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Case #1 - In a fully subscribed auction, winning bidders will receive allowances based on the proportion of each vintage offered in the Current Auction, with minor adjustments to account for rounding required to distribute all allowances.

- The total number of allowances to distribute is 1,000,000 allowances, including 200,000 vintage 2013 allowances and 800,000 vintage 2015 allowances.
 - The overall proportion of vintage 2013 allowances in each awarded bundle = $200,000/1,000,000$, equal to 20%
 - The overall proportion of vintage 2015 allowances in each awarded bundle = $800,000/1,000,000$, equal to 80%
- A winning bid of 100,000 allowances would be filled with 20,000 vintage 2013 allowances and 80,000 vintage 2015 allowances. The bidder would receive four separate transfers. Each jurisdiction would transfer 10,000 vintage 2013 allowances and 40,000 vintage 2015 allowances to the successful bidder.

Case #2 - In the case of an undersubscribed auction where 1,000,000 allowances are offered for sale and only 800,000 allowances are awarded, assuming the same portions are provided by each jurisdiction and both jurisdictions provide that the 2013 vintage allowances are awarded prior to the 2015 vintage allowances, a winning bid would be filled as follows:

- The total number of allowances to distribute is 800,000 allowances, including 200,000 vintage 2013 allowances and 600,000 vintage 2015 allowances.
 - The overall proportion of vintage 2013 allowances in each awarded bundle = $200,000/800,000$, equal to 25%
 - The overall proportion of vintage 2015 allowances in each awarded bundle = $600,000/800,000$, equal to 75%
- A winning bid of 100,000 allowances would be filled with 25,000 vintage 2013 allowances and 75,000 vintage 2015 allowances. The bidder would receive four separate transfers. Each jurisdiction would transfer approximately 12,500 vintage 2013 allowances and approximately 37,500 vintage 2015 allowances to the successful bidder.

For Case #3, the Current Auction Total Budget is 1,000,000 allowances, with California and Québec each contributing 500,000 allowances, but the jurisdictions did not provide equal proportions of each vintage.

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The following are the allowances offered:

2013 Vintage = 200,000 (20.0% of Current Auction Total Budget)

200,000 from Québec

2015 Vintage = 800,000 (80.0% of Current Auction Total Budget)

500,000 from California

300,000 from Québec

Case #3 - In this case, the auction was undersubscribed and the jurisdictions did not provide equal proportions of each vintage. The overall awards to each successful bidder would remain the same, but the transfers would be different as described below.

- The total number of allowances to distribute is 800,000 allowances, including 200,000 vintage 2013 allowances and 600,000 vintage 2015 allowances.
 - The overall proportion of vintage 2013 allowances in each awarded bundle = $200,000/800,000$, equal to 25%
 - The overall proportion of vintage 2015 allowances in each awarded bundle = $600,000/800,000$, equal to 75%
- A winning bid of 100,000 allowances would be filled with 25,000 vintage 2013 allowances and 75,000 vintage 2015 allowances. The bidder would receive three separate transfers. California would transfer approximately 50,000 vintage 2015 allowances. Québec would transfer approximately 25,000 vintage 2015 allowances and approximately 25,000 vintage 2013 allowances to the successful bidder.

If I am a successful bidder in the Current Auction, will I receive all Current Auction allowances in one transfer?

Allowance transfers in CITSS must be conducted by vintage. In addition, following a joint auction, each jurisdiction separately transfers allowances to successful bidders based on the proportion each jurisdiction contributed to the auction budget. Therefore, in a Current Auction each successful bidder will receive at least one transfer from each jurisdiction, if the Current Auction offers only one allowance vintage. If the Current Auction offers two allowance vintages, each successful bidder could receive up to four (4) separate transfers to complete the distribution of awarded allowances depending on the sources of the multiple vintages. All transfers will occur on the date listed in the

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Auction Notice for distribution of allowances to successful bidders, but not at the exact same time. For more details on how these transfers would occur, see the case examples provided above.

Are there any restrictions on the use of the 2013 Vintage allowances offered for sale in the Current Auction conducted in the May 2015 Joint Auction #3?

No. The 2013 vintage allowances obtained in the Current Auction in the May 2015 Joint Auction can be used in the same manner as all other 2013 vintage allowances.

How will I know if there are multiple vintages in a given auction?

There can be multiple vintages offered in the Current Auction of any scheduled joint auction or there may be a single vintage offered. The Auction Notice posted 60 days prior to each auction will provide the amounts of each vintage offered in that auction.

Additional Information

Additional information may be obtained on the ARB Cap-and-Trade Program webpage at: <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>.