

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

2015 Annual Auction Reserve Price Notice Issued on December 1, 2014 REVISED December 2, 2014

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, *2015 Annual Auction Reserve Price Notice*, specifies the California (CA) and Québec (QC) 2015 Annual Auction Reserve Prices and the number of allowances to be auctioned in 2015 for the quarterly auctions as part of the Current Auction and Advance Auction. The 2015 quarterly GHG allowance auctions will offer 2015 vintage allowances and 2018 vintage allowances for sale.

The 2015 Annual Auction Reserve Prices² and the annual budget of 2015 and 2018 vintage allowances for sale in 2015 are shown in Table 1 below.

Table 1: 2015 Auction Data

Auction Data Description	Number of Allowances to be Auctioned	CA Annual Auction Reserve Price (USD)	QC Annual Auction Reserve Price (CAD)
Current Auction (2015 vintage)	297,102,336	\$12.12 \$12.10	\$12.08
Advance Auction (2018 vintage)	41,726,000	\$12.12 \$12.10	\$12.08

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.

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.

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 All Urban Consumers.” The rate of inflation used to calculate California’s 2015 Auction Reserve Price is ~~4.872~~ 1.66 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% 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 2015 Auction Reserve Price is 1.06 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.

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 2015. This number includes the jurisdiction-owned allowances (approximately 215,480,291) and the allowances to be consigned by California electrical distribution utilities and natural gas suppliers (consigning entities) (81,622,045). 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 2015 will be included in the November 17, 2015 auction.

The actual quantity and types of allowances in the current auction may fluctuate slightly during the year. There are several factors that may account for these fluctuations in the annual current auction budget. These include additional allowances that may be made available for auction from closed Compliance Instrument Tracking System Service 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 not have a 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.

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 current vintage budget. For example, if the current vintage budget for an auction included 60 percent 2015 California allowances and 40 percent Québec 2015 allowances, each bid lot of 1000 allowances would include 600 California and 400 Québec allowances.

For a slightly more complex case, where there are multiple vintage types in the current auction, assume the current vintage split is still 60-40 between the jurisdictions. In this case, the Québec portion includes 20 percent 2014 allowances and 20 percent 2015 allowances for its total 40 percent. Each awarded bid lot of 1000 allowances would include 600 California 2015 vintage allowances, 200 Québec 2014 allowances, and 200 Québec 2015 allowances. This example can be expanded using the same logic of proportionality if there are more than two types of vintages for a jurisdiction. In a situation where there are not enough allowances of a specific vintage to evenly distribute across all winning bid lots, a tiebreaker process is used to assign allowances of that vintage to successful bidders.

Information on the specific quantity and types of allowances within 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.

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 2018 is 417,260,000, the advance auction combined budget for auctions conducted in 2015 is 41,726,000

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

2018 vintage allowances. These future vintage allowances will be equally divided for sale across the four Advance Auctions conducted in 2015.

2015 Quarterly Auction Dates

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

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

Table 2: California and Québec 2015 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
12/5/2014	12/19/2014	1/20/2015	2/18/2015
3/9/2015	3/20/2015	4/21/2015	5/21/2015
6/4/2015	6/19/2015	7/20/2015	8/18/2015
9/3/2015	9/18/2015	10/19/2015	11/17/2015

Contact Information

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 2015, please contact one of the following:

California Cap-and-Trade Program
Mr. Jason Gray
California Air Resources Board
jagray@arb.ca.gov
(916) 324-3507

Québec Cap-and-Trade System
Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques
spede-bcc@mddelcc.gouv.qc.ca
(418) 521-3860; or 1-800-561-1616 option #5