

Frequently Asked Questions

Multiple Vintage Emissions Units (Allowances) Offered in the Current Auction

Background

In each quarterly auction, as in the May 2015 Joint Auction #3, future vintage emissions units (allowances) will be auctioned separately from emissions units from current and previous vintages. The auction of emissions units from the current and previous budget years is known as the Current Auction. The auction of future vintage emissions units 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 emissions units in the Current Auction and year 2018 future vintage emissions units in the Advance Auction. The same logic will be used, if needed, in all auctions.

Why are there multiple vintages in the Current Auction?

The regulations of the respective jurisdictions provide that the emissions units offered for the Current Auction may include Québec provincial-owned emissions units and California state-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).

Québec's Regulation provides circumstances under which prior vintage emissions units may be included in a Current Auction. These include emissions units 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 Compliance Instrument Tracking System Service (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.

Pursuant to the California Regulation, allowances listed for the Current Auction may include allowances that have been made available for auction 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), 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).

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

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

Article 54 of the Québec Regulation provides that emissions units 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 been above the minimum price (Auction Reserve Price) for two consecutive auctions. The quantity of such emissions units put up for sale cannot exceed 25 percent of the quantity of emission units initially planned for the auction. Emissions 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.

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 Current Auction or Advance 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 emissions units (allowances) that are transferred to the Québec or 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, accounts containing allowances in excess of the holding limit, or accounts suspended or revoked pursuant to the regulation of each jurisdiction, are to be made available in the next scheduled auction.

Similarly, pursuant to each regulation, allowances submitted for untimely surrender obligations are placed in the Auction Holding Account and designated to auction as state-owned allowances.

As an exemple, 2013 and 2015 vintage emissions units are available in the May 2015 Joint Auction. Is there a reason why 2014 emissions units are not on sale? Will there be 2014 emissions units available in any Current Auctions conducted in the future?

There may be 2013 and/or 2014 vintage emissions units available in any Current Auction conducted in the future. The Québec Regulation allows for discretion in determining both the emissions units that will be offered in an auction as well as the order for distribution to successful bidders. 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 Auction Notice posted 60 days before each auction will disclose the amounts of each vintage offered in that auction.

During a Joint Auction, can I bid for a specific vintage in the Current Auction, as an example 2013 emissions units?

No. When submitting bids for the Current Auction, all bids are submitted for emissions units offered in the “Current” vintage. Bidders cannot specify as vintage when placing a bid in the Current Auction.

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

Following each joint auction, each successful bidder is awarded emissions units based on the proportions offered by each jurisdiction in the auction. For emissions units awarded in the Current Auction, emissions units 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 emissions units received will be approximately equal to the proportion of each vintage of emissions units offered in the Current Auction, with minor differences to account for rounding and any random distribution of emissions units in a tie-breaker. If the Current Auction is undersubscribed, the proportions awarded are affected by the extent of the undersubscription and by the regulatory provisions that specify each jurisdiction’s order for transferring emissions units based on source or vintage.

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

The California Regulation specifies the order in which different allowance vintages and sources are distributed. 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.

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

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

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

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

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

- The total number of emissions units to distribute is 1,000,000 emissions units, including 200,000 vintage 2013 emissions units and 800,000 vintage 2015 emissions units.

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- The overall proportion of vintage 2013 emissions units in each awarded bundle = $200,000/1,000,000$, equal to 20%
- The overall proportion of vintage 2015 emissions units in each awarded bundle = $600,000/800,000$, equal to 80%
- A winning bid of 100,000 emissions units would be filled with 20,000 vintage 2013 emissions units and 80,000 vintage 2015 emissions units. The bidder would receive four separate transfers. Each jurisdiction would transfer 10,000 vintage 2013 emissions units and 40,000 vintage 2015 emissions units to the successful bidder.

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

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

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

The following are the emissions units 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)

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300,000 from Québec

500,000 from California

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

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

Emissions units transfers in CITSS must be conducted by vintage. In addition, following a joint auction, each jurisdiction separately transfers emissions units 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 emissions units vintage. If the Current Auction offers two emissions units vintages, each successful bidder could receive up to four (4) separate transfers to complete the distribution of awarded emissions units depending on the sources of the multiple vintages. All transfers will occur on the date listed in the Auction Notice for distribution of emissions units 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.

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

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

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.