

Below is a summary of the February auction results and EDF's analysis. Attached is an accompanying two-pager.

Auction Summary

At the second auction, held on February 19, 2013, the California Air Resources Board (CARB) sold all of the Vintage 2013 (V13) 12.9 million allowances available for 2013 at \$13.62, 27% above the \$10.71 floor price. There were 91 qualified bidders, almost 25% more compared to the last auction, and there was close to 2.5 times more V13 credits bid on than were sold. The state also auctioned 9.56 million Vintage 2016 (V16) allowances and 4.44 million of those were sold at the floor price of \$10.71. In total, this second auction sold more than 7 million state-controlled carbon allowances, resulting in about \$83.6 million, money that will be used to advance the goals of AB 32. A complete [CARB report](#) (PDF) gives more details on the results.

EDF Analysis

The second auction showed continued success for the cap-and-trade program which officially started on Jan 1st. Key takeaways include:

- The 100% sale and increased settlement price of V13 allowances point to a strong & viable carbon market.
- The fact that V13 allowances had 2.5 times as much bid-side interest and that there was an increased number of qualified bidders, 88% of which were compliance entities, affirms strength of demand and that participants are taking the program seriously. Qualified bidders included oil companies, dairies, manufacturers, and banks.
- Moderate demand for future allowances is not surprising given 2016 is still a few years away; however the fact that 46% of available V16 allowances sold denotes belief in program longevity.
- A diverse array of qualified bidders and a low [HHI index](#) (728) point indicate a competitive market and is a sign that there is no concentration of allowances in the hand of a single bidder.
- The approximately \$140 million generated by the sale of utility owned allowances and \$83.6 million by the sale of state-held allowances will go back to furthering the goals of the program and move California towards a clean energy economy.

Auction Proceeds

The state is in the process of developing an [investment plan](#) for the cap-and-trade auction proceeds. [Three public workshops](#) were held last month to collect input on the plan and [written comments](#) are being accepted through this Friday, March 8th. EDF will continue to monitor and provide our input in this process.

Our California Climate Team continues to work closely with CARB, the Governor's Office, and the Legislature to make sure implementation continues to go smoothly. We welcome feedback and input on our analysis and thoughts on the program.

For more information, some good reads:

- EDF's California Dream 2.0 Blog Posts:
 - [Results Are In: Auction Continues California's Winning Streak to Fight Climate Change](#)
 - [Auction results present golden opportunity for California landowners](#)
- Bloomberg News: [California Carbon Permits Sell Above Expected Clearing Price](#)

CALIFORNIA CAP-AND-TRADE AUCTION

Overview of the Auction

When it happens:

Feb May Aug Nov

California Carbon Allowances (CCAs) are auctioned quarterly – **4 times a year through 2020.**

Who is selling?

The auction is run by the state, but some of the allowances auctioned are owned by the **state** and some are owned by the **utilities** (e.g. PG&E, Southern California Edison, etc.).

What is auctioned?

2 types of allowances are auctioned: **CURRENT YEAR VINTAGE + FUTURE YEAR VINTAGE**

Current year allowances are eligible for use starting in the current year and future year allowances can be banked for later use but may not be used for compliance until their vintage year. Each auction has a minimum allowable bid, or “floor price,” which started at \$10 in 2012 and increases every year by 5% plus the rate of inflation.

Floor Price

2012: \$10.00

2013: \$10.71

Note: A Vintage Year 2013 Allowance is abbreviated as V13. Likewise a Vintage Year 2015 is V15.

Auction Results to Date (March 2013)

Summary: All of the 36,050,932 V13 allowances available for sale in the first two auctions sold. In both auctions there were more bids than allowances available for V13. However, the sale of future vintage allowances (v15 and v16) was under-subscribed in both auctions. The great majority of bid winners in both auctions were compliance entities.

November 2012	
Vintage 2013 (V13)	23,126,110 sold(100%) at \$10.09
Vintage 2015 (V15)	5,576,000 sold (14%) at \$10.00

February 2013	
Vintage 2013 (V13)	12,924,822 sold(100%) at \$13.62
Vintage 2016 (V16)	4,440,000 sold (46%) at \$10.71

* 44,703,432 V13 allowances remain to be auctioned in 2013, ~55% of total V13 allowances auctioned.

Key Takeaways

- The settlement price in Nov 2012 for V13 allowances was 0.9% above the floor price and 27% above in Feb 2013.
- The 100% sale and increasing settlement price of V13 allowances point to a strong & viable carbon market.
- Strong demand in the 2nd auction and increased number of qualified bidders indicates participants are taking the program seriously.
- Moderate demand for future allowances denotes belief in program longevity.

A Look at the Qualified Bidders

Number of Qualified Bidders at Each Auction

Nov '12	Feb '13
73	91

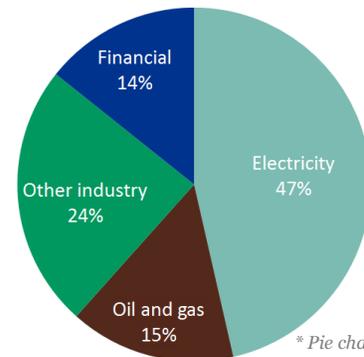
112 unique qualified bidders

A diverse array of qualified bidders and a low HHI[†] index mean a competitive market and is a sign that there is no concentration of allowances in the hands of a single bidder.

Regulated Bidders (Compliance Entities)

71%
of all qualified bidders

Qualified Bidders by Industry

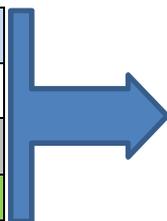


* Pie chart combines data from both auctions

Auction Proceeds for a Clean California

Utility Owned

Auction	Proceeds
Nov '12	\$233,342,450
Feb '13	\$139,943,076
Total	\$373,285,526

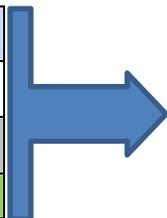


This money gets returned to customers of California's investor-owned electric utilities (PG&E, So Cal Edison & SDG&E) in the following breakdown:

- **\$317,292,697 (85%)** to households
- **\$37,328,553 (10%)** to small businesses (demand not more than 20kW in more than 3 months)
- **\$18,664,276 (5%)** to leakage exposed industries

State Owned

Auction	Proceeds
Nov '12	\$55,760,000
Feb '13	\$83,645,400
Total	\$139,405,400



This money will be put in the state's Greenhouse Gas Reduction Fund and must be used to advance the goals of AB 32. At least **25% (\$34,851,350) must go to benefit disadvantaged communities**. Details for using these proceeds are being discussed via a public comment period, and areas of focus will likely include transportation and energy efficiency. Usage details will be known by June 2013.

*Amounts listed are from first two auctions only

The Secondary Market

The secondary market is where previously issued CCAs are bought and sold. Investors or entities can purchase them here instead of from the state run quarterly auctions. Secondary market CCAs are sold on the IntercontinentalExchange (ICE).

Since the first auction, the price of V13 CCAs on the secondary market has continued to increase. As of March 1, 2013 V13 CCAs are trading between \$14-\$15. Demand for future vintage allowances and offsets is lower.

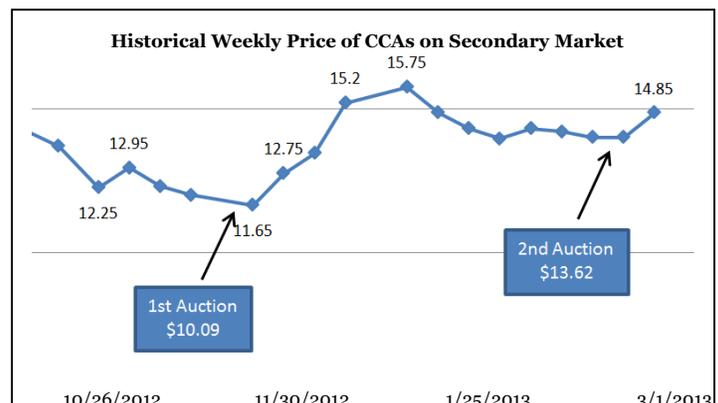


Chart data source: [Point Carbon](#)

[†] The Hirschman-Herfindahl index (HHI) is a measure of the concentration of allowances purchased by winning bidders relative to the total sale of current vintage allowances in the auction. See official auction results at: <http://www.arb.ca.gov/cc/capandtrade/auction/auction.htm>