

## February 2014 California Auction Analysis

### Auction Summary

In the sixth auction since the start of California's cap-and-trade program, which took place on February 19, 2014, the California Air Resources Board (CARB) sold all current (V14) allowances available for sale for the sixth time in a row. 19,538,695 V14 allowances sold at \$11.48 per allowance, 14 cents above the new floor price of \$11.34. There were 71 qualified bidders and approximately 6.29 million more bids than could be fulfilled. For the third auction in a row, the state also sold all 9,260,000 future (V17) allowances offered at a settlement price of \$11.38. The sixth auction raised over \$130 million for the state, which must be invested for projects to further the goals of AB 32 and create additional GHG reductions. A complete [CARB report](#) (PDF) gives more details on the auction results.

### EDF Analysis

The new year ushered in yet another successful auction for California's cap-and-trade program. Key takeaways include:

- Amidst a flurry of cap-and-trade activity at the start of this year, including Governor Brown's proposal for the investment of auction proceeds and CARB's released update to the AB 32 Scoping Plan, the auctions have remained a stable demonstration of a strong cap-and-trade program.
- This was the first time that V14 and V17 allowances were auctioned. Complete sale of all allowances offered is an indication that companies are taking the program seriously and using the auctions to purchase their compliance obligations. V17 allowances can only be used for compliance starting in 2017, and the fact that all of these were purchased is an indication that participants believe the market is strong, enduring, and here to stay until 2017, if not beyond.
- Overall demand for allowances was reduced compared to previous auctions; however, there were still more bids than could be filled for both V14 and V17 allowances. These conditions reflect continued interest in the market, coupled with an expectation of allowance availability in future auctions.
- This auction brings the total state auction proceeds to just over \$660 million. That money must be invested in projects that reduce climate pollution, and at least 25%, or over \$165 million to date, will provide clean energy opportunities to disadvantaged communities. The over \$1 billion garnered from the sale of utility-owned allowances since the program's start must be spent to the benefit of ratepayers.

EDF published a [report on the first year of California's cap-and-trade program](#) (PDF), which includes background information on the landmark program, as well as an analysis of market data, and interviews with cap-and-trade experts.

### For more information, below are posts from EDF's California Dream 2.0 Blog:

- [Carbon Auction Results Show Stability Amidst Eventful Time for Cap and Trade](#)
- [First Scoping Plan Update Lays Groundwork for a Low-Carbon Future](#)
- [California's Carbon Market Could Help Stop Amazon Deforestation](#)
- [Four Reasons California Cap and Trade had an Extraordinary First Year](#)

# CALIFORNIA CAP-AND-TRADE AUCTIONS

## Auction Overview

### When do auctions happen?

California Carbon Allowances (CCAs) are auctioned quarterly, every **FEB, MAY, AUG, AND NOV.**

### Who is selling and who is buying?

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.). Any person or company can bid at these auctions if they submit the proper paperwork and a bid guarantee.

### 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 year they are auctioned and future year allowances can be banked for later use, but may not be used for compliance until their vintage year. For example, in 2014, the two types of allowances sold are 2014 and 2017 vintage year allowances. 2017 vintage year allowances can only be used for compliance in 2017.

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
2014: \$11.34

*Note: A 2014 vintage allowance is abbreviated as V14. Likewise a 2017 vintage allowance is V17.*

## Auction Update (Feb '14): Sale of Current Year Vintage Allowances

### Results

- Every current year vintage allowance offered for sale thus far, both utility-owned and state-owned, has been purchased.
- 100,591,623 current allowances in total have been purchased by market participants through the first six auctions.
- All current year allowances were purchased at a price above the floor price. In the most recent auction, the settlement price per allowance was 14 cents above the floor price.

Current Auction	Nov '12	Feb '13	May '13	Aug '13	Nov '13	Feb '14
<b>Floor price</b>	\$10.00	\$10.71	\$10.71	\$10.71	\$10.71	\$11.34
<b>Settlement price</b>	\$10.09	\$13.62	\$14.00	\$12.22	\$11.48	\$11.48
<b># allowances offered (in millions)</b>	23.13	12.92	14.52	13.87	16.61	19.54
<b>% purchased</b>	100%	100%	100%	100%	100%	100%
<b># of bids: # offered</b>	1.06	2.47	1.78	1.62	1.82	1.27

### Key Takeaways

- Complete sale of current allowances at prices above the floor indicates California companies are taking this program seriously and using the auctions to fulfill their compliance obligations.
- While demand was reduced in the most recent auction, there were 6.29 million more bids than could be filled, reflecting continued interest, coupled with an expectation of allowance availability in future auctions.

## Auction Update (Feb '14): Sale of Future Year Vintage Allowances

### Results

- In the three most recent auctions, all future allowances offered for sale were purchased at a price slightly above the floor.
- In the last auction, V17 allowances were sold to the market for the first time.

Future Auction	Nov '12	Feb '13	May '13	Aug '13	Nov '13	Feb '14
Floor price	\$10.00	\$10.71	\$10.71	\$10.71	\$10.71	\$11.34
Settlement price	\$10.00	\$10.71	\$10.71	\$11.10	\$11.10	\$11.38
# allowances offered (in millions)	39.45	9.56	9.56	9.56	9.56	9.26
% purchased	14.1%	46.4%	78.6%	100%	100%	100%
# of bids: # offered	0.14	0.46	0.79	1.69	1.64	1.11

### Key Takeaway

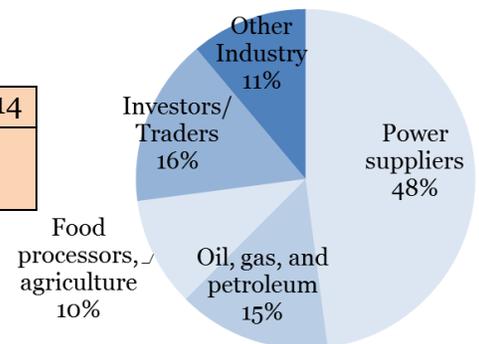
- Market participants would not purchase future allowances if they did not believe the market will exist in the future, as they cannot use future allowances for compliance until their vintage year. Complete sale of future allowances in the most recent auction is an indication that market participants believe the market is strong and here to stay until at least the year 2017.

## Auction Update (Feb '14): Qualified Bidders

### Results

	Nov '12	Feb '13	May '13	Aug '13	Nov '13	Feb '14
# of bidders registered	73	91	81	79	76	71

- Across all six auctions, 144 companies have registered for at least one auction.
- 44 companies have registered for five of the past six auctions and 24 of these companies have registered for all six.



### Key Takeaways

- Companies from all sectors covered by the regulation have registered for these auctions, reflecting diversity in participation and indicating that all sectors are planning their compliance strategies. Power suppliers represent the largest portion, consistent with their portion of the covered emissions.
- A core group of companies are consistently requesting access to the auction process.

## Auction Update (Feb '14): Proceeds

### Results

- The sale of state-owned allowances raised \$633 million. All of this must be invested in projects that will create additional GHG reductions. At least 25% (\$166 million) must go to projects that benefit disadvantaged communities.
- The sale of utility-owned allowances raised over \$1 billion, which must be returned to ratepayers in the following breakdown according to rulings by the Public Utility Commission:
  - 85% (\$880 million) to households
  - 10% (\$104 million) to small businesses
  - 5% (\$52 million) to leakage exposed industries

### Key Takeaway

- These auctions have raised a significant amount of revenue. Smart investment of this money will be crucial in achieving California's climate goals at the lowest cost.