

May 2014 California Auction Analysis

Auction Summary

Since the initiation of California's cap-and-trade program, the California Air Resources Board (CARB) has held seven auctions. The most recent auction took place on March 16, 2014, the results of which show continued confidence in the integrity of the program. All 16.9 million V14 allowances that were offered were purchased at \$11.50 per allowance, 16 cents above the new floor price of \$11.34. The advanced auction was undersubscribed, with 44% of the offered allowances purchased at the floor price. This is no surprise given the recent amendments to the cap-and-trade regulation that were approved by CARB in April, which include the extension of transition assistance into the second compliance period. This effectively reduces demand at auction in future compliance periods. In addition, the state has shown that it is decoupling economic growth from emissions growth, creating less demand for allowances than expected. There were 74 qualified bidders in this auction, representing all sectors covered by the program. In total, this auction raised \$71.1 million for the state, all of 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.

In-depth EDF Analysis

Following a strong launch of the program in 2013, the auction results from 2014 show a maturing market that has stabilized over time. These auction results reflect the dedication from CARB and other stakeholders to maintain the integrity of the program:

- Complete sale of all current allowances offered is an indication that companies are taking a price on carbon seriously and are successfully using the auctions as a way to purchase allowances for compliance. Bids for 7.8 million more 2014 vintage allowances were placed than could be filled, indicated a competitive current auction.
- Lower overall demand for 2017 vintage allowances may be an indication that compliance entities are recalibrating their long-term compliance strategies based on recent regulation amendments and other market updates.
- This auction brings the total state auction proceeds to just over \$730 million. That money must be invested in projects that reduce climate pollution, and at least 25%, or over \$180 million to date, will provide clean energy opportunities to disadvantaged communities. Over \$1.1 billion has been garnered from the sale of investor-owned utility allowances since the program's start and must be spent to the benefit of ratepayers. The first of two California Climate Credits were distributed in April, through which the investor-owned utilities across California returned an average of \$35 per household from allowance proceeds. The credit amounts are expected to increase over time.

EDF published a [report on the first year of California's cap-and-trade program](#) (PDF) in January, which includes background information on the landmark program, as well as an analysis of market data and interviews with cap-and-trade experts. EDF, in partnership with the American Lung Association in California, also published a [report showing the health and societal economic benefit](#) of California's transportation policies, including the cap-and-trade program, as they transform the fuel mix and save communities money.

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

- [Latest Auction Results Show that California's Cap-and Trade is in Full Swing](#)
- [Transportation fuel policies continue to benefit drivers and communities across California](#)
- [Climate Action Turning Green to Gold for Californians](#)

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
2014: \$11.34
2013: \$10.71
2012: \$10.00

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

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

Results

- Every current year vintage allowance offered for sale in all auctions thus far, both utility-owned and state-owned, has been purchased.
- A total of 117.5 million V13 and V14 allowances have been purchased through these auctions.
- Prices for current vintage allowances held almost steady from the last auction in February.
- Bids for 7.8 million more 2014 vintage allowances were placed than could be filled.

Current Auction	2012/2013	Feb 2014	May 2014
Floor price	\$10.00/\$10.71	\$11.34	\$11.34
Settlement price	\$12.00*	\$11.48	\$11.50
# allowances offered (in millions)	81.05	19.54	16.95
% purchased	100%	100%	100%
# of bids: # offered ratio	1.67	1.27	1.46

*This is the volume-weighted average across all five auctions in 2012 and 2013.

Key Takeaways

- Complete sale of current allowances at prices above the floor indicates California companies are confident in the integrity and strength of the program and are using the auctions to fulfill their compliance obligations.
- Prices have stabilized in the most recent auctions, reflecting an increased comfort and familiarity with the program among market participants.

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

Results

- 44% of the future vintage year allowances offered were sold at the floor price of \$11.34.

Advance Auction	2012/2013	Feb '14	May '14
Floor price	\$10.00/\$10.71	\$11.34	\$11.34
Settlement price	\$10.81*	\$11.38	\$11.34
# allowances offered (in millions)	77.7	9.26	9.26
% purchased	47.2%	100%	44%
# of bids: # offered	0.64	1.11	0.44

*This is the volume-weighted average across all five auctions in 2012 and 2013.

Key Takeaway

- It is not surprising that the advance auction was undersubscribed. Recent amendments to the cap-and-trade regulation approved by CARB in April include extension of transition assistance into the second compliance period. This reduces demand for allowances at auction. In addition, California has been slowly decoupling economic growth with emissions growth, driving demand for allowances down.

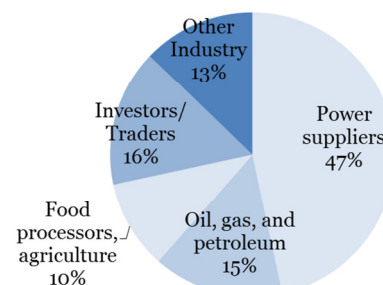
Auction Update (May '14): Qualified Bidder

Results

	2012/2013	Feb '14	May '14
# of bidders registered	80*	71	74

*This is the average across all five auctions in 2012 and 2013.

- Across the seven auctions so far, 148 companies have registered for at least one auction.
- 31 companies have registered for six of the past seven auctions and 11 of these companies have registered for all seven.



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 (May '14): Proceeds

Results

- The sale of state-owned allowances has raised \$734 million in total. All of this must be invested in projects that will create additional GHG reductions. At least 25% (\$184 million) must go to projects that benefit disadvantaged communities.
- The sale investor-owned utility allowances has raised over \$1.1 billion, which must be returned to ratepayers. 85% of this (\$938 million) will go back to households.

Key Takeaway

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