

## Client Alert.

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# Picking Up Steam? CARB Reports that California's Second Carbon Auction Exceeds Price Expectations

By William Sloan, Peter Hsiao, Michael Steel, and Megan Jennings

California's second auction of greenhouse gas (GHG) allowances exceeded expectations, with allowances clearing above both the reserve price and the price predicted by leading market analysts. All of the 12.9 million allowances available for use in 2013 sold at the February 19 auction, with a clearing price of \$13.62. (Under auction rules, bidders submit sealed bids electronically to the California Air Resources Board (CARB), which allocates available allowances starting with the highest bidder, then charges to all winning bidders the lowest price that results in a purchase.) The reserve price was set at \$10.71 per allowance, and Bloomberg New Energy Finance had predicted clearance at \$12.30. The results signal a more robust level of market involvement than was seen at the first auction last November, when 2013 allowances cleared at \$10.09, just above the \$10.00 floor price. (Our analysis of the initial auction results is available [here](#).) The credibility of the November auction results was seriously undermined when CARB disclosed, during Christmas week, that one bidder had accidentally purchased \$16 million worth of allowances it never intended to buy. These new results, assuming they are accurate, suggest that at least the current market is strong.

According to [results](#) released by CARB, 91 qualified bidders participated in last week's auction, including such major players as Chevron USA, Exxon Mobil, and Shell Energy North America. The ratio of qualified bids divided by 2013 allowances available for sale was 2.47. (This time, it appears that CARB was careful to distinguish "qualified" from "submitted but disqualified" bids. Last November, the agency initially failed to do so, causing the volume of qualified bids to appear inflated. Our summary of CARB's restated auction results is available [here](#).) Approximately 88% of allowances were purchased by entities with compliance obligations, with the remainder presumably purchased for trading on secondary markets.

Similar to the first auction, sales of future allowances were more tepid. The February 19 auction included an advance auction of 2016 vintage allowances, which cannot be used to satisfy compliance obligations until that year. Only 46% of 9.5 million available 2016 allowances sold, at the reserve price of \$10.71. Although the percentage was up from November, when only approximately 14% of 2015 allowances sold, the low demand likely reflects continued uncertainty about the future of the market, in part due to a pending [lawsuit](#) filed by the California Chamber of Commerce challenging CARB's authority to auction GHG allowances. (Last week, the National Association of Manufacturers announced that it would intervene in the suit on behalf of the Chamber.) At the same time, CARB recently scored a [victory](#) for cap-and-trade in the San Francisco Superior Court, which rejected a citizen group's challenge to the GHG "offset" component of the program.

While CARB awaits final resolution of these legal challenges, it is preparing for a March 8 reserve sale from its

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Allowance Price Containment Reserve, as well as three more quarterly allowance auctions in 2013. The agency is also working with the Department of Finance to develop an investment plan for proceeds generated from the cap-and-trade program.

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