

Auction Examples

Washington Cap-and-Invest Program Auction of Greenhouse Gas Allowances

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(Update: Fixed missing Table 1)

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The information in this document is based on the requirements set forth in the Climate Commitment Act (CCA), Chapter 70A.65 RCW, and the CCA Program Rule, Chapter 173-446 WAC (collectively referred to as CCA Requirements). If there is any apparent conflict between this document and the CCA Requirements, the CCA Requirements shall control.

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I. Background

This document provides information on auction bidding procedures and an outline of the settlement price determination process, as well as how to determine a bid guarantee amount; bid evaluation procedures for purchase limits, holding limits, and bid guarantees; the settlement price determination process; and how auctions are settled. This document should be read with the *Detailed Auction Requirements* document. Terms defined in the *Detailed Auction Requirements* also apply to this document.

When bidding in an auction during the open bidding window, the bid currency, bid price, number of bid lots, and allowance vintage are entered for each bid. When placing bids for the Current Auction, the vintage selection is “Current.” The Current Auction may include allowances of vintages from the current and previous calendar years. If the Current Auction offers allowances of vintages prior to the current year, bids cannot be placed for a particular vintage but are instead submitted as “Current” vintage. The vintage to be selected when placing bids in the Advance Auction is the year of the allowances offered in the Advance Auction (e.g., in 2023, vintage 2026 allowances are offered for Advance Auction and the vintage selection is 2026).

For each auction, an Auction Floor Price will be determined. Beginning in 2022 on the first business day in December of each year, the Department of Ecology will announce the floor price for the following year. For the purposes of this document and all examples, the Auction Floor Price for both the Current Auction and Advance Auction is \$22.20 United States Dollars based on the Annual Auction Floor Price posted by Washington on December 1, 2022, per the Climate Commitment Act program rule. The Auction Administrator will not accept any bids for which the bid price is less than the Auction Floor Price.

The Settlement Price in an auction is determined after the bidding window is closed, based on the following steps:

1. Each entity’s submitted bids are evaluated to ensure that the submitted bids or value of submitted bids do not exceed the purchase limits, holding limits, or entity’s bid guarantee.
2. Each entity’s qualified bids are determined as the bid quantity that remains after the submitted bids have been evaluated and reduced to meet all limits.
3. Qualified bids are ranked in order of bid price, from highest to lowest.
4. Allowances are awarded to entities, beginning with the highest qualified bid price and moving to successively lower qualified bid prices, until the entire supply of allowances is exhausted or all qualified bids have been filled.

The discussion in the remainder of the document follows the steps listed above and describes the various elements of the settlement price determination process.

II. Determining an Entity's Bid Guarantee

Table 1 below presents hypothetical bid submissions for an auction in which seven individual entities are participating. This table will be used to inform examples 1 through 8. Each entity's set of bids is referred to as a bid schedule in the remainder of this document. In the following examples, each of the entities only places bids in the Current Auction and all bids are submitted in USD. Considerations for participation in the Advance Auction are included at the end of this document. Each row in Table 1 provides the bid value at each bid price. The Auction Administrator will accept bids for lots of allowances; each bid lot represents 1,000 allowances. In addition, eight other covered entities—called WA Other Covered—are aggregated into a single set of bids (as seen in at the bottom of Table 1 and subsequent tables).

Table 1: Bid Submissions for all Auction Examples

Entity Name	Bid Price (USD)	Bid Lots	Bid Number of Allowances	Entity Cumulative Bid Allowances	Entity Cumulative Bid Value (USD)
A	\$41.24	40	40,000	40,000	\$1,649,600
A	\$33.54	55	55,000	95,000	\$3,186,300
A	\$28.06	70	70,000	165,000	\$4,629,900
A	\$22.54	85	85,000	250,000	<u>\$5,635,000</u>
B	\$30.74	80	80,000	80,000	\$2,459,200
B	\$22.03	170	170,000	250,000	<u>\$5,507,500</u>
C	\$78.26	25	25,000	25,000	\$1,956,500
C	\$70.82	100	100,000	125,000	\$8,852,500
C	\$51.55	120	120,000	245,000	<u>\$12,629,750</u>
D	\$39.16	50	50,000	50,000	\$1,958,000
D	\$33.43	120	120,000	170,000	<u>\$5,683,100</u>
E	\$35.86	35	35,000	35,000	\$1,255,100
E	\$31.90	50	50,000	85,000	\$2,711,500
E	\$28.06	70	70,000	155,000	\$4,349,300
E	\$22.01	110	110,000	265,000	<u>\$5,832,650</u>
F	\$22.01	200	200,000	200,000	<u>\$4,402,000</u>
G	\$35.86	50	50,000	50,000	\$1,793,000
G	\$33.43	120	120,000	170,000	<u>\$5,683,100</u>
WA Other Covered	\$35.00	700	700,000	700,000	\$24,500,000
WA Other Covered	\$30.00	300	300,000	1,000,000	\$30,000,000
WA Other Covered	\$25.00	500	500,000	1,500,000	<u>\$37,500,000</u>

Table 1 Terminology:

- Bid Price: Dollar amount bid for each allowance
- Bid Number of Allowances = Bid Lots * 1,000
- Entity Cumulative Bid Allowances = Sum of current Bid Number of Allowances and Bid Number of Allowances at each higher Bid Price
- Entity Cumulative Bid Value = Entity Cumulative Allowances * Bid Price
- Entity Maximum Bid Value (USD) = Entity Cumulative Bid Value at Bid Price where Entity Cumulative Bid Value is greatest

The Maximum Bid Value for each entity is in bold underline in the Entity Cumulative Bid Value (USD) column in Table 1.

The cumulative allowances shown in Table 1 are not entered or shown in the bid schedule but are shown here for illustrative purposes. The “Entity Cumulative Bid Allowances” column indicates the total allowances for which the entity has submitted bids to purchase at that bid price and all higher bid prices.

The Washington Regulation requires bid guarantees to be greater than or equal to the maximum value of the bids submitted (i.e., maximum bid value). Thus, each entity’s **bid guarantee should be equal to or greater than the maximum bid value for the planned bid schedule** in Table 1. Entities bidding in an auction will be limited to incurring a total cost less than or equal to the dollar amount of the bid guarantee submitted and should evaluate their bids against the bid guarantee they provided in the manner illustrated in the examples below.

Minimum Bid Guarantee Calculation

The following is an example of how an entity might calculate the minimum bid guarantee required to avoid having their bids rejected:

Example 1: Calculating a Bid Guarantee When Submitting Multiple Bids in USD

As shown in Table 1, Entity A has submitted four different bids at four different bid prices in USD:

- Bid price of \$41.24: Entity A bid for 40,000 allowances at a cost of \$1,649,600 USD.
- Bid price of \$33.54: Entity A bid for 95,000 allowances at a cost of \$3,186,300 USD. (95,000 allowances = 40,000 + 55,000)
- Bid price of \$28.06: Entity A bid for 165,000 allowances at a cost of \$4,629,900 USD. (165,000 allowances = 40,000 + 55,000 + 70,000)
- Bid price of \$22.54: Entity A bid for 250,000 allowances at a cost of \$5,635,000 USD. (250,000 allowances = 40,000 + 55,000 + 70,000 + 85,000)

Entity A's bid schedule shows that it is willing to purchase a total of 250,000 allowances at a price of \$22.54 USD at a maximum bid value of \$5,635,000 USD. **Entity A should submit a bid guarantee of at least \$5,635,000 USD if it wants to buy all the allowances in its bid schedule as highlighted in Table 1.**

Using the same evaluation process for the bid schedules submitted by Entities B to G, the maximum bid value of each entity's bid schedule is determined and shown in Table 1, in bold underline.

The minimum bid guarantee Entities A to G should submit to avoid having their bid(s) rejected in lots of 1,000 allowances by the Auction Administrator would be as follows:

- Entity A – \$5,635,000 USD
- Entity B – \$5,507,500 USD
- Entity C – \$12,629,750 USD
- Entity D – \$5,683,100 USD
- Entity E – \$5,832,650 USD
- Entity F – \$4,402,000 USD
- Entity G – \$5,683,100 USD

III. Bid Guarantees for Current and Advance Auctions

Entities submit a single bid guarantee for both the Current Auction and the Advance Auction. Once the Current Auction settlement price has been determined, the entity's total cost for allowances awarded in the Current Auction (USD settlement price multiplied by number of allowances awarded) will be determined and deducted from the bid guarantee amount, and any bid guarantee amount remaining will be applied to the entity's bids in the Advance Auction. The bid guarantee is applied to the Current Auction and the Advance Auction in the form of USD currency.

Bid Guarantee Application in Advance Auction

Bid Guarantees are applied to the Current Auction first, and then to the Advance Auction. The following is an example of how an entity's bid guarantee is applied in an Advance Auction where the entity is also awarded allowances in the Current Auction.

Example 2: Application of a Single Bid Guarantee to Current and Advance Auction

If Entity A in Table 1 submitted a bid guarantee of \$10,000,000 USD and the auction settlement price for the Current Auction is \$25.98 USD, then the cost of allowances awarded to Entity A in the Current Auction is \$4,286,700 USD (165,000 allowances * \$25.98 USD).

Entity A's remaining bid guarantee amount of \$5,713,300 USD (\$10,000,000 USD - \$4,286,700 USD) would be available to be applied to bids submitted for the Advance Auction.

IV. Entity Bid Evaluation Procedures for Purchase Limits & Holding Limits

Example 3 and Example 4 illustrate how entities should evaluate their Current Auction bid schedules for purchase limits and holding limits.

Purchase Limits

The auction purchase limit applies to one entity or a group of entities that are members of a Corporate Association Group (CAG) or are related entities. The purchase limit applies to the total number of allowances offered for sale in the Current Auction and independently to the total number of allowances offered for sale in the Advance Auction. The purchase limits that apply to one entity or a group of entities that are related entities for the Current Auction and the Advance Auction are discussed in detail in the *Detailed Auction Requirements and Instructions* document (See "Bidding Limitations" in that document).

Example 3: Determining an Entity's Current Auction and Advance Auction Purchase Limit

For each category of entity, multiply the purchase limit percentage for the entity category by the total amount of allowances available for auction. While the purchase limit percentages are the same for each auction, the allowance supply for the Current Auction and the Advance Auction are not, and thus the number of allowances an entity can purchase in the Current and Advance Auction without exceeding the purchase limit is different.

For example, if a hypothetical Auction has 1,000,000 allowances offered for sale, the Current Auction purchase limit for a covered entity is 100,000 allowances (0.10 * 1,000,000). Similarly, if the number of allowances offered for sale in the Advance Auction is 400,000, the Advance Auction purchase limit for this entity is 40,000 allowances (0.10 * 400,000).

Holding Limits

The holding limit is the maximum number of GHG allowances that may be held by an entity or jointly held by a group of related entities. The holding limit applies to all entities and is based on the following formula:

$$HL_i = 0.1 \times 25,000,000 + 0.025 * (C_i - 25,000,000)$$

Where:

HL_i = holding limit for year i

C_i = annual allowance budget for year i

i = current year

For 2023, the annual budget for the Washington jurisdiction is 63,288,565 allowances.

$$2023 \text{ Holding Limit} = 2,500,000 + 0.025 * (63,288,565 - 25,000,000)$$

$$2023 \text{ Holding Limit} = 3,457,214 \text{ allowances}$$

Allowances purchased in the Current Auction are subject to the current vintage holding limit detailed in Chapter 173-446-150 (2) WAC. The current vintage holding limit applies to allowances from the current calendar year, previous calendar years, and allowances with no vintage.

There is a separate holding limit for each calendar year of allowances with a vintage year beyond the current calendar year. Allowances purchased in the Advance Auction are subject to the holding limit for the vintage year of the allowances sold at that Advance Auction pursuant to Chapter 173-446-150 (2)(b) WAC.

A covered entity may exempt a limited number of allowances from the current vintage holding limit by transferring them to its compliance account. This “limited exemption” is described in Chapter 173-446-150(2)(c) WAC. The limited exemption is equal to the number of compliance instruments needed to meet the remaining compliance obligation for an entity’s estimated GHG emissions for the current or prior calendar year. This allows entities to accumulate the allowances they need for compliance.

Entities can calculate the maximum number of allowances they can hold by following Example 4 and using the holding limit values from Table 2.

Example 4: Determining the Allowances an Entity Can Hold and Purchase within Holding Limit in 2026

The maximum number of allowances an entity can hold at one time equals the holding limit plus the limited exemption. For allowances to be counted towards an entity's limited exemption, they must be held in the entity's compliance account. Assuming an entity takes full advantage of the limited exemption, in 2026 the maximum number of allowances that may be held is calculated as:

$$\text{2026 Maximum Number of Allowances Held Subject to Current Vintage Holding Limit} = 3,099,940 + \text{Limited Exemption}$$

When submitting bids in an auction, an entity may not exceed the applicable holding limit plus the limited exemption minus allowances already held in their account.

For the limited exemption, suppose the entity's total compliance obligation for emissions from 2023 to 2025 are 4,285,714 and estimated at 1,000,000 for 2026. The entity has already met the 30 percent annual compliance obligation for 2023 through 2025 emissions. This means that 70 percent of the entity's 2023, 2024 and 2025 emissions still have a compliance obligation. The entity's limited exemption is calculated as:

$$\text{2026 Limited exemption} = 4,285,714 * (1 - 30\%) + 1,000,000 = 4,000,000$$

Suppose the entity already holds 1,000,000 allowances in its compliance account and has an additional 2,000,000 allowances of vintage 2026 vintage allowances in its general holding account. Along with its 4,000,000 compliance instrument limited exemption, the maximum number of current vintage allowances the entity may acquire before exceeding its holding limit plus the limited exemption is:

$$\text{Maximum Number of Current Vintage Allowances That Can Be Purchased} = 3,099,940 + 4,000,000 - 1,000,000 - 2,000,000 = 4,099,940 \text{ allowances.}$$

Based on the example above, an entity could purchase 4,099,940 allowances without exceeding the holding limit plus limited exemption. But, if purchased, some of these allowances must go to the entity's compliance account. If all purchased allowances are transferred to the entity's general holding account, the entity would exceed the holding limit by 3,000,000 allowances:

$$\text{Space for allowances in General Account} = 3,099,940 - 2,000,000 = 1,099,940$$

$$\text{Allowances that must move to Compliance Account} =$$

$$4,099,940 + 2,000,000 - 3,099,940 = 3,000,000$$

The entity must move 3,000,000 allowances from its general holding account to its compliance account to stay within the holding limit while still taking advantage of the limited exemption. A transfer to an entity's compliance account is required any time the combined balance of an entity's general holding account and the number of purchased allowances exceed the holding limit.

Ecology may transfer allowances awarded in an auction to an entity's general holding account or to its compliance account as needed to facilitate compliance with the holding limit. An entity is responsible for ensuring compliance with the holding limit when receiving allowances awarded in an auction. Allowances awarded in an auction will be transferred to an entity's general holding account, unless a transfer to an entity's compliance account is required to maintain compliance with the holding limit.

If an entity exceeds the holding limit, it has 5 business days to get back into compliance with the holding limit in accordance with Chapter 173-446-150(2)(g) WAC.

V. Auction Administrator Application of the Bid Evaluation Criteria

In the auction platform, account representatives will appear to be able to submit bids in excess of their bid guarantee or other limits during the open bid window. However, submitted bids that contain bid quantities in excess of the purchase limit or the holding limit or have a maximum value in excess of the bid guarantee at the settlement price, will be rejected when the bidding window closes, in bundles of 1,000 allowances, until all bid limitations are met. Only that portion of the bid quantity that exceeds one or more limit(s) will be rejected, not the entire bid quantity. Bid quantities that have been rejected will not be considered in determining the settlement price. "*Qualified bids*" are the bids that remain after the submitted bids have been evaluated and reduced to meet all limits.

Determination of qualified bids occurs after the bidding window has been closed and before the settlement price is determined. The process is the same for the Current Auction and the Advance Auction. The result is a set of qualified bids from which the settlement price is determined for both the Current Auction and the Advance Auction.

Table 2 shows bid evaluation data for a hypothetical Current Auction where 2,500,000 allowances are available. In some cases, a bid may exceed more than one evaluation criterion (i.e., purchase limit, holding limit, or bid guarantee value). When a bid exceeds more than one criterion, the bid will be reduced in lots of 1,000 allowances to meet the most constraining bid limitation.

Table 2: Bid Evaluation Data

Entity Name	Entity Type	Purchase Limit (Number of Allowances)	Holding Limit (Number of Allowances)	Bid Guarantee (USD)
A	WA Covered Entity	250,000	3,457,214	\$5,635,354
B	WA Covered Entity	250,000	3,457,214	\$4,847,213
C	WA Covered Entity	250,000	3,457,214	\$13,500,000
D	WA Covered Entity	250,000	3,457,214	\$5,684,774
E	WA Covered Entity	250,000	3,457,214	\$5,817,139
F	WA Covered Entity	250,000	3,457,214	\$4,453,747
G	WA General Market Participant (GMP)	100,000	3,457,214	\$5,684,774
WA Other Covered	Eight WA Covered Entities	2,000,000	27,657,712	39,500,000

Purchase limits in the examples throughout this document are based on the percentages assigned to each entity type as described previously (see Example 3, above and Chapter 173-446-330 WAC).

In the sample bid evaluation data in Table 2, the bid guarantees represent the bid guarantees submitted. In some cases, the bid guarantee is different from the maximum total value of an entity’s bid schedule shown in Table 1. This has been done to demonstrate how the bid guarantee criterion impacts bids if the bid value is greater than the bid guarantee at a specific bid price and how the bid guarantee is used in the Advance Auction.

Purchase Limit Evaluation

Example 5: Purchase Limit Evaluation

Table 3, on the following page, compares entity purchase limits from Table 2 with each entity's cumulative bid allowances from Table 1. All "Other" entities in the last row of the table are assumed to bid within their purchase limit.

Table 3: Example 5 Purchase Limit Evaluation

Entity Name	Maximum Cumulative Bid Allowances	Purchase Limit	Purchase Limit Evaluation
A	250,000	250,000	OK
B	250,000	250,000	OK
C	245,000	250,000	OK
D	170,000	250,000	OK
E	265,000	250,000	Limit Exceeded
F	200,000	250,000	OK
G	170,000	100,000	Limit Exceeded
WA Other Covered	1,500,000	2,000,000	OK

Entities E and G submitted bids that exceed their purchase limits.

Entity E: Entity E's bids are not within its purchase limit as the cumulative total of its bids, 265,000 allowances, exceeds the purchase limit of 250,000 allowances. As a result, Entity E's submitted bids that are in excess of the purchase limit will be rejected in lots of 1,000 allowances until the purchase limit is met. **Thus, only the portion of the bid that exceeds the purchase limit will be rejected, not the entire bid.** Entity E's first three bids sum to 155,000 allowances (refer to Table 1). It can purchase no more than an additional 95,000 allowances (250,000 - 155,000). Thus, Entity E's fourth bid would be limited to 95,000 allowances.

Entity G: Entity G's bids are not within its purchase limit as the cumulative total of its bids, 170,000 allowances, exceeds the purchase limit of 100,000 allowances. Submitted bids that contain bid quantities in excess of the purchase limit will be rejected in lots of 1,000 allowances until the purchase limit is met.

Holding Limit Evaluation

In Example 6, the available space within an entity's holding limit is defined as the maximum number of allowances that can be purchased by an entity at the auction while in compliance with the holding limit. This is described in the *Detailed Auction Requirements and Instructions* document as the holding limit cap that Ecology transmits to the Auction Administrator prior to the auction. Denoted as 'Holding Limit' in Table 2, the holding limit cap indicates how many allowances an entity may acquire at auction before exceeding its holding limit.

This example assumes that each entity does not have any allowances in its general account, and that their compliance account has allowances equal to their limited exemption. Example 4 is an extended calculation of the holding limit when an entity already has allowances in its general account, and the entity has not reached its holding limit.

Example 6: Holding Limit Evaluation.

In this example, all the bids submitted by entities are within their current vintage holding limit. Each entity's maximum cumulative bid allowances is less than 3,457,214 plus their limited exemption (if applicable).

Bid Guarantee Evaluation

Prior to auction settlement, the Auction Administrator will evaluate the submitted bid guarantee for each entity for the Current Auction in USD. Each entity provides a single bid guarantee that will be applied to both the Current Auction and Advance Auction. Any bid guarantee amount remaining once the Current Auction settlement price has been determined, and the cost of allowances awarded in the Current Auction has been deducted, will be applied to the Advance Auction.

The settlement price algorithm is structured to recognize that a bid that is limited by the bid guarantee at a submitted bid price may not be limited as much or limited at all at lower potential settlement prices. If a bid quantity is limited by the bid guarantee at the submitted bid price, but could be fulfilled if the settlement price is lower than the submitted bid price, the entity will be awarded allowances up to the bid quantity and the limits of the bid guarantee.

Table 4 compares entity bid guarantees from Table 2 with each entity's maximum bid value based on the Entity Cumulative Bid Value from Table 1.

Table 4: Example 7 Bid Guarantee Evaluation

Entity Name	Maximum Bid Value (USD)	Bid Guarantee (USD)	Bid Guarantee Evaluation
A	5,635,000	\$5,635,354	OK
B	5,507,500	\$4,847,213	Insufficient
C	12,629,750	\$13,500,000	OK
D	5,683,100	\$5,684,774	OK
E	5,832,650	\$5,817,139	Insufficient
F	4,402,000	\$4,453,747	OK
G	5,683,100	\$5,684,774	OK
WA Other Covered	37,500,000	\$39,500,000	OK

Example 7: Bid Guarantee Evaluation

Entities B and E submitted bids for which their bid guarantee is insufficient.

Entity B: Entity B’s bid guarantee of \$4,847,213 USD is not sufficient to cover its maximum bid value of \$5,507,500 USD.

If the auction settlement price was set by Entity B’s lower bid price, the Auction Administrator would reduce Entity B’s second bid to 140,000 allowances. At the bid price of \$22.03, a total of 220,000 allowances can be purchased with the submitted bid guarantee ($\$4,847,213 / \$22.03 \text{ USD} = 220,027$, rounded down to 220,000). The total number of allowances that can be purchased through the second bid is 140,000 (220,000 - 80,000). Thus, Entity B’s second bid would be limited to 140 bid lots based on the bid guarantee limitation. See Table 1 for Entity B’s bidding details.

Entity E: Entity E’s bid guarantee of \$5,817,139 USD is not sufficient to cover its maximum bid value of \$5,832,650 USD.

If the auction settlement price was set by Entity E’s lowest bid price of \$22.01 USD, the Auction Administrator would reduce Entity E’s fourth bid to 109,000 allowances. A total of 264,000 allowances can be purchased with the submitted bid guarantee ($\$5,817,139 / \$22.01 = 264,295$, rounded down to 264,000).

Rounded down to the nearest bid lot, the total number of allowances that can be purchased through the fourth bid is 109,000 (264,000 - 155,000). Thus, Entity E’s fourth bid would be limited to 109 bid lots based on the bid guarantee limitation.

Entity E’s fourth bid is limited by the purchase limit and its bid guarantee. When a bid is limited by more than one criterion, the bid will be reduced in lots of 1,000 allowances to the

most limiting constraint. A reduction of the fourth bid to 109,000 allowances would meet the bid guarantee limit but not the purchase limit. The fourth bid would be reduced to 95,000 allowances to meet both limitations. The bid must pass all evaluations to be qualified and, in this example, the most limiting criterion is the purchase limit. Entity E is a covered entity. Therefore, Entity E is able to purchase 10 percent of auction supply, or 250,000. Entity E's qualified fourth bid is 95 bid lots (250,000 – 155,000 allowances).

Entity G: Entity G's bid guarantee of \$5,684,774 USD is sufficient to cover its maximum bid value of \$5,683,100 USD. As a General Market Participant, however, Entity G has a purchase limit of 4 percent of the total auction supply (100,000 allowances). Therefore, the bids submitted exceed the purchase limit and thus the first bid for 50 lots is accepted, and only 50 of the 120 lots of the second bid are accepted for a total of 100,000 allowances.

Table 5 shows the qualified bids after the Auction Administrator has completed the bid evaluation process, with the reduced bid quantities in bold underline. These are the bids that would be used in calculating the settlement price. Please note that the cumulative allowances and bid values are also adjusted to reflect reduced bid quantities.

Table 5: Example 7 Bids Accepted by Auction Administrator

Entity Name	Bid Price (USD)	Submitted Bid Lots	Qualified Bid Allowances (Qualified Bid Lots * 1000 Allowances)	Entity Cumulative Qualified Bid Allowances	Entity Cumulative Qualified Bid Value (USD)
A	\$41.24	40	40,000	40,000	\$1,649,600
A	\$33.54	55	55,000	95,000	\$3,186,300
A	\$28.06	70	70,000	165,000	\$4,629,900
A	\$22.54	85	85,000	250,000	\$5,635,000
B	\$30.74	80	80,000	80,000	\$2,459,200
B	\$22.03	170	<u>140,000</u>	220,000	\$4,846,600
C	\$78.26	25	25,000	25,000	\$1,956,500
C	\$70.82	100	100,000	125,000	\$8,852,500
C	\$51.55	120	120,000	165,000	\$8,505,750
D	\$39.16	50	50,000	50,000	\$1,958,000
D	\$33.43	120	120,000	170,000	\$5,683,100
E	\$35.86	35	35,000	35,000	\$1,255,100
E	\$31.90	50	50,000	85,000	\$2,711,500
E	\$28.06	70	70,000	155,000	\$4,349,300
E	\$22.01	110	<u>95,000</u>	250,000	\$5,502,500
F	\$22.01	200	200,000	200,000	\$4,402,000
G	\$35.86	50	<u>50,000</u>	50,000	\$1,793,000
G	\$33.43	120	<u>50,000</u>	100,000	\$3,343,000
WA Other Covered	\$35.00	700	700,000	700,000	\$24,500,000
WA Other Covered	\$30.00	300	300,000	1,000,000	\$30,000,000
WA Other Covered	\$25.00	500	500,000	1,500,000	\$37,500,000

VI. Settlement Price Determination Procedures

The process to determine the settlement price requires that the Auction Administrator rank qualified bids from all entities from highest to lowest using the USD value of the bids.⁵ Allowances will be awarded to entities, beginning with the highest qualified bid price and moving to successively lower qualified bid prices, until the entire supply of allowances is exhausted or all qualified bids have been filled. Each bid will be assessed against purchase and holding limits and the value of the bid guarantee as described in the previous section.

The bid price at which all available allowances are sold or all qualified bids are filled becomes the **settlement price**; this is the price per allowance that all entities will be charged for the allowances won in the auction. Bids submitted at prices below the settlement price will not be awarded any allowances. Example 8 shows the sale of all available allowances with the last winning bid exceeding the available allowances at the settlement price. Example 9 shows the settlement price determination when an entity's bid schedule is limited by the entity's submitted bid guarantee.

In determining the settlement price, the Auction Administrator may find that the quantity of allowances bid for at a specific price exceeds the remaining allowances available for sale. When this occurs, a tiebreaker procedure is used to determine the number of allowances awarded to each entity. Example 10 illustrates calculating the settlement price with the tiebreaker procedure.

A. Settlement Price Determination Examples

This section provides three examples of the calculation of the settlement price.

Example 8: Settlement Price When the Last Winning Bid Exhausts the Available Allowances

This example is for bids submitted in the Current Auction (the process for determining the settlement price is the same for the Current and Advance Auctions). Qualified bids from Entities A to G in the bid evaluation process provided in Table 5 are used in this settlement price example. For this example, 2,500,000 allowances are available for sale.

All qualified bids submitted by all entities are ranked from the highest qualified bid price to the lowest qualified bid price using the USD value of the bid prices. In Table 6, the fifth column (Auction Cumulative Qualified Bid Allowances) shows the cumulative number of allowances for all entities at each declining bid price increment. The sixth column (Allowance Supply Remaining) shows allowances remaining to be sold, which is the allowances available for lower price bids. It is the difference between the allowance supply of 2,500,000 and the Auction Cumulative Qualified Bid Allowances in the fifth column.

Table 6: Example 8 Settlement Price Determination

Entity Name	Bid Price (USD)	Submitted Bid Lots	Qualified Bid Allowances (Qualified Bid Lots * 1000 Allowances)	Auction Cumulative Qualified Bid Allowances	Allowance Supply Remaining
C	\$78.26	25	25,000	25,000	2,475,000
C	\$70.82	100	100,000	125,000	2,375,000
C	\$51.55	120	120,000	245,000	2,255,000
A	\$41.24	40	40,000	285,000	2,215,000
D	\$39.16	50	50,000	335,000	2,165,000
E	\$35.86	35	35,000	370,000	2,130,000
G	\$35.86	50	50,000	420,000	2,080,000
WA Other Covered	\$35.00	700	700,000	1,120,000	1,380,000
A	\$33.54	55	55,000	1,175,000	1,325,000
D	\$33.43	120	120,000	1,295,000	1,205,000
G	\$33.43	120	50,000	1,345,000	1,155,000
E	\$31.90	50	50,000	1,395,000	1,105,000
B	\$30.74	80	80,000	1,475,000	1,025,000
WA Other Covered	\$30.00	300	300,000	1,775,000	725,000
A	\$28.06	70	70,000	1,845,000	655,000
E	\$28.06	70	70,000	1,915,000	585,000
WA Other Covered	\$25.00	500	500,000	2,415,000	85,000
A	<u>\$22.54</u>	85	85,000	2,500,000	0
B	\$22.03	170	140,000	Exceeds Supply	0
E	\$22.01	110	95,000	Exceeds Supply	0
F	\$22.01	200	200,000	Exceeds Supply	0

At the highest bid price of \$78.26 USD, only 25,000 allowances have been sold and 2,475,000 allowances remain to be sold to lower price bids. At the next lower bid price, \$70.82 USD, a total of 125,000 allowances have been sold and 2,375,000 allowances remain for lower priced bids. Continuing down the sixth column, at the bid price of \$22.54 USD, the entire available supply of allowances is sold and qualified bids at prices below \$22.54 USD cannot be filled (allowance supply remaining is 0).

Hence, the settlement price is \$22.54 (in bold underline in Table 6) and 2,500,000 allowances are sold at a total bid cost of \$56,350,000 USD.

Allowances won by each entity and their respective total bid cost are shown in Table 7. Entity B is awarded 80,000 allowances total. Entity B's second bid of an additional 140,000 allowances was below the settlement price and therefore was not fulfilled. Entity E and Entity F faced a similar situation where their lowest priced bids were below the final settlement prices and not fulfilled.

Table 7: Example 8 Allowances Won and Total Costs

Entity Name	Allowances Won	Total Cost (USD)
A	250,000	\$5,635,000
B	80,000	\$1,803,200
C	245,000	\$5,522,300
D	170,000	\$3,831,800
E	155,000	\$3,493,700
F	0	\$0
G	100,000	\$2,254,000
WA Other Covered	1,500,000	\$33,801,000
Total	2,500,000	\$56,350,000

Example 9: Settlement Price Determination with a Bid Guarantee Limit

This example uses similar bid submissions as the previous example; however the following changes are made to illustrate how changes to bids can result in a different settlement price and outcome:

- The number of allowances available for the auction is increased to 2,650,000. This change increases the purchase limits for all entities as shown in Table 8
- In this example, Entity A bids \$24 for their last bid (rather than \$22.54). Entity A would have needed to submit a bid guarantee that would cover this larger bid value. necessitates the need for a higher bid guarantee. Their lowest bid price of \$24.00 multiplied by their cumulative bid quantity (250,000 allowances) equals \$6,000,000. In order to avoid violating their Bid Guarantee constraint if the settlement price is set by their lowest (\$24) bid, they increase their bid guarantee to \$6,100,000.
- In this example, Entity B's lowest bid is now \$23. Similar to Entity A, Entity B's lowest bid price (\$23) now results in a bid cost of \$5,750,000, which would have surpassed its bid guarantee. Prior to the auction, Entity B have needed to submit a bid guarantee greater than their total bid cost. In example 9 (below), Entity B submits a bid guarantee of \$6,000,000.
- Entity F, on the other hand has decided to significantly reduce their bid guarantee. The result of this is discussed after Table 9.

Table 8: Example 9 Bid Evaluation Data

Entity Name	Purchase Limit (Number of Allowances)	Holding Limit (Number of Allowances)	Guarantee(USD)
A	265,000	3,457,214	\$6,100,000
B	265,000	3,457,214	\$6,000,000
C	265,000	3,457,214	\$13,500,000
D	265,000	3,457,214	\$5,684,774
E	265,000	3,457,214	\$5,817,139
F	265,000	3,457,214	\$10,000
G	106,000	3,457,214	\$5,684,774
WA Other Covered	2,120,000	27,657,712	\$39,500,000

Table 9 compares entity bid guarantees and purchase limits from Table 8 with each entity's maximum bid value and maximum cumulative bid allowances from Table 1. The bid guarantee evaluation (column 4) compares the bid guarantee to the maximum total bid values for each entity. The impact of the changes discussed at the beginning of Example 9 are bolded below.

Table 9: Example 9 Bid Guarantee and Purchase Limit Evaluation

Entity Name	Maximum Total Bid Value (USD)	Bid Guarantee (USD)	Bid Guarantee Evaluation	Entity Cumulative Bid Allowances	Purchase Limit	Purchase Limit Evaluation
A	\$6,000,000	\$6,100,000	OK	250,000	265,000	OK
B	\$5,750,000	\$6,000,000	OK	250,000	265,000	OK
C	\$12,629,750	\$13,500,296	OK	245,000	265,000	OK
D	\$5,683,100	\$5,684,774	OK	170,000	265,000	OK
E	\$5,832,650	\$5,817,139	Insufficient	265,000	265,000	OK
F	\$4,402,000	\$10,000	Insufficient	200,000	265,000	OK
G	\$5,683,100	\$5,684,774	OK	170,000	106,000	Limit Exceeded
WA Other Covered	\$37,500,000	\$39,500,000	OK	1,500,000	2,120,000	OK

Entities E, F, and G submitted bids for which their bid guarantee is insufficient or that exceeded their purchase limit.

Entity E: Entity E's bids are within the purchase limit. However, Entity E's fourth bid exceeds the submitted bid guarantee and is limited to 109,000 allowances if the allowance settlement price equals Entity E's fourth bid price.

Entity F: Entity F's bids are within the purchase limit. However, since Entity F's bid guarantee is small, even one lot of Entity F's bid exceeds the submitted bid guarantee value. Since the Auction Administrator only accepts qualified bids at a minimum volume of 1,000 allowances (one lot), Entity F is limited to zero allowances. $\$10,000 / \$22.01 = 454$ allowances, less than the minimum 1,000 allowances for a qualified bid.

Entity G: Entity G's first bid is within the purchase limit. However, Entity G is a General Market Participant with a smaller purchase limit (4 percent of total auction supply, compared to a 10 percent limit for covered entities). Entity G's second bid for 120,000 allowances exceeds the purchase limit and is limited to 56,000 allowances: $2,650,000$ total auction supply $\times 4\% = 106,000$ allowances, and $106,000$ allowances minus Entity G's first bid for $50,000$ allowances equals $56,000$ allowances. Entity G's bids are within the bid guarantee.

Table 10 shows the calculation of the settlement price determination with an entity's bids limited by the bid guarantee limitation in an auction with 2,650,000 allowances for sale. In this example, the settlement price is \$23.00.

Table 10: Example 9 Settlement Price Determination with a Bid Guarantee Limit

Entity Name	Bid Price (USD)	Submitted Bid Lots	Qualified Bid Allowances (Qualified Bid Lots * 1000 Allowances)	Auction Cumulative Qualified Bid Allowances	Allowance Supply Remaining
C	78.26	25	25,000	25,000	2,625,000
C	70.82	100	100,000	125,000	2,525,000
C	51.55	120	120,000	245,000	2,405,000
A	41.24	40	40,000	285,000	2,365,000
D	39.16	50	50,000	335,000	2,315,000
E	35.86	35	35,000	370,000	2,280,000
G	35.86	50	50,000	420,000	2,230,000
WA Other	\$35.00	700	700,000	1,120,000	1,530,000
A	33.54	55	55,000	1,175,000	1,475,000
D	33.43	120	120,000	1,295,000	1,355,000
G	33.43	120	56,000	1,401,000	1,299,000
E	31.90	50	50,000	1,451,000	1,249,000
B	30.74	80	80,000	1,531,000	1,169,000
WA Other	30.00	300	300,000	1,831,000	869,000
A	28.06	70	70,000	1,901,000	799,000
E	28.06	70	70,000	1,971,000	729,000
WA Other	25.00	500	500,000	2,471,000	229,000
A	24.00	85	85,000	2,556,000	144,000
B	<u>23.00</u>	170	170,000	2,726,000	0
E	22.01	110	110,000	2,836,000	0
F	22.01	200	0	2,836,000	0

The settlement price algorithm is structured to recognize that a bid that is limited by the bid guarantee at a submitted bid price may not be limited as much or limited at all at other potential settlement prices. If a bid quantity is limited by the bid guarantee at the submitted bid price, but could be fulfilled if the settlement price is lower than the submitted bid price, the entity will be awarded allowances up to the bid quantity and the limits of the bid guarantee. However, the settlement price algorithm will not award the entity more allowances than they bid for.

For a Current Auction allowance supply of 2,650,000 allowances, the allowances won by

each entity and their respective total bid cost are shown in Table 11.

Table 11: Example 9 Allowances Won and Total Cost

Entity Name	Allowances Won	Total Cost (USD)
A	250,000	\$5,750,000
B	224,000	\$5,152,000
C	245,000	\$5,635,000
D	170,000	\$3,910,000
E	155,000	\$3,565,000
F	0	\$0
G	106,000	\$2,438,000
WA Other	1,500,000	\$34,500,000
Total	2,650,000	\$60,950,00

Example 10: Tiebreaker Example

The tiebreaker procedure is used when the sum of multiple entities' bid quantities at the settlement price exceeds the remaining supply of allowances available for sale. Accepted bids above the settlement price are awarded allowances equal to their qualified bid(s), and are not impacted by the tiebreaker procedures. During the tiebreaker procedure, each entity that has submitted qualified bids at the settlement price will be awarded allowances based on its share of qualified bids at the settlement price. An entity with a bid-guarantee-limited qualified bid will be included in the tiebreaker if it can purchase additional allowances at the settlement price.

Each entity is awarded allowances based on its share of qualified bids at the settlement price times the number of allowances remaining to be sold, rounded down to the nearest whole allowance. If there are allowances remaining as a result of rounding down, those allowances are awarded to entities by assigning a random number to each entity. The remaining allowances are awarded to entities starting with the lowest assigned random number and proceeding to the next higher random number until all remaining allowances are awarded. Under the tiebreaker procedure, allowances sold to entities in the tiebreaker will not necessarily be in lots of 1,000 allowances.

To illustrate this situation in Example 10, the Entities A and B both submit bids of \$25.00. Like example 9, the quantity of allowances available for sale for this example is still 2,650,000. The bid evaluation data for this example, including bid guarantee amount, purchase limit, and holding limit for each entity is provided in Table 12. To accommodate the higher bid price in this example Entity A and B submitted bid guarantees of \$6,400,000 and \$6,500,000 respectively.

Table 12: Example 10 Bid Evaluation Data

Entity Name	Purchase Limit (Number of Allowances)	Holding Limit (Number of Allowances)	Bid Guarantee (USD)
A	265,000	3,457,214	\$6,400,000
B	265,000	3,457,214	\$6,500,000
C	265,000	3,457,214	\$13,500,000
D	265,000	3,457,214	\$5,684,774
E	265,000	3,457,214	\$5,817,139
F	265,000	3,457,214	\$10,000
G	106,000	3,457,214	\$5,684,774
WA Other Covered	2,120,000	27,657,712	\$39,500,000

Table 13 compares entity bid guarantees and purchase limits from Table 12 with each entity’s maximum bid value and entity cumulative bid allowances from Table 9 (with the exception of Entity A and B’s bid guarantees that are bolded below).

Table 13: Example 10 Bid Guarantee and Purchase Limit Evaluation

Entity Name	Maximum Total Bid Value	Bid Guarantee	Bid Guarantee Evaluation	Entity Cumulative Bid Allowances	Purchase Limit	Purchase Limit Evaluation
A	\$6,250,000	\$6,500,000	OK	250,000	265,000	OK
B	\$6,250,000	\$6,500,000	OK	250,000	265,000	OK
C	\$12,629,750	\$13,500,000	OK	245,000	265,000	OK
D	\$5,683,100	\$5,684,774	OK	170,000	265,000	OK
E	\$5,832,650	\$5,817,139	Insufficient	265,000	265,000	OK
F	\$4,402,000	\$10,000	Insufficient	200,000	265,000	OK
G	\$5,683,100	\$5,684,774	OK	170,000	106,000	Limit Exceeded
WA Other Covered	\$37,500,000	\$39,500,000	OK	1,500,000	2,120,000	OK

Entities E, F and G submitted bids for which their bid guarantee is insufficient or that exceeded their purchase limit. See Example 9’s discussion following Table 9 (above) for an entity-by-entity explanation of how these limits impact the entities’ qualified bids.

Table 14 shows the determination of the settlement price for the allowance supply of 2,650,000 allowances. Again, bids from all entities are ranked from highest bid price to lowest bid price. At \$28.06 USD, there are 679,000 allowances remaining to be sold, but at the next bid price of \$25.00 USD, Entities A, B, and “WA Other” have combined qualified bids for 755,000 allowances. Because Entities A and B increased their bids to \$25, the 755,000 allowances exhaust auction supply at a settlement price of \$25. But only 729,000 allowances are available for the 755,000 qualified bids. The Auction Administrator must implement the tiebreaker procedure to determine the final number of allowances won by Entities A, B, and “WA Other” at the settlement price.

Table 14: Example 10 Settlement Price Determination with a Tiebreaker

Entity Name	Bid Price (USD)	Submitted Bid Lots	Qualified Bid Allowances	Auction Cumulative Qualified Bid Allowances	Allowance Supply Remaining
C	\$78.26	25	25,000	25,000	2,625,000
C	\$70.82	100	100,000	125,000	2,525,000
C	\$51.55	120	120,000	245,000	2,405,000
A	\$41.24	40	40,000	285,000	2,365,000
D	\$39.16	50	50,000	335,000	2,315,000
E	\$35.86	35	35,000	370,000	2,280,000
G	\$35.86	50	34,000	420,000	2,230,000
WA Other	\$35.00	700	700,000	1,120,000	1,530,000
A	\$33.54	55	55,000	1,175,000	1,475,000
D	\$33.43	120	120,000	1,295,000	1,355,000
G	\$33.43	120	56,000	1,351,000	1,299,000
E	\$31.90	50	50,000	1,401,000	1,249,000
B	\$30.74	80	80,000	1,481,000	1,169,000
WA Other	\$30.00	300	300,000	1,781,000	869,000
A	\$28.06	70	70,000	1,851,000	799,000
E	\$28.06	70	70,000	1,921,000	729,000
A	<u>\$25.00</u>	85	85,000	2,556,000	0
B	<u>\$25.00</u>	170	170,000	2,726,000	
WA Other	<u>\$25.00</u>	500	500,000	2,471,000	
E	\$22.01	110	110,000	2,836,000	0
F	\$22.01	200	0	2,836,000	0

Entities A, B, and “WA Other” have 755,000 total bids at the settlement price of \$25.00 (85,000 + 170,000+ 500,000). There are 729,000 allowances remaining after higher-priced qualified bids are filled. The “WA Other”, Entity A and Entity B are sold shares of the 729,000 remaining allowances, with allowance amounts rounded down (see the third and fourth columns in Table 15 for an example of the rounding down). The remaining allowances are awarded based on random number assignments to entities, starting with the lowest random number first. Below is a description of how the tiebreaker ratio is determined and applied in this example.

$$\text{Tiebreaker ratio} = \frac{\text{Allowances remaining}}{\text{Bids at Settlement Price}}$$

$$\text{Tiebreaker ratio} = \frac{729,000}{755,000} = 96.556291\%$$

Table 15: Example 10 Tiebreaker Calculations

Entity Name	Bids at settlement price	Bids multiplied by Tiebreaker ratio	Rounded Down allowances	Random allowances	Total tiebreaker allowances
A	85,000	82,072.8477	82,072	1	82,073
B	170,000	164,145.6954	164,145	1	164,146
WA Other	500,000	482,781.457	482,781	0	482,781
Total	755,000	729,000	728,998	2	729,000

Table 15 shows the tiebreaker calculations. The total number of allowances awarded through this process is 729,000. Two allowances remain to be awarded to the entities with the two lowest random numbers. If Entity A is assigned a random number of 5, “WA Other” is assigned a random number of 200, and Entity B is assigned a random number of 77, one allowance is awarded to Entity A and one allowance is awarded to Entity B.

Allowances won in the tiebreaker are added to the other allowances won at higher prices. For example, Entity A placed three qualified bids above the tiebreaker price that totaled 165,000 allowances. Entity A is awarded all of these allowances. Due to the tiebreaker process that reduces Entity A’s allowances at the settlement price, Entity A is awarded a total of 247,073 allowances (40,000 + 55,000 + 70,000 + 82,072 + 1).

While Entity B could have purchased up to 250,000 allowances at the settlement price of \$25.00, due to the tiebreaker process Entity B is awarded a total of 244,146 allowances (80,000 + 164,145 + 1).

And last, while the other Washington covered entities (WA Other) could have purchased up to 1,500,000 allowances at the settlement price of \$25.00, due to the tiebreaker process “WA Other” is awarded a total of 1,482,781 allowances (700,000 + 300,000 + 482,781 + 0).

Allowances won by each entity and their respective total bid cost are shown in Table 16.

Table 16: Example 10 Allowances Won and Total Cost

Entity Name	Allowances Won	Total Cost (USD)
A	247,073	\$6,176,825
B	244,146	\$6,103,650
C	245,000	\$6,125,000
D	170,000	\$4,250,000
E	155,000	\$3,875,000
F	0	\$0
G	106,000	\$2,650,000
WA Other	1,482,781	\$37,069,525
Total	2,650,000	\$66,250,000

VII. Bid Evaluation in Advance Auction

In the bid evaluation examples provided in this document, the assumption is that bids were submitted for a Current Auction. The bid evaluation process for an Advance Auction is the same, although the bid guarantee available, purchase limits, and holding limits would be different.

Entities submit a single bid guarantee for both the Current Auction and Advance Auction. As shown in Example 2, once the Current Auction settlement price has been determined, the entity's total cost for allowances awarded in the Current Auction (USD settlement price multiplied by number of allowances awarded) will be determined and deducted from the bid guarantee amount, and any bid guarantee amount remaining will be applied to the Advance Auction. It is not possible to provide a separate bid guarantee for the Advance Auction.

Table 17 provides an example of this concept based on Example 10. The fourth column of Table 17 lists the bid guarantees available for the Advance Auction after deducting the total cost of current vintage allowances won in Example 10 (second column of Table 17).

Table 17: Bid Guarantee Available for Advance Auction

Entity Name	Total Cost of Current Vintage Allowances	Total Bid Guarantee	Bid Guarantee Available for Advance Auction (Bid Guarantee minus Current Vintage Cost)
A	\$6,176,825	\$6,400,000	\$223,175
B	\$6,103,650	\$6,500,000	\$396,350
C	\$6,125,000	\$13,500,000	\$7,375,000
D	\$4,250,000	\$5,684,774	\$1,434,774
E	\$3,875,000	\$5,817,139	\$1,942,139
F	\$0	\$10,000	\$10,000
G	\$2,650,000	\$5,684,774	\$3,034,774