



AUCTIONING

German Auctioning of Emission Allowances Periodical Report: August 2013

IMPRINT

German Emissions Trading Authority (DEHSt)
at the Federal Environment Agency
Bismarckplatz 1
14193 Berlin

Phone: +49 (0) 30 8903 5050

Fax: +49 (0) 30 8903 5010

Internet: www.dehst.de/EN

E-mail: emissionstrading@dehst.de

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GERMAN AUCTIONING OF EMISSION ALLOWANCES

The German auctions of the third trading period are held weekly on the European Energy Exchange (EEX) spot market. As the competent authority for German auctions, the German Emissions Trading Authority (DEHSt) at the Federal Environment Agency has commissioned the KfW banking group to act as auctioneer for allowances on behalf of the Federal Government. Further updated information on the third trading period auctions can be downloaded from the [EEX website](#). Reports on the second and third trading period auction results are available on the [DEHSt auction website](#). In December 2012, [the 2013 auction calendar](#), created and coordinated with EEX and the European Commission, was published on the EEX website.

The following table summarises the key data of the German auctions on the EEX in 2013:

| | |
|-----------------------------------|---|
| Auction segment | Third trading period auctions |
| Auction product | Third trading period EUA spot contracts |
| Period | 11/01/2013 to 13/12/2013 |
| Auction frequency | Weekly (Fridays, 09:00 to 11:00 am CET) |
| Auction volume per auction | 4.02 million EUA (2.01 million EUA in August; 3.67 million EUA on 13/12/2013) |
| Bid volume | 500 EUA |
| Auction mode | Single-round, uniform-price procedure with a closed order book |

1 CURRENT DEVELOPMENTS

European Commission announces decision on the allocation amounts and the cross-sectoral correction factor for phase three of the EU Emissions Trading System: No adjustment of existing auction calendars for 2013.

The European Commission has completed its review of the preliminary allocation amounts of all Member States in the European Emissions Trading Scheme (NIMs-lists) and published the decision on 05/09/2013 („[NIMs Decision](#)“). The decision contains the result of the review of all NIMs-lists and the announcement of the budget for the third trading period. The actual number of allowances will be adjusted by the cross-sectoral correction factor to ensure that the total amount handed out for free does not exceed a maximum set in the ETS Directive.

In this context, the estimated auction amounts for the period 2013-2020 have been published. The existing auction calendars of EEX and ICE for 2013 are based on a preliminary estimate by the European Commission made in 2012. The updated figures, however, account for a higher auction amount of around 66 million emission allowances (EUA) than initially assumed in 2012. This difference will be included in the auction calendar of the subsequent year. An adjustment of the existing auction calendars for 2013 will therefore not take place.¹

¹ Further information with respect to auction volumes for 2013 and 2014 is available on the website of the European Commission (section 1 and 2 of the FAQ): http://ec.europa.eu/clima/policies/ets/cap/auctioning/faq_en.htm

2 OVERVIEW

2.1 OVERVIEW FOR AUGUST 2013

According to the requirements of the EU Auctioning Regulation, only half of the regular auctioning amount (2.01 million EUA) per date was auctioned in August. From September on, the auction amount will increase again to 4.02 million EUA. Thus, a total of **10,050,000 EUA** of the third trading period (3rd TP) with a total value of **€44,501,400** were auctioned for Germany at the EEX in August. This results in a volume-weighted average price per allowance of **€4.43**. The deviations of the clearing prices from the current prices on the lead market fluctuated between -0.44 and +0.70 percent (see also Section 4.2).

Overall, valid bids totalling about 43 million allowances were entered in the trading system across the five auction dates. Thus the average cover ratio in the reporting period was 4.26 (see also Section 3.2). The average participation number of 17 bidders was slightly below the level of the previous month (18). This also applies to the averaged number of 11 successful bidders (previously 14) (see also Section 3.1).

The following table gives an overview of the most important auction figures from the auctions performed during the reporting period.

Table 1: Overview of auction data for August 2013

| Date | Contract | Auction volume | Bid volume | Cover ratio | Bidders | Successful bidders | Price | Revenue |
|---------------|----------|-------------------|-------------------|--------------|------------|--------------------|---------------|--------------------|
| 02/08/2013 | Spot | 2,010,000 | 11,389,000 | 5.67 | 19 | 11 | €4.30 | €8,643,000 |
| 09/08/2013 | Spot | 2,010,000 | 8,958,000 | 4.46 | 19 | 14 | €4.48 | €9,004,800 |
| 16/08/2013 | Spot | 2,010,000 | 8,566,000 | 4.26 | 18 | 11 | €4.33 | €8,703,300 |
| 23/08/2013 | Spot | 2,010,000 | 8,503,000 | 4.23 | 15 | 12 | €4.49 | €9,024,900 |
| 30/08/2013 | Spot | 2,010,000 | 5,373,000 | 2.67 | 13 | 9 | €4.54 | €9,125,400 |
| August | | 10,050,000 | 42,789,000 | *4.26 | *17 | *11 | *€4.43 | €44,501,400 |

Source: EEX, DEHSt

* Average

2.2 OVERVIEW OF THE CURRENT YEAR 2013

In the first eight month of 2013 a total of 122,610,000 allowances (EUA) of the third trading period with a total value of **€500,289,000** were auctioned at the EEX for Germany. This results in a volume-weighted average price per allowance of **€4.08**. The amount of emission allowances of the third trading period to be auctioned by Germany in 2013 totals 182,560,500 EUA. This is merely a preliminary estimate made in 2012 by the European Commission. The previously made publication of the European Commission („[NIMs Decision](#)“) on the free allocation amounts in the third trading period allowed for the update of the relevant auctioning amounts for 2013. However the additional volume to be auctioned will only be accounted for in the auctioning calendars for 2014.

This means that around 67 percent of the auction budget for 2013 has been auctioned to date, taking into account the total annual amount. The following table summarises the auction results on a monthly basis.

Table 2: Overview of the current year 2013

| Month | Auction volume | Bid volume | Cover ratio | Bidders | Successful bidders | Price | Revenue |
|--------------|--------------------|--------------------|---------------|------------|--------------------|----------------|---------------------|
| January | 9,045,000 | 23,962,000 | **2.71 | *15 | *12 | **€4.71 | €42,612,000 |
| February | 15,075,000 | 40,245,000 | *2.67 | *16 | *11 | *€4.14 | €62,460,750 |
| March | 20,100,000 | 44,931,000 | *2.24 | *19 | *14 | *€4.12 | €82,862,250 |
| April | 16,080,000 | 33,578,000 | *2.09 | *18 | *11 | *€3.88 | €62,310,000 |
| May | 20,100,000 | 53,848,000 | *2.68 | *18 | *13 | *€3.46 | €69,465,600 |
| June | 16,080,000 | 42,437,000 | *2.64 | *17 | *11 | *€4.29 | €68,983,200 |
| July | 16,080,000 | 43,575,500 | *2.71 | *18 | *14 | *€4.17 | €67,093,800 |
| August | 10,050,000 | 42,789,000 | *4.26 | *17 | *11 | *€4.43 | €44,501,400 |
| Total | 122,610,000 | 325,365,500 | **2.65 | *17 | *12 | **€4.08 | €500,289,000 |

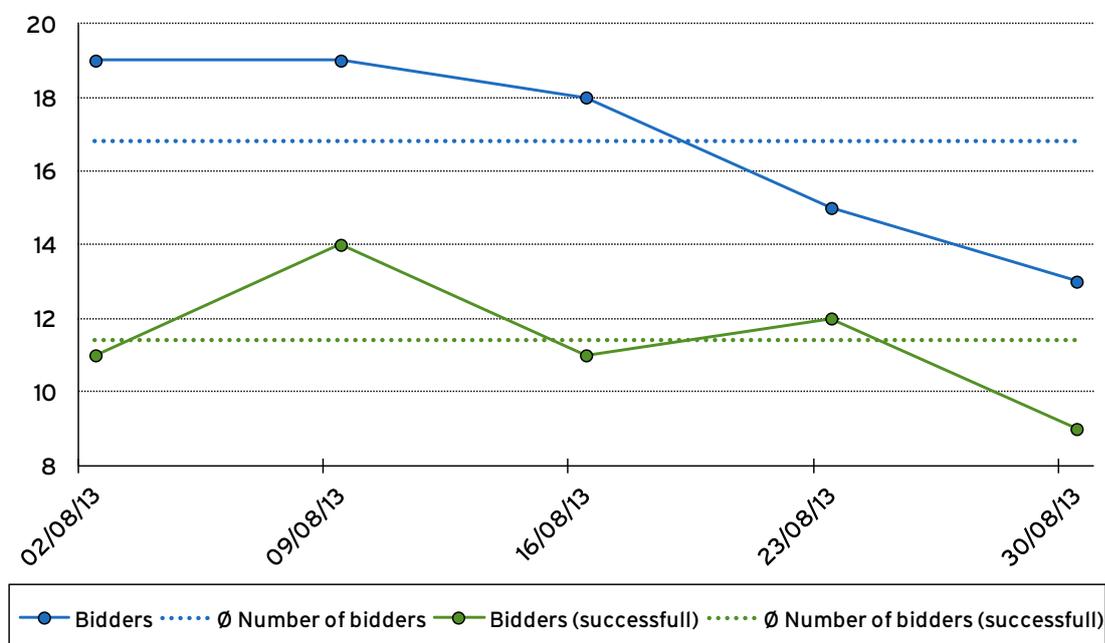
Source: EEX, DEHSt
 * Average
 ** Volume-weighted average

3 BIDDER PARTICIPATION

3.1 PARTICIPATION

The number of participants in the German auctions in August 2013 averaged across all dates was 17 bidders, the number of successful bidders averaged 11. The bidder participation was slightly below the level of the previous month (18 and 14).

Participation in the auctions fluctuated between 13 and 19 bidders during the reporting period. The number of successful participants ranged from 9 to 14 bidders. There was no such auction where all participating bidders were successful. The following figure illustrates auction participation over time.

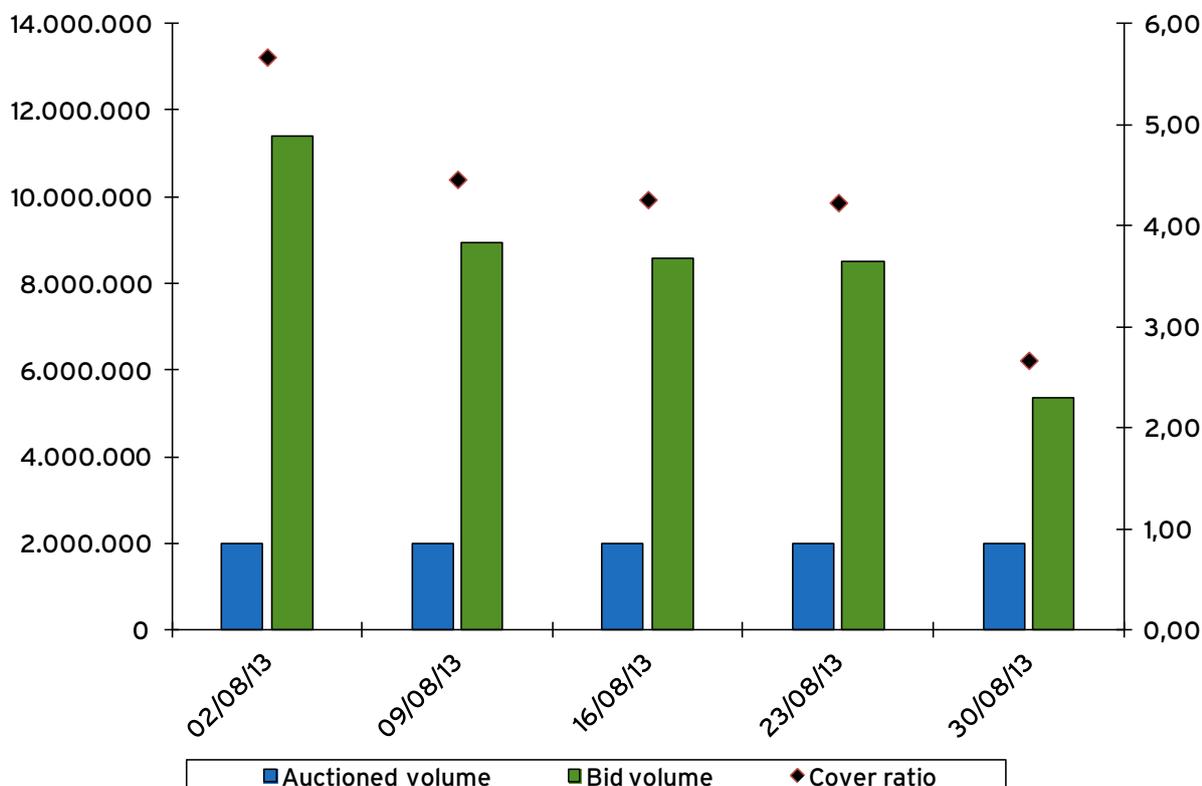


Source: EEX, DEHSt

Figure 1: Number of participating and successful bidders per auction date

3.2 VOLUME DEMAND

During the reporting period, the aggregated bid volumes per auction date fluctuated quite markedly from 5.4 to 11.4 million allowances. Overall, valid bids totaling 42,789,000 allowances were entered in the trading system in August. The resulting cover ratios ranged between 2.67 and 5.67 (4.26 on average). The figure below summarises the results of each auction date.



Source: EEX, DEHSt

Figure 2: Auctioned and bid volume and cover ratio (secondary axis) for each auction date

Thus, the average bid volume per auction participant in August was about 510,000 allowances. The average volume awarded to each successful bidder was about 180,000 allowances. Awarding allowances at the auctions is based on the EU-wide applicable uniform price procedure with one prescribed round of bidding (also see Info box below).

Info Box: Uniform Price Auction at the EEX

The auctions at the EEX follow the uniform price procedure which is common practice throughout the European Union. It involves one round of bidding and a closed order book. This simple and robust procedure protects against market manipulation and was used already for German auctions during the second trading period. The uniform price procedure means that all successful bidders pay the same price. The auction clearing price is determined by ranking all eligible bids, beginning with the highest bid, according to the bidding price.

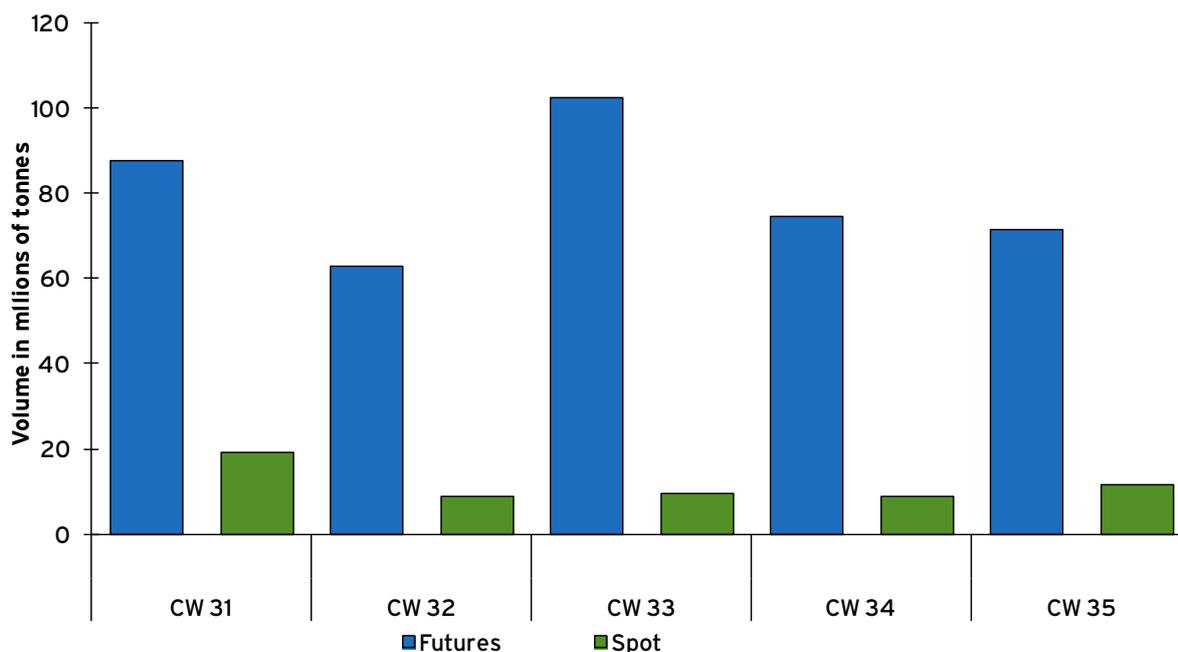
In the event of equal bids, the bids are sorted by a random process. The bid volumes are aggregated starting with the highest bid until the volume of emission allowances on offer (e.g. 4.02 million EUAs) is reached. The bid price at which the aggregate volume of bids reaches or exceeds the offered volume of auctioned allowances determines the auction clearing price.

Bidders will thus be awarded their bid volume if their bidding price at least matches the auction clearing price. If a bid matches the clearing price exactly, the bidder may be awarded the remaining allowances which may be below the volume requested, depending on the bidding situation. If the bid from several participants matches the auction clearing price exactly, the above-mentioned random process applies.

4 AUCTIONS AND THE SECONDARY MARKET

4.1 TRADING VOLUME

In August 2013, a total of 10.05 million EUA of the third trading period were auctioned at the EEX for Germany. During the reporting period, the cumulative trading volume in the relevant total market was about 380 million EUA.² This market volume was divided into approximately 43 million allowances which were completed as contracts for immediate delivery (spot) and about 337 million allowances for delivery in the future (futures). Thus, about 89 percent of the traded volume was handled on the dominant futures market. The figure below illustrates the trading volumes separately for spot and futures segments based on calendar weeks (CW).

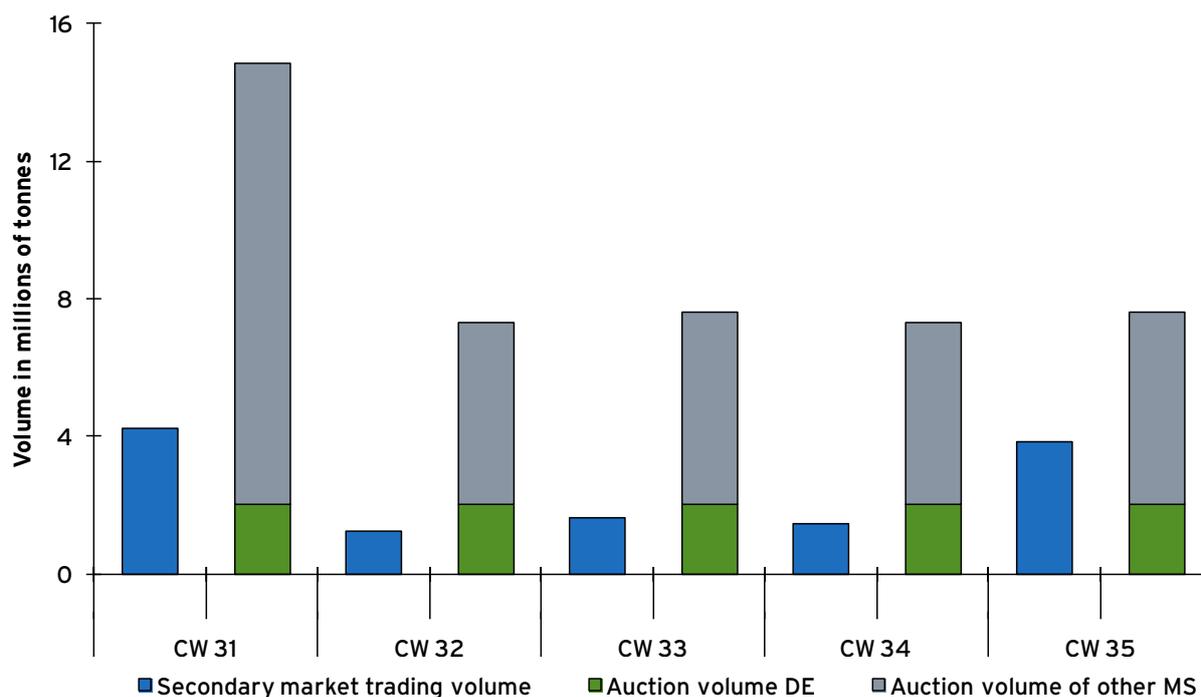


Source: EEX, Thomson Reuters, DEHSt

Figure 3: Trading volumes differentiated by spot and futures in August 2013

In August, a total of about 33 million allowances were auctioned by Member States on the primary market as spot contracts. On the spot secondary market about 10 million allowances were traded. This means that around 77 percent of traded spot contracts have been purchased in primary market auctions. With respect to the relevant total market for EUA, around 9 percent of executed trades were related to auctions. Figure 4 shows the trading volume in the spot secondary market and the auction volumes on the primary market per calendar week (CW). In addition to the German auctions, aggregated auction volumes of other EU Member States are also included in the figure.

² All emission allowances (EUA) of the third trading period traded on the spot and futures markets on the ICE/ECX, CME/NYMEX, EEX and Nasdaq OMX exchanges are considered. Transactions completed directly on the stock exchange (screen traded) or those bilateral transactions that at least used the stock exchange clearing mechanism are included. Option contracts are not involved. The spot contracts auctioned in August 2013 are also considered.



Source: EEX, Thomson Reuters, DEHSt

DE = Germany, MS = EU Member State

Figure 4: Trading volume on the secondary market (spot) and volume of auctions conducted in August 2013

4.2 CLEARING PRICES AND PRICE DEVELOPMENT ON THE SECONDARY MARKET

Reference prices from the most liquid trading venues served as appropriate benchmarks for evaluating the auction clearing prices achieved on the EUA spot auctions. The reference contract for the auctions is the daily futures traded on the London ICE, whose product specifications are comparable with the spot-product of the auctions. The last best bid immediately before the end of the bidding period was used as a reference price (see also Info box below).

Info Box: Reference Prices

In regular exchange trading (secondary trading), participants enter their buying and selling requests (bids and asks) into an order book which is constantly updated. As in auctions, such buying bids in secondary trading include quantity and price limits. The price limit is the highest price a buyer is prepared to pay for the purchase of an allowance. Sellers can also put a price limit on their bid, i.e. a minimum price per allowance sold.

The order book is open to inspection by any participant. It shows the current highest purchase offer (best bid) and the lowest sales offer (best ask) with the relevant quantities. Trading occurs where best bid and best ask overlap. Trading price records finally show the price limits where supply equals demand

Table 3 shows the relative deviations of the clearing price of the London lead market. The deviation from the best bid made on each auction date just before the end of the bidding period (11 a.m. CET) varied over the reporting period between €-0.02 (-0.44%) and €0.03 (+0.70%).

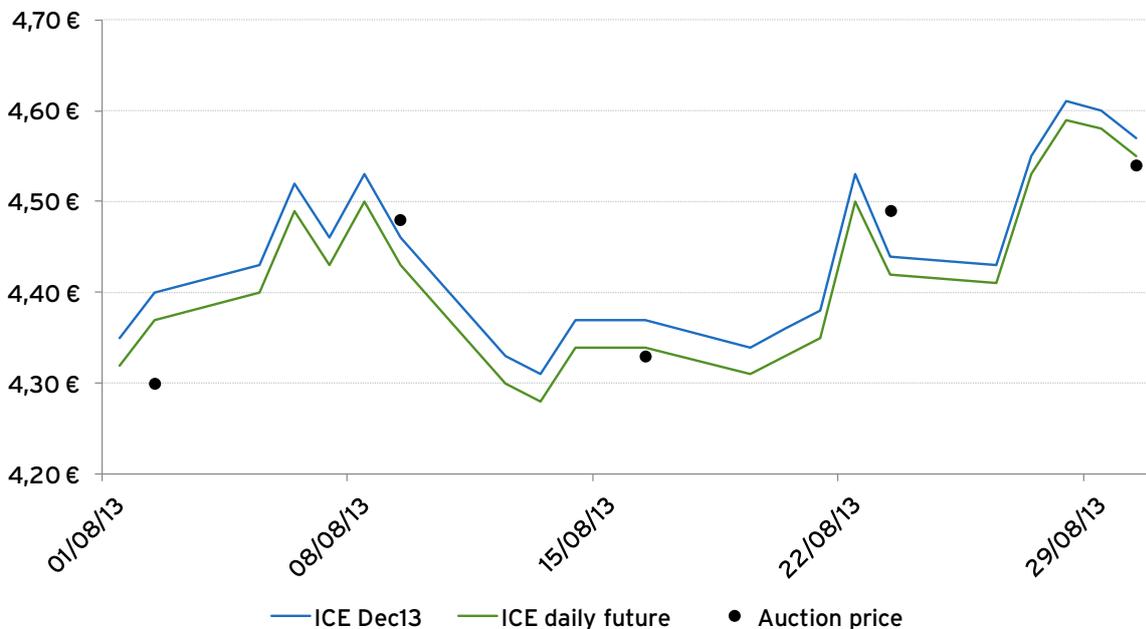
For a mean value analysis, the arithmetic mean of the absolute values of individual deviations over the reporting period is calculated. The average deviation from the last best bid was 0.41 percent or €0.02 averaged over all dates.

Table 3: Auctions and deviations from secondary market prices over the reporting period

| Date | Contract | Clearing price | Deviation from Lead Market | |
|--------------------------------|-----------------|----------------|----------------------------|--------------|
| | | | Best Bid ICE Daily Future | |
| | | | Absolute | % |
| 02/08/2013 | EUA Spot 3rd TP | €4.30 | €0.03 | 0.70% |
| 09/08/2013 | EUA Spot 3rd TP | €4.48 | €-0.01 | -0.22% |
| 16/08/2013 | EUA Spot 3rd TP | €4.33 | €0.01 | 0.23% |
| 23/08/2013 | EUA Spot 3rd TP | €4.49 | €0.02 | 0.45% |
| 30/08/2013 | EUA Spot 3rd TP | €4.54 | €-0.02 | -0.44% |
| Mean absolute deviation | | | €0.02 | 0.41% |

Source: Thomson Reuters, DEHST

The following figure shows an overview of the price development for emission allowances of the third trading period on the London lead market. In addition to the daily futures the development of futures for December delivery of the current year is also shown (so-called „front-year future“)³. The daily London closing prices fluctuated in the reporting period in an interval between around 4.30 to 4.60 euros.



Source: EEX, Thomson Reuters, DEHST

Figure 5: ICE secondary market prices and EEX auction clearing prices

³ The presentation is based on daily closing prices (so-called „settlement prices“), as these are available for the same time and thus a price comparability can be ensured.

5 IMPLEMENTATION OF VALID REGULATIONS

5.1 SURVEILLANCE REPORT BY HÜST

In order to guarantee above-board market activities are free of manipulation on the EEX continuous surveillance is conducted by an independent Market Surveillance Office (Handelsüberwachungsstelle HÜSt) as required under German law. HÜSt reports to the DEHSt on the results of its surveillance activities through regular internal reports. HÜSt reported on auctions in August 2013 as follows (excerpt):

“Within their surveillance for the auctioning of emission allowances on behalf of the Federal Environment Agency at the EEX in August the Market Surveillance Office of the EEX could not detect any irregularities and especially no behaviour of bidders that was targeted at manipulating the auction price.”

5.2 FAIR AND OPEN ACCESS

The implementation of the provisions of the EU Auctioning Regulation guarantees a fair and open access for all auction participants at EEX. Current access options can be found at [EEX Website \(Access\)](#).

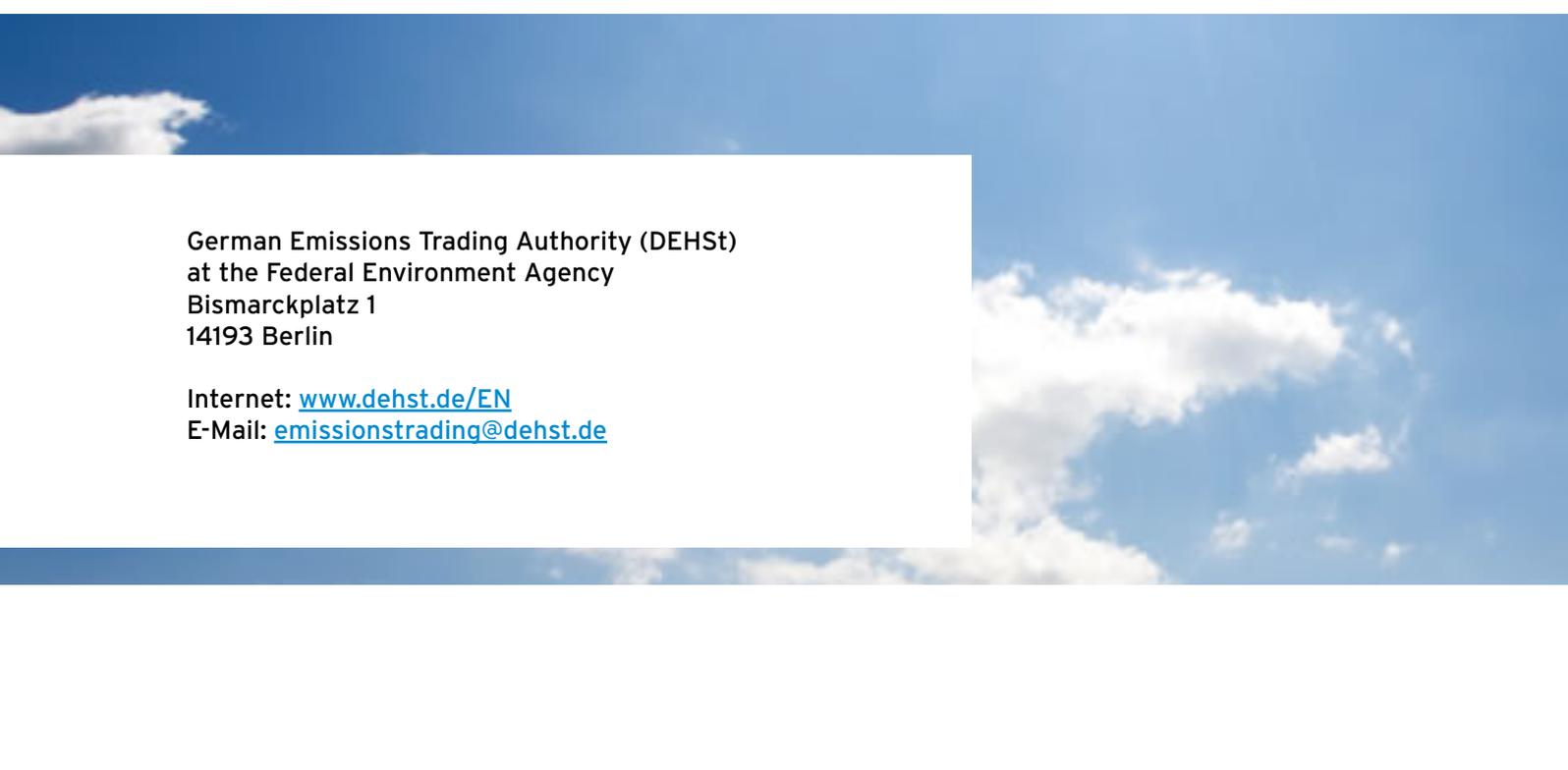
More information about the auction process is also available on the EEX auction hotline. EEX can be reached by phone from Mondays to Fridays from 8:00 a.m. to 6:00 p.m. CET at +49 341 2156-331 or by email at auctions@eex.com.

5.3 AUCTION RESULT PUBLICATION

All auction results and accompanying data were made publicly available during the reporting period within a 15-minute time window directly linked to the respective auction at [EEX Website \(2013 auction results\)](#).

5.4 OTHER EVENTS

There are no other matters relating to the implementation of the existing rules to be reported during the reporting period. The current regulations can be downloaded from [EEX Website \(Regulations\)](#).



German Emissions Trading Authority (DEHSt)
at the Federal Environment Agency
Bismarckplatz 1
14193 Berlin

Internet: www.dehst.de/EN
E-Mail: emissionstrading@dehst.de