



AUCTIONING

German Auctioning of Emission Allowances Periodical Report: Third Quarter 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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Responsible Editors: Section E 2.3

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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. The German Emissions Trading Authority (DEHSt) at the Federal Environment Agency is the competent authority for the German auctions. 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

DEHSt assumes role of the German auctioneer:

On 1 October 2013, the German Emissions Trading Authority (DEHSt) at the Federal Environment Agency has taken over the role of so-called auctioneer in the German auctions on the EEX. The DEHSt now formally acts as a supplier of auctioned allowances and is also responsible for the handling of transactions at the clearing house of EEX (ECC). Thus, DEHSt replaces the KfW Banking Group as auctioneer, which performed this task on behalf of the DEHSt since early 2010.

2 OVERVIEW

2.1 OVERVIEW FOR THE THIRD QUARTER OF 2013

Between July and September **42,210,000 EUA** of the third trading period (3rd TP) with a total value of **€196,417,200** were auctioned for Germany at the EEX. This results in a volume-weighted average price per allowance of **€4.65**. The deviations of the clearing prices from the current prices on the lead market fluctuated between -1.00 and +0.75 percent (see also Section 4.2).

Overall, valid bids totalling about 130 million allowances were entered in the trading system across the thirteen auction dates. Thus the average cover ratio in the reporting period was 3.09 (see also Section 3.2). The average participation number of 18 bidders was at the level of the previous quarter (18). This also applies to the average number of 13 (12) successful bidders (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 the third Quarter 2013

Date	Contract	Auction volume	Bid volume	Cover ratio	Bidders	Successful bidders	Price	Revenue
05/07/2013	Spot	4,020,000	7,480,000	1.86	16	13	€4.40	€17,688,000
12/07/2013	Spot	4,020,000	12,416,000	3.09	17	16	€3.95	€15,879,000
19/07/2013	Spot	4,020,000	13,050,500	3.25	20	14	€4.06	€16,321,200
26/07/2013	Spot	4,020,000	10,629,000	2.64	17	13	€4.28	€17,205,600
July		16,080,000	43,575,500	*2.71	*18	*14	*€4.17	€67,093,800
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
06/09/2013	Spot	4,020,000	7,255,000	1.80	15	11	€5.05	€20,301,000
13/09/2013	Spot	4,020,000	11,394,000	2.83	21	18	€5.37	€21,587,400
20/09/2013	Spot	4,020,000	8,042,000	2.00	23	18	€5.30	€21,306,000
27/09/2013	Spot	4,020,000	17,192,000	4.28	20	15	€5.38	€21,627,600
September		16,080,000	43,883,000	*2.73	*20	*16	*€5.28	€84,822,000
Third Quarter		42,210,000	130,247,500	**3.09	*18	*13	**€4.65	€196,417,200

Source: EEX, DEHSt

* Average

** Volume-weighted average

2.2 OVERVIEW OF THE CURRENT YEAR 2013

In the first nine month of 2013 a total of **138,690,000 allowances (EUA)** of the third trading period with a total value of **€585,111,000** were auctioned at the EEX for Germany. This results in a volume-weighted average price per allowance of **€4.22**. 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 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 76 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
September	16,080,000	43,883,000	*2.73	*20	*16	*€5.28	€84,822,000
Total	138,690,000	369,248,500	**2.79	*18	*13	**€4.22	€585,111,000

Source: EEX, DEHSt

* Average

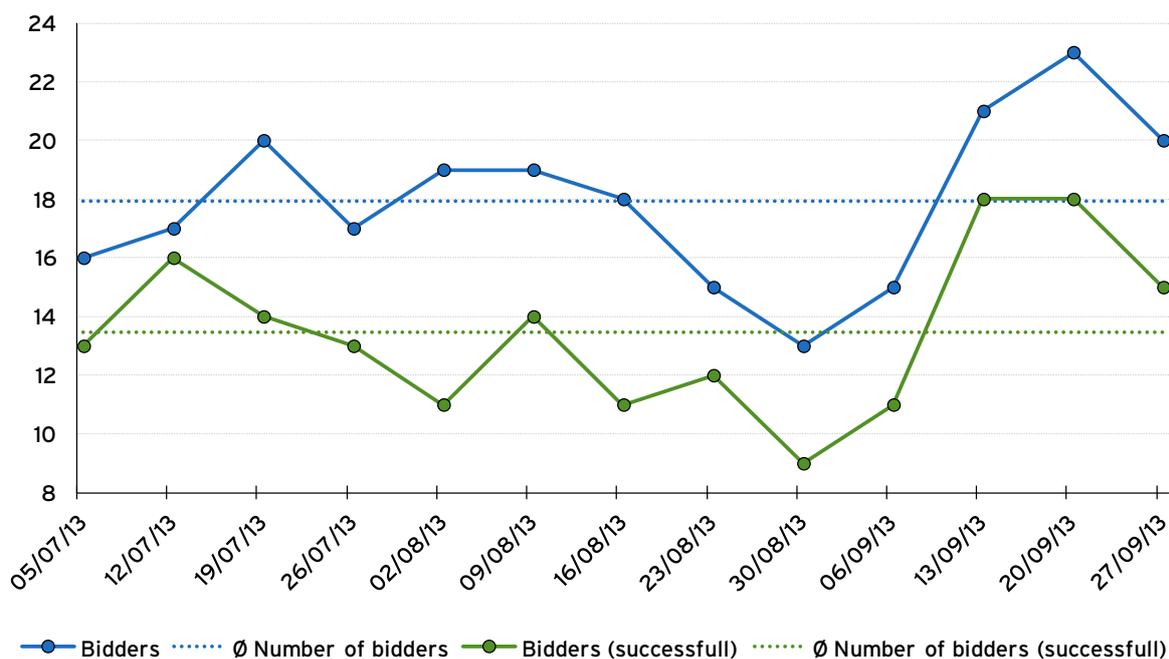
** Volume-weighted average

3 BIDDER PARTICIPATION

3.1 PARTICIPATION

The number of participants in the German auctions in the third Quarter 2013 averaged across all dates was 18 bidders, the number of successful bidders averaged 13. The bidder participation was at the level of the previous quarter (18 and 12).

Participation in the auctions fluctuated between 13 and 23 bidders during the reporting period. The number of successful participants ranged from 9 to 18 bidders. There was no such auction where all participating bidders were successful. Comparatively high bidder participation could be observed in the last three auctions of September. The following figure illustrates auction participation over time.

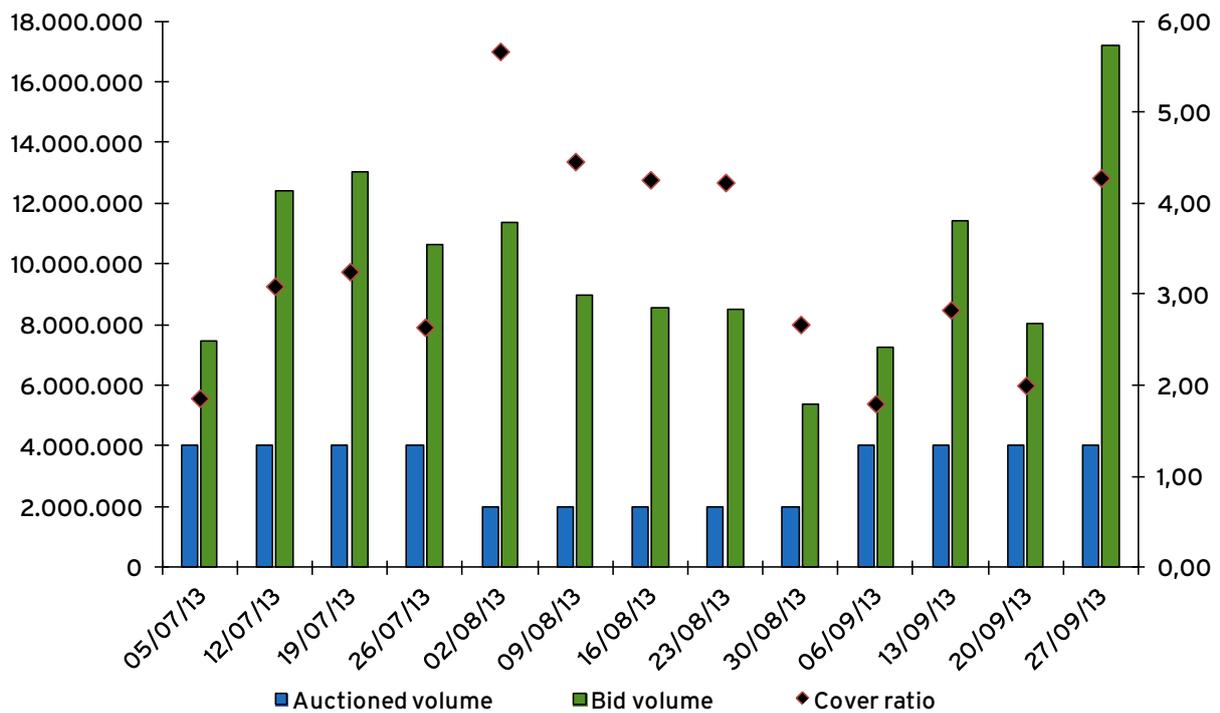


Source: EEX, DEHSt

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 17.2 million allowances. Overall, valid bids totaling 130,247,500 allowances were entered in the trading system in September. The resulting cover ratios ranged between 1.80 and 5.67 (3.09 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 the third Quarter was about 560,000 allowances. The average volume awarded to each successful bidder was about 240,000 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.

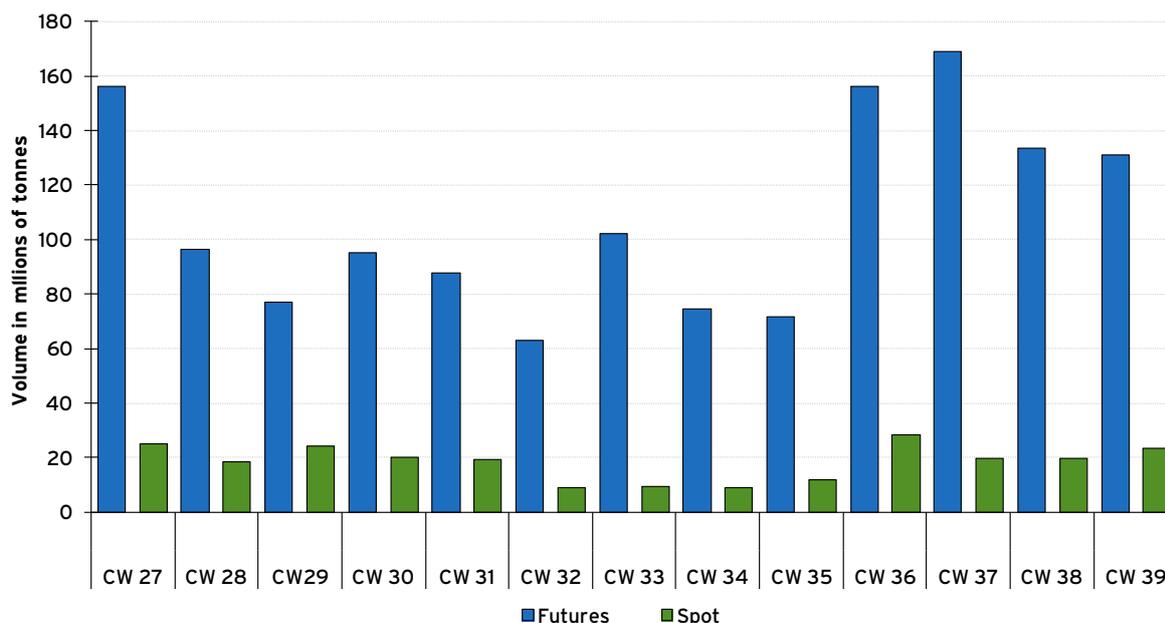
In the event of equal bids, the bids are sorted by a random process. The bid volumes are aggregated starting with the highest bid until the volume of emission allowances on offer (e.g. 4.02 million EUAs) is reached. The bid price at which the aggregate volume of bids reaches or exceeds the offered volume 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 the third Quarter of 2013, a total of 42.21 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 1.7 billion EUA.¹ This market volume was divided into approximately 250 million allowances which were completed as contracts for immediate delivery (spot) and about 1.45 billion allowances for delivery in the future (futures). Thus, about 85 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).



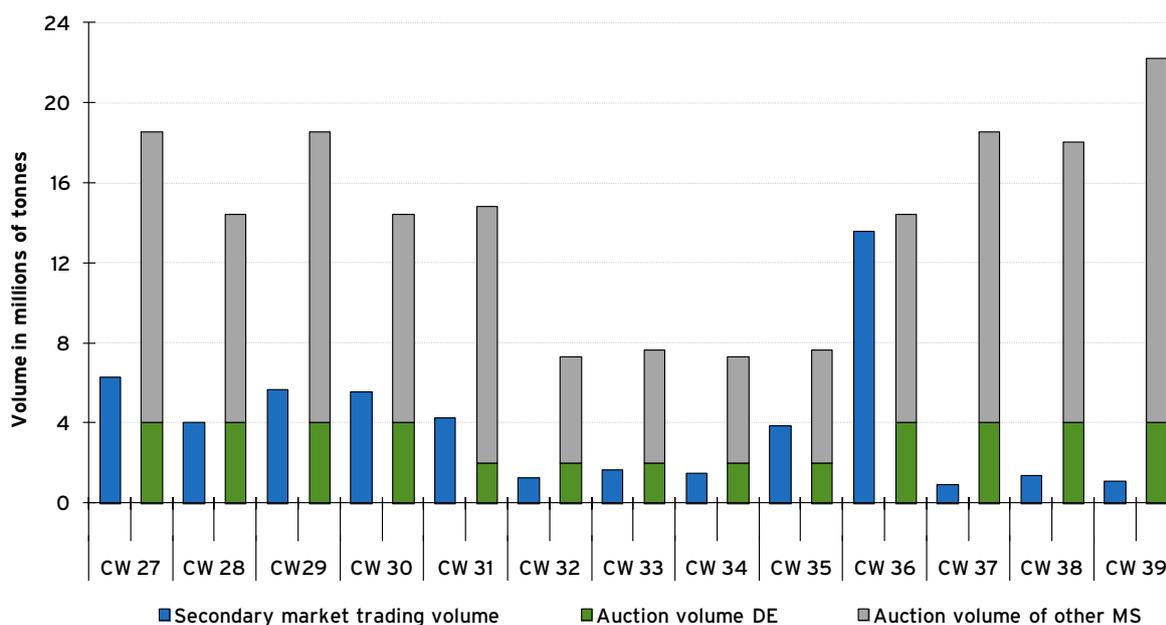
Source: ICE, EEX, CME, Nasdaq OMX, Thomson Reuters, DEHSt

Figure 3: Trading volumes differentiated by spot and futures in the third Quarter 2013

In the third Quarter, a total of about 190 million allowances were auctioned by Member States on the primary market as spot contracts. On the spot secondary market about 60 million allowances were traded. This means that around 76 percent of traded spot contracts have been purchased in primary market auctions. With respect to the relevant total market for EUA, around 11 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.

¹ 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 the third Quarter 2013 are also considered.



Source: ICE, EEX, CME, Nasdaq OMX, Thomson Reuters, DEHSt
 DE = Germany, MS = EU Member State

Figure 4: Trading volume on the secondary market (spot) and volume of auctions conducted in the third Quarter 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 €-0.04 (-1.00%) and €0.04 (+0.75%).

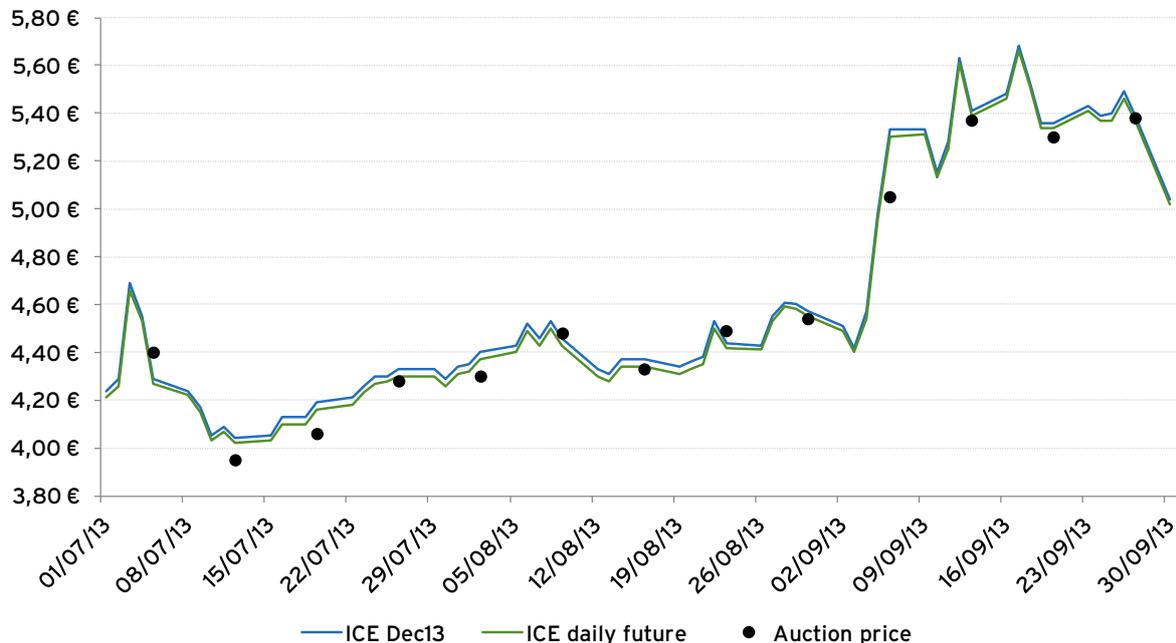
For a mean value analysis, the arithmetic mean of the absolute values of individual deviations over the reporting period is calculated. The average deviation from the last best bid was 0.42 percent or €0.02 averaged over all dates.

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	%
05/07/2013	EUA Spot 3rd TP	€4.40	€-0.01	-0.23%
12/07/2013	EUA Spot 3rd TP	€3.95	€-0.04	-1.00%
19/07/2013	EUA Spot 3rd TP	€4.06	€-0.01	-0.25%
26/07/2013	EUA Spot 3rd TP	€4.28	€-0.02	-0.47%
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%
06/09/2013	EUA Spot 3rd TP	€5.05	€-0.03	-0.59%
13/09/2013	EUA Spot 3rd TP	€5.37	€0.00	0.00%
20/09/2013	EUA Spot 3rd TP	€5.30	€-0.01	-0.19%
27/09/2013	EUA Spot 3rd TP	€5.38	€0.04	0.75%
Mean absolute deviation			€0.02	0.42%

Source: ICE, EEX, 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“)². The daily London closing prices fluctuated in the reporting period in an interval between around 4.00 to 5.70 euros.



Source: ICE, EEX, Thomson Reuters, DEHSt

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

² 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 the third Quarter of 2013 as follows (excerpt):

“Within their surveillance for the auctioning of emission allowances on behalf of the Federal Environment Agency at the EEX in July, August and September 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 \(Access\)](#).

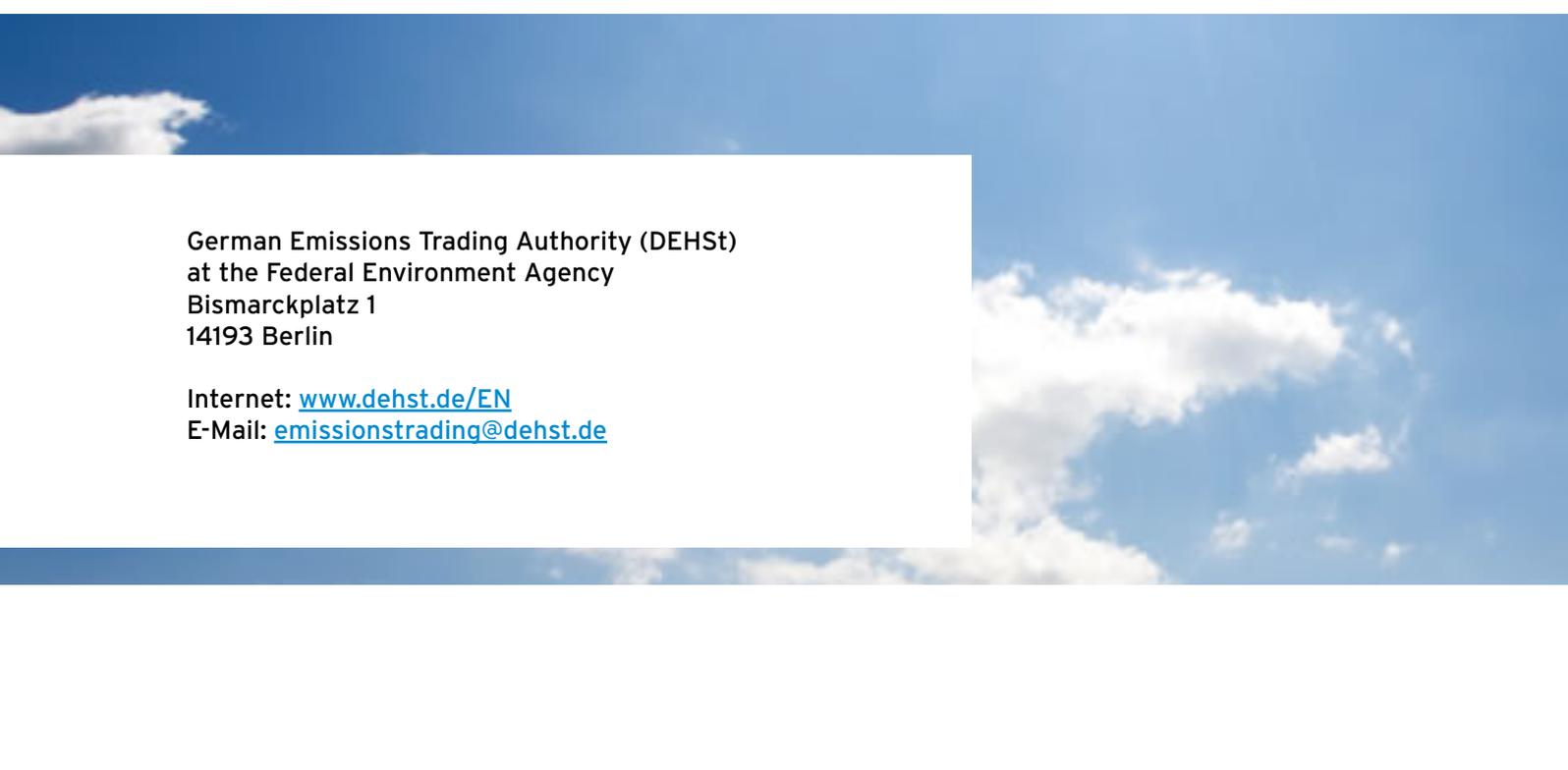
More information about the auction process is also available on the EEX auction hotline. EEX can be reached by phone from Mondays to Fridays from 8:00 a.m. to 6:00 p.m. CET at +49 341 2156-331 or by email at auctions@eex.com.

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 has been reported one minor technical incident to DEHSt in July. The smooth and successful execution of the auctions had not been at risk. No other matters relating to the implementation of the existing rules are to be reported. 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