



March 2010

## **THE AUCTIONING OF EMISSION ALLOWANCES IN GERMANY**

**Periodical Report February 2010**

## Imprint

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## 1. REPORT: FEBRUARY 2010

From January 2010, the Federal Republic of Germany puts up an annual amount of 40 million emission allowances (EUAs) for auctioning. In 2010 and 2011 auctions are held weekly at the European Energy Exchange (EEX) in Leipzig. Further information on terms and conditions of participation is available on the EEX website<sup>1</sup>

### 1.1. Market Surveillance report by HÜSt

In order to guarantee the integrity of the EEX market, it is continuously monitored by an autonomous and independent market surveillance body (HÜSt) in line with German legal requirements. The market surveillance body HÜSt reported to DEHSt on the auctions of February 2010:

“The auctions of emission certificates at the EEX on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in February 2010 took place following the defined procedure and without any disturbances. For this period, the Market Surveillance of the EEX could not detect any irregularities, and especially no behaviour of bidders that aims at manipulating the auction price.”

### 1.2. Overview

In February 2010, a total of 3,480,000 emission allowances (EUAs) with a total value of 45,167,700 Euros were auctioned. The volume-weighted average revenue per allowance amounted to 12.98 Euros. As in January, four auctions took place on the spot market and four on the futures market, which fulfils the legal requirements.

Of the total auction volume, 2,280,000 allowances with a value of 29,702,700 Euros (average price 13.03 Euros) were auctioned as futures contracts (MidDec2010), and 1,200,000 emission allowances with a value of 15,465,000 Euros (average price 12.89 Euros) were sold at spot market auctions.

Over the eight auction dates, bids for a total of 19,970,000 emission allowances were entered. Thus, the aggregated bidder demand in February exceeded supply by a factor of 5.74. The amount auctioned was distributed among 23 successful bidders.

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<sup>1</sup> <http://www.eex.com/en/EEX/Products%20%26%20Fees/EUA%20Primary%20Market%20Auction>

A total of 60 bidders took part in the auctions in February. Due to the possibility that single bidders take part in more than one auctioning date, the total number of bidders and the number of different trading participants are not necessarily the same.

Date	Contract	Number of Bidders	Total Amount of Bids	Auction Volume	Cover Ratio	Auction Clearing Price	Revenue
02.02.2010	Spot	8	1,985,000	300,000	6.62	12.46 €	3,738,000 €
03.02.2010	Future	9	3,045,000	570,000	5.43	12.75 €	7,267,500 €
09.02.2010	Spot	7	1,531,000	300,000	5.10	13.47 €	4,041,000 €
10.02.2010	Future	6	1,820,000	570,000	3.19	13.32 €	7,592,400 €
16.02.2010	Spot	8	1,576,000	300,000	5.25	13.00 €	3,900,000 €
17.02.2010	Future	7	2,860,000	570,000	5.02	13.03 €	7,427,100 €
23.02.2010	Spot	6	1,541,000	300,000	5.14	12.62 €	3,786,000 €
24.02.2010	Future	9	5,612,000	570,000	9.85	13.01 €	7,415,700 €
<b>February</b>		<b>60</b>	<b>19,970,000</b>	<b>3,480,000</b>	<b>5.74</b>	<b>12.98 € *</b>	<b>45,167,700 €</b>
<b>January to February</b>		<b>145</b>	<b>46,478,000</b>	<b>6,960,000</b>	<b>6.68</b>	<b>13.02 € *</b>	<b>90,608,400€</b>

\* Volume-weighted average revenue

Tab. 1: Overview for the Month of February 2010

### 1.3. Auctions and the Secondary Market

The emission allowances auctioned in February amounted to 3.48 million, compared to an accumulated volume of 279 million allowances traded on the secondary market<sup>2</sup>. Thus, the German auctions had an average proportion of 1.234 percent of the total relevant market. The weekly proportion of futures auctions fluctuated only marginally between 0.895 and 1.086 percent (average 0.981 percent). In the spot market, the correspondent average proportion was no more than 2.422 percent.

<sup>2</sup> This review refers to transactions for immediate realisation (spot market) and futures contracts that are due in December 2010, which are traded on the exchanges ECX, BlueNext, EEX, Climex and NordPool. It includes transactions that were concluded at the exchange (screen traded) or bilateral transactions that made use of the clearing mechanisms of the exchange. Options and futures contracts with different maturities have not been taken into account.

**Note:** NordPool trading data were not included in the January report. By including NordPool, the German auctions in January had an proportion of 1.186 percent of the total relevant market. The weekly average proportion in the spot market was 2.622 percent and 0.912 percent in the futures market.

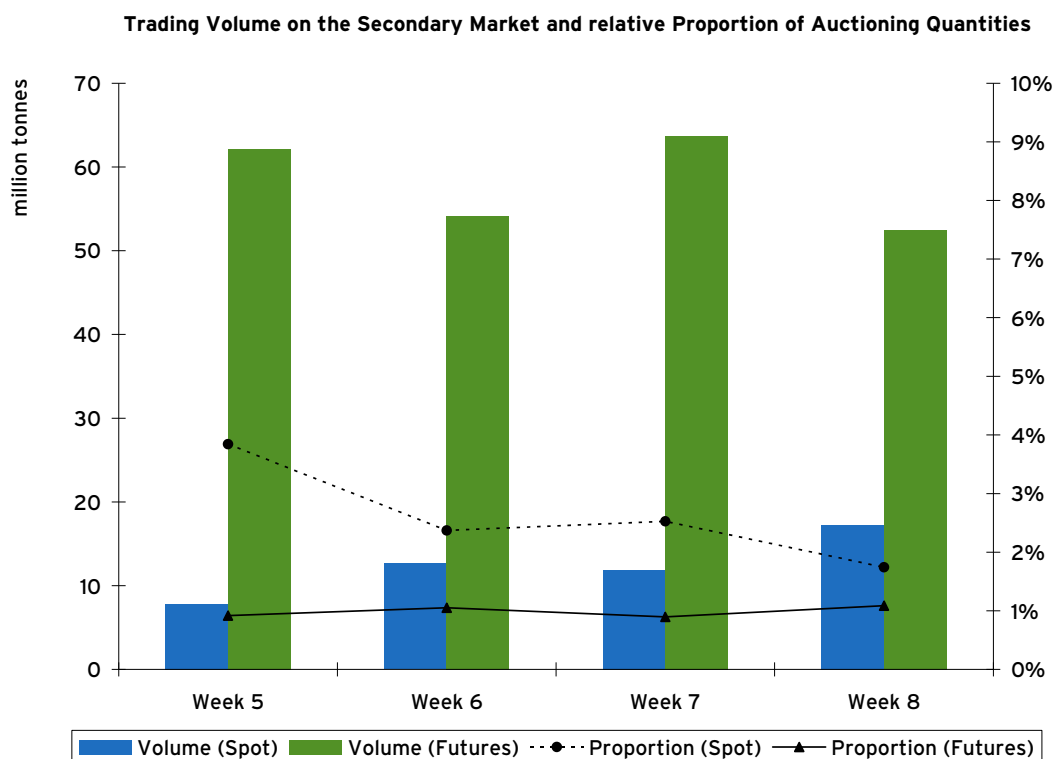


Fig. 1: Auctions and Trading Volumes on the Secondary Market in February 2010

Just as in January, the clearing prices achieved in February clearly showed that the auctions were executed almost in sync with the market as a whole. Reference prices of the most liquid secondary markets provide suitable benchmarks<sup>3</sup>. Table 2 shows the relative deviations from best bid<sup>4</sup> and last trade on the lead markets before the end of the bidding window<sup>5</sup>.

<sup>3</sup> The lead market for the auctioning of the futures contract MidDec10 is the Dec10 Future traded at the London ECX. For spot market auctions, the reference market is the BlueNext EUA spot market.

<sup>4</sup> The best bid is the highest in the current order book.

<sup>5</sup> When comparing auctions with secondary markets, it must be taken into account that in auctions, relatively large quantities of allowances are sold in a single bid. The indicators best bid and last trade normally refer to smaller volumes than those in auctions.

Date	Contract	Auction Clearing Price	Deviation from Lead Market	
			Best Bid	Last Trade
02.02.2010	Spot	12.46 €	-0.320%	-0.240%
03.02.2010	Future	12.75 €	0.078%	0.000%
09.02.2010	Spot	13.47 €	0.000%	-0.222%
10.02.2010	Future	13.32 €	-0.225%	-0.225%
16.02.2010	Spot	13.00 €	-0.154%	-0.077%
17.02.2010	Future	13.03 €	0.000%	-0.153%
23.02.2010	Spot	12.62 €	-0.158%	**
24.02.2010	Future	13.01 €	0.000%	0.000%
<b>February</b>		<b>12.98 € *</b>	<b>-0.078%</b>	<b>-0.119%</b>
<b>January to February</b>		<b>13.02 € *</b>	<b>-0.045%</b>	<b>-0.139%</b>

\* Volume-weighted average revenue

\*\* No trading activity during the last 10 minutes of the bidding window

Tab. 2: Auctions and Deviations from the Secondary Market in February 2010

The average deviation of clearing prices for futures contracts from the lead market reference price (best bid) was -0.037 percent. In spot market auctions, the average deviation from the reference price was -0.158 percent. The range of deviation per auction date was between -0.320 and +0.078 for both markets. The volume-weighted average for February was as low as -0.078 percent. On three out of eight dates, the auction clearing price was identical with the best bid of the reference market.

When comparing clearing prices with last trade settlement prices, the average deviation was -0.094 percent for futures contracts and -0.180 percent for spot market auctions. Thus the volume-weighted average for February was -0.119 percent for both markets. On two dates, the last trade exactly matched the auctioning clearing price.

## Participation, Schedule and Procedure

Weekly auctions of futures or spot contracts at EEX are part of regular exchange trading. Participation is possible either directly for EEX members or indirectly via a broker or as customers of an EEX member. This ensures that small and medium-sized enterprises that have no dedicated trading department can also benefit from the auctions. Existing exchange members who do their trading already via EEX can participate in the weekly auctions with no extra effort or cost.

In 2010 and 2011, 300,000 allowances for immediate delivery (spot contract) are auctioned every Tuesday and 570,000 allowances to be delivered by December of the current year (futures contract) are auctioned every Wednesday. From November every year, 870,000 allowances per week of the remaining allowances are auctioned on the spot market. The auction dates can be found on the EEX auction calendar:

[http://www.eex.com/en/document/70561/2009\\_12\\_15\\_BMU%20Auction%20Calendar001.pdf](http://www.eex.com/en/document/70561/2009_12_15_BMU%20Auction%20Calendar001.pdf)

The auctioning procedure is laid out in the Emissions Trading Auctioning Ordinance 2012 (EHVV 2012). A single-round uniform price method is used in the auctions. All successful bidders pay the same price. As auctions are conducted with a closed order book, each bidder can only see his own bids. In auctions on the spot market, the minimum bid amount is 500 allowances, on the derivatives market 1,000 allowances.