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THE AUCTIONING OF EMISSION ALLOWANCES IN GERMANY

Periodical Report: April 2010

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1. REPORT: APRIL 2010

Since January 2010, the Federal Republic of Germany has been offering an annual amount of 40 million emission allowances (EUAs) for auctions. In 2010 and 2011 auctions will be held weekly at the European Energy Exchange (EEX) in Leipzig. The German Emissions Trading Authority (DEHSt) at the Federal Environment Agency has commissioned the KfW Banking Group, to act for the Federal Government as a vendor of the emission allowances. Further current information regarding the terms and conditions of participating in the bid proceeding are available on the EEX website¹. Older periodic reports are available on the DEHSt auction page².

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 April 2010:

“The auctions of emission allowances at the EEX on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in April 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 CF: <http://www.eex.com/en/EEX/Products%20%26%20Fees/EUA%20Primary%20Market%20Auction>

² CF: http://www.dehst.de/cln_162/nn_484552/EN/EmissionsTrading/Auctioning/Auctioning_node.html?_nnn=true

Participation, Schedule and Procedure

Weekly auctions of futures and 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 customer 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 quantity 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

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 futures market 1,000 allowances.

1.2. Overview

In April 2010, a total of 3,480,000 emission allowances (EUAs) with a total value of 49,459,200 Euros were auctioned. The volume-weighted average revenue per allowance amounted to 14.21 Euros. As between January and March, legal requirements have been fulfilled with four auctions on the spot market and four on the futures market.

Of the total auction volume, 2,280,000 allowances with a value of 32,581,200 Euros (average price 14.29 Euros) were auctioned as futures contracts (MidDec2010), and 1,200,000 emission allowances with a value of 16,878,000 Euros (average price 14.07 Euros) were sold at spot market auctions.

Table 1: Overview for the Month of April 2010

Contract	Dates	Number of Bidders	Total Number of Bids	Auction Volume	Cover Ratio	Auction Clearing Price	Revenues
Spot	4	36	9,554,000	1,200,000	7.96	14.07 €*	16,878,000 €
Future	4	29	21,753,000	2,280,000	9.54	14.29 €*	32,581,200 €
Spot + Future	8	65	31,307,000	3,480,000	9.00	14.21 €**	49,459,200 €

* Period Average

** Volume-weighted average revenue

Over the eight auction dates, bids for a total of 31,307,000 emission allowances were entered. Thus, the aggregated bidder demand in April exceeded supply by a factor of 9.00. The amount auctioned was distributed among 26 successful bidders. A total of 65 bidders took part in the auctions in April. 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.

Table 2: Overview for the Dates of April 2010

Date	Contract	Number of Bidders	Total Amount of Bids	Auction Volume	Cover Ratio	Auction Clearing Price	Revenues
06.04.2010	Spot	9	2,446,000	300,000	8.15	12.98 €	3,894,000 €
07.04.2010	Future	9	4,465,000	570,000	7.83	13.34 €	7,603,800 €
13.04.2010	Spot	10	2,401,000	300,000	8.00	13.39 €	4,017,000 €
14.04.2010	Future	7	5,211,000	570,000	9.14	14.03 €	7,997,100 €
20.04.2010	Spot	9	2,686,000	300,000	8.95	14.59 €	4,377,000 €
21.04.2010	Future	8	6,721,000	570,000	11.79	14.59 €	8,316,300 €
27.04.2010	Spot	8	2,021,000	300,000	6.74	15.30 €	4,590,000 €
28.04.2010	Future	5	5,356,000	570,000	9.40	15.20 €	8,664,000 €
April		65	31,307,000	3,480,000	9.00	14.21 €*	49,459,200 €
January to April		280	96,664,000	14,790,000	6.54	13.29 €*	196,552,800 €

* Volume-weighted average revenue

1.3. Auctions and the Secondary Market

The emission allowances auctioned in April amounted to 3.48 million, compared to an accumulated volume of 489 million allowances traded on the secondary market³. Thus, the German auctions had an average proportion of 0.711 percent of the total relevant market. The weekly proportion of futures auctions fluctuated between 0.401 and 0.720 percent (average 0.557 percent). In the spot market, the correspondent average proportion was no more than 1.499 percent.

³ This review refers to transactions for immediate realisation (spot market) and futures contracts with maturity 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.

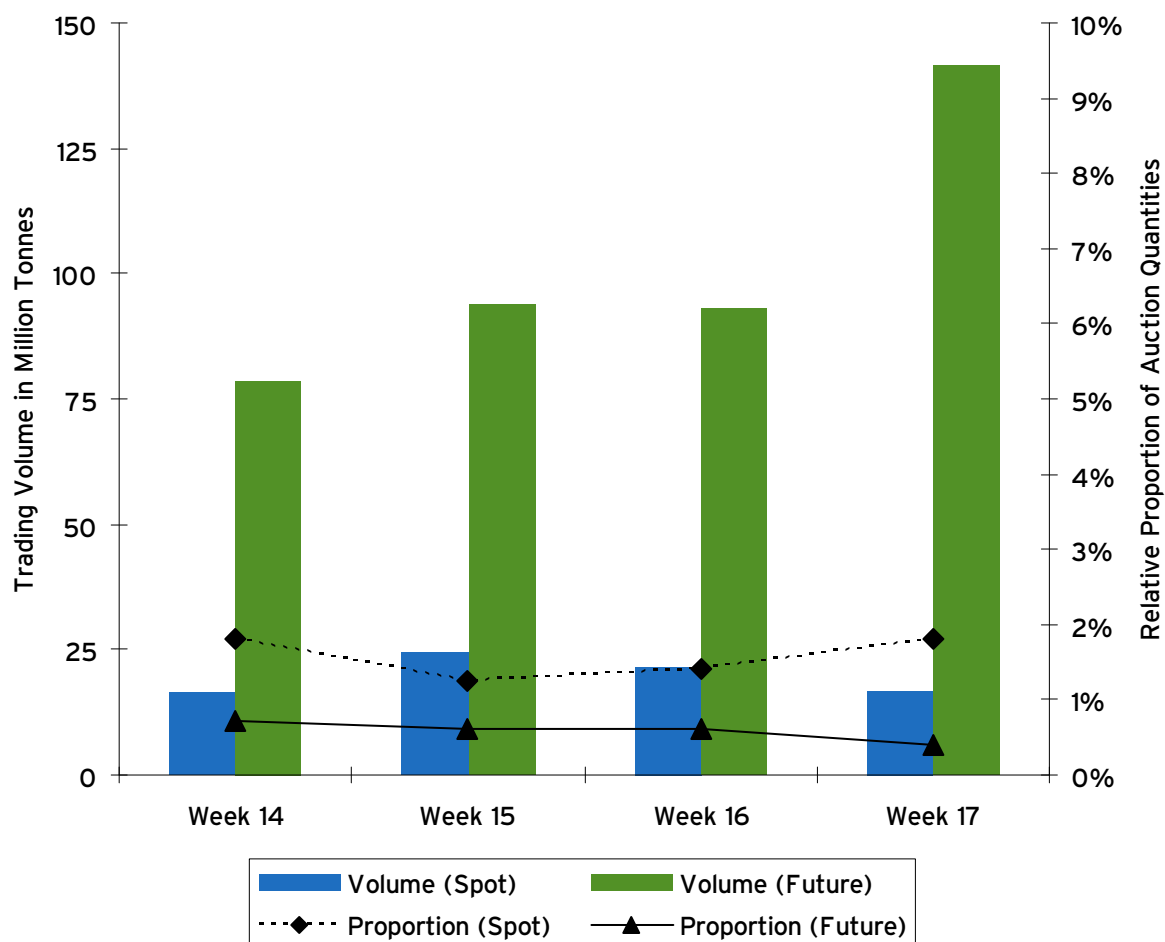


Figure 1: Auctions and Trading Volumes on the Secondary Market in April 2010

Reference prices of the current most-liquid trading venues served as appropriate benchmarks for the evaluation of the clearing prices achieved in April. The reference contract for the auction of futures contracts MidDec10 is the Dec10 Future traded at the London ECX. The BlueNext EUA Spot market is used for the spot auctions.

Table 3 shows the relative deviations of the clearing prices in the spot and futures auctions from each lead market directly before the end of the bidding phase. The last completed trade (Last Trade) and the last valid purchase bid (Last Best Bid⁴) will be used as reference prices. When comparing individual trades or purchase bids of the secondary market with the auction results, one must keep squarely in mind that relatively large quantities were offered for sale in the

⁴ The best bid is the purchase bid with the current highest bid price in the order book.

auctions in a single bid. The indicators used, Best Bid and Last Trade, usually refer to smaller volumes than those in the auctions.

The average deviation of clearing prices for futures contracts from the lead market reference price in London (best bid) was -0.105 percent. In spot market auctions, the average deviation from the reference price in Paris was -0.143 percent. The range of deviation per auction date was between -0.326 and 0.000 for both markets. The volume-weighted average for April was as low as -0.118 percent. On one 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 -0.229 percent for futures contracts and -0.187 percent for spot market auctions. Thus the volume-weighted average for April was -0.236 percent for both markets.

Table 3: Auctions and Deviations from the Secondary Market in April 2010

Date	Contract	Auction Clearing Price	Deviation from Lead Market	
			Last Best Bid	Last Trade
06.04.2010	Spot	12.98 €	-0.154%	**
07.04.2010	Future	13.34 €	-0.075%	-0.299%
13.04.2010	Spot	13.39 €	-0.224%	-0.224%
14.04.2010	Future	14.03 €	-0.142%	-0.213%
20.04.2010	Spot	14.59 €	0.000%	-0.205%
21.04.2010	Future	14.59 €	-0.137%	-0.273%
27.04.2010	Spot	15.30 €	-0.196%	-0.326%
28.04.2010	Future	15.20 €	-0.066%	-0.131%
April		14.21 €* 	-0.118%	-0.236%
January to April		13.29 €* 	-0.091%	-0.187%

* Volume-weighted average revenue

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