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

**Periodical Report: May 2011**

## Imprint

### Publisher:

German Emissions Trading Authority (DEHSt)

at the Federal Environment Agency

Bismarckplatz 1

14193 Berlin

Telephone: +49 (0)30 89 03-50 50

Fax: +49 (0)30 89 03-50 10

[www.dehst.de/EN](http://www.dehst.de/EN)

E-Mail: [emissionshandel@dehst.de](mailto:emissionshandel@dehst.de)

Editors: Section E 2.3

## 1 REPORT: MAY 2011

Since January 2010, the Federal Republic of Germany offers an annual total of 40 million emission allowances (EUA) for auctioning. Between 2010 and 2012 the auctions are held weekly at the spot and futures markets of the European Energy Exchange (EEX) in Leipzig (see info box below). The German Emissions Trading Authority (DEHSt) has commissioned the state-owned bank KfW Bankengruppe to act as vendor (seller) of allowances at the EEX on behalf of the Federal Government. Further updated information on terms and conditions of participation is to be found on the EEX website<sup>1</sup>. Previous periodical reports are available on the auctioning website of the DEHSt<sup>2</sup>.

### Info Box: Participation, Deadlines 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 a client of an EEX member. This ensures that small and medium-sized enterprises that have no dedicated trading department can also benefit from the auctions. Exchange members already admitted to emissions trading on the EEX can participate in the weekly auctions at no cost or fixed charges

From 2010 to 2012, auctions will be held on separate dates between January and October - 300,000 allowances for immediate delivery (spot contract) are auctioned on Tuesdays and 570,000 for delivery by December (futures) are auctioned every Wednesday. From November of each year, 870,000 allowances will be auctioned weekly on the spot market. The dates of auction are published in the EEX Auction Calendar: [European Energy Exchange Auction Calendar 2011](#)

The auction procedure is broadly laid down in the Ordinance on the Auctioning of Emission Allowances (Emissionshandels-Versteigerungsverordnung, EHVV 2012). A single-round, uniform-price procedure is applied at auctions. All successful bidders pay the same price. Auctions are conducted with a closed order book, and each bidder can only see his own bids. The minimum bid is 500 allowances in auctions on the spot market and 1,000 allowances in auctions on the futures market.

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<sup>1</sup>Vgl.: [European Energy Exchange: EUA-Primary Market Auction](#)

<sup>2</sup>Vgl.: [DEHSt - Reports by DEHSt on the Auctioning of EU Allowances in Germany](#)

## 1.1 Market Surveillance Report by HÜSt

In order to guarantee above-board market activities 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 in regular internal reports on the results of its surveillance activities. HÜSt reported as follows on auctions in May 2011 (Excerpt):

*„The auctions of emission allowances at the EEX on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in May 2011 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 behavior of bidders that aims at manipulating the auction price“*

## 1.2 Overview May 2011

In May 2011, a total of 3,780,000 emission allowances (EUAs) with an overall value of €62,977,500 were auctioned. This is equivalent to a volume-weighted revenue per allowance of €16.66. Of the total amount of allowances auctioned, 2,280,000 allowances with a value of €38,047,500 (average price €16.69) were futures contracts (MidDec2011), while 1,500,000 emission allowances worth €24,930,000 (average price €16.62) were sold at spot-market auctions.

Over the nine auction dates in May, bids for a total of 44,121,000 allowances were entered into the trading system. The quantity to be auctioned was thus oversubscribed by a factor of 11.67. In total, 50 bidders participated in the May auctions.<sup>3</sup>

The following Table 1 gives an overview of the most important auction parameters for the individual dates of the reporting period. Table 2 summarizes the relevant parameters for the current year 2011 on a monthly basis.

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<sup>3</sup> As trading participants are allowed to enter bids on several successive dates, the number of participating and successful bidders does not necessarily reflect the true number of different parties taking part in auctions over the reporting period. It must also be taken into account that bidders were able to participate indirectly via intermediaries such as banks and financial service providers, which is not reflected in the quoted number of participants. Numbers only include trading participants acting as intermediaries, not indirect third-party bidders.

Table 1: Overview of the auction dates in May 2011

Date	Contract	Number of Bidders	Bid Volume	Auction Volume	Cover Ratio	Clearing Price	Revenue
03.05.2011	Spot	5	1,225,000	300,000	4.08	16.92 €	5,076,000 €
04.05.2011	Futures	7	8,095,000	570,000	14.20	17.18 €	9,792,600 €
10.05.2011	Spot	7	3,031,000	300,000	10.10	16.71 €	5,013,000 €
11.05.2011	Futures	4	3,121,000	570,000	5.48	16.86 €	9,610,200 €
17.05.2011	Spot	7	2,838,000	300,000	9.46	16.51 €	4,953,000 €
18.05.2011	Futures	5	5,681,000	570,000	9.97	16.52 €	9,416,400 €
24.05.2011	Spot	7	9,230,000	300,000	30.77	16.06 €	4,818,000 €
25.05.2011	Futures	5	7,300,000	570,000	12.81	16.19 €	9,228,300 €
31.05.2011	Spot	3	3,600,000	300,000	12.00	16.90 €	5,070,000 €
<b>Spot</b>		<b>29</b>	<b>19,924,000</b>	<b>1,500,000</b>	<b>*13.28</b>	<b>*16.62 €</b>	<b>24,930,000 €</b>
<b>Futures</b>		<b>21</b>	<b>24,197,000</b>	<b>2,280,000</b>	<b>*10.61</b>	<b>*16.69 €</b>	<b>38,047,500 €</b>
<b>May</b>		<b>50</b>	<b>44,121,000</b>	<b>3,780,000</b>	<b>**11.67</b>	<b>**16.66 €</b>	<b>62,977,500 €</b>

\* Equally weighted average

\*\* Volume-weighted average

### 1.3 Overview of the current year

So far, in the current year a total of 18,570,000 emission allowances (EUAs) worth €293,840,700 was auctioned. The resulting volume-weighted revenue per allowance is €15.82.

Of the total auction volume, 11,970,000 emission allowances worth €190,727,000 (average price €15.93) were sold as futures contracts (MidDec2011) and 6,600,000 emission allowances worth €103,113,000 (volume-weighted average price €15.62) at spot-market auctions.

In total, bids for nearly 150 million EUAs were received over the 42 auction dates. The aggregated bidder demand exceeds supply by a factor of 8.08. Table 2 summarizes the relevant parameters for the current year 2011 on a monthly basis.

Table 2: Overview of the current year 2011

Month	Contract	Dates	Bid Volume	Auction Volume	Times covered	Clearing Price	Revenue
January	Spot	4	5,931,000	1,200,000	*4.94	*14.14 €	16,965,000 €
	Futures	4	11,877,000	2,280,000	*5.21	*14.51 €	33,071,400 €
February	Spot	3	8,657,000	1,200,000	*7.21	*14.66 €	17,595,000 €
	Futures	4	14,081,000	2,280,000	*6.18	*14.87 €	33,892,200 €
March	Spot	5	11,693,000	1,500,000	*7.80	*15.92 €	23,886,000 €
	Futures	5	25,105,000	2,850,000	*8.81	*16.54 €	47,139,000 €
April	Spot	4	9,529,000	1,200,000	*7.94	*16.45 €	19,737,000 €
	Futures	4	18,997,000	2,280,000	*8.33	*16.92 €	38,577,600 €
May	Spot	5	19,924,000	1,500,000	*13.28	*16.62 €	24,930,000 €
	Futures	4	24,197,000	2,280,000	*10.61	*16.69 €	38,047,500 €
<b>Spot</b>		<b>16</b>	<b>35,810,000</b>	<b>5,100,000</b>	<b>*7,02</b>	<b>*15.33 €</b>	<b>78,183,000 €</b>
<b>Futures</b>		<b>17</b>	<b>70,060,000</b>	<b>9,690,000</b>	<b>*7,23</b>	<b>*15.76 €</b>	<b>152,680,200 €</b>
<b>Total</b>		<b>33</b>	<b>105,870,000</b>	<b>14,790,000</b>	<b>**7,16</b>	<b>**15.61 €</b>	<b>230,863,200 €</b>

\* Equally weighted average

\*\* Volume-weighted average

## 1.4 Auctions and the Secondary Market

While in May, 3.78 million emission allowances were auctioned at the EEX, the cumulated trading volume on the relevant total market was around 250 million allowances.<sup>4</sup> Thus, the average market share of German auctions was 1.5 per cent. Figure 1 shows the market volumes traded during the reporting period and the resulting share of German auction volumes per calendar week (CW), separately for the spot and futures markets.

<sup>4</sup> The analysis only includes transaction for immediate delivery (spot) and futures contracts maturing in December 2011, which are traded at the ICE/ECX, BlueNext, EEX, Nasdaq OMX and GreenX exchanges. Only transactions concluded at the exchange (screen-traded) or bilateral transactions that went through the exchange clearing mechanisms are included, whereas options and longer-maturing futures contracts are not included.

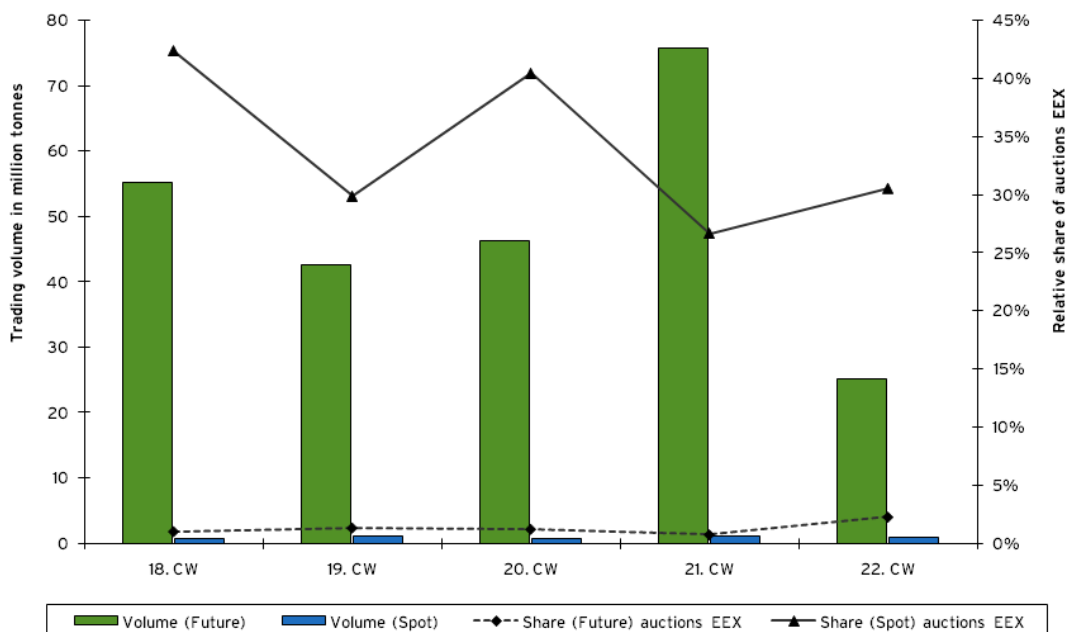


Figure 1: Trading volume on the total market and relative share of the German auctions (EEX) in May 2011

The weekly shares of spot auctions fluctuated between 26.7 and 42.4 per cent (average 34 per cent). The increase of German auction shares compared to the previous month (April: 18.3 per cent) can be explained by weaker trading volumes on the spot secondary market, which were 40 per cent below the level seen during last month. Weekly shares of futures auctions (Dec11) on the total futures market fluctuated between 0.8 and 2.3 per cent (average 1.3 per cent).

The clearing prices achieved in the May have been evaluated by setting reference prices of the most liquid trading places as benchmarks. The reference contract for the auctioning of the MidDec11 futures contract is the Dec11 Future traded at the London ICE/ECX. Last trade and last best bid<sup>5</sup> prices before the end of the bidding period were used as benchmark prices.

Table 3 shows the relative deviations of clearing prices at futures auctions from the London futures market. Throughout all four dates, the deviation from the last best bid was -0.02 per cent, while the median deviation from the last trade was -0.08 per cent. Deviations per auction date varied between -0.06 and +0.06 per cent (last best bid) respective -0.12 and 0.00 per cent (last trade).

<sup>5</sup> The best bid is defined as the highest bid in the order books at a given time.

Table 3: Auction clearing prices (Futures) and deviations from secondary market price (ICE/ECX Dec11) in May 2011

Date	Contract	Clearing Price	Deviation from Lead Market (ICE/ECX Dec11)	
			Last Best Bid	Last Trade
04.05.2011	Futures	17.18 €	0.00%	-0.06%
11.05.2011	Futures	16.86 €	-0.06%	-0.12%
18.05.2011	Futures	16.52 €	0.06%	0.00%
25.05.2011	Futures	16.19 €	-0.06%	-0.12%
<b>Futures</b>		<b>*16.69 €</b>	<b>*-0.02%</b>	<b>*-0.08%</b>

\* Period average

For spot market auctions, the BlueNext spot market in Paris is used as a benchmark. Throughout all five dates, the deviation from the last best bid at the BlueNext was +0.02 per cent. The deviations fluctuated between -0.35 and +0.30 per cent (Table 4).

Additionally, Table 4 shows clearing price deviations in spot market auctions from the last best bids at the futures market ICE/ECX (Dec11). Throughout the reporting period, deviations remained stable from -1.47 to -2.25 per cent, which is the usual discount in functioning markets where spot contracts are normally rated lower than front-year contracts.

Table 4: Auction clearing prices (Spot) and deviations from secondary market price (BlueNext and ICE/ECX Dec11) in May 2011

Date	Contract	Clearing Price	Deviation from Lead Market	
			Last Best Bid Spot (BlueNext)	Last Best Bid Future Dec11 (ICE/ECX)
03.05.2011	Spot	16.92 €	-0.35%	-2.25%
10.05.2011	Spot	16.71 €	0.30%	-1.47%
17.05.2011	Spot	16.51 €	-0.12%	-1.84%
24.05.2011	Spot	16.06 €	0.25%	-1.35%
31.05.2011	Spot	16.90 €	0.00%	-1.80%
<b>Spot</b>		<b>*16.62 €</b>	<b>*0.02%</b>	<b>*-1.75%</b>

\* Period average