



AUCTIONING

Auctioning of Emission Allowances in Germany: Periodical Report July 2011

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

Status: 08/2011

Responsible Editor: Section E 2.3

INHALT

- 1. Report: JULY 20115
 - 1.1. Market Surveillance Report by the HÜSt5
 - 1.2. Overview July 20115
 - 1.3. Overview of the current year.....6
 - 1.4. Auctions and the Secondary Market8



1. REPORT: JULY 2011

Since January 2010, the Federal Republic of Germany has been offering an annual total of 40 million emission allowances (EUAs) 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) at the Federal Environment Agency has commissioned the KfW banking group 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 website¹. Previous Periodical Reports are available on the auctioning website of the DEHSt².

Info Box: Participation, Deadlines and Procedure

Weekly auctions of futures or spot contracts at EEX are part of normal 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 every Tuesday and 570,000 allowances to be delivered by December (futures) are auctioned every Wednesday. From November of each year, 870,000 allowances will be auctioned weekly on the spot market. The exact auction dates 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 bidders can only see their own bids. The minimum bid is 500 allowances in auctions on the spot market and 1,000 allowances in auctions on the futures market.

1.1. MARKET SURVEILLANCE REPORT BY THE 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. The HÜSt reports to the DEHSt in regular internal reports on the results of its surveillance activities. HÜSt reported as follows on auctions in July of 2011 as follows (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 July 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 JULY 2011

In July 2011, a total of 3,480,000 emission allowances (EUAs) with a total value of €43,778,700 were auctioned. This is equivalent to a volume-weighted revenue per allowance of €12.58. Of the total amount of allowances auctioned, 2,280,000 allowances with a value of €28,790,700 (average price €12.63) were futures contracts (MidDec2011), while 1,200,000 emission allowances worth €14,988,000 (average price €12.49) were sold at spot-market auctions.

1 see: [European Energy Exchange: EUA-Primary Market Auction](#)

2 see: [DEHSt - Reports by DEHSt on the Auctioning of EU Allowances in Germany](#)

Over the eight auction dates in July, bids for a total of 36,747,000 allowances were entered into the trading system. Thus the quantity to be auctioned was oversubscribed by a factor of 10.56. In total, 46 bidders participated in the July auctions.³

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.

Table 1: Overview of the auction dates in July 2011

Date	Contract	Number of Bidders	Bid Volume	Auction Volume	Cover Ratio	Clearing Price	Revenue
05/07/2011	Spot	7	6,397,000	300,000	21.32	13.33 €	3,999,000 €
06/07/2011	Futures	7	6,370,000	570,000	11.18	13.25 €	7,552,500 €
12/07/2011	Spot	6	2,975,000	300,000	9.92	11.54 €	3,462,000 €
13/07/2011	Futures	5	6,825,000	570,000	11.97	11.98 €	6,828,600 €
19/07/2011	Spot	7	3,895,000	300,000	12.98	12.22 €	3,666,000 €
20/07/2011	Futures	5	5,155,000	570,000	9.04	12.74 €	7,261,800 €
26/07/2011	Spot	5	2,210,000	300,000	7.37	12.87 €	3,861,000 €
27/07/2011	Futures	4	2,920,000	570,000	5.12	12.54 €	7,147,800 €
Spot		25	15,477,000	1,200,000	*12.90	*12.49 €	14,988,000 €
Futures		21	21,270,000	2,280,000	*9.33	*12.63 €	28,790,700 €
July		46	36,747,000	3,480,000	**10.56	**12.58 €	43,778,700 €

* Equally weighted average

** Volume-weighted average

1.3. OVERVIEW OF THE CURRENT YEAR

In the current year 2011 a total of 26,100,000 emission allowances (EUAs) worth €400,095,300 were auctioned. The resulting volume-weighted revenue per allowance is €15.33.

Of the total auction volume, 17,100,000 emission allowances worth €263,847,300 (average price €15.43) were futures contracts (MidDec2011) and 9,000,000 emission allowances worth €136,248,000 (volume-weighted average price €15.14) were auctioned at the spot-market.

In total, valid bids for over 220 million EUAs were entered into the trading system over the 59 auction dates. The aggregated bidder demand exceeds supply by a factor of 8.53. Table 2 summarizes the relevant parameters for the current year 2011 on a monthly basis.

³ 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 2: Overview of the current year 2011

Month	Contract	Dates	Bid Volume	Auction Volume	Cover Ratio	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 €
June	Spot	4	15,479,000	1,200,000	*12.90	*15.12 €	18,147,000 €
	Futures	5	20,503,000	2,850,000	*7.19	*15.55 €	44,328,900 €
July	Spot	4	15,477,000	1,200,000	*12.90	*12.49 €	14,988,000 €
	Futures	4	21,270,000	2,280,000	*9.33	*12.63 €	28,790,700 €
Spot		29	86,690,000	9,000,000	*9.63	*15.14 €	136,248,000 €
Futures		30	136,030,000	17,100,000	*7.95	*15.43 €	263,847,300 €
Total		59	222,720,000	26,100,000	**8.53	**15.33 €	400,095,300 €

* Equally weighted average

** Volume-weighted average

1.4. AUCTIONS AND THE SECONDARY MARKET

While in July, 3.48 million emission allowances were auctioned at the EEX, the cumulated trading volume on the relevant total market was around 350 million allowances.⁴ Thus, the average market share of German auctions was nearly 1 percent. Figure 1 shows the market volumes traded during the reporting period and the corresponding share of German auction volumes per calendar week (CW), separately for the spot and futures markets.

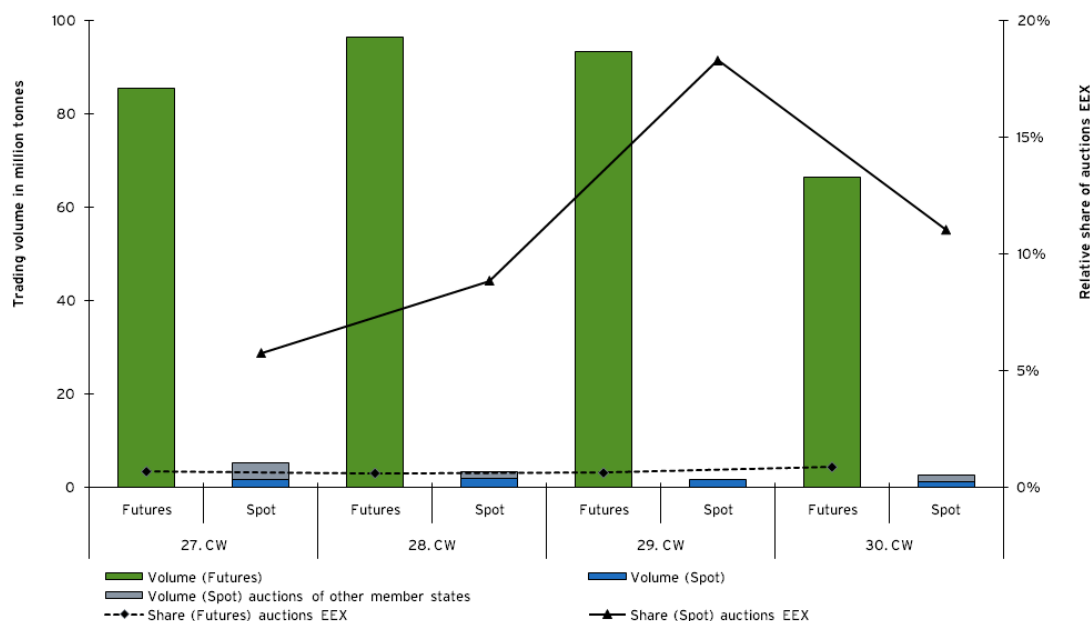


Figure 1: Trading volume on the total market and relative share of the German auctions (EEX) in July 2011

The weekly shares of spot auctions fluctuated between 5.7 and 18.3 percent (average 11 percent). In the 27th, 28th and 30th calendar weeks, spot market auctions in other EU Member States took place alongside the weekly German auctions, which brought the German share of the market volume to around 6 to 11 percent respectively. Weekly shares of futures auctions (Dec11) on the total futures market fluctuated between 0.6 and 0.9 percent (average 0.7 percent).

The clearing prices achieved in July have been evaluated by setting reference prices of the most liquid carbon exchanges 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 bid⁵ 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 -0.08 percent, while the median deviation from the last trade was -0.33 percent. Deviations per auction date varied between -0.47 and +0.08 percent (last best bid) respective -0.86 and -0.08 percent (last trade).

4 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. Spot contracts auctioned by other EU Member States in July 2011 are also included.

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

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

Auction Date	Contract	Clearing Price	Deviation from Lead Market (ICE/ECX Dec11)	
			Last Best Bid	Last Trade
06/07/2011	Futures	13.25 €	0.00%	-0.23%
13/07/2011	Futures	11.98 €	0.08%	-0.17%
20/07/2011	Futures	12.74 €	-0.47%	-0.86%
27/07/2011	Futures	12.54 €	0.08%	-0.08%
Futures		*12.63 €	*-0.08%	*-0.33%

* Period average

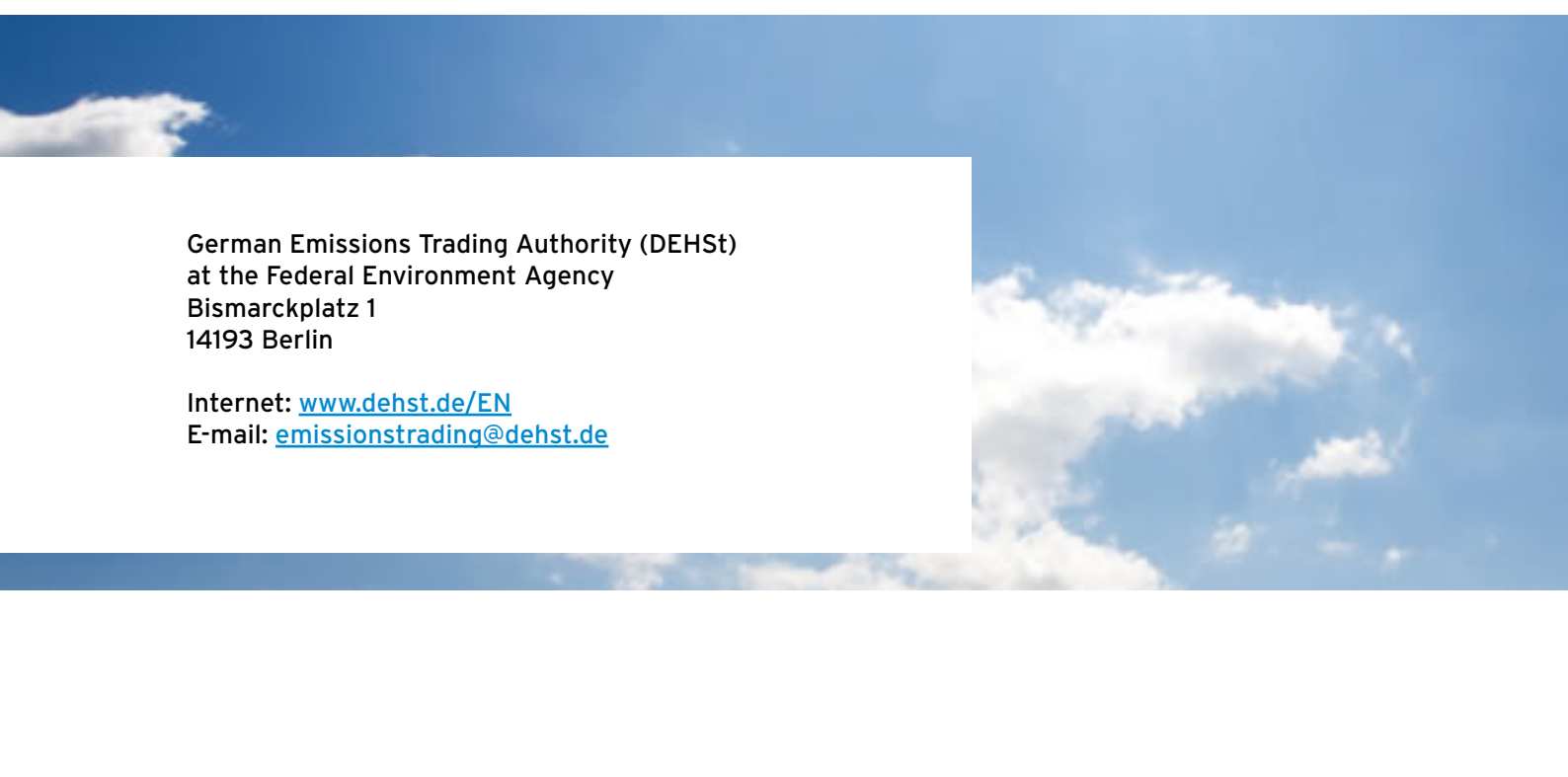
For spot-market auctions, the BlueNext spot market in Paris is used as benchmark. Throughout all four dates, the deviation from the last best bid at the BlueNext was +0.21 percent. The deviations fluctuated between 0.00 and +0.60 percent (Table 4).

To complement the snapshot of the markets during call phases on auction days, 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 -0.77 to -1.28 percent, 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 July 2011

Auction Date	Contract	Clearing Price	Deviation from Lead Market	
			Last Best Bid Spot (BlueNext)	Last Best Bid Future Dec11 (ICE/ECX)
05/07/2011	Spot	13.33 €	0.60%	-0.97%
12/07/2011	Spot	11.54 €	0.17%	-1.28%
19/07/2011	Spot	12.22 €	0.00%	-1.13%
26/07/2011	Spot	12.87 €	0.08%	-0.77%
Spot		*12.49 €	*0.21%	*-1.04%

* Period average



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

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