



AUCTIONING

Auctioning of Emission Allowances in Germany Periodical Report: Third Quarter 2012

IMPRINT

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AUCTIONING OF EMISSION ALLOWANCES IN GERMANY

Since January 2010, the Federal Republic of Germany has been offering an annual total of roughly 41 million emission allowances (EUA) of the current trading period (2008-2012) for auctioning. Between 2010 and 2012 the auctions were held weekly on the European Energy Exchange EEX spot and futures markets in Leipzig (see Info Box below). The German Emissions Trading Authority (DEHSt) at the Federal Environment Agency commissioned the KfW banking group to act as a vendor (seller) for allowances on behalf of the Federal Government. Further updated information on participation terms and conditions can be downloaded from the [EEX website](#). Previous periodical reports are available on the [auction website of the DEHSt](#).

Info Box: Participation, Deadlines and Procedure

Weekly auctions of futures and spot contracts at EEX are a 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 trading department of their own can also benefit from participating in the auctions. Exchange members already admitted to emissions trading at the EEX can participate in the weekly auctions at no cost or fixed charges.

In 2010 and 2011, auctions were held on separate dates between January and October – 300,000 allowances for immediate delivery (spot contract) were auctioned every Tuesday and 570,000 allowances to be delivered by December of the current year (futures) were auctioned every Wednesday. In 2012, the weekly volume of futures contracts increased to 645,000 EUAs from January and to 845,000 EUAs from June. In 2010 and 2011, 870,000 allowances were auctioned weekly on the spot market alone from November. In 2012 this volume will increase to 1,150,000 EUAs. The exact auction dates can be found in the [EEX Auction Calendar 2012](#).

The auction procedure is comprehensively set out 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 size is 500 allowances in auctions on the spot market and 1,000 allowances in auctions on the futures market.

1 CURRENT DEVELOPMENTS

Auctioning of emission allowances of the third trading period and aviation allowances:

On 26th October 2012 the Federal Republic of Germany will start the auctioning of emission allowances (EUA) of the third trading period („Early Auctions“) and aviation allowances (EUAA) for 2012 at the Leipzig Energy Exchange (EEX). Between 26th October and 14th December 2012 a total of approximately 23.5 million emission allowances of the third trading period will be auctioned at the EEX on a weekly basis. Hence, 3 million EUA will be auctioned every Friday; the remainder of 2.531 million EUA on the last date of the year. In addition, up to 7 million EUAA will be auctioned in two installments, on 31st October and 14th November. The provisional [Auction calendar](#) is available on the EEX website.

Installation operators or aircraft operators can either participate directly in the auctions (if they are EEX members), or select an indirect access through accredited financial intermediaries (such as banks and investment firms). Furthermore, since August 2012, EEX offers a new, simplified access – the so-called Auction Only access. Companies that opt for this kind of participation may submit bids by fax, so no electronic access to the exchange system is necessary. Details of the [Conditions of participation and costs](#) are available on the EEX website. Furthermore, detailed information on participation conditions and procedures of the [Auctioning of emission allowances](#) are available on the DEHSt website. Finally, a compact overview is also presented in the [Report](#) „Analyses and background information of five years sales and auction at the transition to the third trading period of the EU emissions trading scheme“, published jointly by KfW and DEHSt.

New Version of the Union Registry:

On Tuesday, 02/10/2012, at 8:00 hours (CEST), the EU Commission published a new version of the registry software (Version 4.0 of the Union Registry). This new version provides for major changes which include the introduction of new types of accounts, and amendments regarding registration and execution of transactions. More information can be found on the [DEHSt website](#).

Germany launches a tender for a definitive auction platform:

On behalf of the Federal Government of Germany, the Federal Environment Agency launched a Europe-wide tender for the appointment of a definitive auction platform on 06/10/2012. The platform is expected to auction emission allowances allocated to the Federal Government according to the requirements of the EU Auctioning Regulation from the second half of 2013. Until then, the transitional platform will continue its work on a transitional basis in 2013.

2 MARKET SURVEILLANCE REPORT BY THE HÜST

In order to guarantee above-board market activities on the EEX free of manipulation, 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 2012 as follows (excerpt):

“The auctions of emission allowances took place at the EEX on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in the Third Quarter of 2012 according to 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.”

3 OVERVIEW OF THE THIRD QUARTER 2012

Between July and September 2012, a total of 14,950,000 emission allowances (EUA) with a total value of €112,868,500 were auctioned. The volume-weighted average revenue per allowance was €7.55 and thus as a result of market price trends over the past three months was about 10 percent higher compared to the previous quarter (€6.85).

Of the total amount of allowances auctioned, 11,050,000 allowances with a value of €83,342,500 (average price €7.54) were futures contracts (MidDec2012), while 3,900,000 emission allowances worth €29,526,000 (average price €7.57) were sold on spot-market auctions (see Table 1). The detailed results of each auction date are shown in Tables 2 (spot) and 3 (futures).

Table 1: Overview for the 3rd quarter of 2012

Contract	Date	Bid volume	Auction volume	Cover ratio	Clearing price	Revenue
Spot	13	19,633,500	3,900,000	*5.03	*7.57 €	29,526,000 €
Futures	13	41,792,000	11,050,000	*3.78	*7.54 €	83,342,500 €
Total	26	61,425,500	14,950,000	**4.11	**7.55 €	112,868,500 €

Source: EEX, DEHSt

* Period average

** Volume-weighted average

In total, valid bids for more than 61 million emission allowances were placed into the trading system on 26 auction dates. Thus the aggregated bid volume was a factor of 4.11 above the corresponding auction volume during the reporting period. The cover ratio on the spot market (5.03) was above the reference value on the futures market (3.78).

Table 2: Overview of auction data for the 3rd quarter of 2012 (spot)

Date	Number of bidders	Bid volume	Auction volume	Cover ratio	Clearing price	Revenue
03/07/2012	7	1,984,000	300,000	6.61	8.11 €	2,433,000 €
10/07/2012	6	1,951,000	300,000	6.50	7.87 €	2,361,000 €
17/07/2012	7	2,040,000	300,000	6.80	7.68 €	2,304,000 €
24/07/2012	7	1,675,000	300,000	5.58	7.13 €	2,139,000 €
31/07/2012	7	1,384,000	300,000	4.61	6.64 €	1,992,000 €
07/08/2012	6	780,000	300,000	2.60	7.21 €	2,163,000 €
14/08/2012	4	829,000	300,000	2.76	7.51 €	2,253,000 €
21/08/2012	7	1,719,500	300,000	5.73	7.60 €	2,280,000 €
28/08/2012	6	942,000	300,000	3.14	8.25 €	2,475,000 €
04/09/2012	7	1,502,000	300,000	5.01	8.24 €	2,472,000 €
11/09/2012	8	1,423,000	300,000	4.74	7.72 €	2,316,000 €
18/09/2012	9	1,781,000	300,000	5.94	7.25 €	2,175,000 €
25/09/2012	9	1,623,000	300,000	5.41	7.21 €	2,163,000 €
September	33	6,329,000	1,200,000	*5.27	*7.61 €	9,126,000 €
July to September	90	19,633,500	3,900,000	*5.03	*7.57 €	29,526,000 €

Source: EEX, DEHSt

* Period average

Table 3: Overview of auction data for the 3rd quarter of 2012 (futures)

Date	Number of bidders	Bid volume	Auction volume	Cover ratio	Clearing price	Revenue
04/07/2012	7	3,014,000	850,000	3.55	8.26 €	7,021,000 €
11/07/2012	7	3,409,000	850,000	4.01	7.90 €	6,715,000 €
18/07/2012	7	2,698,000	850,000	3.17	7.12 €	6,052,000 €
25/07/2012	7	1,875,000	850,000	2.21	6.79 €	5,771,500 €
01/08/2012	8	2,912,000	850,000	3.43	6.92 €	5,882,000 €
08/08/2012	7	3,755,000	850,000	4.42	7.19 €	6,111,500 €
15/08/2012	6	2,634,000	850,000	3.10	7.47 €	6,349,500 €
22/08/2012	8	2,411,000	850,000	2.84	7.86 €	6,681,000 €
29/08/2012	8	2,751,000	850,000	3.24	7.86 €	6,681,000 €
05/09/2012	7	7,163,000	850,000	8.43	8.09 €	6,876,500 €
12/09/2012	8	3,138,000	850,000	3.69	7.87 €	6,689,500 €
19/09/2012	5	2,754,000	850,000	3.24	7.29 €	6,196,500 €
26/09/2012	7	3,278,000	850,000	3.86	7.43 €	6,315,500 €
September	27	16,333,000	3,400,000	*4.80	*7.67 €	26,078,000 €
July to September	92	41,792,000	11,050,000	*3.78	*7.54 €	83,342,500 €

Source: EEX, DEHSt

* Period average

4 OVERVIEW OF THE CURRENT YEAR

In the first nine month of the current year, a total of 40,040,000 emission allowances (EUAs) worth €295,947,600 were auctioned on 77 auction dates (average price €7.39). Of the total auction volume, 28,640,000 emission allowances worth €212,616,600 (average price €7.42) were futures contracts (MidDec2012) and 11,400,000 emission allowances worth €83,331,000 (average price €7.31) were auctioned on the spot market in accordance with legal requirements. The cumulative auction results for the current year are shown in Table 4.

In addition to the legally fixed basic annual amount of 40 million emission allowances, additional allowances from the national reserve are auctioned every year to cover the cost incurred by the Federal Government in exercising its duties and responsibilities in connection with emissions trading. Also, the cost for the reimbursement of the general emissions trading fee from the 2005-2007 trading period must be financed. As it stands, up to 9 million EUAs will be auctioned this year in addition to the basic annual amount. The annual refinancing volume is not yet known since it is calculated from the average auction clearing prices from January to October; it will be announced by the DEHSt in line with the legal requirements by 5 November 2012 at the latest.

Table 4: Overview of auction data for the current year 2012

Month	Contract	Date	Bid volume	Auction volume	Cover ratio	Clearing price	Revenue
January	Spot	5	19,619,000	1,500,000	13.08	6.88 €	10,314,000 €
	Futures	4	21,075,000	2,580,000	8.17	6.98 €	18,014,850 €
February	Spot	4	8,902,000	1,200,000	7.42	8.44 €	10,131,000 €
	Futures	5	9,337,000	3,225,000	2.90	8.59 €	27,709,200 €
March	Spot	4	6,624,000	1,200,000	5.52	7.56 €	9,072,000 €
	Futures	4	12,584,000	2,580,000	4.88	7.79 €	20,091,750 €
April	Spot	4	11,370,000	1,200,000	9.48	6.64 €	7,971,000 €
	Futures	4	20,238,000	2,580,000	7.84	6.82 €	17,582,700 €
May	Spot	4	5,074,000	1,200,000	4.23	6.55 €	7,857,000 €
	Futures	5	13,127,000	3,225,000	4.07	6.72 €	21,659,100 €
June	Spot	4	6,041,500	1,200,000	5.03	7.05 €	8,460,000 €
	Futures	4	17,463,000	3,400,000	5.14	7.12 €	24,216,500 €
July	Spot	5	9,034,000	1,500,000	6.02	7.49 €	11,229,000 €
	Futures	4	10,996,000	3,400,000	3.23	7.52 €	25,559,500 €
August	Spot	4	4,270,500	1,200,000	3.56	7.64 €	9,171,000 €
	Futures	5	14,463,000	4,250,000	3.40	7.46 €	31,705,000 €
September	Spot	4	6,329,000	1,200,000	5.27	7.61 €	9,126,000 €
	Futures	4	16,333,000	3,400,000	4.80	7.67 €	26,078,000 €
Spot		38	77,264,000	11,400,000	*6.78	*7.31 €	83,331,000 €
Futures		39	135,616,000	28,640,000	*4.74	*7.42 €	212,616,600 €
Total		77	212,880,000	40,040,000	**5.32	**7.39 €	295,947,600 €

Source: EEX, DEHSt

* Equally weighted average

** Volume-weighted average

5 BIDDER PARTICIPATION

The total volume auctioned during the 3rd quarter of 2012, which amounted to 14.950 million EUAs, went to 101 successful bidders. Of these bidders, 60 participated in the futures market and 41 in the spot market. The total number of bidders actively participating in the auctions during the reporting period was 182.¹ From a bidder's perspective, the average success rate over all 26 auction dates was just over 55 percent. The average quantity awarded per successful bidder was approximately 95,000 allowances in spot auctions and approximately 185,000 allowances in futures auctions.

Info Box: Uniform Price Auction at the EEX

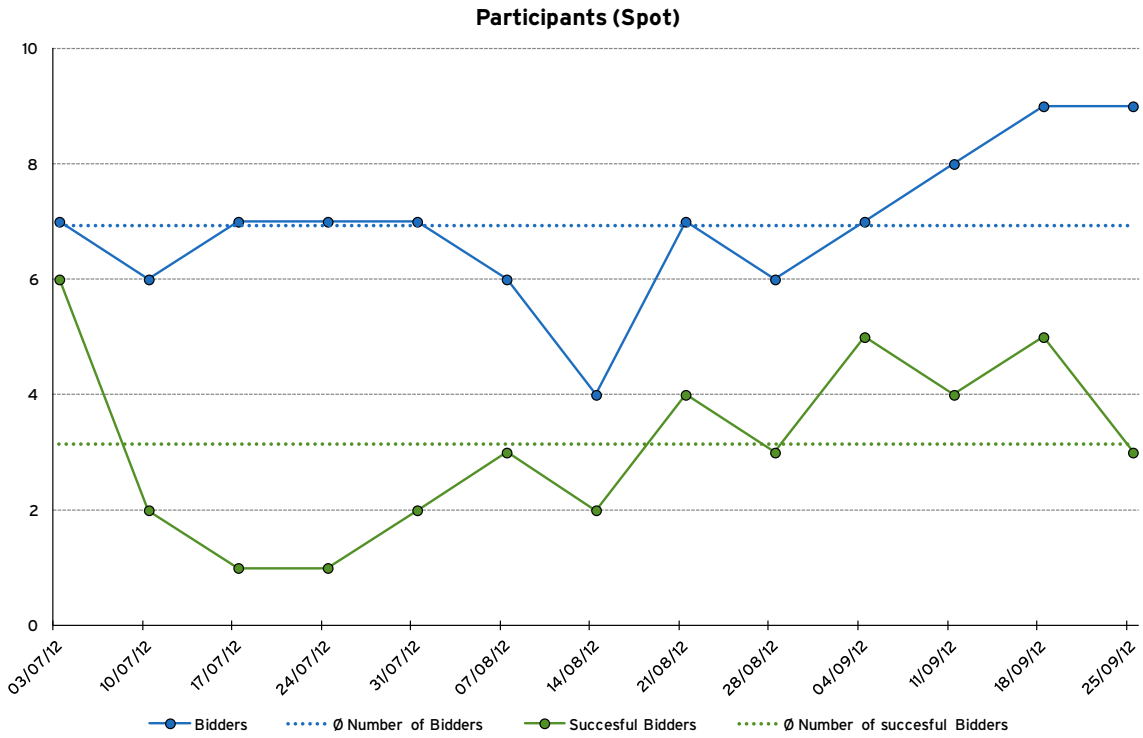
The German auctions at the EEX follow the uniform price procedure which is common practice throughout the European Union. It involves one round of bidding and a closed order book. This simple and robust procedure protects against market manipulation and will continue to be used during the third trading period and for aviation. 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 additionally ranked according to the time they were entered beginning with the earliest bid ("first-come-first-served principle"). The volumes of the bids are aggregated starting with the highest bid until the volume of emission allowances on offer (300,000 and 850,000, respectively) 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 exactly matches the clearing price, 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 „first-come-first-served“ principle applies.

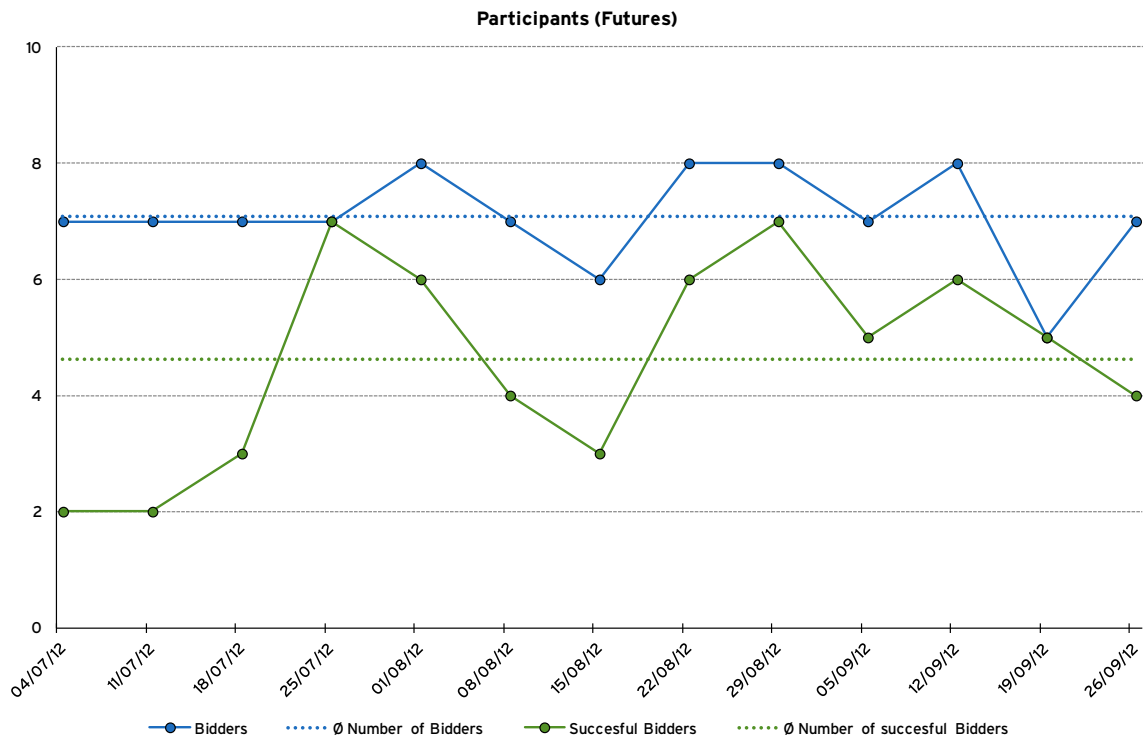
Figures 1 and 2 show the structural development of participant numbers for the spot and futures markets. In both segments, bidder participation essentially fluctuated between 6 and 8 bidders. Eventually, the number of successful bidders fluctuated between 2 and 6 bidders in about 85 percent of the auctions. In only two auctions did the number of successful bidders fall below the threshold of two during the 3rd quarter of 2012.

¹ As trading participants are allowed to enter bids on several 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. Also, it must 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.



Source: EEX, DEHSt

Figure 1: Number of participating and successful bidders per auction date in the 3rd quarter of 2012 (spot)



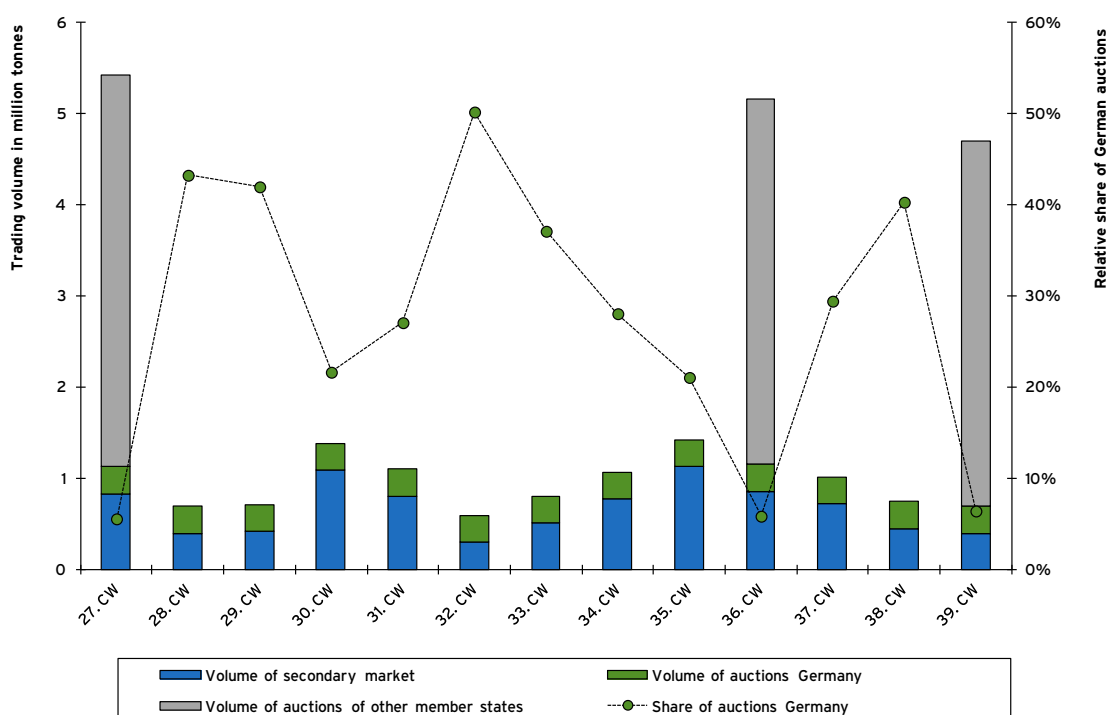
Source: EEX, DEHSt

Figure 2: Number of participating and successful bidders per auction date in the 3rd quarter of 2012 (futures)

6 AUCTIONS AND THE SECONDARY MARKET

6.1 TRADING VOLUME ON THE SECONDARY MARKET

While a total of 14.95 million emission allowances were auctioned by the Federal Republic of Germany in the 3rd quarter of 2012, the total market trading volume for the same period was around 1.75 billion allowances.² The average market share of German auctions was approximately 0.86 percent during the 3rd quarter of 2012. The share volume of futures auctions on the significantly more liquid futures market was about 0.64 percent, whereas the share in spot auctions was around 16 percent. Figures 3 and 4 show the market volumes traded during the reporting period and the resulting share of the German auction volume per calendar week (CW) for spot and futures markets.



Source: ICE/ECX, GreenX, EEX, Nasdaq OMX, EIB, DEHSt

Figure 3: Trading volume on the total market (futures) and relative share of German auctions (EEX) in the 3rd quarter of 2012

² The analysis only includes transactions of EUA for immediate delivery (spot) and futures contracts which are traded at the ICE/ECX, GreenX, EEX, BlueNext and Nasdaq OMX exchanges. Only transactions concluded at the exchange (screen-traded) or bilateral transactions that went through the exchange clearing mechanisms are included, whereas option contracts are not included. Spot contracts auctioned by other EU Member States and futures contracts auctioned by the European Investment Bank (EIB) during the third quarter of 2012 have also been included.

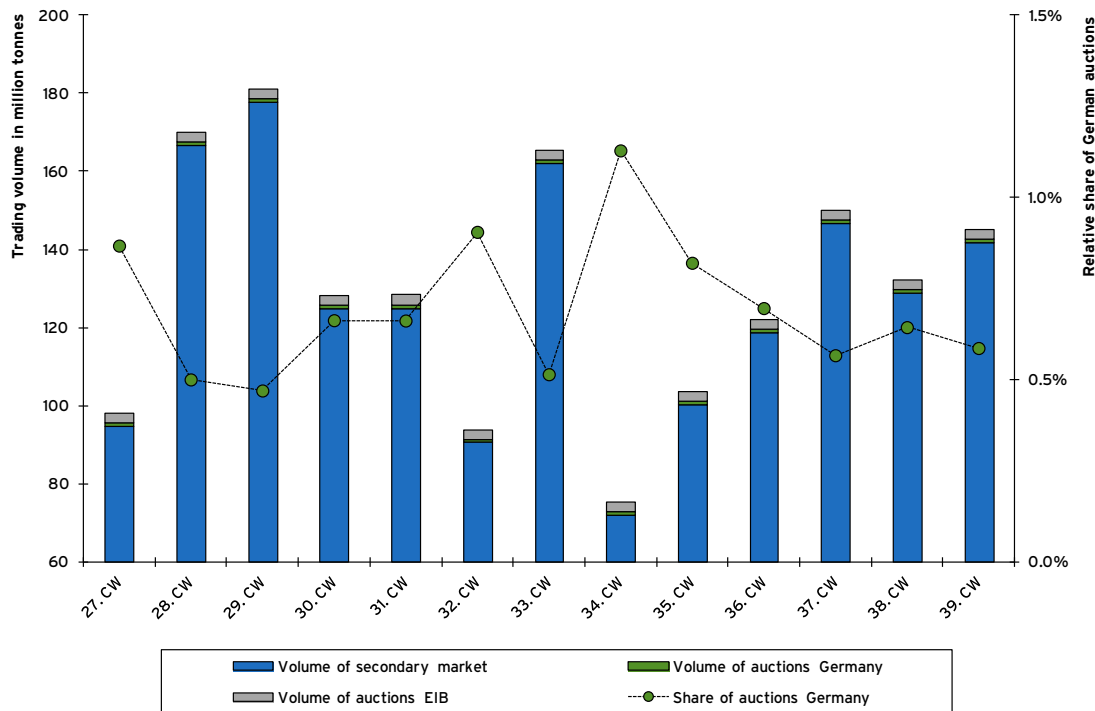


Figure 4: Trading volume on the total market (futures) and relative share of German auctions (EEX) in the 3rd quarter of 2012

6.2 CLEARING PRICES AND PRICE DEVELOPMENT ON THE SECONDARY MARKET

In order to evaluate auction clearing prices realised, reference prices from the most liquid exchanges were used as benchmarks (see next Info Box). The reference contract for the auctioning of the MidDec12 futures contract is the Dec12 Futures traded on the London ICE/ECX, whereas the BlueNext EUA spot market in Paris is the reference for spot auctions.

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 German auctions, such buying bids in the 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. The best bid is therefore a good indicator of the willingness to pay in a market. Trading price records finally show the price limits where supply equals demand.

Table 5 shows the relative deviations of clearing prices at futures auctions from the London lead market just before the end of the bidding period. Deviations at auction dates fluctuated between -1.02 and +0.27 percent (last best bid) and between -1.16 and +0.13 percent (last trade) during the reporting period. The average deviation from the last best bid over all 13 auctions was calculated to be 0.31 percent, while the mean deviation from last trade was 0.35 percent. The mean deviation is calculated as the arithmetic mean of absolute deviation values in the reporting period.

Table 5: Auction clearing prices (futures) and deviations from secondary market prices (ICE/ECX Dec12) in the 3rd quarter of 2012

Date	Contract	Clearing price	Deviation from lead market (ICE/ECX Dec12)	
			Last best bid	Last trade
04/07/2012	Futures	8.26 €	0.24%	0.00%
11/07/2012	Futures	7.90 €	0.13%	0.13%
18/07/2012	Futures	7.12 €	-0.14%	-0.28%
25/07/2012	Futures	6.79 €	-1.02%	-1.16%
01/08/2012	Futures	6.92 €	-0.57%	-0.57%
08/08/2012	Futures	7.19 €	0.00%	-0.14%
15/08/2012	Futures	7.47 €	0.27%	0.13%
22/08/2012	Futures	7.86 €	-0.13%	-0.13%
29/08/2012	Futures	7.86 €	-0.63%	-0.63%
05/09/2012	Futures	8.09 €	0.00%	0.00%
12/09/2012	Futures	7.87 €	-0.25%	-0.38%
19/09/2012	Futures	7.29 €	-0.68%	-0.82%
26/09/2012	Futures	7.43 €	0.00%	-0.13%
Mean deviation (futures)			0.31%	0.35%

Source: KfW, DEHSt

Table 6 shows clearing price deviations at spot auctions from the reference price at the BlueNext exchange (last best bid), complemented by those from the ICE/ECX futures market (Dec12 Futures). Deviations fluctuated between -0.27 and 1.05 percent (Table 6). The average deviation of clearing prices from the secondary trading price at BlueNext was 0.50 percent during the reporting period.

In addition, Table 6 also shows deviations in the clearing price at spot auctions from the respective last best bid at the ICE/ECX (Dec12) futures market. Over the entire reporting period, deviations were between -1.58 and -0.41 percent, which is usual in functioning markets where spot contracts are normally rated lower than front-year contracts. As expected, the price gap between spot and futures contracts gradually converge compared to the previous quarter. The reason is the approaching futures maturity date in December. The average deviation in the third quarter was -0.79 percent, which is slightly below the level of the previous year (3Q 2011: -1.08 percent).

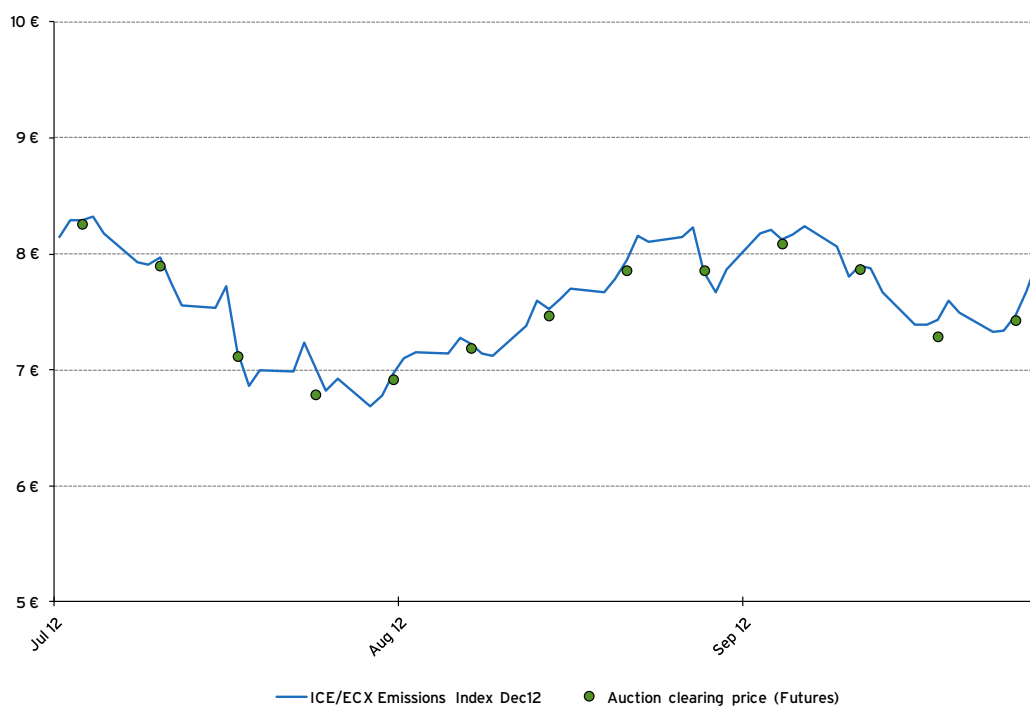
Table 6: Spot market auctions and deviations from the secondary market price (BlueNext und ICE/ECX) in the 3rd quarter of 2012

Month	Contract	Clearing price	Deviation from lead market	
			Last best bid spot (BlueNext)	Last best bid futures Dec12 (ICE/ECX)
03/07/2012	Spot	8.11 €	0.62%	-1.58%
10/07/2012	Spot	7.87 €	0.77%	-1.25%
17/07/2012	Spot	7.68 €	1.05%	-0.26%
24/07/2012	Spot	7.13 €	0.28%	-0.97%
31/07/2012	Spot	6.64 €	0.91%	-0.75%
07/08/2012	Spot	7.21 €	0.42%	-0.55%
14/08/2012	Spot	7.51 €	-0.27%	-0.92%
21/08/2012	Spot	7.60 €	0.53%	-0.91%
28/08/2012	Spot	8.25 €	0.36%	-0.60%
04/09/2012	Spot	8.24 €	0.24%	-0.84%
11/09/2012	Spot	7.72 €	0.39%	-0.52%
18/09/2012	Spot	7.25 €	0.55%	-0.68%
25/09/2012	Spot	7.21 €	0.14%	-0.41%
Mean deviation (spot)			0.50%	0.79%

Source: KfW, DEHSt

To complement the snapshot of the markets during call phases on auction days, Figures 5 (futures) and 6 (spot) give an overview of the clearing prices in German auctions in the context of historical price developments on the relevant lead markets during the calendar year. Rather than following the common practice of just looking at settlement prices, our analysis takes into account all trades completed at the exchanges during the reporting period.³

As a useful measure for evaluating the sale prices achieved in the futures sales, a price index is used for the Dec12 futures contract which is published daily by ICE ("ICE Emissions Index"⁴). The following figure clearly shows that the German futures contract prices of the auctions were in sync with the development on the lead market without large outliers over the entire reporting period.



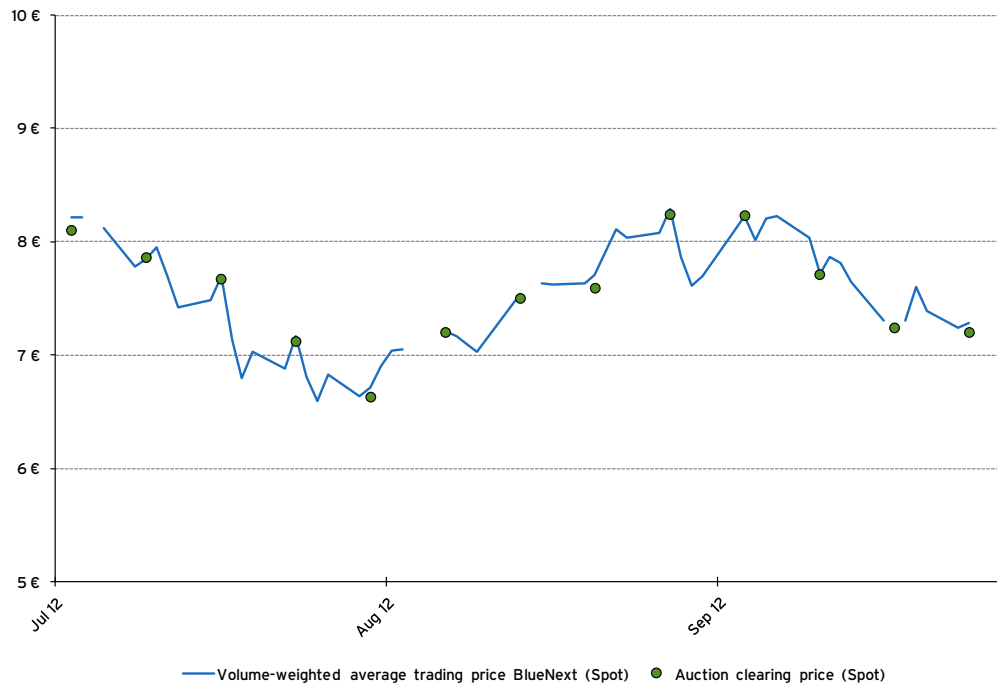
Source: ICE/ECX, EEX, DEHSt

Figure 5: Futures clearing prices and ICE Emissions Index (Dec12 futures) in the 3rd quarter of 2012

Volume-weighted daily average prices at the BlueNext are used as a benchmark on the spot market auctions. In comparison to the procedure on the futures market, the following figure shows the German spot clearing prices of auctions together with the benchmark curve at the lead stock exchange. In this segment the development also ran synchronously and without abnormalities.

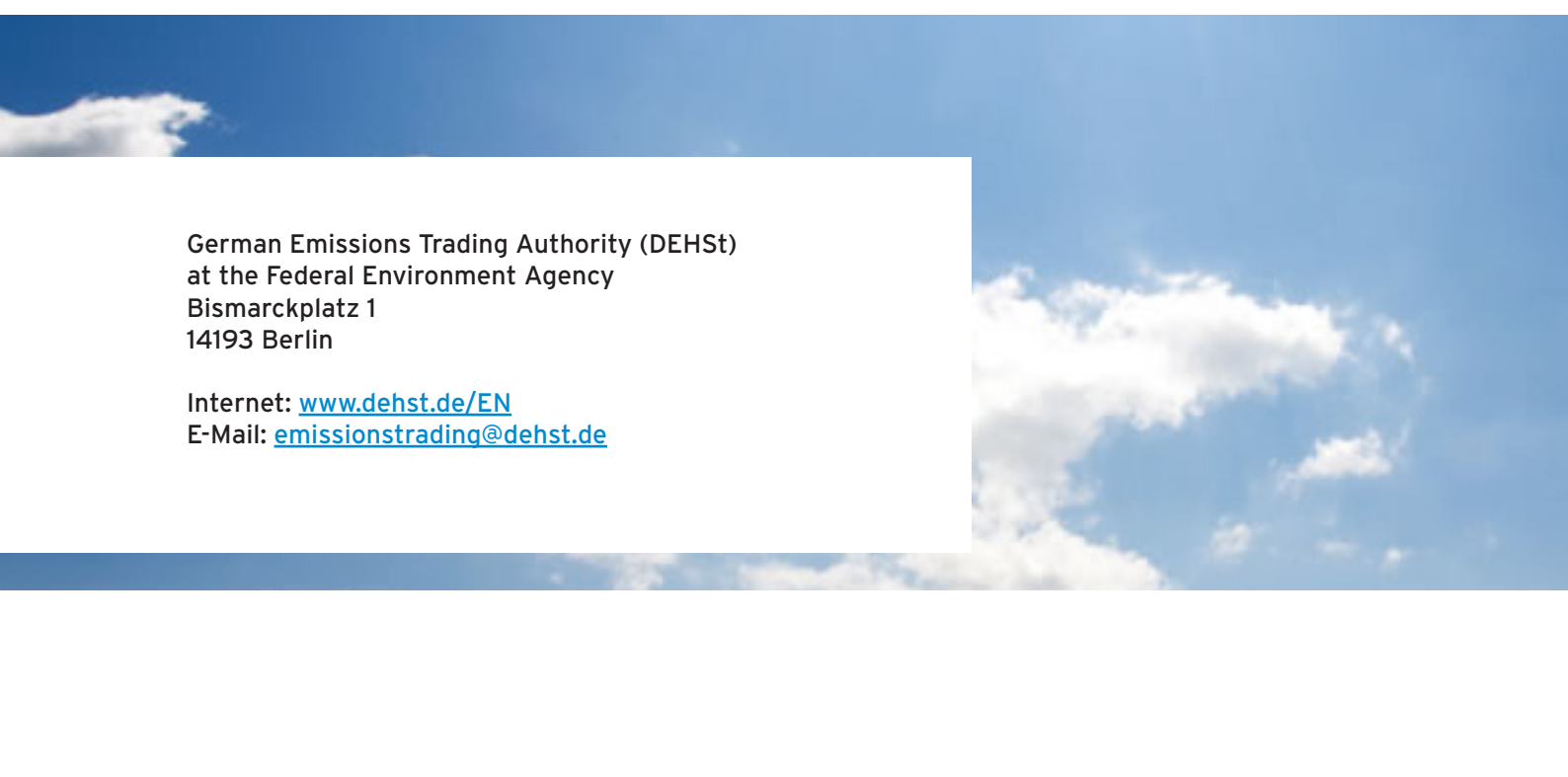
³ Settlement prices are set by the exchanges at the end of the trading day. They usually reflect trade activity only immediately before closure of the exchange and are thus not always a true reflection of the secondary market.

⁴ [ICE/ECX Emissions Index](#): The index is calculated from the volume-weighted prices within a trading day, making it a suitable indicator of the trend in the market segment considered.



Source: BlueNext, EEX, DEHSt

Figure 6: Spot clearing prices and daily average BlueNext spot market price in the 3rd quarter of 2012



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