Auctions by the transitional common auction platform

8th Report

Auction platform: European Energy Exchange (EEX)

Auction dates/reporting period:

1, 7, 8, 10, 14, 15, 17, 21, 22, 24, 28, 29, 31 October 2013[1]

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[1] On 7, 14, 21 and 28 October, EEX conducted two auctions: one for the 24 participating Member States and one for Poland.

Auctions by the transitional common auction platform — 8th Report

October 2013

Editor's note: This report has been prepared by the Commission with the assistance of DLA Piper UK LLP and CEFIN BV, who are working under a contract for the Commission, on behalf of the following Member States: Austria, Belgium, Bulgaria, Croat Republic, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. These Member States have approved this report under the rules in the Joint Procurement Agreement to procure common auction platforms (except for Poland, whose comments were requested separately). The report complies with the requirement laid down in the fourth subparagraph of Article 10(4) of Directive 2003/87/EC.[2]

Methodology: The report is based on the reports submitted by EEX, on the discussions in regular meetings between the Commission, its advisors and EEX and on any further relevant information available to the Commission. The authors of the report did not actively verify EEX's compliance with the specific rules and provisions applicable under European or national law.

For reasons of confidentiality and proper enforcement of the applicable rules, the report refers only to public reporting on the auctions and not to any non-public reports.

Disclaimer: The authors have made every effort to ensure that the information provided is complete, correct and precise for the reporting period. Nevertheless, the report is based on limited information available to the authors in a market context where much information has to remain confidential. The authors did not actively verify the information. Therefore, the authors and the Member States on whose behalf this report was drafted deny any responsibility or liability whatsoever for its contents, regardless of the nature of such contents. Any reliance by any person or entity on the information provided in this report is solely at that person's or entity's own risk.

Glossary: terms and expressions written in *italics* are included in the glossary.

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[2] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, OJ L 275, 25.10.2003, p. 32, as subsequently amended.

Auctions by the transitional common auction platform — 8th Report

October 2013

Executive summary

This report covers the auctioning of emissions allowances in the period October 2013. In that period, EEX, in its capacity as the common auction platform, auctioned a total of 44 999 500 *EU general emission allowances* (‘*EUAs*’) in 13 separate auctions for the *third trading period* on behalf of those EU Member States that participate in the transitional common auction platform (*participating Member States*). It also auctioned 14 643 000 EUAs for Poland in 4 separate auctions.

The total amount raised from the 17 auctions held during the reporting period was EUR 289 295 510. Taking into account the volumes per auction, the weighted average clearing price during the reporting period was EUR 4.85 per EUA.

During the reporting period 54 bidders were eligible to bid in the auctions, of which 36 qualified as operators in the EU ETS.

All auctions were held securely and smoothly and no irregularities or deviations from the requirements were observed.

Generally, the auction clearing price was in line with the price signal in the secondary market.

During the reporting period, EEX did not hold any auction for *EU aviation allowances* (‘*EUAAs*’). In response to the positive developments at the recent ICAO Assembly, the Commission proposed an amendment to the EU ETS Directive on 16 October 2013 regarding aviation emissions.[3] One of the proposed derogations would allow aircraft operators to surrender allowances with respect to 2013 emissions by 30 April 2015 instead of 30 April 2014. In view of this proposal, the Commission and the Member States have asked EEX to put on hold aviation allowances auctions until there is greater clarity on the final version of the amendment, the expected timing of its adoption and hence the appropriate volumes to be auctioned.

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[3] http://ec.europa.eu/clima/policies/transport/aviation/index_en.htm and http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52013PC0722:EN:NOT.

Auctions by the transitional common auction platform — 8th Report

October 2013

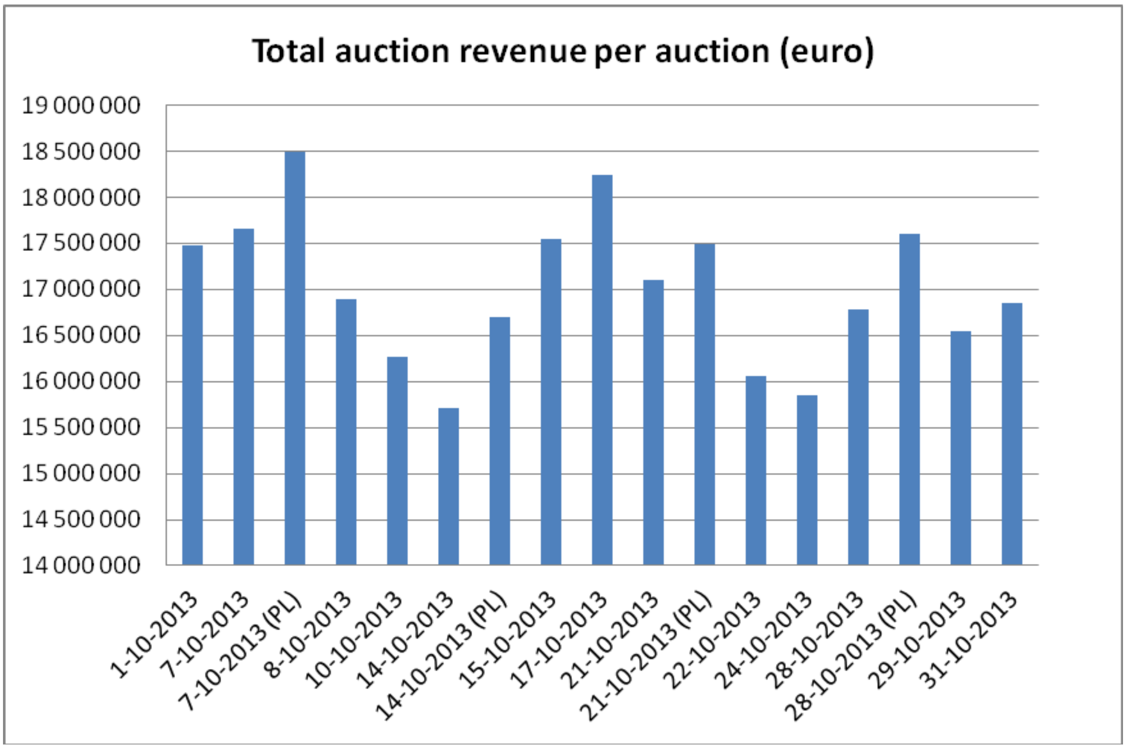
Section 1. Results of the auctions

During the month of October 2013, EEX, in its capacity as the transitional common auction platform, auctioned a total of 44 999 500 *EUAs* valid for the *third trading period* on behalf of all 24 EU Member States that have contracted EEX and appointed it as the transitional common auction platform. It also auctioned 14 643 000 EUAs in four separate auctions for Poland, who contracted EEX for auctioning its share of allowances pending the appointment of its 'own' auction platform.

The total amount raised from the 17 auctions held during the reporting period was EUR 289 295 510 (see Graph 1 and Table 1). Taking into account the volumes per auction, the weighted average clearing price during the reporting period was EUR 4.85 per EUA. This is a decrease of EUR 0.33 per EUA compared with the previous reporting period.

For all graphs in this report where it is relevant, information pertaining to the auctions conducted for Poland is indicated in the horizontal date axis of the graph with (PL).

Graph 1 Total auction revenue per auction (euro)



Auctions by the transitional common auction platform — 8th Report

October 2013

Table 1 Auction revenues per Member State (euro)

	October		October
Austria	5 820 840	**Italy**	40 429 530
Belgium	10 629 360	**Lithuania**	2 024 640
Bulgaria	5 504 490	**Luxemburg**	506 160
Cyprus[4]	0	**Latvia**	1 107 225
Czech Republic	10 724 265	**Malta**	411 255
Denmark	5 251 410	**Netherlands**	14 014 305
Estonia	1 391 940	**Poland**	70 286 405
Greece	14 552 100	**Portugal**	7 370 955
Spain	36 253 710	**Romania**	12 812 175
Finland	6 991 335	**Sweden**	3 732 930
France	22 967 010	**Slovenia**	1 866 465
Hungary	3 068 595	**Slovak Republic**	6 453 540
Ireland	5 124 870		

Detailed information per auction can be found in **Annex I**.

Auctioning Member States

At the start of the reporting period, all the auctioneers of all 24 *participating Member States* had been admitted and recognised by EEX/ECC and were participating in the auctions.

In accordance with the second subparagraph of Article 30(7) of the *Auctioning Regulation,* pending the procurement, appointment and listing of its opt-out auction platform, Poland contracted EEX to auction its share of allowances to be auctioned. These auctions started on 16 September 2013.

On 1 July 2013, Croatia joined the European Union, and it has become a party to the Joint Procurement Agreements so as to auction its share of allowances on EEX. The auctioneer appointed by Croatia has, however, still to submit the necessary documentation. Hence, the starting date remains to be determined.

The Member States of the European Free Trade Association (EFTA) that are Party to the European Economic Area (EEA)[5] have also stated their intention to make use of the transitional common auction platform by aggregating their volumes to those auctioned on behalf of the participating Member States. The preparations for this are on-going.

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4 In accordance with the *Auctioning Regulation*, half of the 'early auctions' for 2012 and all allowances allocated free of charge to electricity operators on a transitional basis pursuant to Article 10c of the ETS Directive are to be subtracted from the volume to be auctioned by a Member State. For these reasons, until the end of 2013 no allowances are to be auctioned for Cyprus.

5 Iceland, Liechtenstein and Norway.

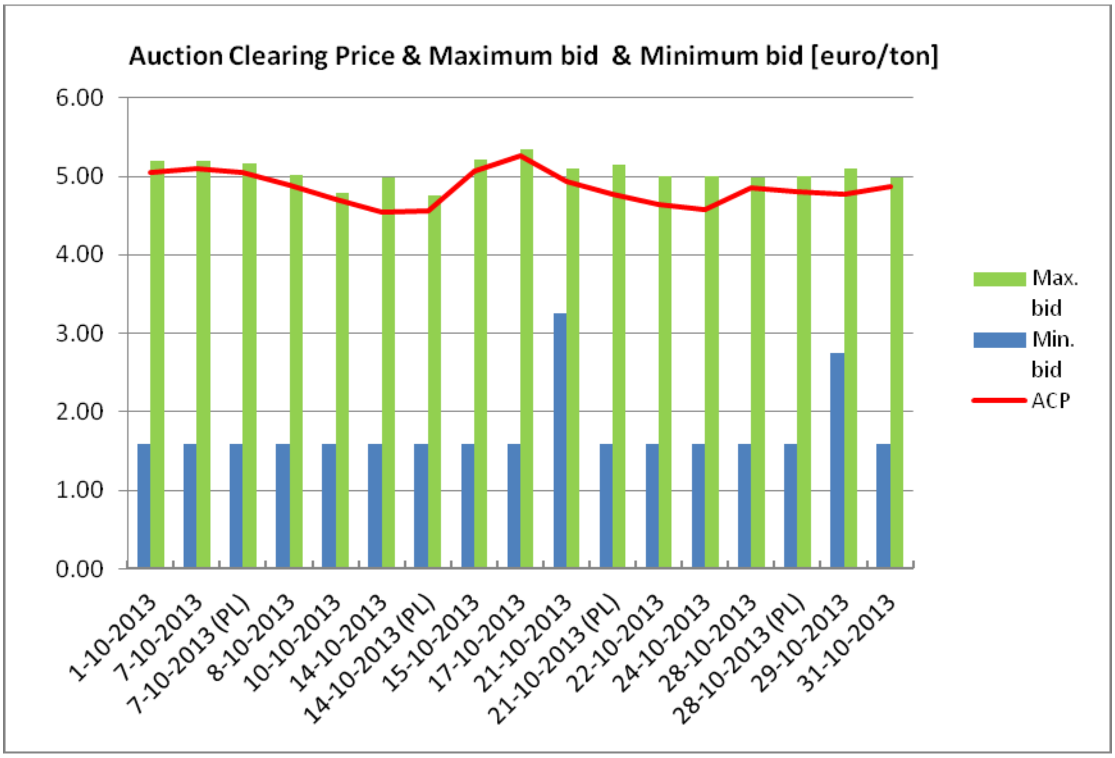
Auctions by the transitional common auction platform — 8th Report

October 2013

Auction clearing price

During the period under consideration, the auction clearing price for the EUAs moved between EUR 4.54 and EUR 5.27 per allowance (see Graph 2). The lowest auction clearing price in this reporting period is EUR 0.16 above the lowest auction clearing price during the previous reporting period. The highest auction clearing price in this reporting period is EUR 0.20 per allowance below the highest auction clearing price of the previous reporting period.

Graph 2: Auction Clearing Price (ACP) & Maximum prices bid & Minimum prices bid [euro/ton]



For all but two auctions, the auction clearing prices were equal to, or between, the *best-ask and best-bid prices* on the EEX *secondary market* for spot emission allowances. In general, the auction clearing prices were also in line with the prices of carbon products (spot and futures) on other trading venues, and with the clearing prices of other auctions of emission allowances conducted during the period.

During the reporting period the price volatility decreased compared with the previous reporting period. The auction price movements didn't show a clear upward or downward trend during the reporting period

Maximum and minimum prices bid

The highest prices bid in the auctions were on average EUR 0.21 per EUA above the clearing price (see Graph 2).

Auctions by the transitional common auction platform — 8th Report

October 2013

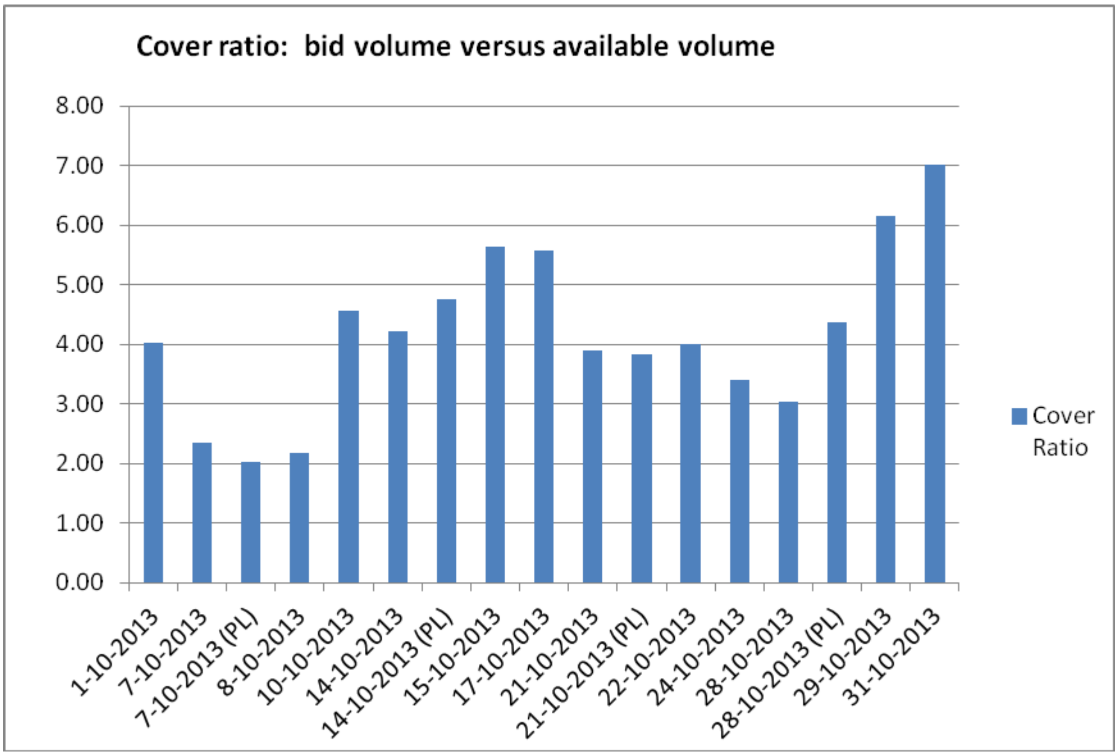
The lowest prices bid in the auctions were on average EUR 3.10 per EUA below the clearing price. This difference was smaller for two auctions during the reporting period.

The average difference between the maximum price bid and the minimum price bid in the auctions was about EUR 0.75 higher than the average for the auctions conducted in the preceding month.

Cover ratio

The *cover ratio* — the bid volume as a proportion of the available volume in the auction — (see Graph 3) moved in general between a value of 2 and 7 during the reporting period. The average was about 30% higher than the *cover ratio* during the previous reporting period. The lowest *cover ratio* during the reporting period was 2.03 at the second auction of 7 October 2013 with the highest *cover ratio* being 7.01 at the auction of 31 October 2013.

Graph 3 Cover ratio: bid volume versus available volume



Number of Bidders

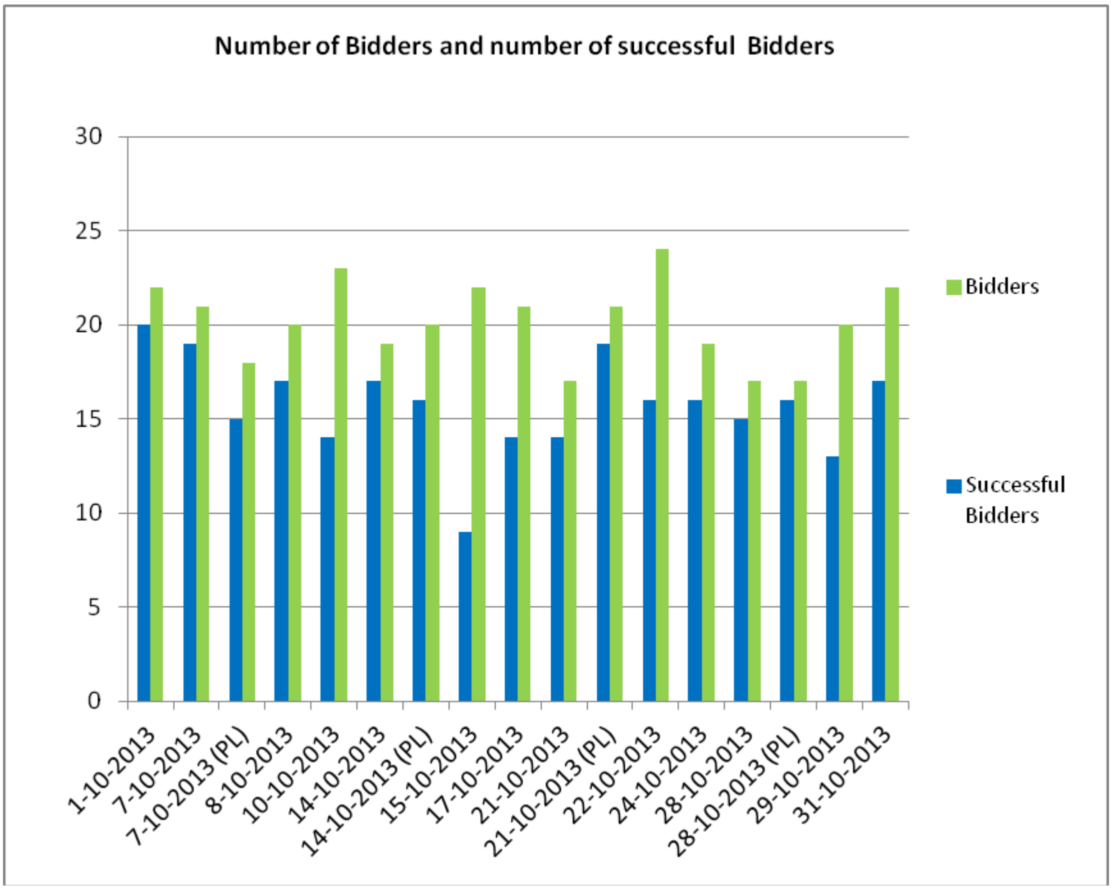
The number of active bidders (see Graph 4) per auction ranged from 17 to 24. The average number of active bidders was 20, which is one more than the average number of active bidders during the previous reporting period. Overall, the number of active bidders per auction showed a slight downward trend during the reporting period.

Auctions by the transitional common auction platform — 8th Report

October 2013

The number of successful bidders per auction ranged from 9 to 20 during the reporting period. The average number of successful bidders was 16, which is two more than the average number of successful bidders during the previous reporting period. Overall, the number of successful bidders per auction showed a slight downward trend during the reporting period.

Graph 4 Number of bidders and number of successful bidders



Average volume per bidder and average volume won by successful bidders

The average bid volume per bidder (see Graph 5) ranged from 375 875 to 1 102 409 EUAs during the reporting period. Overall, the average bid volume per bidder showed a clear upward trend during the reporting period.

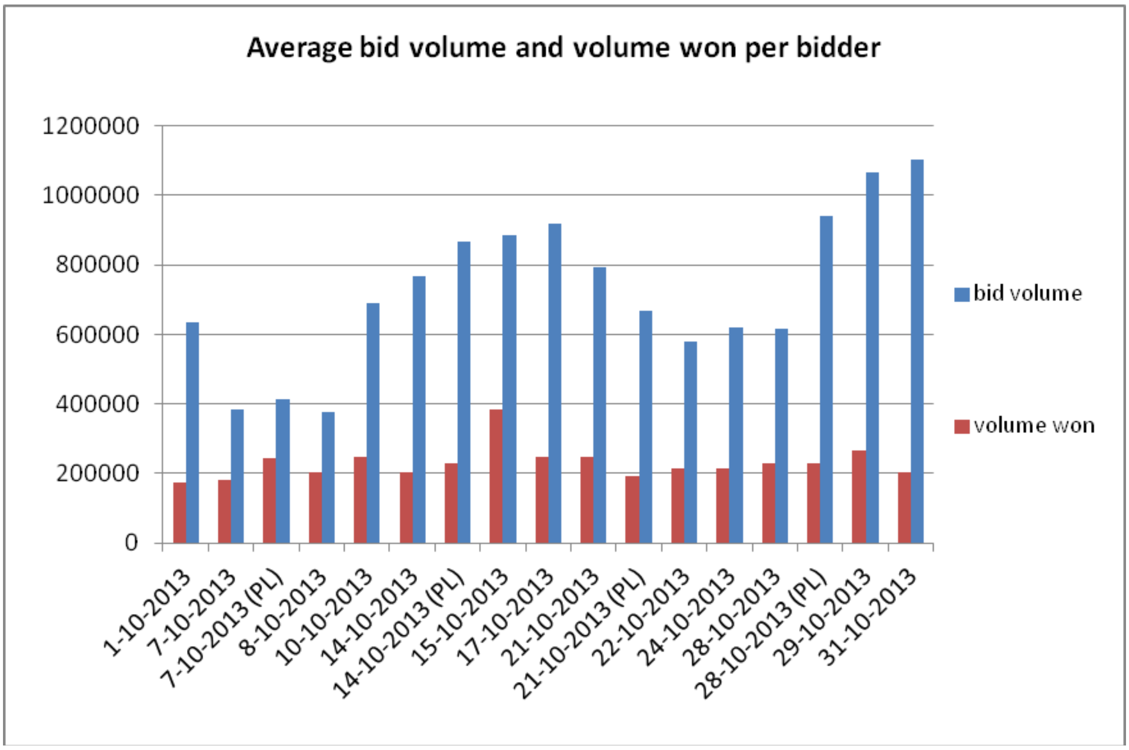
The average volume won by successful bidders ranged from 173 075 to 384 611 EUAs. The average volume won by successful bidders did not show a clear upward or downward trend during the reporting period.

The average bid volume per bidder was about 30% higher than during the previous reporting period. The average volumes won by successful bidders during the reporting period was about 10% lower than during the previous reporting period.

Auctions by the transitional common auction platform — 8th Report

October 2013

Graph 5 Average bid volume and volume won per bidder



<u>Volume of successful bids per bidder category</u>

During the reporting period almost all bidders bid on their own account with only 0.1% of the bid volume being submitted by intermediaries on behalf of a client. *Operators*, including business groupings of *operators*, accounted for about 54% of the total auctioned volume during the reporting period (see Graph 6).

Investment firms, including *persons exempt*, accounted for about 30% of the total auctioned volume during the reporting period.

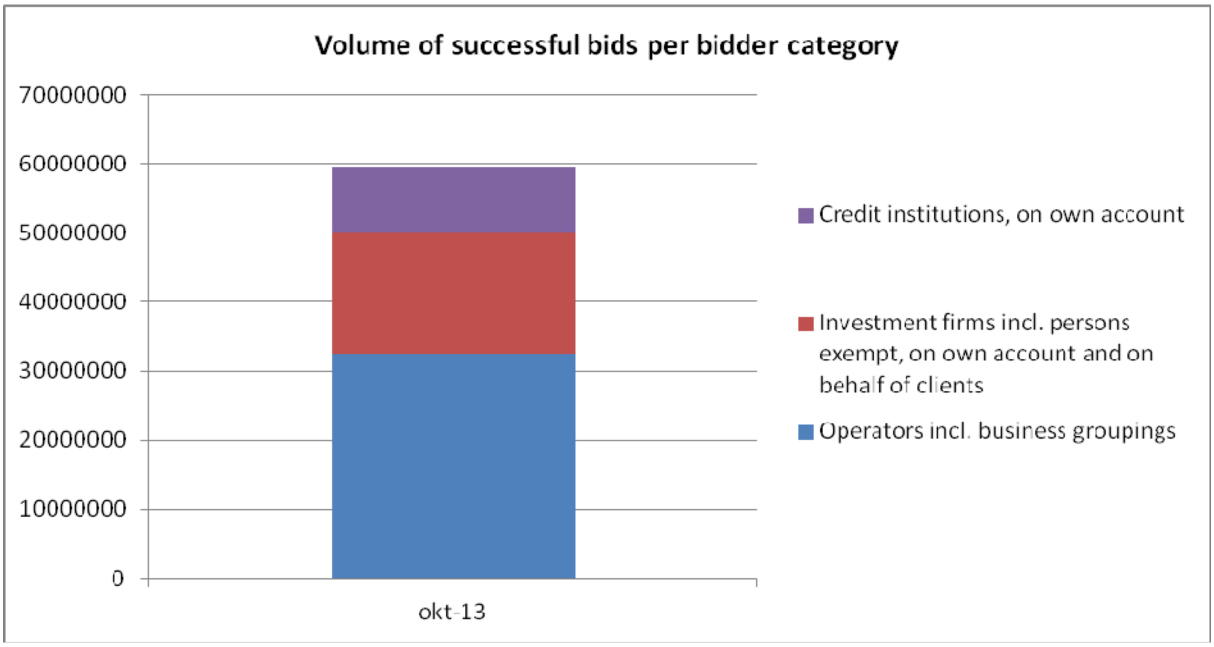
Credit institutions accounted for about 16% of the total auctioned volume during the reporting period.

Overall, compared to the previous month, the share of the *operators*, including business groupings of *operators*, increased with about 6% and the share of investment firms, including *persons exempt*, increased with about 5%. The share of the credit institutions decreased with about 11%. For individual auctions, the fluctuations of these shares are relatively significant, though.

Auctions by the transitional common auction platform — 8th Report

October 2013

Graph 6: Volume of successful bids per bidder category



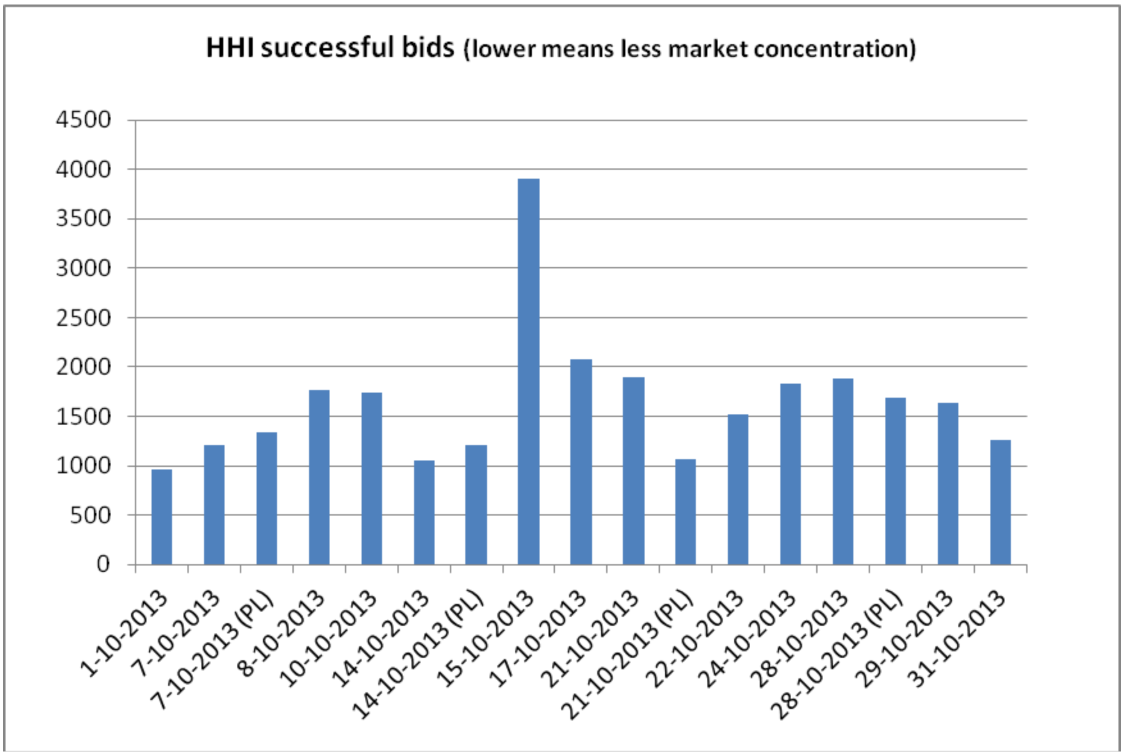
<u>The Herfindahl-Hirschman Index (HHI)</u>

The Herfindahl-Hirschman Index (HHI) is used by EEX to measure market concentration. The HHI is calculated as the sum of the squares of all successful bidders' shares (in %) of the total auctioned volume per auction. The HHI ranges from a value of 0 (perfect competition) to 10 000 (a single monopolistic buyer).

A common interpretation of the HHI is that a score below 1 500 is 'not-concentrated', between 1 500 and 2500 is 'moderately concentrated,' and above 2 500 is 'highly concentrated'.

Apart from a spike of 3 900 for the auction of 15 October 2013, the HHI moved between about 950 and 2 100 (see Graph 7) and the average HHI during the reporting period was 1 648.4. The HHI calculated as the sum of the squares of all successful bidders' shares (in %) of the total auctioned volume in that reporting period was 1 024 for the auctions for the 25 Member States and 1 136 for the auctions conducted for Poland.

Graph 7 Herfindahl-Hirschman Index



Section 2. Implementation of and compliance with the applicable rules

Fair and open access

EEX verified that each auction participant belonged to one of the categories of eligible bidders set out in Article 18 of the *Auctioning Regulation*. During the reporting period, the number of bidders admitted to the auctions increased with two to 54 compared with the previous reporting period. Most of the active participants in the carbon market are assumed to have been admitted to bid in the auctions.

Of the 54 companies eligible to bid in the auctions 36 were EU ETS operators, 9 were *investment firms* and 6 were *credit institutions* (see Table 2). The 3 other companies eligible to bid in the auctions were *persons exempt* from the authorisation requirements in EU financial law, because their trading and investment services activities are only ancillary to their main business (Article 2(1)(i) of Directive 2004/39/EC), that were authorised under national legislation implementing the Auctioning Regulation to bid for allowances in the auctions.

Throughout the period, EEX actively promoted the auctions in view of attracting bidders.

Auctions by the transitional common auction platform — 8th Report

October 2013

Table 2 Eligible bidders per category at the end of the reporting period

Number of participants	Operators		Invest-ment firms	Credit Insti-tutions	Business groupings	Persons exempt From MiFID requirements (Article 2(1)(i) Directive 2004/39/EC)	Total
	Stationary	Aircraft					
Participants admitted to EEX's emissions *spot secondary market*	-	-	-	-	-	-	110
Participants eligible to bid in the auctions	35	1	9	6	0	3	54
(Of which:) Participants eligible to bid in the auctions on behalf of clients	-	-	2	1	-	1	4
(Of which:) Auction-only participants	0	0	1	0	0	0	1

One of the admitted participants made use of the option of '*auction-only access*' to the auctions. Most bids were submitted by the bidder; only about 0.1% of the bid volume was submitted by intermediaries on behalf of a client.

No irregularities or deviations from the admission and access requirements were found.

Transparency

All auction results were published in accordance with Article 61 of the *Auctioning Regulation,* never later than 15 minutes after the close of the *bidding window*.

There was no need to adjust the auction calendar during the reporting period.

EEX revised its webpage on auctioning where necessary for keep it up to date.

Technical and operational aspects

No irregularities or deviations from the requirements were found as regards the auctions themselves or the *clearing* and *settlement* processes, apart from one minor incident in one auction which did not affect the successful completion of that auction.

EEX's Market Surveillance department surveyed all auctions with a view to detecting any *market abuse*, money laundering, terrorist financing or other criminal activities. No such wrongdoing was publicly reported. EEX's Market Surveillance department takes its instructions only from SMWA (Saxony's Ministry for Economy and Employment) and is independent of the exchange itself.

No infringements of the confidentiality requirements were identified.

Other aspects

No problems or issues were identified as regards coordination of the auctions between the various auction platforms.

Section 3. Overview of, and any updates on breaches of provisions or ongoing proceedings

No breaches or problems of non-conformity were reported. There were no proceedings on such breaches or problems of non-conformity dating from before the reporting period.

Approval of the report

Comments of the auction platform on the draft of this report and the way they have been taken into account

EEX made no comments on the report.]

Comments by Poland on the draft of this report and the way they have been taken into account

Poland made no comments on the report.]

Date of approval by the Member States: 9 December 2013

Place & date: Brussels 10 December 2013

Auctions by the transitional common auction platform — 8th Report

October 2013

Glossary

Auction calendar	Document setting out the *bidding windows*, individual volumes and auction dates of the auctions in a given calendar year. See Articles 11, 13 and 32 of the *Auctioning Regulation.*
Auction-only access	Access to the auctions without becoming a member of or participant in other markets organised by the auction platform.
Auctioning Regulation	Commission Regulation (EU) No 1031/2010 — Timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, Official Journal L 302, 18.11.2010, p. 1, as subsequently amended. See: http://ec.europa.eu/clima/policies/ets/cap/auctioning/documentation_en.htm.
Auctioneer	Entity appointed by a Member State that offers the allowances to be auctioned to the auction platform and receives the auction proceeds due to the appointing Member State. See Articles 22 and 23 of the *Auctioning Regulation*.
Back-loading	Proposal by the Commission to postpone, as a short-term measure, the auctioning of 900 million allowances from the years 2013-2015 until 2019-2020. See: http://ec.europa.eu/clima/policies/ets/reform/index_en.htm.
Best-bid and best-ask prices	The best-bid price is the highest price any buyer is willing to pay and the best-ask price is the lowest price any seller is willing to accept.
Business groupings	Groupings of operators or aircraft operators. See Article 18(1)(d) of the *Auctioning Regulation.*
Bidding window	Time during which bidders can submit bids. See Article 8(1) of the *Auctioning Regulation*.
Clearing	Processes preceding the opening of the bidding window, during the bidding window and following the closure of the bidding window until settlement, involving the management of any risks arising during that interval including margining, netting or novation or any other services carried out possibly by a clearing or settlement system. See Article 3(31) of the *Auctioning Regulation*.
Cover ratio	Total bid volume divided by the available volume in the auction.
Credit institution	Credit institution as defined in EU legislation on credit institutions (Article 4(1) of Directive 2006/48/EC).
ETS Directive	Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, OJ L 275, 25.10.2003, p. 32, as

	subsequently amended. See: http://ec.europa.eu/clima/policies/ets/documentation_en.htm
EU general allowance (EUA)	Allowance to emit one tonne of CO2-equivalent, see Article 3(a) of the *ETS Directive*.
EU aviation allowance (EUAA)	Allowance to emit one tonne of CO2-equivalent that can be used by aircraft operators. See Article 12(2a) and (3) of the *ETS Directive.*
Investment firms	Investment firms as defined in EU financial markets legislation (point (1) of Article 4(1) of Directive 2004/39/EC).
Market abuse	Insider dealing and market manipulation. See Article 36 of the *Auctioning Regulation* and Article 1 of Directive 2003/6/EC ('Market Abuse Directive').
Participating Member States	All EU Member States except Germany, Poland and the UK, which decided to opt out from the joint procurement of a common auction platform pursuant to Article 30 of the *Auctioning Regulation.*
Persons exempt	Persons exempt from the authorisation requirements in EU financial law because their trading and investment services activities are only ancillary to their main business (Article 2(1)(i) of Directive 2004/39/EC) and that have been authorised under national legislation implementing the rules laid down in the *Auctioning Regulation* to bid for allowances in the auctions. See Article 18(2) of the *Auctioning Regulation*.
Secondary market	Market in which persons buy or sell allowances either before or after they are allocated either free of charge or through auctioning. To be distinguished from the 'primary market', which consists of the auctions of allowances.
Settlement	Payment on delivery of the allowances. See Article 3(34) of the *Auctioning Regulation*.
Spot secondary market	Secondary market for allowances with delivery within 5 days from the transaction.
Stop-the-clock proposal	Proposal by the Commission to exempt from enforcement flights into and out of Europe operated in 2010, 2011, and 2012 to provide negotiation time for the ICAO General Assembly in autumn 2013. The proposal was adopted on 24 April 2013. See: http://ec.europa.eu/clima/policies/transport/aviation/index_en.htm and OJ L115 of 25 April 2013, p.1.
TARGET-2 bank account	Bank account in the TARGET2 system, which is an interbank payment system for real-time processing of cross-border transfers throughout the European Union. TARGET2 replaced TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer System) in November 2007.
Third trading period	The period 2013-2020. Allowances are valid during a given period without distinction as regards the year within that period. See Article 13 of the *ETS Directive*.

Annex 1 Results of individual auctions

Date	Auction Price €/tCO2	Minimal Price €/tCO2	Maximal Price €/tCO2	Mean €/tCO2	Median €/tCO2	Auction Volume tCO2	Total Amount of Bids	Cover Ratio	Total Number of Bidders	Number of Successful Bidders	Total Revenue €
31-10-2013	4.87	1.59	4.98	4.39	4.80	3 461 500	24 253 000	7.01	22	17	16 857 505
29-10-2013	4.78	2.75	5.10	4.54	4.70	3 461 500	21 330 000	6.16	20	13	16 545 970
28-10-2013 (PL)	4.81	1.59	5.00	4.37	4.77	3 660 500	16 009 000	4.37	17	16	17 607 005
28-10-2013	4.85	1.59	4.99	4.37	4.85	3 461 500	10 475 000	3.03	17	15	16 788 275
24-10-2013	4.58	1.59	5.00	4.08	4.56	3 461 500	11 811 000	3.41	19	16	15 853 670
22-10-2013	4.64	1.59	5.00	4.20	4.58	3 461 500	13 890 000	4.01	24	16	16 061 360
21-10-2013 (PL)	4.78	1.59	5.15	4.32	4.75	3 660 500	14 030 500	3.83	21	19	17 497 190
21-10-2013	4.94	3.25	5.10	4.82	4.94	3 461 500	13 478 000	3.89	17	14	17 099 810
17-10-2013	5.27	1.59	5.35	4.74	5.20	3 461 500	19 277 000	5.57	21	14	18 242 105
15-10-2013	5.07	1.59	5.22	4.61	4.99	3 461 500	19 521 500	5.64	22	9	17 549 805
14-10-2013 (PL)	4.56	1.59	4.75	4.14	4.53	3 661 000	17 375 000	4.75	20	16	16 694 160
14-10-2013	4.54	1.59	4.99	4.06	4.50	3 461 500	14 613 000	4.22	19	17	15 715 210
10-10-2013	4.70	1.59	4.79	4.25	4.62	3 461 500	15 836 000	4.57	23	14	16 269 050
8-10-2013	4.88	1.59	5.02	4.43	4.87	3 461 500	7 517 500	2.17	20	17	16 892 120
7-10-2013 (PL)	5.05	1.59	5.16	4.56	5.03	3 661 000	7 450 000	2.03	18	15	18 488 050
7-10-2013	5.10	1.59	5.20	4.63	5.07	3 461 500	8 106 000	2.34	21	19	17 653 650
1-10-2013	5.05	1.59	5.20	4.46	5.00	3 461 500	13 933 000	4.03	22	20	17 480 575

Auctions conducted for Poland are indicated by (PL)