

Auctions by the transitional common auction platform

9th Report – November 2013

Auction platform: European Energy Exchange (EEX)

Auction dates/reporting period:

4, 5, 7, 11, 12, 14, 18, 19, 21, 25, 26, 28 November 2013¹

¹ On 4, 11, 18 and 25 November, EEX conducted two auctions: one for the 24 participating Member States and one for Poland.

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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, Cyprus, Croat Republic, 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.

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.

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Executive summary

This report covers the auctioning of emissions allowances in the period November 2013. In that period, EEX, in its capacity as the common auction platform, auctioned a total of 41 519 000 *EU general emission allowances* ('EUAs') in 12 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 14 642 000 EUAs for Poland in 4 separate auctions.

The total amount raised from the 16 auctions held during the reporting period was EUR 252 482 700. Taking into account the volumes per auction, the weighted average clearing price during the reporting period was EUR 4.49 per EUA.

During the reporting period 58 bidders were eligible to bid in the auctions, of which 38 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* ('EUAAAs') as these auctions were put on hold following the Commission's proposal for a derogation for aircraft operators with respect to flights into and out of the EU in 2012 (the '*stop-the-clock*' proposal). This proposal was adopted by the European Parliament and the Council on 24 April 2013.³

³ Decision No 377/2013 EU of 24 April 2013 derogating temporarily from Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, OJ L 113, 25.4.2013, p. 1.

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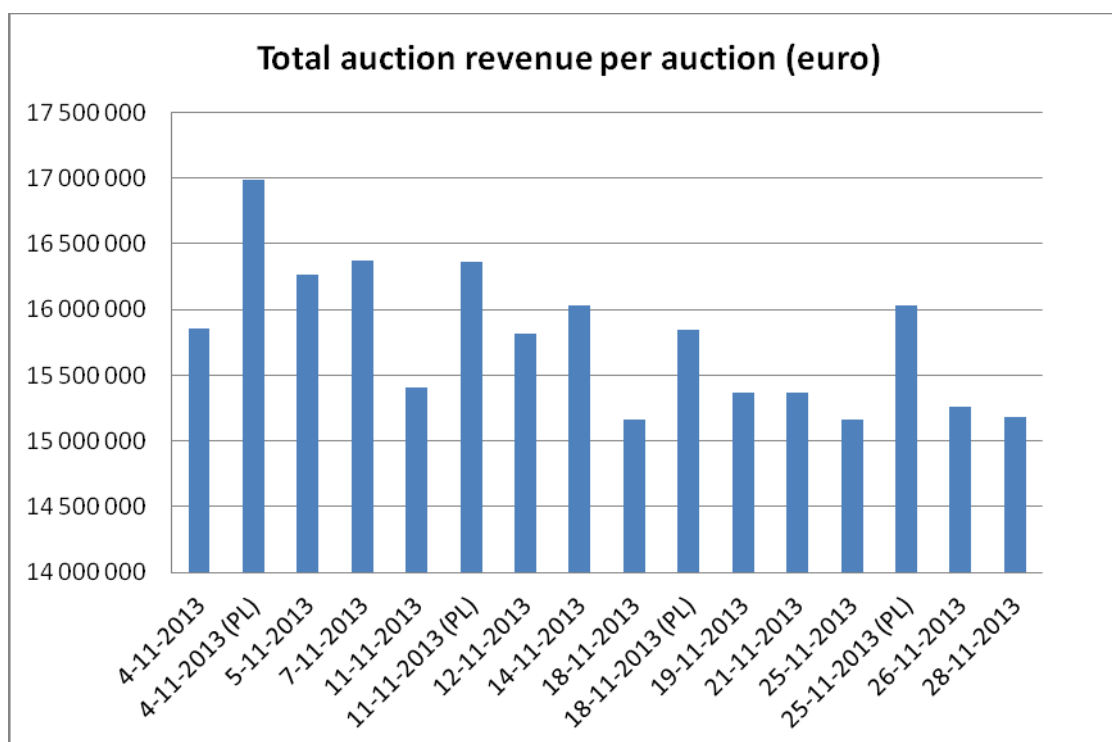
Section 1. Results of the auctions

During the month of November 2013, EEX, in its capacity as the transitional common auction platform, auctioned, in 12 separate auctions, a total of 41 519 000 EUAs valid for the *third trading period* on behalf of 24 EU Member States that have contracted EEX and appointed it as the transitional common auction platform. It also auctioned 14 642 000 EUAs in 4 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 16 auctions held during the reporting period was EUR 252 482 700 (see Graph 1 and Table 1). Taking into account the volumes per auction, the weighted average clearing price during the reporting period was EUR 4.49 per EUA. This is a decrease of EUR 0.36 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 are indicated in the horizontal date axis of the graph with (PL).

Graph 1 Total auction revenue per auction (euro)



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Table 1 Auction revenues per Member State (euro)

	November		November
Austria	4 979 040	Italy	34 582 680
Belgium	9 092 160	Lithuania	1 731 840
Bulgaria	4 708 440	Luxemburg	432 960
Cyprus⁴	0	Latvia	947 100
Czech Republic	9 173 340	Malta	351 780
Denmark	4 491 960	Netherlands	11 987 580
Estonia	1 190 640	Poland	65 230 110
Greece	12 447 600	Portugal	6 304 980
Spain	31 010 760	Romania	10 959 300
Finland	5 980 260	Sweden	3 193 080
France	19 645 560	Slovenia	1 596 540
Hungary	2 624 820	Slovak Republic	5 520 240
Ireland	4 299 930		

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

Auctioning Member States

At the start of the reporting period, the auctioneers of 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 and to the contract with EEX so as to auction its share of allowances on the common auction platform. 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.

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.

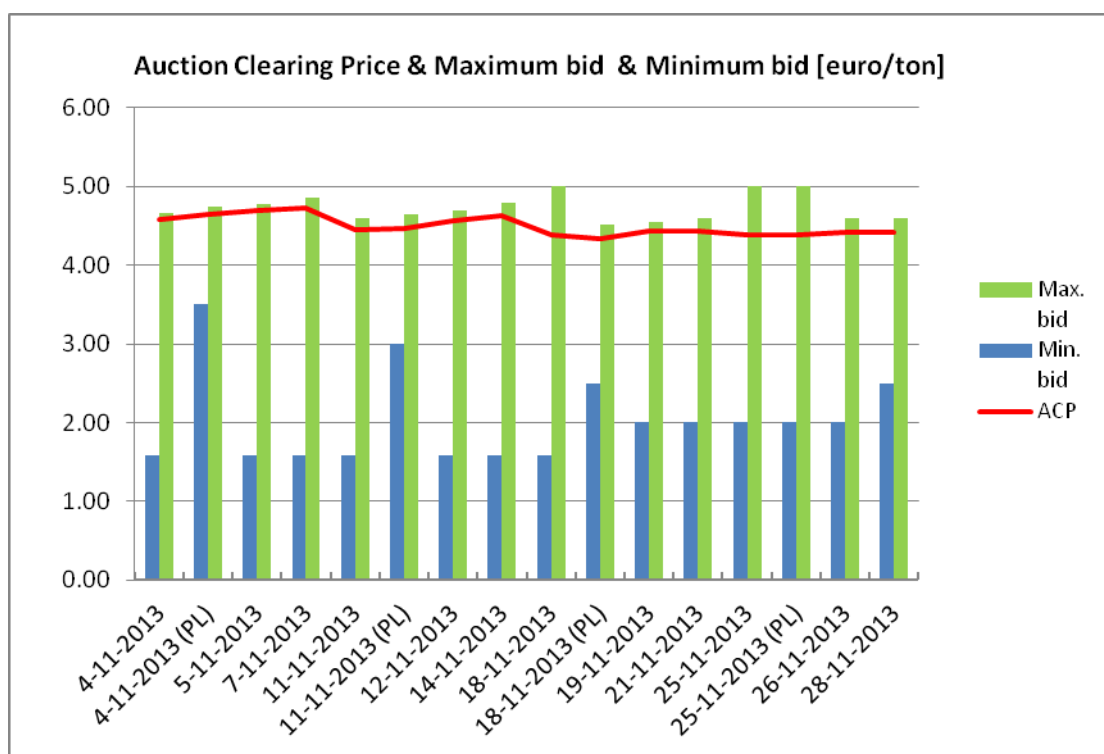
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Auction clearing price

During the period under consideration, the auction clearing price for the EUAs moved between EUR 4.33 and EUR 4.73 per allowance (see Graph 2). The lowest auction clearing price in this reporting period is EUR 0.21 below the lowest auction clearing price during the previous reporting period. The highest auction clearing price in this reporting period is EUR 0.54 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 three auctions, the auction clearing prices were equal to, or between, the *best-ask and best-bid prices* on EEX's *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.⁶

During the reporting period the price volatility decreased compared with the previous reporting period. The auction price movements showed a slight downward trend during the reporting period.

⁶ For eight auctions, the spread between the best-ask and best-bid price at the close of the auction was exceptionally wide. However, taking a somewhat broader perspective, also for these auctions the clearing price was very much in line with the market price at EEX's *secondary market* for spot emission allowances.

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Maximum and minimum prices bid

The highest prices bid in the auctions were on average EUR 0.23 per EUA above the clearing price (see Graph 2).

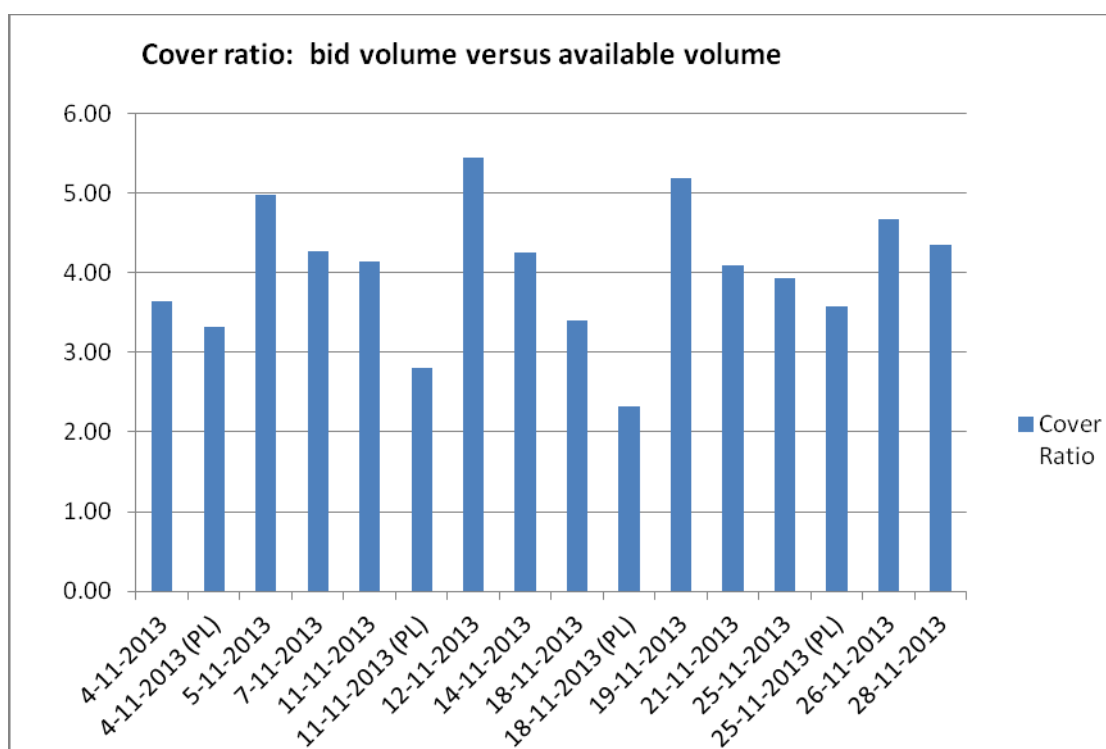
The lowest prices bid in the auctions were on average EUR 2.46 per EUA below the clearing price.

The average difference between the maximum price bid and the minimum price bid in the auctions was EUR 0.61 lower 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 5 during the reporting period. The average was about equal to the *cover ratio* during the previous reporting period. The lowest *cover ratio* during the reporting period was 2.32 at the second auction of 18 November 2013 with the highest *cover ratio* being 5.45 at the auction of 12 November 2013.

Graph 3 Cover ratio: bid volume versus available volume



Number of Bidders

The number of bidders (see Graph 4) per auction ranged from 17 to 24. The average number of bidders was 20, which is equal to the average number of bidders during the previous reporting

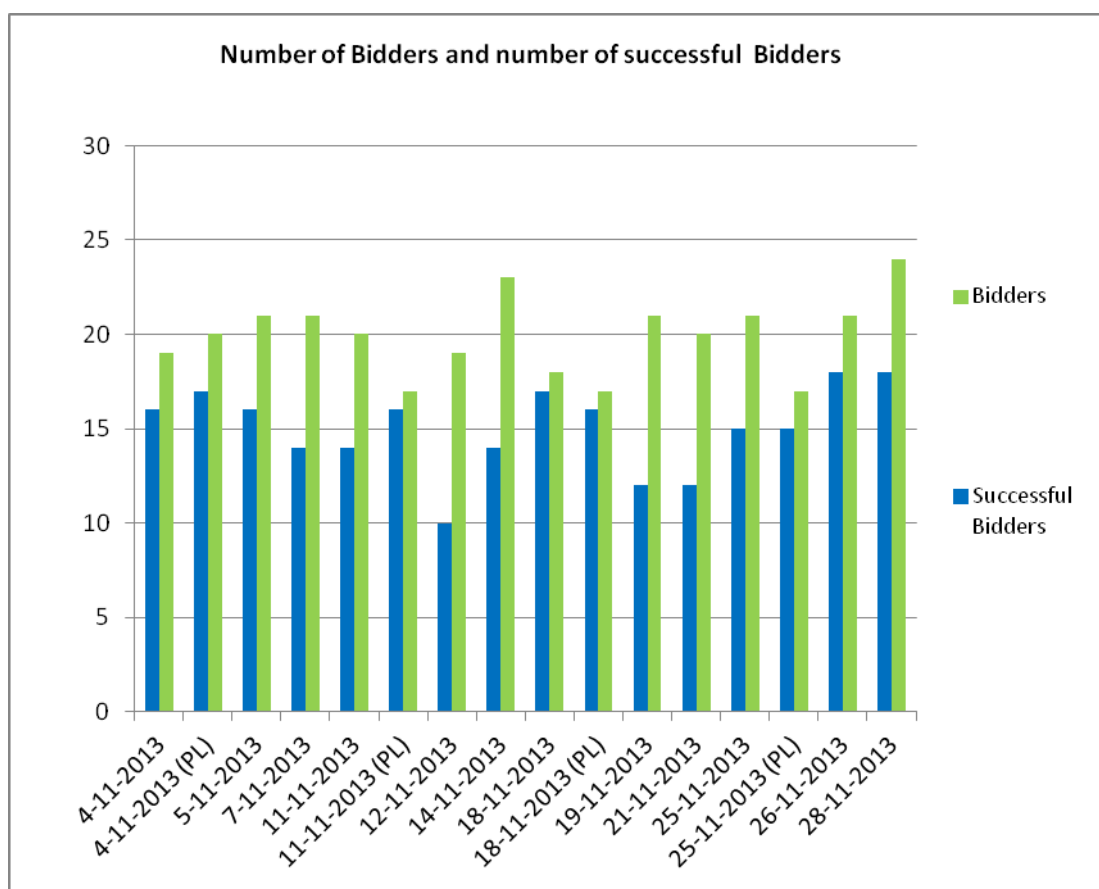
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period. Overall, the number of bidders per auction showed a slight upward trend during the reporting period.

The number of successful bidders per auction ranged from 10 to 18 during the reporting period. The average number of successful bidders was 15, which is one less than the average number of successful bidders during the previous reporting period. Overall, the number of successful bidders per auction did not show a clear upward or downward trend during the reporting period.

Graph 4 Number of bidders and number of successful bidders

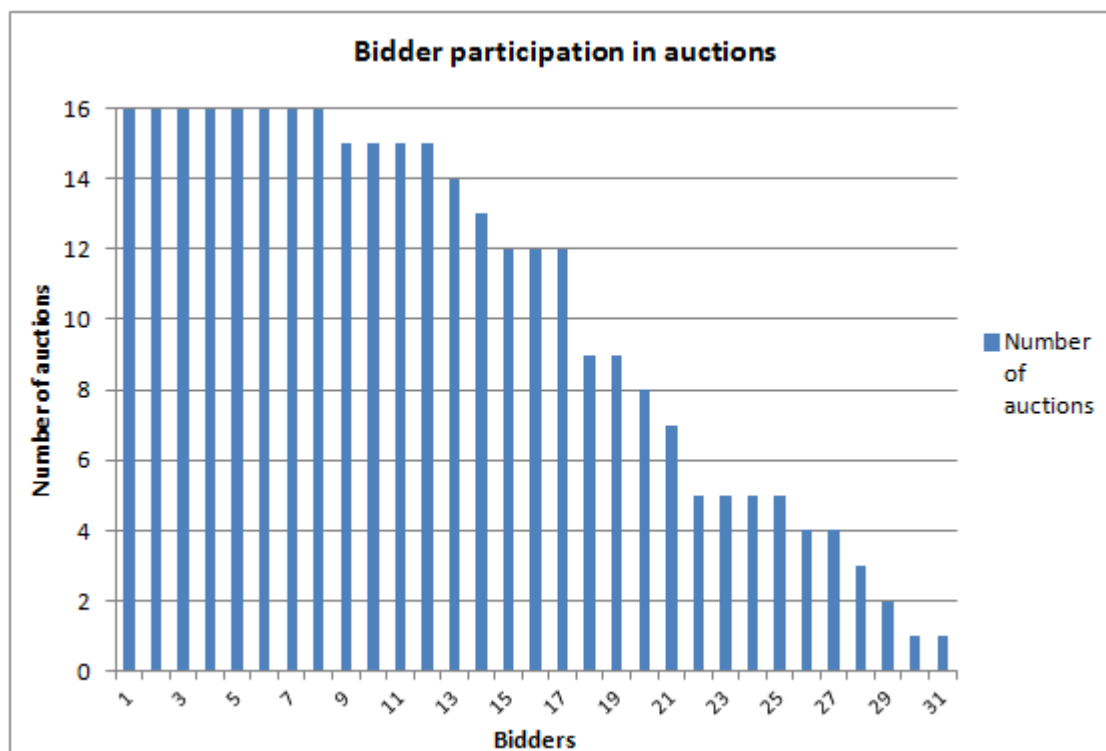


In total, 31 different bidders participated in the auction (see Graph 5). Eight of them participated in all auctions during the reporting period. Five of them participated only in four or fewer auctions during the reporting period.

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Graph 5 bidder participation in auctions



Average volume per bidder and average volume won by successful bidders

The average bid volume per bidder (see Graph 6) ranged from 499 118 to 993 211 EUAs during the reporting period. Overall, the average bid volume per bidder did not show a clear upward or downward trend during the reporting period.

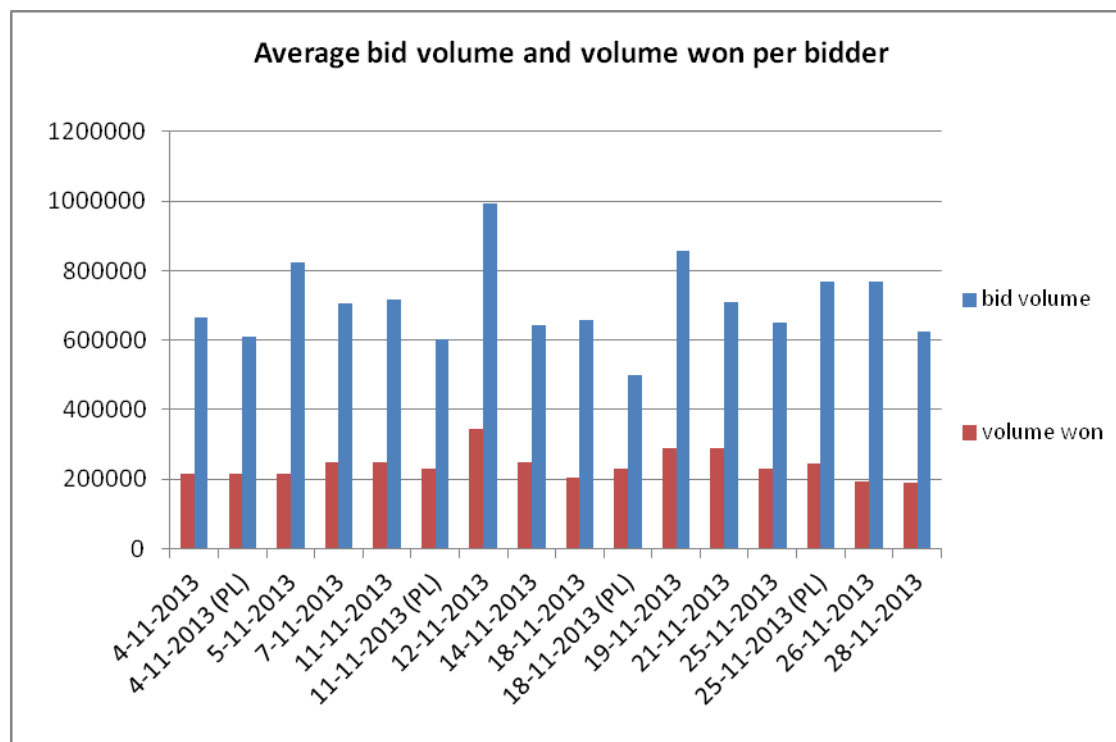
The average volume won by successful bidders ranged from 191 250 to 346 150 EUAs. Overall the average volume won by successful bidders did not show a clear upward or downward trend during the reporting period.

The average bid volume per bidder was about equal to the previous reporting period. The average volume won by successful bidders during the reporting period was about equal to the previous reporting period.

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Graph 6 Average bid volume and volume won per bidder



Volume of successful bids per bidder category

During the reporting period almost all bidders bid on their own account with only about 0.1% of the bid volume being submitted by intermediaries on behalf of a client. *Operators*, including business groupings of *operators*, accounted for about 64% of the total auctioned volume during the reporting period (see Graph 7).

Investment firms, including *persons exempt*, accounted for about 25% of the total auctioned volume during the reporting period.

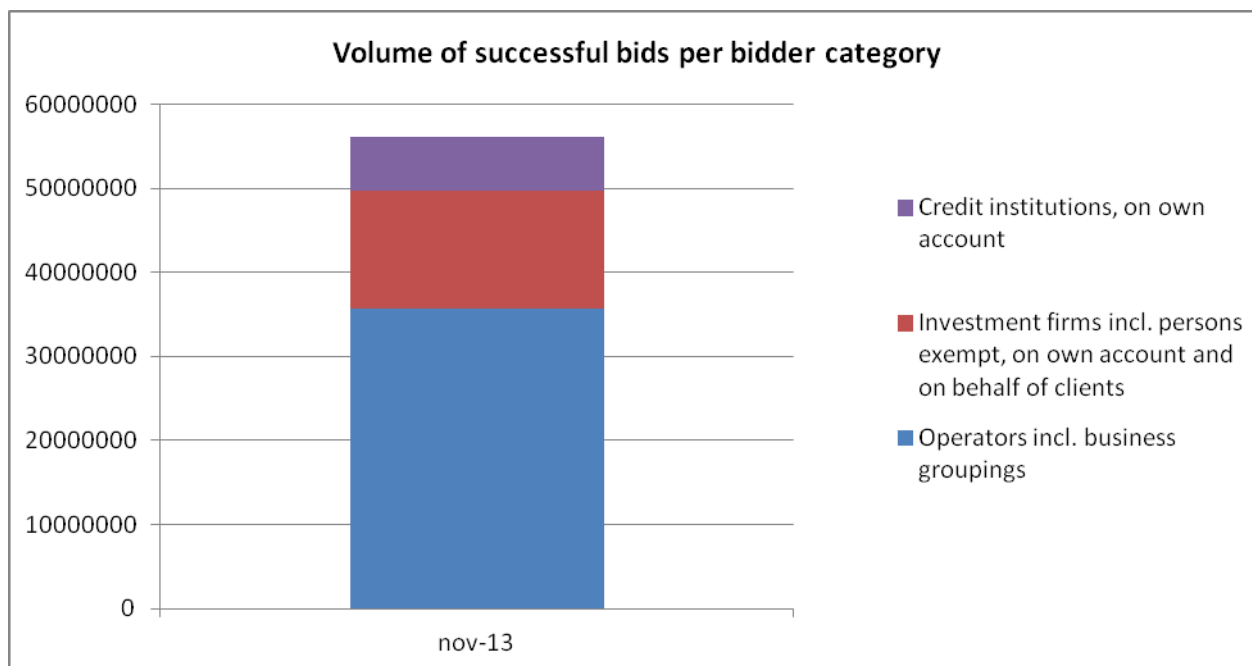
Credit institutions accounted for about 11% of the total auctioned volume during the reporting period.

Overall, compared to the previous month, the share of the *operators*, including business groupings of *operators*, increased with about 10% and the share of investment firms, including *persons exempt*, decreased with about 5%. The share of the credit institutions decreased with about 5%. For individual auctions, the fluctuations of these shares are relatively significant, though.

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Graph 7 Volume of successful bids per bidder category



The Herfindahl-Hirschman Index (HHI)

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).

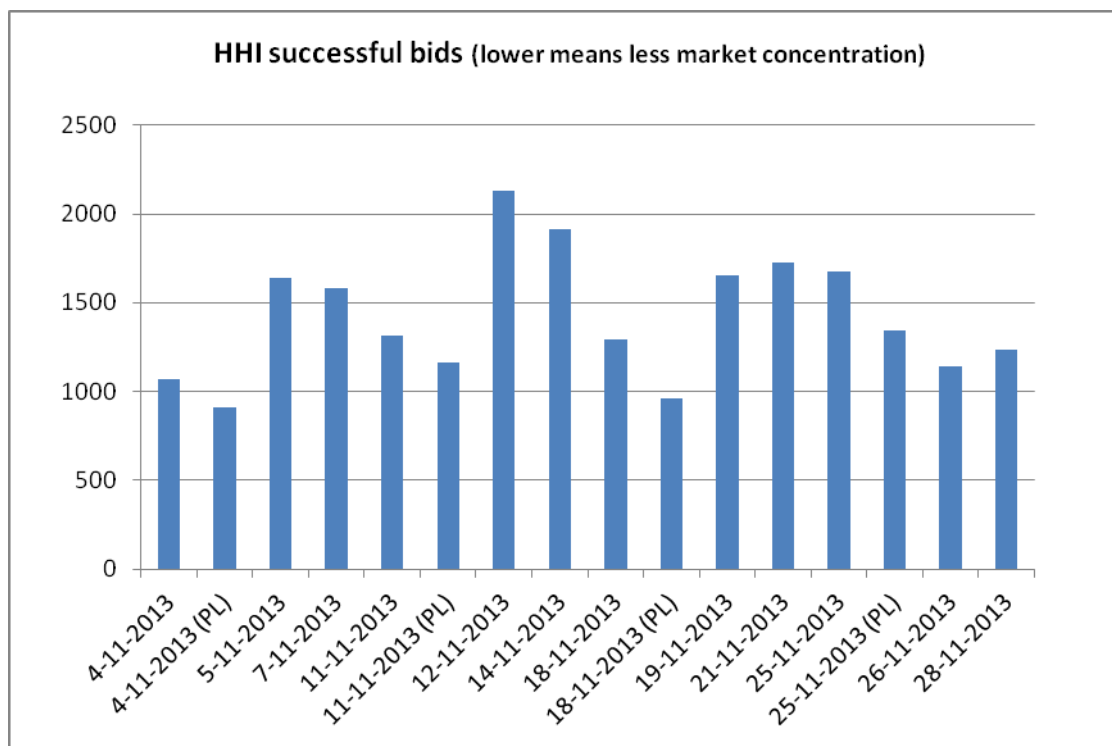
A common interpretation of the HHI is that a score below 1 500 is 'not-concentrated', between 1 500 and 2 500 is 'moderately concentrated,' and above 2 500 is 'highly concentrated'.

During the reporting period the HHI moved between about 900 and 2 100 (see Graph 8). The average HHI during the reporting period was 1 422. 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 964 for the auctions for the 24 Member States and 804 for the auctions conducted for Poland.

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Graph 8 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 four to 58 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 58 companies eligible to bid in the auctions 38 were EU ETS operators, 9 were *investment firms* and 7 were *credit institutions* (see Table 2). The 4 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.

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

Number of participants	Operators		Investment firms	Credit Institutions	Business groupings	Persons exempt From MiFID requirements (Article 2(1)(i) Directive 2004/39/EC)	Total
	Stationary	Aircraft					
Participants admitted to EEX's emissions <i>spot secondary market</i>	-	-	-	-	-	-	110
Participants eligible to bid in the auctions	37	1	9	7	0	4	58
(Of which:) Participants eligible to bid in the auctions on behalf of clients	-	-	2	2	-	2	6
(Of which:) Auction-only participants	0	0	2	0	0	0	2

Two 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.

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.

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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: 7 January 2014

Place & date: Brussels, 8 January 2014

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Glossary

Auction calendar	Document setting out the <i>bidding windows</i> , individual volumes and auction dates of the auctions in a given calendar year. See Articles 11, 13 and 32 of the <i>Auctioning Regulation</i> .
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 <i>Auctioning Regulation</i> .
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 <i>Auctioning Regulation</i> .
Bidding window	Time during which bidders can submit bids. See Article 8(1) of the <i>Auctioning Regulation</i> .
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 <i>Auctioning Regulation</i> .
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

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subsequently amended. See:

http://ec.europa.eu/clima/policies/ets/documentation_en.htm

EU general allowance (EUA)	Allowance to emit one tonne of CO ₂ -equivalent, see Article 3(a) of the <i>ETS Directive</i> .
EU aviation allowance (EUAA)	Allowance to emit one tonne of CO ₂ -equivalent that can be used by aircraft operators. See Article 12(2a) and (3) of the <i>ETS Directive</i> .
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 <i>Auctioning Regulation</i> 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 <i>Auctioning Regulation</i> .
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 <i>Auctioning Regulation</i> to bid for allowances in the auctions. See Article 18(2) of the <i>Auctioning Regulation</i> .
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 <i>Auctioning Regulation</i> .
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 <i>ETS Directive</i> .

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 €
28-11-2013	4.41	2.50	4.59	4.31	4.39	3 442 500	15 014 000	4.36	24	18	15 181 425
26-11-2013	4.41	2.00	4.60	4.22	4.41	3 461 500	16 167 000	4.67	21	18	15 265 215
25-11-2013 (PL)	4.38	2.00	5.00	4.34	4.38	3 660 500	13 090 000	3.58	17	15	16 032 990
25-11-2013	4.38	2.00	5.00	4.32	4.37	3 461 500	13 655 000	3.94	21	15	15 161 370
21-11-2013	4.44	2.00	4.60	4.27	4.40	3 461 500	14 200 000	4.10	20	12	15 369 060
19-11-2013	4.44	2.00	4.55	4.21	4.39	3 461 500	17 973 000	5.19	21	12	15 369 060
18-11-2013 (PL)	4.33	2.50	4.51	4.34	4.37	3 660 500	8 485 000	2.32	17	16	15 849 965
18-11-2013	4.38	1.59	5.00	3.94	4.37	3 461 500	11 818 000	3.41	18	17	15 161 370
14-11-2013	4.63	1.59	4.80	4.22	4.58	3 461 500	14 754 500	4.26	23	14	16 026 745
12-11-2013	4.57	1.59	4.70	4.08	4.50	3 461 500	18 871 000	5.45	19	10	15 819 055
11-11-2013 (PL)	4.47	3.00	4.65	4.42	4.47	3 660 500	10 247 000	2.80	17	16	16 362 435
11-11-2013	4.45	1.59	4.60	3.98	4.39	3 461 500	14 323 000	4.14	20	14	15 403 675
7-11-2013	4.73	1.59	4.86	4.23	4.69	3 461 500	14 805 500	4.28	21	14	16 372 895
5-11-2013	4.70	1.59	4.78	4.24	4.64	3 461 500	17 288 500	4.99	21	16	16 269 050
4-11-2013 (PL)	4.64	3.50	4.75	4.61	4.63	3 660 500	12 175 000	3.33	20	17	16 984 720
4-11-2013	4.58	1.59	4.66	4.19	4.52	3 461 500	12 623 000	3.65	19	16	15 853 670

Auctions conducted for Poland are indicated by (PL)