Auctioning

German Auctioning of Emission Allowances
Periodical Report: July 2016
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German Auctioning of Emission Allowances

The German auctions of the third trading period are held weekly on the European Energy Exchange (EEX) spot market. The German Emissions Trading Authority (DEHSt) at the German Environment Agency is the competent authority for the German auctions. Further updated information on the third trading period auctions can be downloaded from the EEX website. Reports on the second and third trading period auction results are available on the DEHSt auction website. The 2016 auction calendar is published on the EEX website.

The following tables summarise the key data of the German auctions on the EEX in 2016:

<table>
<thead>
<tr>
<th>2016</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction product</td>
<td>Third trading period EUA spot contracts</td>
<td>Third trading period EUAA spot contracts</td>
</tr>
<tr>
<td>Period</td>
<td>15/01/2016 to 16/12/2016</td>
<td>13/04/2016</td>
</tr>
<tr>
<td>Auction volume entire year</td>
<td>160,770,500 EUA</td>
<td>857,500 EUAA</td>
</tr>
<tr>
<td>Auction volume per auction</td>
<td>3.495 million EUA (1.7475 million EUA in August)</td>
<td>857,500 EUAA on 13/04/2016</td>
</tr>
<tr>
<td>Auction frequency</td>
<td>Weekly (Fridays, 09:00 to 11:00 a.m. CET)</td>
<td>On 13/04/2016 (09:00 to 11:00 a.m. CET)</td>
</tr>
<tr>
<td>Bid volume</td>
<td>500 EUA/EUAA</td>
<td></td>
</tr>
<tr>
<td>Auction mode</td>
<td>Single-round, uniform-price procedure with a closed order book</td>
<td></td>
</tr>
</tbody>
</table>

1 Overview

1.1 July 2016

In July, five auctions of emission allowances (EUA) of the third trading period were carried out for Germany at the EEX.

Overall 17,475,000 EUA with a total value of €78,392,850 were auctioned. This results in a volume-weighted average price per allowance of €4.49 (-25 percent compared to the previous month). Thus, this was the lowest monthly average price since August 2013. The deviations of the clearing prices from the current prices on the lead market fluctuated between -1.33 and +0.65 percent (see also Section 3.3).

Overall, valid bids totalling about 36 million allowances were entered into trading system across the five EUA-auction dates. Thus the average cover ratio in the reporting period was 2.08 (see also Section 2.2). The average participation number of 16 bidders was below the level of the previous month (18). This also applies to the average number of 13 (15) successful bidders (see also Section 2.1).

The following table gives an overview of the most important auction figures from the EUA-auctions performed during the reporting period.
Table 1: Overview of German EUA-auctions in July 2016

<table>
<thead>
<tr>
<th>Date</th>
<th>Auction volume</th>
<th>Bid volume</th>
<th>Cover ratio</th>
<th>Bidders</th>
<th>Successful bidders</th>
<th>Price</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/07/2016</td>
<td>3,495,000</td>
<td>6,698,000</td>
<td>1.92</td>
<td>20</td>
<td>17</td>
<td>€ 4.35</td>
<td>€ 15,203,250</td>
</tr>
<tr>
<td>08/07/2016</td>
<td>3,495,000</td>
<td>4,332,000</td>
<td>1.24</td>
<td>11</td>
<td>11</td>
<td>€ 4.45</td>
<td>€ 15,552,750</td>
</tr>
<tr>
<td>15/07/2016</td>
<td>3,495,000</td>
<td>7,729,000</td>
<td>2.21</td>
<td>19</td>
<td>14</td>
<td>€ 4.65</td>
<td>€ 16,251,750</td>
</tr>
<tr>
<td>22/07/2016</td>
<td>3,495,000</td>
<td>8,189,000</td>
<td>2.34</td>
<td>16</td>
<td>13</td>
<td>€ 4.60</td>
<td>€ 16,077,000</td>
</tr>
<tr>
<td>29/07/2016</td>
<td>3,495,000</td>
<td>9,319,000</td>
<td>2.67</td>
<td>14</td>
<td>10</td>
<td>€ 4.38</td>
<td>€ 15,308,100</td>
</tr>
<tr>
<td>July</td>
<td>17,475,000</td>
<td>36,267,000</td>
<td>*2.08</td>
<td>*16</td>
<td>*13</td>
<td>*€ 4.49</td>
<td>*€ 78,392,850</td>
</tr>
</tbody>
</table>

Source: EEX, DEHSt

1.2 Overview of the entire year 2016

In the first seven month of the current year a total of 98,717,500 EUA and EUAA with a total value of € 533,546,000 were auctioned at the EEX for Germany. This results in a volume-weighted average price per allowance of € 5.40. These overall figures are subdivided into 97,860,000 EUA with a total value of € 528,898,350 (average price € 5.40) and 857,500 EUAA with a total value of € 4,647,650 (€ 5.42).

The amount of emission allowances to be auctioned by Germany in 2016 totals 160,770,500 EUA and 857,500 EUAA. Taking into account the total annual amount, around 61 percent of the EUA-auction budget and 100 percent of the EUAA-auction budget for 2016 has been auctioned to date.

The following table summarise the auction results on a monthly basis.

Table 2: Overview of the entire year 2016

<table>
<thead>
<tr>
<th>Month</th>
<th>Type</th>
<th>Auction volume</th>
<th>Bid volume</th>
<th>Cover ratio</th>
<th>Bidders</th>
<th>Successful bidders</th>
<th>Price</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>EUA</td>
<td>10,485,000</td>
<td>23,660,500</td>
<td>*2.26</td>
<td>*21</td>
<td>*15</td>
<td>*€ 6.37</td>
<td>€ 66,754,500</td>
</tr>
<tr>
<td>February</td>
<td>EUA</td>
<td>13,980,000</td>
<td>30,818,500</td>
<td>*2.20</td>
<td>*22</td>
<td>*14</td>
<td>*€ 5.21</td>
<td>€ 72,800,850</td>
</tr>
<tr>
<td>March</td>
<td>EUA</td>
<td>10,485,000</td>
<td>25,693,000</td>
<td>*2.45</td>
<td>*22</td>
<td>*13</td>
<td>*€ 4.91</td>
<td>€ 51,481,350</td>
</tr>
<tr>
<td>April</td>
<td>EUA</td>
<td>17,475,000</td>
<td>35,332,000</td>
<td>*2.02</td>
<td>*17</td>
<td>*14</td>
<td>*€ 5.60</td>
<td>€ 97,790,100</td>
</tr>
<tr>
<td></td>
<td>EUAA</td>
<td>857,500</td>
<td>3,362,500</td>
<td>3.92</td>
<td>10</td>
<td>6</td>
<td>€ 5.42</td>
<td>€ 4,647,650</td>
</tr>
<tr>
<td>May</td>
<td>EUA</td>
<td>13,980,000</td>
<td>28,628,000</td>
<td>*2.05</td>
<td>*16</td>
<td>*13</td>
<td>*€ 5.93</td>
<td>€ 82,936,350</td>
</tr>
<tr>
<td>June</td>
<td>EUA</td>
<td>13,980,000</td>
<td>30,030,000</td>
<td>*2.15</td>
<td>*18</td>
<td>*15</td>
<td>*€ 5.63</td>
<td>€ 78,742,350</td>
</tr>
<tr>
<td>July</td>
<td>EUA</td>
<td>17,475,000</td>
<td>36,267,000</td>
<td>*2.08</td>
<td>*16</td>
<td>*13</td>
<td>*€ 4.49</td>
<td>€ 78,392,850</td>
</tr>
<tr>
<td>EUA</td>
<td></td>
<td>97,860,000</td>
<td>210,429,000</td>
<td>*2.15</td>
<td>*18</td>
<td>*14</td>
<td>*€ 5.40</td>
<td>€ 528,898,350</td>
</tr>
<tr>
<td>EUAA</td>
<td></td>
<td>857,500</td>
<td>3,362,500</td>
<td>3.92</td>
<td>10</td>
<td>6</td>
<td>*€ 5.40</td>
<td>*€ 533,546,000</td>
</tr>
</tbody>
</table>

Source: EEX, DEHSt

* Average
** Volume-weighted average
2  Bidder Participation

2.1  Participation

The number of participants in the German EUA-auctions in July averaged across all dates was 16 bidders. The average number of successful bidders was 13. Participation in the auctions fluctuated between 11 and 20 bidders during the reporting period. The number of successful participants ranged from 10 to 17. At the auction on 08/07/2016 all participating bidders were successful.

The following figure illustrates EUA-auction participation over time.

![Graph showing number of participating and successful bidders per auction date (EUA)](image)

**Figure 1:**  Number of participating and successful bidders per auction date (EUA)

2.2  Volume Demand

During the reporting period, the aggregated bid volumes per EUA-auction date fluctuated from 4.3 to 9.3 million allowances. Overall, valid bids totalling about 36 million allowances were entered into trading system in July. The resulting cover ratios during the reporting period ranged between 1.24 and 2.67 (2.08 on average).

The figure below summarise the results for each EUA-auction date.
Figure 2: Auctioned and bid volume and cover ratio (secondary axis) for each auction date (EUA)

Thus, the average bid volume per EUA-auction participant in July was about 450,000 allowances. The average volume awarded to each successful bidder was about 270,000 allowances.

Awarding allowances at all auctions is based on the EU-wide applicable uniform price procedure with one prescribed round of bidding (also see Info box below).

Info Box: Uniform Price Auction at the EEX

The 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 was used already for German auctions during the second trading period. 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 sorted by a random process. The bid volumes are aggregated starting with the highest bid until the volume of emission allowances on offer (e.g. 3.495 million EUA) 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 matches the clearing price exactly, 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 random process applies.
3 Auctions and the Secondary Market

3.1 Trading Volume EUA

In July 2016, a total of about 17.5 million EUA were auctioned at the EEX for Germany. During the reporting period, the cumulative trading volume in the relevant total market was about 478 million EUA. Thus, the total market trading volume was 20 percent below the level of the previous month. This market volume was divided into approximately 108 million allowances which were conducted as contracts for immediate delivery (spot) and about 370 million allowances for delivery in the future (futures). Thus, about 77 percent of the traded volume was handled on the dominant futures market. The figure below illustrates the trading volumes separately for spot and futures segments based on calendar weeks (CW).

In July 2016, a total of about 70 million allowances were auctioned by Member States on the primary market as spot contracts. On the spot secondary market about 38 million allowances were traded. This means that around 65 percent of traded spot contracts have been purchased in primary market auctions during the reporting period. With respect to the relevant total market for EUA, around 15 percent of the traded volume was related to auctions.

Figure 4 shows the trading volume in the spot secondary market and the auction volumes on the primary market per calendar week (CW). In addition to the German auctions, aggregated auction volumes of other EU Member States are also included in the figure.

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1 All emission allowances (EUA) of the third trading period traded on the spot and futures markets on the ICE/ECX, CME/NYMEX, EEX and Nasdaq OMX exchanges are considered. Transactions completed directly on the stock exchange (screen traded) or those bilateral transactions that at least used the stock exchange clearing mechanism are included. The EUA spot contracts auctioned in July 2016 are also considered. Option contracts are not involved.
Figure 4: Trading volume on the secondary market (spot) and volume of auctions conducted in July 2016
(EUA)

3.2 Trading Volume EUAA

In July 2016, 0.25 million aviation allowances (EUAA) were traded on the secondary market², it was the first transaction since March. During the reporting period, a total of about 0.68 million EUAA were auctioned by the EU Member States on the primary market as spot contracts.

Further information on the EUAA auction calendars is available on the website of the European Commission.

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² All aviation allowances (EUAA) of the third trading period traded on the spot and futures markets on the ICE/ECX and EEX exchanges are considered. Transactions completed directly on the stock exchange (screen traded) or those bilateral transactions that at least used the stock exchange clearing mechanism are included.
3.3 Clearing Prices and Price Development on the Secondary Market

Reference prices from the most liquid trading venues served as appropriate benchmarks for evaluating the auction clearing prices achieved on the EUA-spot auctions. The reference contract for the auctions is the daily future traded on the London ICE or the EEX EUA spot contract. The product specifications are comparable with the spot-product of the auctions. The trade price immediately before the end of the bidding period was used as a reference price. If no trades take place immediately before the end of the bidding period, the last best bid was used as a reference price (see also Info box below).

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 auctions, such buying bids in 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. Trading price records finally show the price limits where supply equals demand.
Table 3 shows the relative deviations of the clearing price from the lead market. The deviation on each EUA-auction date just before the end of the bidding period (11 a.m. CET) varied over the reporting period between -€ 0.06 (-1.33 percent) and +€ 0.03 (+0.65 percent).

For a mean value analysis, the arithmetic mean of the absolute values of individual deviations over the reporting period is calculated. The average deviation from the last best bid was € 0.02 or 0.49 percent averaged over all dates.

Table 3: Auctions and deviations from secondary market prices in July 2016 (EUA)

<table>
<thead>
<tr>
<th>Date</th>
<th>Contract</th>
<th>Clearing price</th>
<th>Deviation from ICE Daily Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/07/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.35</td>
<td>*€ 0.00</td>
</tr>
<tr>
<td>08/07/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.45</td>
<td>**€ -0.06</td>
</tr>
<tr>
<td>15/07/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.65</td>
<td>*€ 0.03</td>
</tr>
<tr>
<td>22/07/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.60</td>
<td>*€ 0.01</td>
</tr>
<tr>
<td>29/07/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.38</td>
<td>*€ -0.01</td>
</tr>
</tbody>
</table>

Mean absolute deviation

€ 0.02 0.49 %

Source: ICE, EEX, Thomson Reuters, DEHSt

* best bid ICE Daily Future
** best bid EEX Spot

The following figure shows an overview of the price development for emission allowances in the London lead market. In addition to the daily futures the development of futures for December delivery of the current year is also shown (so-called „front-december future“). Rather than following the common practice of considering only settlement prices, our analysis takes into account all trades completed at the exchanges during the reporting period. The following graphic is based on volume-weighted average trading prices (VWAP), which fluctuated in an interval between around € 4.40 to € 4.90\(^4\) in July 2016.

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3 Settlement prices are determined by the exchanges at the end of the trading day. Hence, they only reflect trade activity immediately before closure of the exchange and are, thus, not always an adequate reflection of the prevailing intra-day prices in the secondary market.

4 The volume-weighted average price (VWAP) for the ICE EUA front-december futures is published on a daily basis by the ICE. The VWAP for the ICE daily future contract is based on the calculations of Thomson Reuters.
4 Implementation of Valid Regulations

4.1 Surveillance Report by HÜSt

In order to guarantee above-board market activities are 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 on the results of its surveillance activities through regular internal reports. HÜSt reported on auctions in July 2016 as follows (excerpt):

“Within their surveillance for the auctioning of emission allowances on behalf of the German Environment Agency at the EEX in July 2016 the Market Surveillance Office of the EEX could not detect any irregularities and especially no behaviour of bidders that was targeted at manipulating the auction price.”

4.2 Fair and Open Access

The implementation of the provisions of the EU Auctioning Regulation guarantees a fair and open access for all auction participants at EEX. Current access options can be found at EEX Website (Access).

More information about the auction process is also available on the EEX auction hotline. EEX can be reached by phone from Mondays to Fridays from 8:00 a.m. to 6:00 p.m. CET at +49 341 2156-331 or by email at auctions@eex.com.

4.3 Auction Result Publication

All auction results and accompanying data were made publicly available during the reporting period within a 15-minute time window directly linked to the respective auction at EEX Website (2016 auction results).
4.4 Other Events

There are no matters relating to the implementation of the existing rules to be reported during the reporting period. The current regulations can be downloaded from EEX Website (Regulations).