Auctioning

German Auctioning of Emission Allowances
Content

German Auctioning of Emission Allowances ................................................................. 4

1  Overview .................................................................................................................. 4
   1.1 August 2016 ........................................................................................................ 4
   1.2 Overview of the entire year 2016 ....................................................................... 5

2  Bidder Participation .................................................................................................. 6
   2.1 Participation ....................................................................................................... 6
   2.2 Volume Demand ................................................................................................. 6

3  Auctions and the Secondary Market ........................................................................ 8
   3.1 Trading Volume EUA .......................................................................................... 8
   3.2 Trading Volume EUAA ......................................................................................... 9
   3.3 Clearing Prices and Price Development on the Secondary Market ......................... 9

4  Implementation of Valid Regulations ....................................................................... 11
   4.1 Surveillance Report by HÜSt ............................................................................. 11
   4.2 Fair and Open Access ......................................................................................... 11
   4.3 Auction Result Publication ............................................................................... 12
   4.4 Other Events ..................................................................................................... 12
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>
</tr>
</thead>
<tbody>
<tr>
<td>Auction product</td>
</tr>
<tr>
<td>Period</td>
</tr>
<tr>
<td>Auction volume entire year</td>
</tr>
<tr>
<td>Auction volume per auction</td>
</tr>
<tr>
<td>Auction frequency</td>
</tr>
<tr>
<td>Bid volume</td>
</tr>
<tr>
<td>Auction mode</td>
</tr>
</tbody>
</table>

1 Overview

1.1 August 2016

Following the requirements of the EU Auctioning Regulation, only half of the regular auctioning amount (1.7475 million EUA) per date was auctioned in August. From September on, the auction amount per date will increase again to 3.495 million EUA.

In August, four auctions of emission allowances (EUA) of the third trading period were carried out for Germany at the EEX. Overall 6,990,000 EUA with a total value of €33,254,925 were auctioned. This results in a volume-weighted average price per allowance of €4.76 (+6 percent compared to the previous month). The deviations of the clearing prices from the current prices on the lead market fluctuated between +0.62 and +1.93 percent (see also Section 3.3).

Overall, valid bids totalling about 26 million allowances were entered into trading system across the four EUA-auction dates. Thus the average cover ratio in the reporting period was 3.69 (see also Section 2.2). The average participation number of 16 bidders was at the level of the previous month (16). The average number of successful bidders was however well below the previous month level at 7 (13), (see also Section 2.1). This was the lowest monthly average level at German EUA-auctions since the beginning of the third trading period in 2013.

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 August 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>05/08/2016</td>
<td>1,747,500</td>
<td>7,715,500</td>
<td>4.42</td>
<td>17</td>
<td>6</td>
<td>€ 4.75</td>
<td>€ 8,300,625</td>
</tr>
<tr>
<td>12/08/2016</td>
<td>1,747,500</td>
<td>4,834,000</td>
<td>2.77</td>
<td>15</td>
<td>8</td>
<td>€ 4.86</td>
<td>€ 8,492,850</td>
</tr>
<tr>
<td>19/08/2016</td>
<td>1,747,500</td>
<td>5,480,000</td>
<td>3.14</td>
<td>16</td>
<td>7</td>
<td>€ 4.71</td>
<td>€ 8,230,725</td>
</tr>
<tr>
<td>26/08/2016</td>
<td>1,747,500</td>
<td>7,714,000</td>
<td>4.41</td>
<td>15</td>
<td>5</td>
<td>€ 4.71</td>
<td>€ 8,230,725</td>
</tr>
</tbody>
</table>

August 6,990,000 25,743,500 *3.69 *16 *7 € 4.76 € 33,254,925

1.2 Overview of the entire year 2016

In the first eight month of the current year a total of 105,707,500 EUA and EUAA with a total value of € 566,800,925 were auctioned at the EEX for Germany. This results in a volume-weighted average price per allowance of € 5.36. These overall figures are subdivided into 104,850,000 EUA with a total value of € 562,153,275 (average price € 5.36) 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 65 percent of the EUA-auction budget and 100 percent of the EUAA-auction budget for 2016 has been auctioned to date.

The following table summarises 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>August</td>
<td>EUA</td>
<td>6,990,000</td>
<td>25,743,500</td>
<td>*3.69</td>
<td>*16</td>
<td>*7</td>
<td>*€ 4.76</td>
<td>€ 33,254,925</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>*€ 5.36</td>
<td>€ 562,153,275</td>
</tr>
<tr>
<td>Total</td>
<td>EUA</td>
<td>104,850,000</td>
<td>236,172,500</td>
<td>**2.25</td>
<td>*18</td>
<td>*13</td>
<td>**€ 5.36</td>
<td>€ 566,800,925</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>**€ 5.36</td>
<td>€ 566,800,925</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 August averaged across all dates was 16 bidders. The average number of successful bidders was 7. Participation in the auctions fluctuated between 15 and 17 bidders during the reporting period. The number of successful participants ranged from 5 to 8. There was no such auction where all participating bidders were successful.

The following figure illustrates EUA-auction participation over time.

![Number of participating and successful bidders per auction date (EUA)](image)

Source: EEX, DEHSt

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 4.8 to 7.7 million allowances. Overall, valid bids totalling about 26 million allowances were entered into trading system in August. The resulting cover ratios during the reporting period ranged between 2.77 and 4.42 (3.69 on average).

The figure below summarises the results for each EUA-auction date.
Thus, the average bid volume per EUA-auction participant in August was about 410,000 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).

**Figure 2**: Auctioned and bid volume and cover ratio (secondary axis) for each auction date (EUA)

**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 August 2016, a total of about 7 million EUA were auctioned at the EEX for Germany. During the reporting period, the cumulative trading volume in the relevant total market was about 297 million EUA.¹ Thus, the total market trading volume was 40 percent below the level of the previous month. This market volume was divided into approximately 47 million allowances which were conducted as contracts for immediate delivery (spot) and about 250 million allowances for delivery in the future (futures), the lowest level since August 2010. Thus, about 84 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).

**Figure 3:** Trading volumes differentiated by spot and futures in August 2016 (EUA)

In August 2016, a total of about 27 million allowances were auctioned by Member States on the primary market as spot contracts. On the spot secondary market about 20 million allowances were traded. This means that around 57 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 9 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.

---

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 August 2016 are also considered. Option contracts are not involved.
3.2 Trading Volume EUAA

In August 2016, no aviation allowances (EUAA) were traded on the secondary market.\(^2\) Also no EUAA were auctioned on the primary market during the reporting period.

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

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).

---

\(^2\) 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.
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 +€ 0.03 (+0.62 percent) and +€ 0.09 (+1.93 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 € 0.05 or 0.96 percent averaged over all dates.

<table>
<thead>
<tr>
<th>Date</th>
<th>Contract</th>
<th>Clearing price</th>
<th>Deviation from secondary market</th>
<th>Absolute</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/08/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.75</td>
<td>*€ 0.09</td>
<td>€ 0.09</td>
<td>1.93 %</td>
</tr>
<tr>
<td>12/08/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.86</td>
<td>*€ 0.03</td>
<td>€ 0.03</td>
<td>0.62 %</td>
</tr>
<tr>
<td>19/08/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.71</td>
<td>*€ 0.03</td>
<td>€ 0.03</td>
<td>0.64 %</td>
</tr>
<tr>
<td>26/08/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 4.71</td>
<td>*€ 0.03</td>
<td>€ 0.03</td>
<td>0.64 %</td>
</tr>
<tr>
<td>Mean absolute deviation</td>
<td></td>
<td>€ 0.05</td>
<td>0.96%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ICE, EEX, Thomson Reuters, DEHSt
* 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 in August 2016.
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 August 2016 as follows (excerpt):

"Within their surveillance for the auctioning of emission allowances on behalf of the German Environment Agency at the EEX in August 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)](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)](EEX Website (Regulations)).