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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>15/01/2016 to 16/12/2016</th>
<th>13/04/2016</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>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 Current Developments

EEX has published the 2017 auction calendar

Upon consultation with the European Commission, the participating Member States and the German Emissions Trading Authority (DEHSt), the European Energy Exchange (EEX) has published on 25/11/2016 the 2017 auction calendar for the auctioning of general allowances (EUA).

Auctions on the German platform for EUA will continue to take place on Fridays from 9:00 to 11:00 a.m. (CET). Starting on 13/01/2017, EEX will auction on behalf of the Federal Republic of Germany a weekly volume of 4.473 million EUA on the spot market. During August, weekly volumes are halved to 2.2375 million EUA as required by the EU Auction Regulation. The overall volume of general allowances to be auctioned on the German platform during 2017 amounts to 196,820,000 EUA. The significantly higher auction volume compared to recent year is due to the discontinuation of the so-called „backloading“ measure.¹

Please see the EEX auction calendar 2017 for detailed information on the auction dates. The following table summarises the key data of the German auctions on the EEX in 2017:

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¹ On February 27th 2014 the amendment to the EU Auctioning Regulation on the temporary deferral of auction volumes went into force (so called „backloading“). Accordingly, between 2014 and 2016, 900 million emission allowances less should be auctioned EU-wide than originally planned. In 2014 the auction volume was reduced by 400 million EUA. In 2015 the reduction of auction volumes amounted to 300 million EUA; in 2016 the auction volume was reduced by 200 million EUA. Germany’s share of the backloaded auction volumes accounts for around 20 percent. The overall backloading volume of 900 million EUA should be transferred to the Marker Stability Reserve (MSR) in 2019/2020.
Overview

2.1 October 2016

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

Overall 13,980,000 EUA with a total value of €78,812,250 were auctioned. This results in a volume-weighted average price per allowance of €5.64 (+28 percent compared to the previous month). Thus, this was the highest monthly average price since May. The deviations of the clearing prices from the current prices on the lead market fluctuated between -0.35 and +0.36 percent (see also Section 4.3).

Overall, valid bids totalling about 34 million allowances were entered into trading system across the four EUA-auction dates. Thus the average cover ratio in the reporting period was 2.46 (see also Section 3.2). The average participation number of 18 bidders was at the level of the previous month (18). The average number of successful bidders was however slightly above the previous month level at 12 (11), (see also Section 3.1).

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 October 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>07/10/2016</td>
<td>3,495,000</td>
<td>10,662,500</td>
<td>3.05</td>
<td>18</td>
<td>10</td>
<td>€5.62</td>
<td>€19,641,900</td>
</tr>
<tr>
<td>14/10/2016</td>
<td>3,495,000</td>
<td>9,072,500</td>
<td>2.60</td>
<td>17</td>
<td>12</td>
<td>€5.65</td>
<td>€19,746,750</td>
</tr>
<tr>
<td>21/10/2016</td>
<td>3,495,000</td>
<td>7,800,000</td>
<td>2.23</td>
<td>20</td>
<td>14</td>
<td>€5.58</td>
<td>€19,502,100</td>
</tr>
<tr>
<td>28/10/2016</td>
<td>3,495,000</td>
<td>6,896,500</td>
<td>1.97</td>
<td>17</td>
<td>12</td>
<td>€5.70</td>
<td>€19,921,500</td>
</tr>
<tr>
<td>October</td>
<td>13,980,000</td>
<td>34,431,500</td>
<td>*2.46</td>
<td>*18</td>
<td>*12</td>
<td>*€5.64</td>
<td>*€78,812,250</td>
</tr>
</tbody>
</table>

Source: EEX, DEHSt

* Average
2.2 Overview of the entire year 2016

In the first ten month of the current year a total of 137,162,500 EUA and EUAA with a total value of € 722,608,025 were auctioned at the EEX for Germany. This results in a volume-weighted average price per allowance of € 5.27. These overall figures are subdivided into 136,305,000 EUA with a total value of € 717,960,375 (average price € 5.27) 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 85 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>September</td>
<td>EUA</td>
<td>17,475,000</td>
<td>32,973,000</td>
<td>*1.89</td>
<td>*18</td>
<td>*11</td>
<td>*€ 4.41</td>
<td>€ 76,994,850</td>
</tr>
<tr>
<td>October</td>
<td>EUA</td>
<td>13,980,000</td>
<td>34,431,500</td>
<td>*2.46</td>
<td>*18</td>
<td>*12</td>
<td>*€ 5.64</td>
<td>€ 78,812,250</td>
</tr>
<tr>
<td>EUA</td>
<td>136,305,000</td>
<td>303,577,000</td>
<td>**2.23</td>
<td>*18</td>
<td>*13</td>
<td>**€ 5.27</td>
<td>€ 717,960,375</td>
<td></td>
</tr>
<tr>
<td>EUAA</td>
<td>857,500</td>
<td>3,362,500</td>
<td>3.92</td>
<td>10</td>
<td>6</td>
<td>**€ 5.27</td>
<td>€ 4,647,650</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>137,162,500</td>
<td>306,939,500</td>
<td>**2.24</td>
<td>*18</td>
<td>*12</td>
<td>**€ 5.27</td>
<td>€ 722,608,025</td>
<td></td>
</tr>
</tbody>
</table>

Source: EEX, DEHSt
* Average
** Volume-weighted average

3 Bidder Participation

3.1 Participation

The number of participants in the German EUA-auctions in October averaged across all dates was 18 bidders. The average number of successful bidders was 12. Participation in the auctions fluctuated between 17 and 20 bidders during the reporting period. The number of successful participants ranged from 10 to 14. There was no such auction where all participating bidders were successful.

The following figure illustrates EUA-auction participation over time.
3.2 Volume Demand

During the reporting period, the aggregated bid volumes per EUA-auction date fluctuated from 6.9 to 10.7 million allowances. Overall, valid bids totalling about 34 million allowances were entered into trading system in October. The resulting cover ratios during the reporting period ranged between 1.97 and 3.05 (2.46 on average).

The figure below summarises the results for each EUA-auction date.
Thus, the average bid volume per EUA-auction participant in October was about 480,000 allowances. The average volume awarded to each successful bidder was about 290,000 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.
4  Auctions and the Secondary Market

4.1  Trading Volume EUA

In October 2016, a total of about 14 million EUA were auctioned at the EEX for Germany. During the reporting period, the cumulative trading volume in the relevant total market was about 502 million EUA.\(^2\) Thus, the total market trading volume was 7 percent above the level of the previous month. This market volume was divided into approximately 86 million allowances which were conducted as contracts for immediate delivery (spot) and about 416 million allowances for delivery in the future (futures). Thus, about 83 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).

![Trading volumes differentiated by spot and futures in October 2016 (EUA)](chart)

\(^*\) CW40: 03/10/2016-07/10/2016; CW 43: 24/10/2016-28/10/2016

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

In October 2016, a total of about 65 million allowances were auctioned by Member States on the primary market as spot contracts. On the spot secondary market about 21 million allowances were traded. This means that around 76 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 13 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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\(^2\) All emission allowances (EUA) of the third trading period traded on the spot and futures markets on the ICE/ECX, EEX CME/NYMEX 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 October 2016 are also considered. Option contracts are not involved.
In October 2016, 0.13 million aviation allowances (EUAA) were traded on the secondary market\(^3\). During the reporting period, a total of about 0.92 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.

\(^3\) 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.
4.3 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 -€ 0.02 (-0.35 percent) and +€ 0.02 (+0.36 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 0.27 percent averaged over all dates.

<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>07/10/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 5.62</td>
<td>*€ 0.02 *0.36 %</td>
</tr>
<tr>
<td>14/10/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 5.65</td>
<td>*€ 0.01 *0.18 %</td>
</tr>
<tr>
<td>21/10/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 5.58</td>
<td>*€ -0.01 *-0.18 %</td>
</tr>
<tr>
<td>28/10/2016</td>
<td>EUA Spot 3rd TP</td>
<td>€ 5.70</td>
<td>*€ -0.02 *-0.35 %</td>
</tr>
</tbody>
</table>

Mean absolute deviation € 0.02 0.27 %

Source: ICE, EEX, Thomson Reuters Eikon, DEHSt * best bid ICE Daily Future

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 € 5.20 to € 6.00 in October 2016.

Figure 6: ICE secondary market prices and EEX auction clearing prices (EUA)

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4 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.

5 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 data from Thomson Reuters Eikon.
5 Implementation of Valid Regulations

5.1 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 October 2016 as follows (excerpt):

“Within their surveillance for the auctioning of emission allowances on behalf of the German Environment Agency at the EEX in October 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."

5.2 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 e-mail at auctions@eex.com.

5.3 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).

5.4 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).