

EU Emissions Trading Scheme (ETS) – Consultation on design and organisation of emissions allowance auctions

This document is the questionnaire for this consultation. The survey contains **4** initial questions (A-D) to identify respondents, **86** questions for which responses will be made public and **4** questions that are classified confidential, must be sent directly to the European Commission and will not be made public. The questions that are classified potentially confidential are on two separate pages (2 questions on each page) and highlighted in green boxes.

Period of consultation

From 3 June 2009 to 3 August 2009 inclusive

How to submit your contribution

This consultation seeks to obtain feedback from all categories of stakeholders regarding the different aspects of auction design and implementation covered in the Consultation Paper.

We are sorry for the inconvenience, but the web-based survey is not available yet. If participants wish to complete the survey on this document and send their contributions back to contact_ets_auctions_consultation@icfi.com their responses can be accepted in this format. The web-based survey will be available as soon as possible if participants wish to wait till that is available.

Received contributions will be published on the Internet. It is important to read the specific privacy statement attached to this consultation for information on how your personal data and contribution will be dealt with.

Specific privacy statement

"Received contributions, together with the identity of the contributor, will be published on the Internet, unless the contributor objects to publication of his or her personal data on the grounds that such publication would harm his or her legitimate interests. In such cases the contribution may be published in an anonymous form. Otherwise, the contribution will not be published nor will, in principle, its content be taken into account. Responses for questions deemed confidential in the consultation will not be available for view on the website irrespective of contributor objecting or not. "

Instructions to filling out the questionnaire

- Questions may only be answered in designated response fields
- For certain multiple choice questions, simply click on box to indicate choice
- Answer [Y/N] questions by typing “y” / “Y” or “n” / “N” on underlined area (___)
- Some responses require explanations, additional comments and detailed answers. These will either be identified by underline (___) or an answer section (A: ___). The amount of text that can be entered here is unlimited.
- After completing the survey, please save and send to contact_ets_auctions_consultation@icfi.com
- If any questions seem unclear in context or for method of response, please mail contact_ets_auctions_consultation@icfi.com to clarify

Thank you

Section 1: Questions to categorize participants

Question A

Name of Company/Organization: Association of Electricity Producers (AEP)

Principal nature of activities: The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies. Members operate in a competitive electricity market and they have a keen interest in its success – not only in delivering power at the best possible price, but also in meeting environmental requirements.

Number of employees in 2008:

World-wide 12

Europe-wide 12

Turnover in 2008:

World-wide Not For Profit

Europe-wide Not For Profit

Question B

Type of respondent:

Member State

Company operating one or more installations covered by the EU ETS

Electricity generators

Energy companies other than electricity generators

Industrial sectors

Aviation

Other. Please specify: _____

Approx Annual Emissions: _____ tCO₂

Intermediary

Financial institution

Trading arm of non-financial institution

- Other. Please specify* _____
- Trader on own account
 - Financial institution*
 - Trading arm of non-financial institution*
 - Other. Please specify* _____
- Regulated market
 - Carbon only
 - Carbon and electricity
 - Carbon and other energy products
- Other carbon market
 - Multilateral trading facility trading carbon derivatives
 - Carbon exchange trading spot carbon
 - Other. Please specify* _____
- Clearing house
- Central counterparty
- Other (multiple choices apply)
 - Non-governmental organisation
 - Trade association
 - Carbon analyst
 - Carbon publication
 - Academic
 - Other. Please specify* _____

Question C

Contact details will not be made public.

Question D

Questions relating to the "Specific privacy statement" above.

- Do you object to publication of your personal data because it would harm your legitimate interests? [Y/N] n

If so, please provide an explanation of the legitimate interests that you think will be harmed:

A:

- Are any of your responses confidential? [Y/N] n

If so, please indicate which ones and provide an explanation:

A:

Section 2: Survey questions (86) and potentially confidential questions (4)

Question 1

As a general rule throughout the trading period, in your opinion, are early auctions necessary? [Y/N] Y

If so, what should the profile of EUA auctions be?

- 5-10% in year n-2, 10-20% in year n-1, remainder in year n
- 10-20% in year n-2, 20-30% in year n-1, remainder in year n
- 20-30% in year n-2, 30-35% in year n-1, remainder in year n
- Other? Please specify: • _____

The priority for the electricity sector is to secure early release of Phase 3 allowances to deliver sufficient market liquidity to allow generators to hedge their forward electricity sales.

•Generators typically hedge 10-20% of their output 3 years in advance, 30-50% 2 years in advance and 60-80% 1 year in advance. At this point the prices of electricity, fuel and carbon are locked in and backed by contracts for physical supply, e.g. EUAs in the case of carbon, thereby managing both commodity and commercial risk.

•Assuming that 50% of EU electricity production is covered by such hedging policies would lead to a requirement for around 1 billion allowances to be available ahead of 2013.

•It is highly unlikely that sufficient 'surplus' Phase 2 EUAs or JI/CDM credits will be available to satisfy these requirements and physical access to Phase 3 allowances will be required to avoid undesirable price volatility in the secondary market with knock on impacts on power prices.

•While the secondary market could offer forward contracts for Phase 3 allowances, these would not be backed by physical supply without early auctioning and volumes could also be expected to be limited. Given that generators will be very short of allowances in Phase 3 and the penalties for non-compliance are very high, the requirement to back sales of EUAs physically becomes increasingly important.

•Consequently, early EUA auctioning is a priority for the electricity sector to maintain liquidity in both the power and carbon markets. This leaves the issue of whether allowances should be auctioned as spot or futures (see Questions 2 and 3).

In line with the above arguments, our position is that a proportion of allowances should be auctioned three years in advance to facilitate close-out of longer-term power contracts (i.e. a year n-3). In terms of choosing among the options presented, Option 3 (20-30% in

year n-2, 30-35% in year n-1) is closest to our position but remains insufficient. Indeed, as a general rule-of-thumb, the more EUAs auctioned ahead, the better. For 2014 onwards, 10-20% should be sold in year n-3, 20-30% in year n-2 and 20-30% in year n-1. As there is not sufficient time available to auction 2013 EUAs on a n-3 (2010) basis, we would ask for 30-50% in year n-2 (2011) and 20-30% in year n-1 (2012) for 2013

Question 2

Do you think there is a need to auction futures? [Y/N] y

If so, why?

A:

- Experience tells us that auctions need to be in place early (by-mid 2011 for 2013/14 allowances) as electricity companies need to hedge their positions ahead of time. Otherwise risk exposure will lead to avoidable higher costs to electricity consumers.
- Typically generators hedge their position through forward contracts which minimise cash flow impacts through payment on delivery. Currently, in excess of 90% of EUAs are acquired in this way. Generators will want to maintain this practice during the lead in to 2013 (i.e. from 2011) and beyond.
- While spot auctioning allowances from 2011 onwards has the potential to create liquidity in the secondary market, there are several significant barriers to this happening. Firstly, the community-wide registry (CITL) will not be in place before 2012. Secondly, there is considerable uncertainty regarding the timing of finalisation of any international climate agreement which will be a prerequisite, if EUAs are to be backed by AAUs. Spot auctions of Phase 3 EUAs would require that both of these issues are resolved, which means that only futures auctions could be held in advance of this happening.

Question 3

What share of allowances should be auctioned spot and what share should be auctioned as futures for each year?

| | SPOT | FUTURES |
|------------|--------|---------|
| • year n | : ___% | ___% |
| • year n-1 | : ___% | ___% |
| • year n-2 | : ___% | ___% |

Please provide evidence to support your case.

A: We consider that as many EUAs as possible should be sold as futures.

- Any delay in auctioning spot allowances or constraints in terms of early auction volumes means that only speculative sellers can fill the gap if the naturally long players (i.e. governments) do not sell futures to satisfy demand. The size of the hedging requirement, coupled with more stringent capital constraints and regulation of traditional intermediaries, creates the risk of illiquidity in the forward market and inefficiency in the “closure” of the speculative gap.
- Futures auctions offer advantages to Member State governments by allowing national treasuries to stabilise their emission price exposures and gain advance notice of auction revenue flows, which could prove attractive in what will continue to be challenging times for public finances.
- Ongoing direct access to futures via auctions is the optimum vehicle for mitigating electricity generators’ commodity and commercial risk in relation to EUAs, when it is Governments who are long in allowances in Phase 3, while compliance participants are massively short. It also eliminates the cash flow risk, if generators and other industrial participants were forced to rely on direct access via spot auctions.

NB: The answer to this question will be published as part of the public consultation. Please do not submit confidential information as part of your answer to this question.

Question 4

Should the common maturity date used in futures auctions be in December (so the maturity date would be December in year n, both when auctioning in year n-2 as when auctioning in year n-1)? [Y/N] _

If not, please suggest alternative maturity dates and provide evidence to support your view.

A: Yes. Having one common maturity date per year is important for the liquidity of the secondary market. It also makes the administrative process much easier (hence reducing associated costs). In any case, this is already the standard in the market for other future products. Finally, it is important to emphasise here that deliveries from auctions must be done before deliveries from the market to enable settlement of physical market transactions. Put another way, in order to manage commodity risk you first need to have physical allowances available.

This page contains two questions that will not be made public. These questions cannot be completed on this document

Request for potentially confidential information 1

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

For ETS operators: what share of your expected emissions covered by the EU ETS in a given year n do you hedge and how much in advance?

- year n : _____%
- year n-1 : _____%
- year n-2 : _____%
- earlier years (please specify) : _____%

Request for potentially confidential information 2

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

What share of the annual quantity of allowances you intend to purchase *via* auctions would you wish to buy spot or futures respectively?

- | | SPOT | FUTURES |
|------------|----------|---------|
| • year n | : _____% | _____% |
| • year n-1 | : _____% | _____% |
| • year n-2 | : _____% | _____% |

Please specify whether you are an:

- ETS operator; or
- Other participant.

Question 5

For spot auctions:

What should be the **optimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Reaching an optimum solution requires balancing the twin goals of predictability and liquidity. Frequent auctions would increase predictability of price by reinforcing the secondary market (i.e. steady stream of EUAs issued), reduce risk if any one auction is delayed, and a common platform would allow for simplicity. Therefore, the optimal arrangement is for the auctions to be held on a weekly basis on a common platform.

Where there are a number of platforms operating under the same rules, then less-frequent auctions would be more practical from a simplicity point of view.

What should be the **minimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Equivalent of a weekly auction on a common platform (assuming co-ordination).

What should be the **maximum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: At least weekly, however daily could facilitate continual smooth running of the market (in reality, only where a common platform is in place), if operating costs are low.

Please provide arguments to support your case.

A: We strongly favour more frequent auctions. Frequent auctions would limit the impact of any individual auction on market prices (thereby increasing price stability), would ensure the participation of smaller operators and would reduce any fear – real or perceived – that the price will be determined by one or few participants. If operating

costs are low (as for existing electricity trading) then auctions could feasibly take place daily.

Question 6

For spot auctions, what should be the:

- Optimum auction size? _____
- Minimum auction size? _____
- Maximum auction size? _____

If deemed appropriate, please indicate a range and/or distribution over different sizes.

Please provide arguments to support your case.

A: When a centralised (or hybrid) approach to auctioning is adopted, the size of the auction is of less real significance. A simple division of the number of auctions to be held per year and allowances available for that year would suffice. In the vast majority of cases, all auctions should have the same volumes give-or-take 2 or 3 percent. Under such an approach, each Member State could be required to bring a preset certain percentage of its annual volume to auction. This would provide assurance to Member States that revenues from auctions are equalised.

Question 7

For futures auctions:

What should be the **optimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Reaching an optimum solution requires balancing the twin goals of predictability and liquidity. Frequent auctions would increase predictability of price by reinforcing the secondary market (i.e. steady stream of EUAs issued), reduce risk if any one auction is delayed, and a common platform would allow for simplicity. Therefore, the optimal arrangement is for the auctions to be held on a weekly basis on a common platform.

Where there are a number of platforms operating under the same rules, then less-frequent auctions would be more practical from a simplicity point of view.

Equivalent of a weekly auction on a common platform (assuming co-ordination).

What should be the **minimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Equivalent of a weekly auction on a common platform (assuming co-ordination).

What should be the **maximum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: At least weekly.

Please provide arguments to support your case.

A: Reaching an optimum solution requires balancing the twin goals of predictability and liquidity. Frequent auctions would increase predictability of price by reinforcing the secondary market (i.e. steady stream of EUAs issued), reduces risk if any one auction is delayed, and a common platform would allow for simplicity. Therefore, the optimal arrangement is for the auctions to be held on a weekly basis on a common platform.

Where there are a number of platforms operating under the same rules - then less-frequent auctions would be more practical from a simplicity point of view.

Equivalent of a weekly auction on a common platform (assuming co-ordination).

Question 8

For futures auctions, what should be the:

- Optimum auction size? _____
- Minimum auction size? _____
- Maximum auction size? _____

If deemed appropriate, please indicate a range and/or distribution over different sizes.

Please provide evidence to support your case.

A: When a centralised (or hybrid) approach to auctioning is adopted, the size of the auction is of less real significance. A simple division of the number of auctions to be held per year and allowances available for that year would suffice. In the vast majority of cases, all auctions should have the same volumes give-or-take 2 or 3 percent. Under such an approach, each Member State could be required to bring a preset certain percentage of its annual volume to auction. This would provide assurance to Member States that revenues from auctions are equalised.

Question 9

Should volumes of spot allowances be auctioned evenly throughout the year? [Y/N] _

If not, how should volumes be distributed? (more than one answer possible) Please specify:

- A larger proportion in the first 4 months of the year?
- A larger proportion in December?
- A smaller proportion in July and August?
- Other? Please specify: Yes, evenly. A simple division of the number of auctions to be held per year and allowances available for that year would suffice. In the vast majority of cases, all auctions should have the same volumes give-or-take 2 or 3 percent.

Question 10

In case futures are auctioned, should the volumes for spot and futures auctions be spread over the year in the same manner? [Y/N] _

If not, how should they differ? (more than one answer possible)

- No futures auctions less than six months before the maturity date.
- A larger proportion in December.
- A smaller proportion in July and August.
- Otherwise? Please specify how and comment: Yes. The proportion sold as futures should be as large as possible so as to allow generators to hedge their needs; therefore, the amount sold in futures auctions should be greater. That said, both spot and future amounts should be spread over the year in the same manner.

Question 11

Does the Regulation need to have provisions to avoid holding auctions during a short period of time before the surrendering date (30 April each year)? [Y/N] n

If yes, how long should this period be:

One week 2 weeks 3 weeks 1 month

In case futures are auctioned, should there be similar provisions with respect to the period immediately prior to the maturity date? [Y/N] n

If yes, how long should this period be:

One week 2 weeks 3 weeks 1 month

Question 12

Which dates should be avoided? (more than one answer possible)

- Public holidays common in most Member States? _____
- Days where important relevant economic data is released? _____
- Days where emissions data are released? _____
- Other? Please specify: None except ECB holidays and any day when emissions data is released.

Please specify the dates you have in mind in your answers.

Question 13

Is a harmonised 10-12 hrs CET auction slot desirable? [Y/N] _

If not, what alternative(s) would you suggest?

A: Yes. However, it should avoid existing market-relevant events such as French and German power auctions.

Question 14

How long in advance should each element of the calendar be determined?

Annual volumes to be auctioned:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Distribution of annual volumes over spot and futures (if applicable):

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Dates of individual auctions:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Volume and product type for individual auctions:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Each auctioneer carrying out auction process (if more than one):

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Please provide arguments to support your case.

A: The key issue here is to get frequency and amounts pre-determined and set. This will provide sufficient certainty so that setting a calendar one year ahead is practicable. Everything other than dates should ideally be set more than four years in advance (amounts, etc.). There is no need to wait for a final confirmed emissions amount before auctioning can take place. The calendar should be binding on Member States.

In order to maximise predictability and allow agents to plan their activity, all relevant information (i.e. the calendar, the distribution of spot and futures, the dates of individual auctions, volume and product type for individual auctions and the auctioneers carrying out the auction process) should be known as much as possible in advance. This basic principle must apply to all the above-mentioned elements and, in particular, to the type of auctions to be held, the nature of products to be sold and the auctioneers that will exist, to minimise possible interference with the process by Member States.

Question 15

What should be the volume of allowances to be auctioned in 2011 and 2012?

- in 2011: _____ % of the 2013 volume and _____% of the 2014 volume
- in 2012: _____% of the 2013 volume and _____% of the 2014 volume

What percentage of these shares should be auctioned as futures?

- in 2011: _____% of the 2013 share and _____% of the 2014 share
- in 2012: _____% of the 2013 share and _____% of the 2014 share

Please provide evidence to support your case.

A:As a general rule-of-thumb, the more EUAs auctioned ahead, the better. The percentages need to be consistent with the following analysis of the required volumes.

Over Phase 1 of the EUETS, the combustion sector, which largely consists of electricity generators, emitted in the order of 1,400Mt of CO₂ p.a.

Assuming only half of EU generators follow a hedging strategy where they typically sell forward up to 80% of their electricity production one year in advance, up to 50% two years in advance and up to 10% three years in advance, then this leads to the following auctioning volume requirements ahead of 2013.

| | 2011 | 2012 | Total |
|--|------|------|-------|
| Allowances to hedge 2013 forward electricity sales, Mt | 350 | 210 | 560 |
| Allowances to hedge 2014 forward electricity sales, Mt | 70 | 280 | 350 |
| Allowances to hedge 2015 forward electricity sales, Mt | - | 70 | 70 |
| Total volume requirement | 420 | 560 | 980 |

Consequently, around 1 billion allowances need to be auctioned ahead of 2013 to satisfy electricity generator hedging strategies and maintain liquidity in European power markets.

Question 16

What should be the rule with respect to allowances not auctioned due to *force majeure*?

- They should automatically be added to the next auction on the calendar, irrespective of the auction process.
- They should be auctioned within one month, though leaving flexibility as to which auction(s) the EUAs should be added.
- They should be auctioned within three months, though leaving flexibility as to which auction(s) the EUAs should be added.
- Other? Please specify: Firstly, any force majeure regime should be clearly defined and codified in advance. Specifically, national budgetary constraints must not be a factor.

Secondly, and regarding what happens if force majeure is invoked, any affected allowances should automatically be added to the next auction on the calendar, irrespective of the auction process (or the next three auctions in the case where auctions are held monthly and there is little time until the following auction post-force majeure). The impact this will have will depend on the frequency of auctions i.e. the greater the volumes and time between auctions, the greater the disruptive effect. If the disruptive effect of waiting for the next auction is too great, then the EUAs could possibly be sold to the market without auction.

Question 17

Is 1,000 allowances the most appropriate lot size? [Y/N] **y**

If not, why not?

A: Yes, as this is the standard lot size in the secondary market.

Question 18

Is a single-round sealed-bid auction the most appropriate auction format for auctioning EU allowances? [Y/N] **y**

If not, please comment on your alternative proposal?

A: Yes. As price discovery is not an issue (due to the secondary market), we fully favour the single-round, sealed-bid approach. As opposed to a multi-period dynamic auction, this type of auction lowers transactions costs, preserves bidder anonymity, increases understanding of the price-formation process and helps to avoid any possible collusion.

While in some industries the use of this auction-type could lead to what is known as the ‘winner’s curse’ (i.e. where the winner bids too high), the existence of a functioning secondary market will provide bidders and sellers with a good reference price. In addition, as there will be many auctions in the ETS and an effective secondary market also exists, bidders do not face a one-shot game where there is only one chance to have a successful bid.

Question 19

What is the most appropriate pricing rule for the auctioning of EU allowances?

- Uniform-pricing.
- Discriminatory-pricing.
- Indifferent.

Please provide arguments to support your case.

A: Uniform-pricing is the most appropriate rule given the existence of a robust price signal from the secondary market. This reinforces a clear price signal for the value of an EUA, thereby increasing predictability. It also ensures that every successful participant pays the same price, meaning that the auction price will be fair and minimises the risk of distorting the secondary market.

Question 20

Should the rules for solving ties in the Regulation be:

- random selection; or
- pro-rata re-scaling of bids?

Please comment on your choice.

A: Pro-rata is the most appropriate.

Question 21

Should a reserve price apply?

A: No.

Firstly, auctioning serves as an alternative to distributing (allocating) allowances in the ETS market instead of grandfathering or benchmarking. That is the main goal of auctioning. Setting reserve prices may introduce a risk of governments securing income or other policy goals and defeats the purpose of minimising the cost of achieving the

emission reduction objective. As any ad hoc intervention would reduce predictability and distort investment signals, there should be no intervention in the EUA market. The greater the likelihood that intervention will occur, the greater the negative effect there will be on participants, and the higher will be the costs caused by subsequent risks created. Therefore, to preserve predictability, Member States and other relevant authorities should refrain from unduly intervening in the auction process ex post if the result is politically undesirable e.g. if prices rise or volatility increases. As such, no price floor or cap should be put in place.

Secondly, if market design is good, then there would be no need for a reserve price. Prices seen at auction would reflect fair market value as observed in the secondary market.

Question 22

In case a reserve price would apply, should the methodology/formula for calculating it be kept secret? [Y/N] n

Please comment on your choice.

A: No. If a reserve price were to be imposed, it must be linked dynamically to the secondary market price. To incentivise governments to use a good design, the reserve price should be at a discount to the price in the secondary market. If such a reserve price were established, then its formulation and application must be fully available to the public i.e. all methodologies/formulae must be published. Transparency is required to avoid gaming.

Question 23

Is a maximum bid-size per single entity desirable in a Uniform-price auction?

[Y/N] _

Is a maximum bid-size per single entity desirable in a discriminatory-price auction?

[Y/N] _

Please comment on your choice.

A: No. Since there is a liquid, open, secondary market in place, there is no need to set restrictions on participants in the primary market. If there are adequate market abuse rules in place, then there is no need for a maximum bid size.

Question 24

If so, what is the desirable bid-size limit (as a percentage of the volume of allowances auctioned per auction – only one choice is possible):

- 10%: 15%: 20%:
25%: 30%: More than 30%: Please specify: _____

Please comment on your choice.

A: Not applicable, in our view.

Question 25

In case only one of the two following options would be chosen, to limit the risk of market manipulation or collusion, which one would be preferable?

- A discriminatory-price auction format?
 A maximum bid-size per single entity?

Please comment on your choice.

A: Neither. Intervention here is not necessary if the secondary EUA market functions properly, as it currently does. The monitoring provisions contained in the regulation should be the main means used to ensure that manipulation does not take place.

Question 26

Are the following pre-registration requirements appropriate and adequate?

Identity:

- Natural or legal person;
 Name, address, whether publicly listed, whether licensed and supervised under the AML rules; membership of a professional association; membership of a chamber of commerce; VAT and/or tax number;
 Contact details of authorised representatives and proof of authorisation; and
 CITL-Registry account details.
 Anything else? Please specify:_____

Declarations with respect to the past 5 years on absence of:

- Indictment or conviction of serious crimes: check corporate officers, directors, principals, members or partners;
- Infringement of the rules of any regulated or unregulated market;
- Permits to conduct business being revoked or suspended;
- Infringement of procurement rules; and
- Infringement of disclosure of confidential information.
- Anything else? Please specify: _____

Declarations and submission of documentation relating to:

- Proof of identity;
- Type of business;
- Participation in EU ETS or not;
- EU ETS registered installations, if any;
- Bank account contact details;
- Intended auctioning activity;
- Whether bidding on own account or on behalf of another beneficial owner;
- Corporate and business affiliations;
- Creditworthiness;
- Collateral; and
- Whether it carries out transactions subject to VAT or transactions exempted from VAT.
- Anything else? Please specify: Yes, most of the requirements listed are appropriate. However we have some comments on the following items:

- Intended auctioning activity: we do not consider that this is relevant to a participant who has passed pre-qualification;

=

In addition, as the requirement list refers to 5-year declaration timetables these may need to be harmonised at Member State level before application. The nature of the Declarations is probably too wide and vague. In order to be effective, Declarations should relate to aspects that are relevant for the process in question and should have objective and straightforward wording.

Finally, the Regulation should provide for the possibility of applications being submitted in English only, regardless of the mother language of the Member State.

Question 27

Do you agree that the pre-registration requirements for admittance to EU auctions should be harmonised throughout the EU?

Yes No

Please comment on your choice.

A: Yes. Harmonised requirements would ensure a level playing field as well as access to any auction for any participant.

Question 28

Should the amount of information to be supplied in order to satisfy the pre-registration requirements for admittance to EU auctions depend on the:

- means of establishing the trading relationship;
- identity of bidder;
- whether auctioning spot or futures;
- size of bid;
- means of payment and delivery;
- anything else? Please specify: _____

If so, what should the differences be?

A: This should only depend on the “means of establishing the trading relationship”. The identity of the bidder is part of this process.

In case the information requirements are different, the information to be supplied by participants should probably also depend on their creditworthiness (rating).

In any case, the pre-registration requirements should be common across all jurisdictions

Question 29

Should the bidder pre-registration requirements under the Regulation apply in the same manner irrespective of whether or not the auctioneer is covered by the MiFID or AML rules? [Y/N] y

A:

If not, why not?

A:

Please provide arguments to support your case.

Question 30

Do you agree that the auctioneer(s) should be allowed to rely on pre-registration checks carried out by reliable third parties including: [Y/N] y

- Other auctioneers?
- Credit and/or financial institutions?
- Other? Please specify: _____

Please comment on your choice.

A: Yes, given that these third parties will need to comply with requirements as strict as those for auctioneers in order to guarantee harmonisation and coherence and equal treatment across different countries.

Question 31

In order to facilitate bidder pre-registration in their home country, should the auctioneer(s) be allowed to provide for pre-registration by potential bidders in other (or all) Member States than the auctioneer's home country e.g. by outsourcing this to a reliable third party?

Yes No

Please comment on your choice:

A: Yes, because the rules need to be harmonised and an auction participant approved to bid at auction in one Member State should automatically be qualified to bid in all Member States' auctions. Ultimately, except for those restrictions highlighted in Question 26, there should be no barriers to entry at Member State level. There needs to be mutual recognition of pre-qualification agents. Where Member States do not trust or recognise one another's pre-qualification processes, the Commission should step in to offer an EU-

wide level pre-qualification option, thereby transcending any inter-Member State trust issues.

If so, should such entities be:

- Covered by the AML rules?
- Covered by MiFID?
- Covered by both?
- Other? Please specify: The regulation should not cover these matters as they are already covered within existing legislation and regulation.

Please comment on your choice:

A: The Regulation should not cover these matters as they are already covered within existing legislation and regulation.

Question 32

Should the Regulation prohibit the multiplicity of pre-registration checks in the case of Member States auctioning jointly?

Yes No

Please comment on your choice.

A: Yes, because the rules need to be harmonised and an auction participant approved to bid at auction in one Member State should automatically be qualified to bid in all Member States' auctions. Ultimately, except for those restrictions highlighted in Question 26, there should be no barriers to entry at Member State level. There needs to be mutual recognition of pre-qualification agents. Where Member States do not trust or recognise one another's pre-qualification processes, the Commission should step in to offer an EU-wide level pre-qualification option, thereby transcending any inter-Member State trust issues

Question 33

Do you agree that the *level* of collateral accepted in EUA auctions should be harmonised for all EU ETS auctions? [Y/N] y

If so, how should they be harmonised?

A: The issue is relatively straightforward and the maximum level of harmonisation should be sought reflecting rules which apply already in the secondary market. This is required to avoid distorting the electricity market between Member States due to varying costs of carrying different levels of collateral.

If not, why not?

A:

Question 34

Do you agree that the *type* of collateral accepted in EUA auctions should be harmonised for all EU ETS auctions? [Y/N] y

If so, how should they be harmonised?

A: For spot auctions the issue is relatively straightforward and the maximum level of harmonisation should be sought reflecting rules which apply already in the secondary market.

If not, why not?

A:

Question 35

Do you agree that 100% collateral in electronic money transfer ought to be deposited up-front at a central counterparty or credit institution designated by the auctioneer to access spot auctions? [Y/N] y

If not, why not?

A:

What alternative(s) would you suggest? Please provide arguments to support your case:

A: Yes, as in line with current practice in UK spot auctions.

Question 36

In case futures are auctioned, should a clearing house be involved to mitigate credit and market risks? [Y/N] _

If so, should specific rules – other than those currently used in exchange clearing houses – apply to:

the level of the initial margin;

- the level of variation margin calls;
- the daily frequency of variation margin call payments?

If you have answered yes, please justify and elaborate on the rules that should apply and the mechanisms to implement them:

A: Yes, this is an essential part of the futures regime.

The use of clearing houses is an absolute must. Besides the fact that it mitigates credit and market risks it also simplifies the whole administrative process and reduces costs. The applicable rules should be consistent with those used in other relevant exchanges which have already proven their resilience and are very well known by the bidders.

All of the above are standard requirements, so there is no need for further elaboration.

Question 37

What are the most preferable payment and delivery procedures that should be implemented for auctioning EUAs?

- Payment before delivery.
- Delivery versus payment.
- Both.

Please comment on your choice.

A: For futures auctions, payments should be in line with the prevailing practice in the secondary market, i.e. payment after delivery. For spots, payment is effectively via 100% collateral in electronic money transfer to be paid up front.

Question 38

Irrespective of the payment procedure, should the Regulation fix a maximum delay of time for payment and delivery to take place? [Y/N] y

If yes; what should it be?

- 4 working days
- 5 working days
- 6 working days
- 7 working days

Other? Please specify: Yes, other. Payment and delivery as soon as possible (payment maximum 4 days after delivery).

Question 39

Should the Regulation provide any specific provisions for the handling of payment and delivery incidents or failures? [Y/N] y

If yes, what should they be?

A: Yes, in accordance with the prevailing practice in the secondary market.

Question 40

Should the Regulation provide for all matters that are central to the very creation, existence and termination or frustration of the transaction arising from the EUA auctions? [Y/N] y

If not, why not?

A: Yes, in accordance with the prevailing practice in the secondary market. The AEP's view is that these secondary market rules should apply.

If so, are the matters enumerated below complete? [Y/N] y

- The designation of the parties' to the trade.
- The characteristics of the auctioned product:
 - Nature: EUAs or EUAAs, trading period concerned.
 - Date of delivery: date at which winning bidders will receive the allowances on their registry account.
 - Date of payment: date at which payment will be required from winning bidders.
 - Lot size: number of allowances associated with one unit of the auctioned good.
- Events of 'force majeure' and resulting consequences.
- Events of default by the auctioneer and/or the bidder and their consequences.
- Applicable remedies or penalties.
- The regime governing the judicial review of claims across the EU.

If not, what additional matters should be foreseen in the Regulation and why?

A: Yes. The secondary market already has similar rules in place. Our advice is that the secondary market rules should apply. This is the most effective way to assure the required harmonisation across all Member States and the future existence of a common playing field.

Question 41

Should the Regulation provide for rules on jurisdiction and the mutual recognition and enforcement of judgments? [Y/N] **y**

If so, should these be:

- specific to the Regulation;
- by reference to the Brussels I Regulation;
- by citing exceptions from the Brussels I Regulation;
- by citing additions to the Brussels I Regulation?

Please comment on your choice:

A:

If not, why not?

A:

Question 42

Which auction model is preferable?

- Direct bidding?
- Indirect bidding?
- Both?

Please comment on your choice.

A: Both. Direct bidding must be allowed for all emitters – while intermediaries can be beneficial, their use should by no means be obligatory for any individual emitter.

We are strongly of the view that, subject only to a requirement to demonstrate creditworthiness and provide financial assurance, any party should be allowed to participate in an auction. Any further restrictions on participation should be clearly objective, and must not be based on nationality and/or on organisation type or size. Therefore, there should be no requirement to use intermediaries. We are firmly against any model which limits access solely to primary participants.

Question 43

If an indirect model is used, what share of the total volume of EU allowances could be auctioned through indirect bidding? _____

Please provide arguments to support your case.

A: As AEP does not support the obligatory use of intermediaries, then there should be no ex ante split or reservation of volumes between direct and indirect bidding pools. The use of intermediaries should be for market participants/emitters to decide voluntarily.

Question 44

If the primary participants model is used, what provisions would be desirable for mitigating disadvantages of restricting direct access (more than one answer is possible):

- Allow direct access to largest emitters, even if they trade only on their own account?
If so, who should have direct access and what thresholds should apply? _____
- Disallow primary participants trading on their own account?
- Impose strict separation of own-account trading from trading on behalf of indirect bidders?
- Other? Please specify: We strongly oppose the 'primary participant' model and are of the view that, subject only to a requirement to demonstrate creditworthiness and provide financial assurance, any party should be allowed to participate in an auction. Any further restrictions on participation should be clearly objective, and must not be based on nationality and/or on organisation type or size. Therefore, there should be no requirement to use intermediaries.

If necessary, allow direct access to the largest emitters (greater than 0.25 million tonnes) even if they trade only on their own account.

Question 45

If the primary participants' model is used, what conflict of interest requirements should be imposed? (more than one answer possible)

- Separation of client registration and trading on behalf of clients from all own account trading activities.
- Separation of collateral management, payment and delivery on behalf of clients from all own account trading activities.
- Separation of anything else, please specify: We strongly oppose the 'primary participant' model and are of the view that, subject only to a requirement to demonstrate creditworthiness and provide financial assurance, any party should be allowed to participate in an auction. Any further restrictions on participation should be clearly objective, and must not be based on nationality and/or on organisation type or size. Therefore, there should be no requirement to use intermediaries.

Question 46

What obligations should apply to primary participants acting in EU-wide auctions as:

- Intermediaries? A: We strongly oppose the 'primary participant' model and are of the view that, subject only to a requirement to demonstrate creditworthiness and provide financial assurance, any party should be allowed to participate in an auction. Any further restrictions on participation should be clearly objective, and must not be based on nationality and/or on organisation type or size. Therefore, there should be no requirement to use intermediaries.
- Market makers? A:

Please provide arguments to support your case.

Question 47

Under what conditions should auctioning through exchanges be allowed (more than one answer possible):

- Only for futures auctions open to established members of the exchange?
- Also for spot auctions open to established members of the exchange?
- Only when the exchange-based auction is open to non-established members on a non-discriminatory cost-effective basis?
- Other? Please specify: _____

Please provide arguments to support your case.

A: Only when the exchange-based auction is open to non-established members on a non-discriminatory cost-effective basis.

We are strongly in favour of Option 3 (i.e. exchanges). This means of auctioning - which is already established – would be the easiest, simplest and the most non-discriminatory, and cost-effective method. In any case, there is no logical alternative.

Question 48

Should direct auctions be allowed through:

- 1) Third party service providers? [Y/N] y
- 2) Public authorities? [Y/N] _

Please comment on your selection:

A: Yes, preferably third party service providers (i.e. exchanges) subject to the condition that rules are common, access is open to all participants and competency is demonstrable. This would reduce costs and facilitate early auctioning.

Question 49

Do the general rules for auctioning EUAs suffice for ensuring full, fair and equitable access to allowances to SMEs covered by the EU ETS and small emitters? [Y/N] _

If not, why not?

A: Fair and impartial rules applying equally to all emitters should be put in place. Smaller emitters will have easy access where access to the market is non-discriminatory, lot sizes are small (i.e. 1,000) and where there is a liquid secondary market in place. This means that SMEs have access to the auctions via an appropriate mechanism.

Question 50

Is allowing non-competitive bids necessary for ensuring access to allowances to SMEs covered by the EU ETS and small emitters in case of:

- discriminatory-price auctions? A:
- uniform-price auctions? A: Fair and impartial rules applying equally to all emitters should be put in place. Smaller emitters will have easy access where access to the market is non-discriminatory, lot sizes are small (i.e. 1,000) and where there is a liquid secondary market in place. This means that SMEs have access to the auctions via an appropriate mechanism. A simple sealed bid format will allow simple access for SMEs, using intermediaries where optimal.

Question 51

If non-competitive bids are provided for in spot auctions, what maximum share of allowances could be allocated through this route?

- 5%
- 10%
- Other? Please specify: _____

Please comment on your choice.

A: Fair and impartial rules applying equally to all emitters should be put in place. Smaller emitters will have easy access where access to the market is non-discriminatory, lot sizes are small (i.e. 1,000) and where there is a liquid secondary market in place. This means that SMEs have access to the auctions via an appropriate mechanism.

Question 52

What rule should apply for accessing non-competitive bids (more than one answer possible):

- Participants should only be allowed to use one of the two bidding routes?
- Non-competitive bids should be restricted to SMEs covered by the EU ETS and small emitters only?
- Other? Please specify: _____

Please comment on your choice.

A: Fair and impartial rules applying equally to all emitters should be put in place. Smaller emitters will have easy access where access to the market is non-discriminatory, lot sizes

are small (i.e. 1,000) and where there is a liquid secondary market in place. This means that SMEs have access to the auctions via an appropriate mechanism.

Question 53

What should be the maximum bid-size allowed for SMEs covered by the EU ETS and small emitters submitting non-competitive bids?

- 5 000 EUAs
- 10 000 EUAs
- 25 000 EUAs
- Over 25 000 EUAs, please specify exact size and give reasons for your answer:
Fair and impartial rules applying equally to all emitters should be put in place. Smaller emitters will have easy access where access to the market is non-discriminatory, lot sizes are small (i.e. 1,000) and where there is a liquid secondary market in place. This means that SMEs have access to the auctions via an appropriate mechanism.

Question 54

Are there any other specific measures not mentioned in this consultation that may be necessary for ensuring full, fair and equitable access to allowances for SMEs covered by the EU ETS and small emitters? [Y/N] y

If so, please specify:

A: In addition to a simple auction design, ensuring transparency is key.

Question 55

What should be the minimum period of time before the auction date for the release of the notice to auction?

2 weeks 1 month 2 months

Other Please specify: _____

Please comment on your proposal.

A: As the auction calendar should be published one year in advance, the question of when a ‘notice to auction’ is released appears to be a formality. On this basis, we favour the option – “2 months”. This notice must of course be in line with the auction calendar. Full transparency means that participants should have as much preparation time as possible. Any unplanned changes should be published immediately.

Question 56

What should be the minimum period of time before the auction date for the submission of the intention to bid?

1 week 2 weeks 1 month

Other Please specify: _____

Please comment on your proposal.

A: We question whether participants should be required to signal an ‘intent-to-bid’ in particular since access is always available to the secondary market where the impact of the release of allowances through the proposed auction will already have been factored in. In addition, due to the administration involved, an intention-to-bid system only makes sense where there are less than 4 auctions per year. Any more and participants would be spending much unnecessary effort notifying authorities of their intent. In any case, a pre-qualification system is a much more flexible, inclusive and market friendly mechanism. Therefore, any changes to bidding participation rules should be done through pre-qualification.

However, if an ‘intention-to-bid’ system is deemed necessary, then bidder notification one week before the auction bid date should suffice.

Question 57

Are there any specific provisions that need to be highlighted in:

- The notice to auction?
- The intention to bid?
- Both?

Please specify what they are.

A: The applicable auction rules would need to be presented clearly (including any restrictions). The notice should also say when results will be released. Of course, all the processes should be public and accessible through website, phone, information documents etc.

Question 58

What information should be disclosed after the auction:

- Clearing price (if allowances are awarded on a uniform-price basis or in the case of non-competitive bids being allowed)?
- Average price (if allowances are awarded on a discriminatory-price basis)?
- Any relevant information to solve tied bids?
- Total volume of EUAs auctioned?
- Total volume of bids submitted distinguishing between competitive and non-competitive bids (if applicable)?
- Total volume of allowances allocated?
- Anything else? Please specify: •Number of successful participants •Total amount unsold and carried over to next auction •Number of participants (total) •The aggregated supply and demand curve

Question 59

What should be the maximum delay for the announcement of auction results?

5 minutes 15 minutes 30 minutes

1 hour

Other Please specify: _____

Please comment on your proposal.

A: Five minutes. The closer to the event the better, as this may affect the secondary market.

Question 60

Do you feel that any specific additional provisions should be adopted in the Regulation for the granting of fair and equal access to auction information? [Y/N] y

If so, what may they be? Provided that information is not commercially sensitive, all information should be provided at the same time, according to a standardised form. The unauthorised, discriminatory release of information should be prohibited. Furthermore, all information should be put on one single website.

Question 61

Should an auction monitor be appointed centrally to monitor all EU auctions?

[Y/N] y

If not, why not?

A: Yes, that would be desirable, although not absolutely necessary. In terms of who does this, we consider that the relevant body responsible for monitoring – EU or national - needs to be independent of the beneficiary (i.e. Member State Treasuries), of buyers (e.g. energy market participants and financial institutions) and of authorities who are tasked with the achievement of other potentially conflicting objectives (e.g. energy regulators).

Question 62

Do you agree that the Regulation should contain general principles on [mark those that you agree with,]:

- the designation and mandate of the auction monitor; and
- cooperation between the auctioneer(s) and the auction monitor?

If not, why not?

A: Yes, that would be desirable, although not absolutely necessary. In terms of who does this, we consider that the relevant body responsible for monitoring – EU or national - needs to be independent of the beneficiary (i.e. Member State Treasuries), of buyers (e.g. energy market participants and financial institutions) and of authorities who are tasked with the achievement of other potentially conflicting objectives (e.g. energy regulators).

Should these be supplemented by operational guidance, possibly through Commission guidelines? [Y/N] y

If not, why not?

A: Yes, that would be desirable, although not absolutely necessary. In terms of who does this, EURELECTRIC believes that the relevant body responsible for monitoring – EU or national - needs to be independent of the beneficiary (i.e. MS Treasuries), of buyers (e.g. energy market participants and financial institutions) and of authorities who are tasked with the achievement of other potentially conflicting objectives (e.g. energy regulators).

Question 63

Is there a need for harmonised market abuse provisions in the Regulation to prevent insider dealing and market manipulation? [Y/N] n

If not, why not?

A: Internal and external discussions are currently ongoing within the Commission regarding the desirability of having an energy-specific market-abuse regime. Such a regime may also cover CO². As we support the development of such a regime, we do not

consider that issues to be dealt with under this regime should also be dealt with in the EUA Regulation. We do not want an overlap of these rules.

Please comment on your choice outlining the provisions you deem necessary and stating the reasons why.

A:

Question 64

Should the Regulation provide for harmonised enforcement measures to sanction [mark those that you agree with,]:

Non-compliance with its provisions?

Market abuse?

Please provide arguments to support your case.

A: Regarding enforcement, there are two groups which rules need to apply to:- Member States (and possibly the auctioneers acting on their behalf) on the one hand, and bidders in the auction on the other.

Non-compliance with its provisions will most likely be due to Member States' actions. Looking at the history of compliance by Member States with the provisions in the ETS Directive over the past years, one can easily remark that only a very few of them have met, for instance, required deadlines on time. In addition, they have sought to use creativity in designing Allocation Plans and applying rules. The Commission has few measures (except going to the Court in Luxembourg) at its disposal to correct this behaviour.

For a timely and harmonised organisation of auctions, enforcement at EU level seems inevitable, looking at the track record of Member States. Oversight should also ensure that volumes are always brought to the market by Member States according to schedule and not withheld in order to drive prices up or wait for “better” moments.

Any rules which apply should be enforced with equal weight EU-wide. Only then will a level playing field exist.

Question 65

Should the enforcement measures include [mark those that you agree with,]:

- The suspension of the auctioneer(s) and/or bidders from the EU-wide auctions?
If so, for how long should such suspension last? _____
- Financial penalties?
If so, at what level should such penalties be fixed? _____
- The power to address binding interim decisions to the auctioneer(s) and/or bidders to avert any urgent, imminent threat of breach of the Regulation with likely irreversible adverse consequences?
- Anything else? Please specify: _____

Please provide arguments to support your case.

A: The answers to these questions depend somewhat on what market abuse/integrity regime is in place. Internal and external discussions are currently ongoing within the Commission regarding the desirability of having an energy-specific market-abuse regime. Such a regime may also cover CO². As we support the development of such a regime, we do not consider that issues to be dealt with under this regime should also be dealt with in the EUA Regulation. We do not want an overlap of these rules. However, any rules which apply should be enforced with equal weight EU-wide. Only then will a level playing field exist.

Question 66

Should such enforcement measures apply at:

- EU level?
- National level?
- Both?

Please comment on your choice.

A: Any rules which apply should be enforced with equal weight EU-wide. Only then will a level playing field exist.

Question 67

Who should enforce compliance with the Regulation (more than one answer is possible):

- The auction monitor?
- The auctioneer?
- A competent authority at EU level?
- A competent authority at national level?

Other? Please specify: _____

Please provide evidence to support your case.

A: A competent authority at EU level, with the auctioneer being the front-line compliance monitor.

Question 68

Which of the three approaches for an overall EU auction model do you prefer? Please rate the options below (1 being the most preferable, 3 being the least preferable)

- _ Limited number of coordinated auction processes.
- _ Full centralisation based on a single EU-wide auction process.
- _ The hybrid approach where different auction processes are cleared through a centralised system.

Please give arguments to support your case.

A: The AEP is strongly in favour of a centralised system. However, recognising the existing political reality in the EU, other approaches that deliver, in a limited time-frame (by 2015 at the very latest), other solutions for Member States aiming to converge towards a centralised system need to be considered.

For the AEP, the proposed “hybrid system” has both advantages and disadvantages. On the positive side, the hybrid approach combines the benefits of a central bid-book giving a single EU-wide auctioning price (which fits seamlessly with ETS and the secondary market) and easier harmonisation with the possibility given to Member States in the ETS Directive to set up auctions. However, this “hybrid system” offers very little benefit in terms of administrative cost reduction to Member States, on the assumption that multiple auctions on the same date would result in very similar outcomes in terms of clearing prices.

A compromise option would be for a “European” auctioning process and platform to be developed and implemented under the initiative of the European Commission as per a mandate given by Member States through the forthcoming Regulation. Such a platform would be open to any Member State wishing to use it and would aim to provide a basis for moving progressively towards a fully-centralised solution. In the interim, the European platform would be coordinated to include those Member States who want to participate from the outset.

Whichever model is chosen, it should ultimately lead towards a centralised system. In other words, the hybrid approach or our proposed compromise option would only really be a good first approach, provided that they develop into a centralised approach within a certain limited timeframe.

The AEP is strongly opposed to an auctioning scheme in which all 27 Member States run auctions individually. To have effective auctions with minimal differences, extensive harmonisation of rules within the Regulation and enforcement at EU level to ensure proper execution by Member States would be required. However, some aspects would be rather difficult to achieve. If Member States all run their own auction, political difficulties may arise for smaller Member States who will not be able to run frequent auctions throughout the year because of their small auction volumes. They have larger risks that their auctions are held in periods with “lower” prices. One can imagine that this could translate into a dispute at EU level or into ways to avoid such “losses”. This would undermine the stability of the system.

Overall, our strong preference is for a “fully-centralised auction” based on a single EU-wide auction process. The AEP considers that the compromise option, as proposed, or the “hybrid approach”, would be a “second best”. In any case a centralised clearing would be required. There is no need to reinvent the wheel here - existing “Carbon Exchanges” could act as aggregators.

Question 69

If a limited number of coordinated auction processes develops, what should be the maximum number?

- 2
- 3
- 5
- 7
- more than 7, please specify: _____

Please give arguments to support your case.

A: If a centralised system cannot be established, then as few alternative platforms as possible should be developed. Member States should be encouraged to share platforms wherever possible.

Question 70

Is there a need for a transitional phase in order to develop gradually the optimal auction infrastructure? [Y/N] _

If so, what kind of transitional arrangements would you recommend? As the market evolves and as confidence develops, it may actually be possible to remove some of the initial rules. However, the overarching objective should be to get it right first time. If the

Commission is not confident that EUA auctioning processes will function in all instances, then the fall-back option should be for a simple issuance of EUAs into the market as is done in Germany at present.

Question 71

Should the Regulation impose the following requirements for the auctioneer(s) and auction processes? [mark those that apply,]:

Technical capabilities of auctioneers:

- capacity and experience to conduct auctions (or a specific part of the auction process) in an open, fair, transparent, cost-effective and non-discriminatory manner;
- appropriate investment in keeping the system up-to-date and in line with ongoing market and technological developments; and
- relevant professional licences, high ethical and quality control standards, compliance with financial and market integrity rules.

Integrity:

- guarantee confidentiality of bids, ability to manage market sensitive information in an appropriate manner;
- duly protected electronic systems and appropriate security procedures with regards to identification and data transmission;
- appropriate rules on avoiding and monitoring conflicts of interest; and
- full cooperation with the auction monitor.

Reliability:

- robust organisation and IT systems;
- adequate fallback measures in case of unexpected events;
- minimisation of the risk of cancelling an individual auction once announced;
- minimisation of the risk of failing functionalities (e.g. access to the bidding platform for certain potential bidders); and
- fallback system in case of IT problems on the bidder side.

Accessibility and user friendliness:

- fair, concise, comprehensible and easily accessible information on how to participate in auctions;
- short and simple pre-registration forms;
- clear and simple electronic tools;
- (option of) accessibility of platforms through a dedicated internet interface;
- ability of the auction platform to connect to and communicate with proprietary trading systems used by bidders;
- adequate and regular training (including mock auctions);
- detailed user guidance on how to participate in the auction; and
- ability to test identification and access to the auction.

Please elaborate if any of these requirements need not be included.

A:

Please elaborate what additional requirements would be desirable.

A: All the above items make for an almost comprehensive list. However, in our opinion, provisions to cover the following items should be included:

- Neither auctioneers nor Member States should be able to purchase in the auction
- Credit rating for auctioneers (if not state entities) should be high enough to cover delivery risk.

Question 72

What provisions on administrative fees should the Regulation include (more than one answer is possible)?

- General principles on proportionality, fairness and non-discrimination.
- Rules on fee structure.
- Rules on the amount of admissible fees.
- Other? Please specify: _____

Please provide arguments to support your case.

A: A rule needs to be included stating that fees have to be recovered from EUA auction proceeds.

Question 73

Should there be provisions for public disclosure of material steps when introducing new (or adapted) auction processes?

A: Yes, but this should not be necessary if rules are harmonised. Proper consultation with market participants will be needed.

Should new (or adapted) auction process be notified to and authorised by the Commission before inclusion in the auction calendar?

A: Yes, but this should not be necessary if rules are harmonised. Proper consultation with market participants will be needed.

Question 74

Which one of the following options is the most appropriate in case a Member State does not hold auctions (on time)?

- Auctions by an auctioneer authorised by the Commission.
- Automatic addition of the delayed quantities to those foreseen for the next two or three auctions.

What other option would you envisage? Please specify:

A: Either of these, and there should be a financial penalty.

Question 75

Should a sanction apply to a Member State that does not auction allowances in line with its commitments? [Y/N] y

If so, what form should that sanction take?

A: Release of the allowances to market with immediate effect (perhaps by an auctioneer on behalf of the Commission) and there should be a financial penalty mechanism in place.

Question 76

As a general rule throughout the trading period, in your opinion, are early auctions necessary? [Y/N] _

If so, what should the profile of EUAA auctions be:

- 5-10% in year n-2, 10-20% in year n-1, remainder in year n
- 10-20% in year n-2, 20-30% in year n-1, remainder in year n

- 20-30% in year n-2, 30-35% in year n-1, remainder in year n
- Other? Please specify: _____

Question 77

Do you think there is a need to auction EUAA futures? [Y/N] _
If so, why?

A:

This page contains two questions that will not be made public. These questions cannot be completed on this document

Request for potentially confidential information 3

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

For aircraft operators covered by the EU ETS:

Have you determined a corporate hedging strategy for carbon needs?

Yes []

No []

If so, what share of your expected emissions covered by the EU ETS in a given year n do you (intend to) hedge and how much in advance?

- year n : _____%
- year n-1 : _____%
- year n-2 : _____%

Request for potentially confidential information 4

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

What share of the annual quantity of allowances you intend to purchase *via* auctions would you wish to buy spot or futures respectively?

- | | | SPOT | | FUTURES |
|---|----------|------|--------|---------|
| • | year n | : | _____% | _____% |
| • | year n-1 | : | _____% | _____% |
| • | year n-2 | : | _____% | _____% |

Question 78

What should be the optimal frequency and size of EUAA auctions:

- 2 auctions per year of around 15 million EUAAs?
- 3 auctions per year of around 10 million EUAAs?
- More than 3 auctions per year? Please specify: _____

Please comment on your choice.

A:

Question 79

What would be your preferred timing for EUAA auctions:

- Equally spread throughout the year?
- November – March?
- Other? Please specify: _____

Question 80

Should any of the EUAA auction design elements be different compared to EUA auctions (see section 3)? [Y/N] _

If so, please specify and comment on your choice.

A:

Question 81

Do you agree there is no need for a maximum bid-size? [Y/N] _

If not, why not?

A:

Question 82

Is there any information regarding aircraft operators made available as part of the regulatory process to the competent authorities that could facilitate the KYC checks performed by the auctioneer(s)? [Y/N] _

If so, please describe what information is concerned and whether it should be referred to in the Regulation or any operational guidance published by the Commission.

A:

Question 83

In your opinion, is there a specific need to allow for non-competitive bids in EUAA auctions?

A:

Would this be the case even when applying a uniform clearing price format?

A:

Please provide arguments to support your case.

Question 84

Do you agree that there is no need for any specific provisions for EUAA auctions as regards [mark those that you agree with,]:

- Involvement of primary participants, exchanges or third party service providers?
- Guarantees and financial assurance?
- Payment and delivery?
- Information disclosure?
- Auction monitoring?
- Preventing anti-competitive behaviour and/or market manipulation?
- Enforcement?

If not, please describe in detail what rules would be needed and why.

A:

Question 85

Taking into account the smaller volume of EUAA allowances to be auctioned compared to EUAs, which of the three approaches for an overall EUAA auctioning model do you prefer? Please rate the options below (1 being the most preferable, 3 being the least preferable)

- Limited number of coordinated auction processes.
- Full centralisation based on a single EU-wide auction process.
- Hybrid approach where different auction processes are cleared through a centralised system.

Does your choice differ from the approach preferred for EUAs? [Y/N] _

Please provide arguments to support your case.

A:

Question 86

Do you agree that there is no need for any specific provisions for EUAA auctions as regards. [mark those that you agree with,]:

- Requirements for the auctioneer(s) and auction processes?
- Administrative fees?
- Rules to ensure appropriate and timely preparation of the auctions?

If not, please describe in detail what rules would be needed and why.

A: