

Ms Yvon Slingenberg
Environment Directorate-General
European Commission
B-1049 Brussels



3rd August 2009

Contribution of the upstream Oil & Gas industry to the Commission consultation on Phase III ETS Auctioning

Dear Ms Slingenberg,

OGP welcomes the opportunity to outline some general principles and approach to ETS auctioning in Phase III, to facilitate the most efficient possible auctioning system for ETS.

This letter is in response to the issues outlined during the stakeholder meeting held on 30th June and the Consultation Paper on Technical Aspects of EU Emission Allowances Auctions.

As a trade association we do not have views on some of the issues raised in the consultation, particularly those that relate to specific trading issues, including the four confidential questions. We have attempted below to answer those which are relevant to us.

Access to auctions

Oil and gas production companies are market participants both as compliance participants and as intermediaries, as described in the consultation paper. We believe that any holder of a valid EU Registry Account should be entitled to bid directly. Such direct access to auctions by industry would reduce transaction costs and ensure that all participants have the same access to market information as per Article 10(4) a) to d). Furthermore, considering many companies have comparatively strong credit ratings compared to some non-compliance market participants, direct access could contribute to a well-functioning market.



Auction Design

A simple approach to auctioning should be adopted. Given that we recommend frequent auctions, using single-round sealed-bid auctions with uniform pricing would work best. The auction results / clearing price should be released instantaneously.

The Regulation should seek to prevent any intervention in the market by the Member States.

Auction Reserve Price

We do not support Price Floors or Reserve Prices, or Price Ceilings, as they distort the value of the auction as a process by which the market price is determined and thus inhibit market efficiency. Prices should depend on supply and demand fundamentals at the time of the auction.

Force Majeure Events

Force Majeure events that would cause cancellation or delay in an EU ETS auction should be agreed in advance by Member States and specified in the regulation to give a harmonised and transparent understanding to market participants.

Centralised auction platform

A single auction platform would ensure consistency and predictability and be cost effective in terms of participation – particularly for SME bidders. A centralised auction system would be easier to administer, for example, one set of participation legal terms and conditions, participant credit requirements, delivery requirements, transparency and in setting the auction calendar. We therefore suggest the Regulation is based on either the centralised or as second best, the hybrid approach as outlined in the consultation document. We do not support a large number of separate auction platforms as this will increase administration costs and reduce participation. We also think that the costs of running the auctions should be taken from the auction revenues. This will act as an incentive to Member States to minimise these costs.

Auction Timing

- Early Auctions: We have no objection to the power generation sector's request for early auctioning as it assists provision of forward power contracts for industry.

We want to preserve a liquid secondary market, and we understand that some other participants, who have a higher percentage of their requirements through the market, would need to hedge.

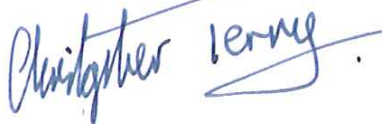
If the propensity to hedge continues into Phase III, the ratio of allowances auctioned on a futures basis should reduce annually on the same basis as the ratio of allowances auctioned to industrial sectors is increased. This is to avoid that due to futures sales, there will be no undue unreasonable shortage of allowances offered on a spot basis in later years when the number of allowances auctioned has considerably increased i.e. industrial companies will prefer to buy allowances on a spot basis, therefore as allowances are removed from their free allocation they should be added to the spot auction not the futures auction.

- Auction calendar, rules and quantities: To ensure market stability, the auction calendar should be fixed at least one year in advance. This will also prevent speculative auctions by Member States. Auction rules and quantities should also be established well in advance, which will allow companies to plan their future working capital needs.

Auction frequency: As the proportion of allowances auctioned will increase significantly at the start of the Period compared to Phase II, frequent auctions will be important to ensure the volume of allowances in any single auction is of a size which does not require a level of capital to be set aside, which would damage the liquidity of the secondary market. Too many auctions, however, would also disrupt the secondary market. We would support weekly auctions.

We look forward to contributing to further stakeholder consultations and responding directly to any particular concerns or issues raised in our submission.

Yours sincerely,

A handwritten signature in blue ink that reads 'Christopher Terry'.

Christopher Terry
EU Affairs Manager

About OGP

OGP is the single association representing companies and associations engaged in the exploration and production of oil and natural gas both at global and at EU level, with offices in London and Brussels.

Globally, OGP's worldwide membership accounts for more than half of the world's oil output and about one third of global gas production. OGP fosters cooperation in the area of health, safety and the environment, operations and engineering, and represents the industry before international organisations, such as the UN, IMO and the World Bank, as well as regional seas conventions, such as OSPAR, where it has observer status.

At EU level, OGP represents members who are active in Europe. OGP Europe participates in the Berlin Fossil Fuels Forum, the Madrid European Gas Regulator Forum as well as other consultative groups set up by the European Commission, and it is the prime interlocutor for energy policy, environmental and other issues related to this industry.

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Mr Neil Cornelius, ICF International