

Response to the consultation on auctioning emission allowances

**Stakeholder meeting
Brussels
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- Consultation period: 3 June – 3 August 2009
- Open on the overall model and potential approaches:
 - Many interrelationships
 - Relevance of some questions depend on overall model and approach taken; other questions are relevant under all circumstances
- Interaction with other legislation such as MAD, MiFID, etc.
 - Questions focus on potential needs for the Regulation

- 136 responses received in time:
 - 12 Member States and 124 others
- 124 answered in the requested format:
 - 5 Member States and 119 others
- 119 others include
 - 69 emitters: 30 electricity, 10 other energy, 22 industry, 7 aviation
 - Only 2 intermediaries and 2 own account traders
 - 24 trade associations
- Various additional submissions

- Re-classification / removing duplication
 - Entities belonging to same group
 - E.g. trade associations at national level
- Presentation of results:
 - % refer to 119 sample, excluding Member States
 - The % between brackets (%) refers to the response rate (i.e. number of responses to the question/119)

Q1: Early auctions – how much and how early?

Consultation response:

- 87% welcomes **early auctions** (92%) because of hedging forward electricity sales, but
 - In particular Member States are cautious
- preference for relatively large quantities to be auctioned early in all respondent groups, but
 - Financial group generally did not take a view
 - Lack of evidence. Quantities for 2011/2012 auctions remain unclear

Q2: Spot and/or futures?

- 81% support for **auctioning futures** (92%), as it matches hedging needs and reduces need for cash flow
 - But significant support for opposite views in all respondent groups other than electricity generators and other energy companies:
 - it increases complexity,
 - lack of fungibility,
 - the market can provide for it anyway

Q3: Share of spot and futures auctions

- 63% support auctioning (mostly) spot in year n
- Response rate of 48%, generally confirming previous answers
- About half support (mostly) futures auctioning in year n-1 and year n-2
- Financial groups seem to be split: some in favour of substantial shares of spot auctioning, both in year n-1 as in year n-2

Q4: Maturity date

- 81% support a common maturity date in December when auctioning futures (66%)
- Minority view favours common maturity date in November, i.e. ahead of 'standard' delivery in the secondary futures market

Q5-8: Frequency & size (1)

Spot:

- 55% support weekly auctions, 16 respondents support daily auctions (91%)
- for 36% weekly auctions is the minimum (90%)
- for 41% weekly auctions is the maximum frequency 29 respondents see daily auctions as a maximum frequency (87%)

Q5-8: Frequency and size (2)

Spot - optimum size (30%):

- 33% for 1-5 million
- 22% for 5-10 million
- 28% for 10-25 million

Some inconsistency



Q5-8: Frequency and size (3)

- For futures, similar response as for spot
- NGOs, industry and MSs on balance prefer lower frequency
- “depends on overall auctioning approach”



Q9-12: Spread over the year, dates

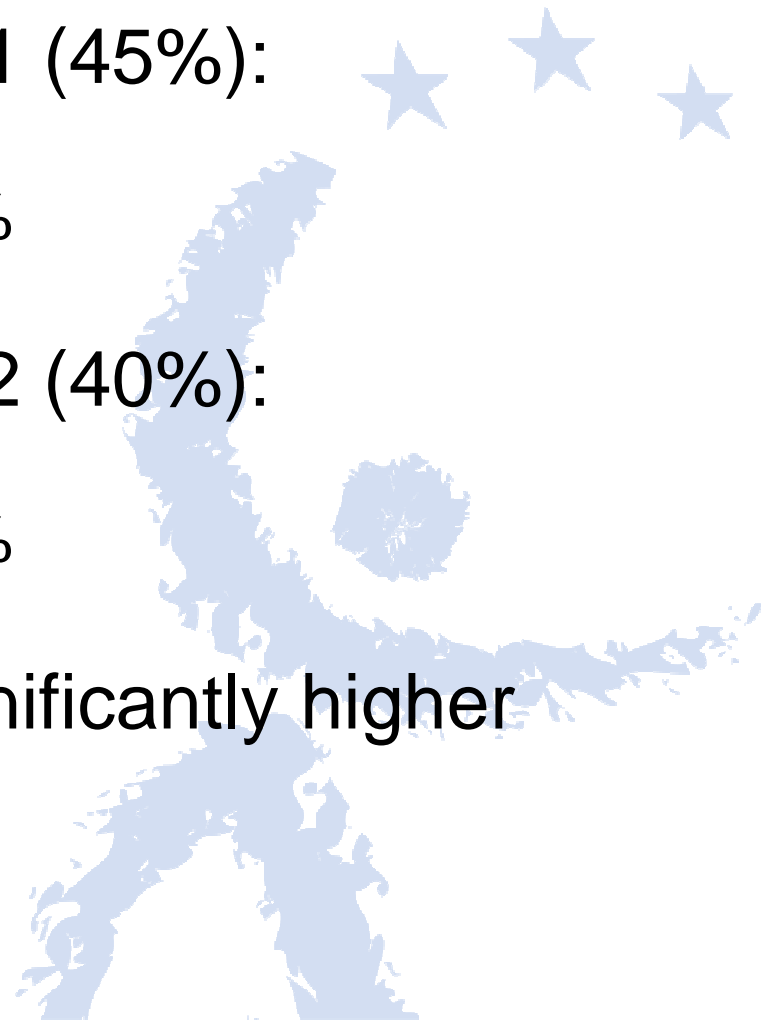
- Spot: 89% support even spread throughout the year (88%). Similar for futures
- Of the 11% 'no votes' (88%),
 - 42% wish a larger proportion in Jan-April.
 - 25% wish smaller proportion in July-August
- 76% do not see a need for provisions to avoid auctions just before the surrendering date. Similar reply as regards auctioning futures just before the maturity date (80%)
- 76% wish to avoid public holidays. 41% avoid days where emissions data are released
- 93% support 10-12h CET slot (87%). UK: 9-11h CET

Q14: Auctioning calendar

- Annual volumes: 45% “more than 3 years in advance” (82%)
- Distribution spot/futures: 39% “more than 3 years in advance” (82%)
- Individual auctions:
 - about 30% “1 year in advance”,
 - about 30% “more than 3 years in advance”
- Member States and financial players need on balance fewer years of predictability

Q15: 2011 and 2012 volumes

- For auctioning spot in 2011 (45%):
 - 0-25% of 2013 volume: 47%
 - 26-50% of 2013 volume: 42%
 - 0-25% of 2014 volume: 72%
- For auctioning spot in 2012 (40%):
 - 0-25% of 2013 volume: 25%
 - 26-50% of 2013 volume: 70%
 - 0-25% of 2014 volume: 60%
- For auctioning futures: significantly higher shares



Q16-17: Force majeure and lot size

- Force majeure (89%):
 - 51%: add to next auction,
 - 31%: roll forward, but spread over few auctions
- 83% favour lot size of 1,000 EUAs (92%)
 - Other views: smaller sizes may be useful for SMEs & small emitters

Q18-20: Auction design

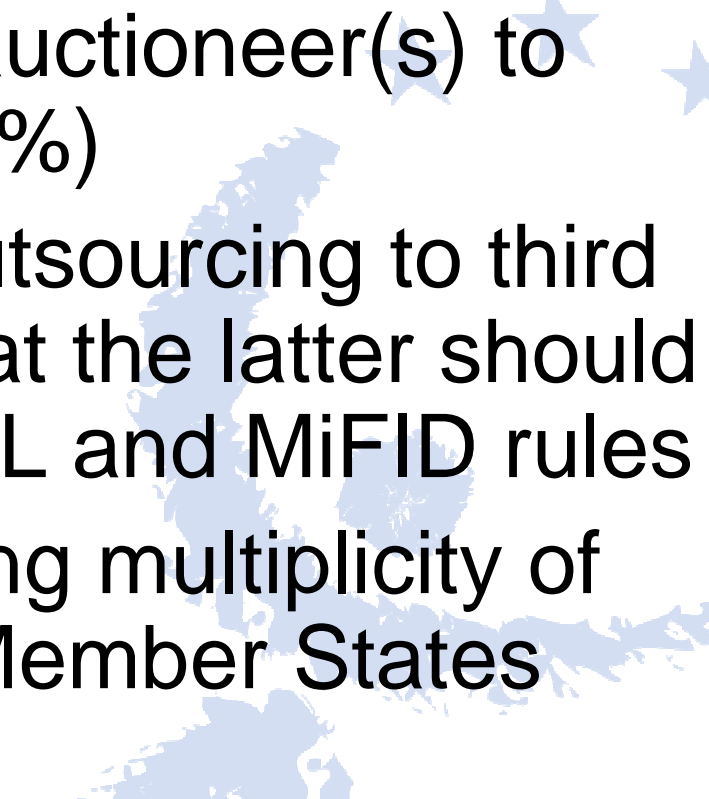
- 76% support single-round sealed-bid design: keep auction design simple (88%)
 - Strongest support among electricity companies
- 84% support uniform pricing (90%)
- 99% support pro-rata rescaling of tied bids (83%)
 - Some suggest also: “first come - first serve”

- Strong opposition to absolute price-floor
- 84% against reserve price (87%)
 - But 8 Member States in favour
- If a reserve price, 94% thinks the methodology/formula should not be kept secret (76%)
 - But 7 Member States in favour of keeping it secret

Q23-25: Maximum bid-size

- 66% against a maximum bid-size in uniform-price auctions (85%)
- 76% against a maximum bid-size in discriminatory-price auctions (66%)
- If so, maximum bid-size should be (25%)
 - 40% favours 10%;
 - 37% favours 20%
- If required to choose, 80% choose for maximum bid-size, rather than discriminatory-price auctions (55%)

- High level of agreement on listed pre-registration requirements
 - But less so as regards 'intended auctioning activity'
- 100% agree on harmonising pre-registration requirements (88%)
- Less agreement on how the pre-registration should look like
- 85% agree that pre-registration requirements should apply in the same manner whether or not the auctioneer is covered by MiFID/MAD rules (72%)
 - Minority view: if auctions take place on regulated markets, the pre-registration system is already in place

- 91% support allowing auctioneer(s) to rely on third parties (76%)
 - Of those in favour of outsourcing to third parties, 31% agrees that the latter should be covered by both AML and MiFID rules
 - 96% agree on prohibiting multiplicity of pre-registration when Member States auction jointly (82%)
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- 88% agree on harmonising the level of collateral (82%)
- 85% agree on harmonising the type of collateral (82%)
 - exchanges: “collateral varies according to risk profile”
- 59% disagrees on 100% collateral in spot auctions (76%)
 - largest opposition in industry
- 87% agree on involving a clearing house for futures auctions, little support for *specific* margining rules other than currently used (70%)

Q37-39: Payment and delivery

- 76% favour Delivery versus Payment (dvp) (70%)
- 95% favour a maximum delay (71%),
 - about 50% of them favour 4/5 days
- 88% of favour provisions for incidents and failures (79%)

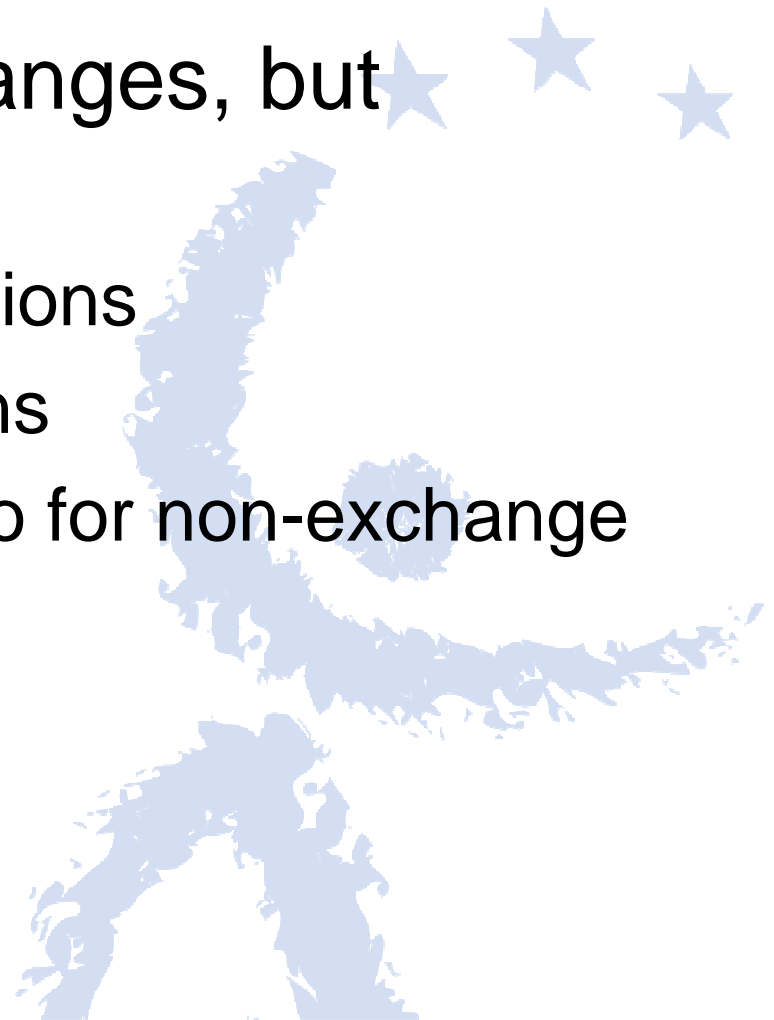
- 93% agree on provisions on transaction rules (71%)
 - Most found the listed matters complete
 - Some suggest a template “standard terms & conditions”
 - UK: relationship is of regulatory nature, not contractual
- 98% agree on rules on jurisdiction (72%)
 - 42% of them by reference to Brussels I Regulation
 - 38% wish specific rules

Q42-46: 'Primary participants model'

- 'primary participants model' generates strong opposition
 - 61% favour 'direct bidding' (91%)
 - 38% replied 'both'
- If used,
 - 20% wish direct access to largest emitters
 - 21-28% wish to impose strict 'Chinese walls' as regards bidding, registration, collateral management, payment and delivery

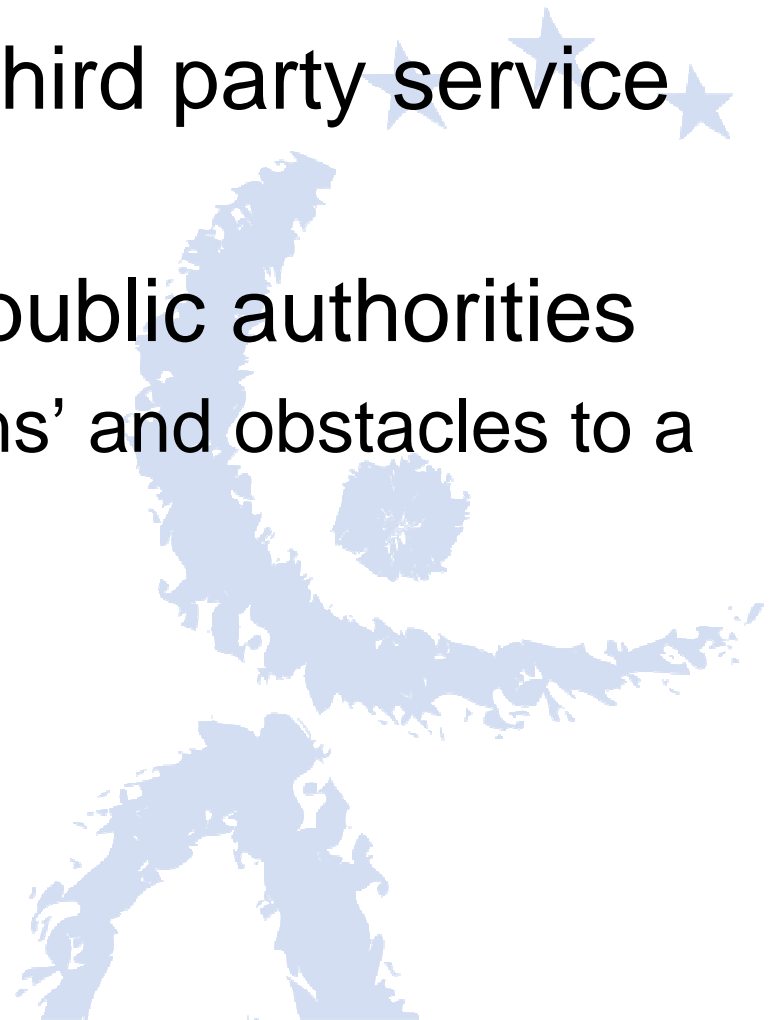
Q47: Using exchanges

- Support for using exchanges, but conditional upon:
 - 23% only for futures auctions
 - 33% also for spot auctions
 - 40% only when open also for non-exchange members



Q48: Direct auctions

- 55% support involving third party service providers
- 46% support involving public authorities
 - Fear for 'national solutions' and obstacles to a centralised approach



Q49-54: Access for SMEs and small emitters

- 82% think that the general rules suffice for ensuring full, fair and equitable access to SMEs and small emitters (76%)
 - But hardly any SMEs/small emitters responded
- Little support for non-competitive bidding
- If provided for
 - majority favours 5% share, 33% favours max 10,000 EUAs, 31% favour max 25,000 EUAs
 - only few gave ideas on how to implement it

Q55-60: Information disclosure

- 44% of favour release of the 'notice to auction' at least two months before the auction (82%)
 - Possible confusion with auctioning calendar
- 47% of favour one week minimum period for submitting 'intention to bid' (75%)
 - Many others argue there is no need for 'intention to bid'
- 77 to 87% agree to post auction disclosure of listed information
 - Suggestions to add: nr participants, nr successful bidders
- 53% in favour of 5 minutes maximum delay to announce results (88%)
- Strong support for provisions on information release: same time, standardised format, non-discriminatory, central website

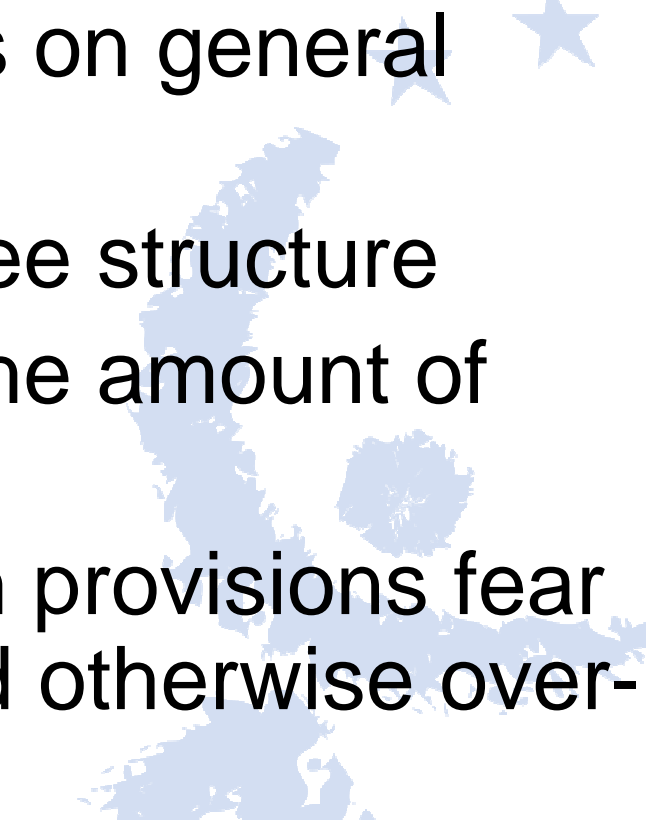
Q61-63: Auction monitor – market abuse

- 98% support a central auction monitor; large support for provisions on (90%):
 - Designation/mandate
 - Cooperation monitor – auctioneer
 - Operational guidance
- 80% support provisions on market abuse (87%)
 - Doubts: should this be in the Regulation or in legislation relevant for the overall carbon market?

- 87% in favour of sanctions on non-compliance
- 71% in favour of sanctions on market abuse
 - 40% suspension of auctioneer/bidders
 - 50% financial penalties
 - 30% binding interim decisions
- 64% support enforcement at EU level (85%)
 - 70% competent authority at EU level
 - 34%: auction monitor
 - 19% competent authority at national level
 - 17% auctioneer

Q68-71: Overall approach

- 88% support centralised approach (96%)
- 10% support hybrid approach as a first option, 60% as a second best option (96%)
- If a limited number of coordinated platforms 54% favour a maximum number of 2 or 3
- 73% see no need for a transitional phase (77%)
- 75 to 78% support the listed requirements for auctioneer(s)

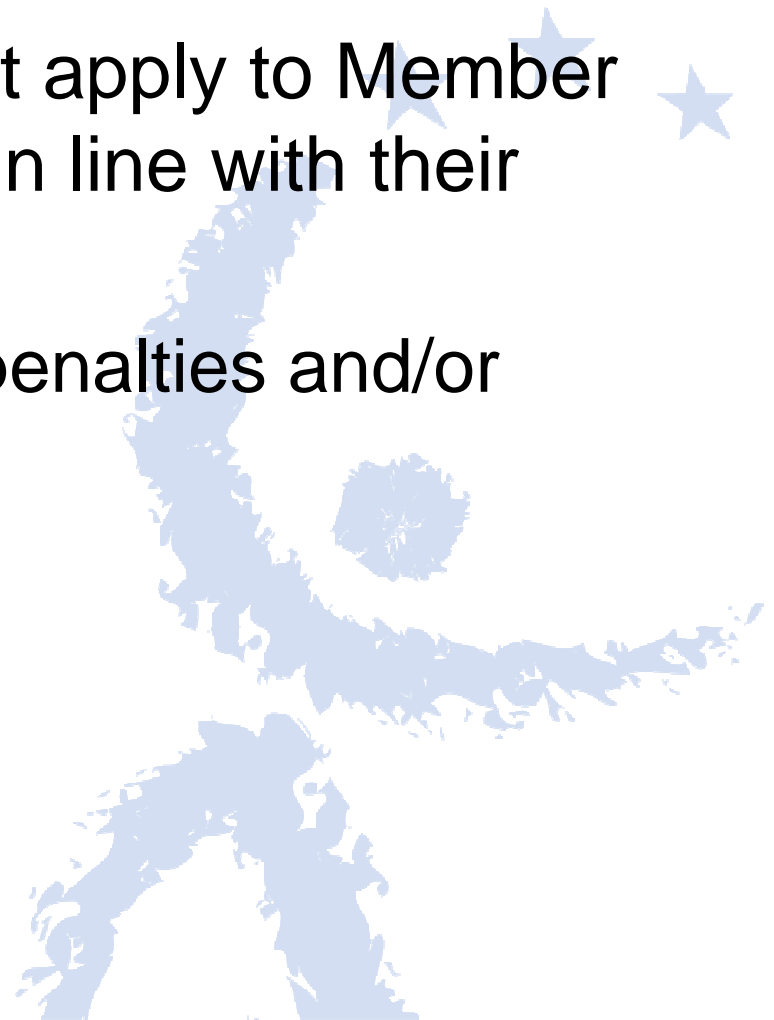
- 56% support provisions on general principles
 - 45% support rules on fee structure
 - 44% support rules on the amount of admissible fees
 - Those in favour of such provisions fear that auctioneer(s) could otherwise over-charge.
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Q73-75: Requirements for auctioneers and auction processes

- 73% support disclosure of material steps when introducing new (or adapted) auction processes
- 98% support a notification process and authorisation by the Commission (73%)
- In case a Member State does not hold an auction (on time),
 - 52% support auctions by an auctioneer authorised by the Commission
 - 29% favour automatic addition to the next two or three auctions
 - Distinction of failure on one auction and longer term failure

Q75: Sanctions

- 99% support sanctions that apply to Member States that do not auction in line with their commitments (74%)
 - Some suggest financial penalties and/or staged approach



Q76-78: Auctioning EUAAs (1)

- 80% (including most aviation respondents) support early auctions (41%)
- Only 38% (including most aviation respondents) favour auctioning futures: i.e. less than for EUAs (33%)
- 50% favour more than 3 EUAA-auctions per year (17%). Idem for 57% of aviation respondents (78%)
 - 40% favour 3 auctions per year (17%)
 - Idem for 43% of aviation respondents (78%)

Q79-83: Auctioning EUAAs (2)

- Large support for spreading EUAA-auctions evenly over the year
- 93% favour same design as for EUA auctions (23%)
Idem for 88% of aviation respondents (89%)
- Split views on maximum bid-size:
 - 56% in favour (25%)
 - 75% aviation respondents in favour (89%)
- 100% of aviation respondents favour making use of existing regulatory processes (44%)
- 67% of aviation respondents do not see a need for non-competitive bidding (67%)

Q84-86: Auctioning EUAAs (3)

- About half of the aviation respondents explicitly agreed on the absence of a need for specific provisions as regards collateral, payment/delivery, information disclosure, monitoring, preventing market abuse, enforcement, fees, requirements on auctioneers/auction processes
 - But only very limited suggestions given
- 78% of all aviation respondents support centralised approach
 - 44% support hybrid approach as second choice

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http://ec.europa.eu/environment/climat/climate_action.htm