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Consultation on Auctioning third phase EU Allowances prior to 2013  
("early auctions")

Dear Madam or Sir,

EnBW Trading welcomes the opportunity to comment on the issues raised in the Commission's Discussion Paper "Implementation of the Emission Trading System under the Directive 2003/87/CE / Assessment of any allowances to be auctioned prior to 2013 pursuant article 10(1) of the Auctioning Regulation"

In our view the volume of early auctions is of great importance for the well-functioning of the market. The power sector accounts for the largest share of emissions covered by the EU-ETS; power produces hedge CO<sub>2</sub> – in line with their power business- up to four years in advance. Therefore, we believe that significant price distortions in the secondary market could arise if auctions were to be delayed or offer an insufficient amount of EUAs in advance. In such a scenario, hedge demand for 2013 onwards will most likely be met by phase II EUAs; some financial institutions are already offering EUAs for delivery in phase III and will most likely manage their own price risk by banking Dec2012-delivered EUAs into phase III. Such a 'policy-made' scarcity of supply could lead to increasing prices on the secondary market in phase II – followed by a (possibly sharp) decline when the auctions finally start and EUAs are released into the market; this does not necessarily support the overall efficiency of the EU ETS.

In its Discussion Paper for the stakeholder meeting of 13th December 2010, DG Climate proposes the use of CERs and ERUs for the hedging needs of EU ETS operators (see point 5 on the supply side). In our view, it is important to highlight the potential risks related to this approach, i.e. the use of CERs and ERUs for hedging needs. Until now there is no positive list available of project types and host countries eligible for compliance in phase III. Therefore, it is neither possible for the EU ETS operators to meet compliance needs with phase II CERs; nor is it possible with phase III CER contracts of different exchanges due to the lack of liquidity. Against this background, we recommend to consider thoroughly this uncertainty of eligibility when calculating the amount of CDM and JI credits available for hedging or surrendering by ETS operators.

For any further questions please do not hesitate to contact us.

Yours sincerely

EnBW Trading GmbH