

Auctioning Greenhouse Gas Allowances

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Background

- For NAP1 the Irish Government Directed EPA to auction up to 1% of allowances to defray the costs of administering the emissions trading scheme.
- Ireland's first National Allocation Plan contained a provision to auction 502,201 allowances (~0.75%).
- The Government also Directed that unused allowances arising as a result of closures are also to be auctioned with the proceeds going to the exchequer.

Developing an Auction Procedure

- Useful documents were
 - UK Consultation paper on “Proposed auction or sale methods for use in the EU Emissions Trading Scheme” (April 2005)
 - Commission “Non-paper on the use of auctioning for allocating Emissions Trading Allowances in the second trading period 2008-2012 and further on” (September 2005)
- Consultation with Ireland’s “National Treasury Management Agency”
- Legal advice
- Internal EPA discussions

Objectives

- Fund the Administration of the EU ETS scheme
- Minimise legal resistance
- Minimise the costs associated with the Auction (both the costs incurred by participants and those incurred by the EPA)
- Minimise the threat of strategic behaviour and collusion
- Maximise the prospect of participation in the auction
- Create a format suitable for repeat use

Key Decisions – Number of Auctions

- In order to reduce the risk of auctioning during a “low” in market prices it was decided to spread the risk by running two auctions for around 250,000 allowances each time.
- The first auction was held in January/February 2006.
- The second auction was held later in December 2006.

Key Decisions - Auction Format

- In order to ensure broad participation and in order to simplify the auction procedure it was decided that a **sealed-bid** option be implemented.
- **Uniform-Price Auction** – Each successful bidder pays the clearing price for the auction. All successful bidders pay the same price.
- In order to diffuse the risks it was decided that a “**non-disclosed**” **reserve** price be set for the auction.
- The initial **lot size** for the first auction was set at 500 allowances. Hence the total number of lots available was 500.
- To maximise demand, it was decided that the auction be **open to all bidders** with a valid account in the EU ETS registry system.
- To reduce risks, it was decided that potential bidders be subject to a **pre-qualification process and a deposit**. Any winners not honouring their bids would forfeit their deposits.

How well did it work?

- Over 150 valid bids were received.
- 5 successful bidders
- Uniform Settlement Price of €26.30
- Undisclosed Reserve was not reached
- All accounts cleared within the five day period
- All 250,000 allowances transferred to the accounts of the successful bidders
- Very low overhead cost incurred

Lessons learned from Auction 1

- Pre-qualification to PAR / SAR E-mail accounts was straightforward.
- Electronic transfer of deposits and matching to account holders was not as straightforward as we had been led to believe – the full data string did not appear on our on-screen bank account.
- Time-lines for electronic funds transfer are generally very fast – two days would appear to be sufficient. Hence settlement time-lines could have been shorter than the five days we allowed.
- Refunds to unsuccessful bidders was straightforward for those in the eurozone, but slower for those outside the eurozone as we needed to ascertain if the return account was a euro account or a national currency account.
- Vulnerability of auction if market dipped during settlement period. The deposit of €3,000 was insufficient to ensure payment of accounts.

Changes for Auction 2

	First Auction	Second Auction
Total for Auction:	250,000 allowances	963,000 allowances*
Lot Size:	500 allowances	1,000 allowances*
Deposit:	€3,000	€15,000 *
Auction Design	Sealed Bid.	Sealed Bid.
Prospective Participants:	Registry account owners listed on the <i>Community Transaction Log</i> .	Registry account owners listed on the <i>Community Transaction Log</i> .
Auction Type:	Uniform Price.	Uniform Price.
Reserve Price:	Undisclosed.	Undisclosed.
Settlement Time:	5 Days.	2 Days *
Pre-Qualification:	Manual by Email.	Online using Website. *
Bid Placed:	Sealed Envelope.	Online using Website. *
Number of Bids:	One Schedule of Demand including up to five mutually exclusive bids.	One Schedule of Demand including up to five mutually exclusive bids.

Outcome of Auction 2

- Ireland held the first electronic auction for EU ETS allowances
- Pre-qualification November 16th to 27th
- Bids received December 4th & 5th
- All 953,000 allowances were offered on evening of 5th at a uniform settlement price of €6.87 to seven successful bidders
- Full settlement within two days and all allowances transferred



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