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Public Consultation on the Establishment of the Innovation Fund

Response by EEX

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The European Energy Exchange (EEX) welcomes the opportunity to provide its views on parameters for the establishment of the Innovation Fund through this consultation. Active in the European carbon market since 2005, EEX has closely followed and contributed to policy developments in the EU ETS since its start. EEX is involved in the EU ETS through its appointment as the Common Auction Platform for 25 EU Member States, as well as, the Opt-out Platform for Germany and conducting auctions for Poland, and as a secondary trading platform for emission allowances. Against this background and expertise, we will focus our consultation answer on question 19 of the Innovation Fund consultation: *What are in your view the most important lessons learned from the monetisation of NER300 allowances / key aspects to be considered when deciding about the modalities, in particular the timing, of monetising the allowances available for the Innovation Fund?*

The Innovation Fund (IF) planned for the fourth trading period under the revised ETS Directive is similar to the NER300 programme during the third trading period of the EU ETS. For the NER300 programme, EEX was selected as a “cooperation exchange” of the European Investment Bank (EIB). In this role, we worked closely together with the European Investment Bank (EIB) to support the monetisation of allowances based on different sales channels (registration of OTC trades via EEX’s clearing house; direct execution of trades on the secondary market; auctions).

In its relevant impact assessments, the Commission identified two key factors for the success of the IF: a simple implementing structure limiting administrative burden and an optimal timing of monetisation of allowances to minimize market impact¹. **EEX believes that the existing auctioning infrastructure is well-placed to guarantee these criteria are met, and we would advise to make full use of auctioning compared to the NER300 programme.**

Auctioning is already the default allocation method for allowances in the EU ETS, and this has been a key principle from its start. There are a number of good reasons for this. Auctioning is the most transparent allocation method, providing a transparent, harmonised and non-discriminatory process. A thorough legislative framework for auctions (“Auctioning Regulation”) has been put in place that ensures the monetisation process exactly meets these objectives. It also prescribes that undue administrative costs for all stakeholders are avoided and that auctions are designed in a way to have least possible market impact (e.g. through even distribution of auction volumes over the year).

The revised EU ETS Directive further strengthens this instrument by adding additional requirements for auctions to further increase predictability, cost-efficiency, fair access to auctions and simultaneous access to all information for market participants.

The same broad reasons why auctioning is the default method of allocation in the EU ETS also apply to the monetisation of IF allowances. This is why it should play an equally important role in this context.

Since the time of monetisation of the NER300 program, auctions have developed into a well-established practice in the EU ETS: Auctions take place on an almost daily basis; the average number of participants has substantially increased; and the market impact of auctions has even further decreased, with an average deviation of auction prices from secondary market prices of around 0.01 EUR.² Therefore, the IF monetisation should revert to auctions also as the standard practice of allocation from a market participant perspective.

¹ Impact Assessment on the revision of the EU ETS Directive; Inception Impact Assessment on the Innovation Fund

² For illustration: Number of auctions in 2017 (2012): 201 (74); total auction volume in 2017 (2012): 845.235.500 (102.711.500); number of admitted participants in 2017 (2012): 72 (42), average deviation of auction clearing price from secondary market price at the time of the auction in 2017 (2nd half of 2012): -0,012 (-0,027).

Furthermore, using the existing auctioning infrastructure already put in place by the Commission and Member States to the fullest contributes to ensuring the most effective use of public funds, identified as an objective for the IF in the impact assessments and discussed as a concern by market participants in the IF stakeholder consultations held.

Auctions based on the established infrastructure allow participation of all admitted EU ETS market participants without additional costs to be set up. This is best able to ensure discrimination-free access and participation for the broadest possible range of market participants, including small and medium-sized enterprises. This infrastructure is already in place and can now be used for monetisation of IF allowances without additional costs.

Concerning timing, we believe auctions are best placed to minimize market impact while at the same time providing transparency and predictability about monetisation to market participants and the wider public. Providing such predictability about when IF allowances will enter the market is a key concern to ETS market participants for the design of the IF. This is reflected in answers received to the consultation on the revision of the EU ETS Directive. A number of auction rounds also make the progress of monetisation easiest for the public to follow and can support public interest in the overall initiative.

Use of the existing infrastructure also avoids costs associated with alternative options and thereby minimizes costs to the seller. As one example, setting up a dedicated trading desk for monetising allowances entails significant cost for technical setup, staff, staff training, and reporting. Auctions as an instrument are best placed to attract market attention, pooling the greatest possible number of market participants and maximising participation and demand, translating into more competitive bids and higher revenue. Use of existing infrastructure also makes a swift operationalization possible, as monetisation of the IF is planned to start already in 2019.

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