

UK Phase III Auction Platform Report

Report number: 56

Period covered: 1 - 30 September 2018

Introduction

- 1 This report contains information on auctions held on the UK's Phase III European Union Emissions Trading System (EU ETS) Auction Platform. Auctions are held according to the published [1] auction calendar.
- 2 Auctions are conducted by ICE Futures Europe on behalf of the Department for Business, Energy and Industrial Strategy (BEIS). DECC (the Department of Energy and Climate Change, the predecessor to BEIS) first appointed ICE Futures Europe in April 2012 [2] and following a European Commission approvals process [3] held the first auction [4] in November 2012. The first aviation auction took place on 17 September 2014. In February 2016, BEIS launched a re-procurement process for the UK's opt out auction platform. Following a further European Commission approvals process, ICE Futures Europe were re-appointed to conduct UK auctions from 10 November 2017 [5]. The first auction under the new platform took place on 29 November 2017.
- 3 The report is based on post-auction data provided by ICE Futures Europe under the Auctioning Regulation [6]. This data [7] is available on the ICE Futures Europe website.

Section 1: Auction results

Description of auctions concerned

- 4 This report covers the Phase III European Union Allowance (EUA) auctions held during this period. There were no aviation (EUAA) auctions held during this period. The results of the auctions are in the tables below, which also includes the ICE EUA futures prices [8] for the next December expiry at close the day of each auction.

Date	Volume auctioned (EUA)	Volume sold	Clearing price	Volume bid for	Bidders	Successful bidders	Cover ratio	Revenue	Futures Price
05/09/2018	5,742,000	5,742,000	€ 19.93	8,364,500	14	13	1.46	€ 114,438,060	€ 20.37
19/09/2018	5,741,500	0	€ 0.00	4,960,000	12	0	0.86	€ 0	€ 21.47
Date	Volume auctioned (EUAA)	Volume sold	Clearing price	Volume bid for	Bidders	Successful bidders	Cover ratio	Revenue	Futures Price

5 EUA auction results from completed calendar year quarters are summarised below.

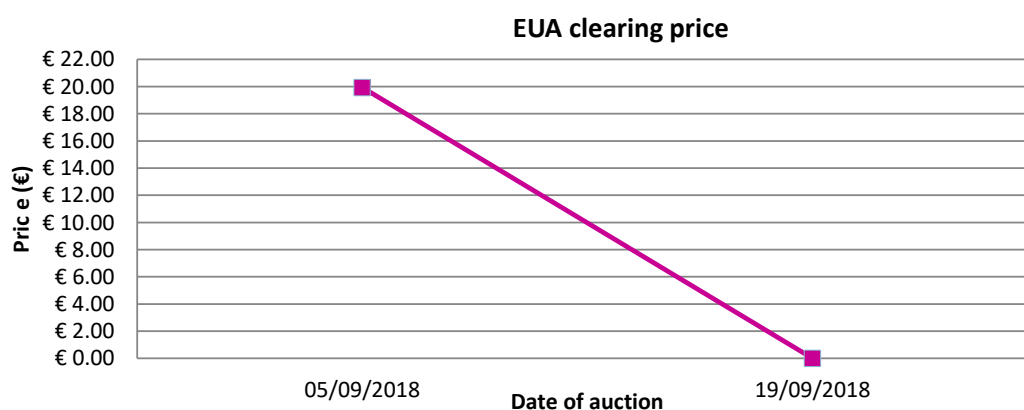
Period	Total volume auctioned	Total volume sold	Clearing price*	Total volume bid	Bidders*	Successful bidders*	Cover ratio*	Revenue
Q4 '12	12,258,000	12,258,000	€ 6.18	31,123,000	15	11	2.54	€ 75,735,440
Q1 '13	24,804,000	24,804,000	€ 4.44	55,373,000	16	10	2.23	€ 110,005,740
Q2' 13	24,804,000	24,804,000	€ 3.82	54,095,500	15	11	2.17	€ 94,792,620
Q3 '13	24,820,000	24,820,000	€ 4.90	72,904,500	14	11	2.33	€ 110,283,000
Q4 '13	20,670,000	20,670,000	€ 4.57	57,739,500	17	12	2.79	€ 94,544,580
Q1 '14	23,550,000	23,550,000	€ 5.86	62,577,000	17	13	2.66	€ 137,993,800
Q2' 14	15,090,000	15,090,000	€ 5.28	37,865,000	14	12	2.51	€ 79,650,000
Q3 '14	15,005,000	15,005,000	€ 5.94	44,073,000	14	11	2.94	€ 89,200,300
Q4 '14	12,575,000	12,575,000	€ 6.41	31,714,150	14	10	2.52	€ 80,580,600
Q1 '15	18,738,000	18,738,000	€ 6.93	45,158,580	15	14	2.41	€ 129,885,570
Q2 '15	21,861,000	21,861,000	€ 7.22	44,877,510	14	12	2.05	€ 157,930,110
Q3 '15	18,744,000	18,744,000	€ 7.91	50,750,805	14	11	2.71	€ 148,328,400
Q4 '15	15,615,000	15,615,000	€ 8.43	28,981,440	15	12	1.86	€ 131,571,990
Q1 '16	20,937,000	20,937,000	€ 5.38	32,626,825	16	13	1.56	€ 112,571,270
Q2 '16	24,426,500	24,426,500	€ 5.53	44,491,125	14	11	1.82	€ 135,078,545
Q3' 16	17,447,000	17,447,000	€ 4.37	41,401,295	14	9	2.37	€ 76,330,445
Q4' 16	20,937,000	17,447,500	€ 4.52	40,582,885	14	10	1.94	€ 55,622,630
Q1' 17	29,106,500	29,106,500	€ 5.10	59,788,705	15	11	2.05	€ 148,341,315
Q2' 17	29,886,500	29,886,500	€ 4.78	59,730,305	16	12	2.00	€ 142,814,775
Q3'17	21,350,000	21,350,000	€ 5.90	47,378,815	13	10	2.22	€ 125,942,815
Q4'17	25,617,000	25,617,000	€ 7.30	59,388,745	12	9	2.32	€ 186,918,710
Q1'18	18,373,000	18,373,000	€ 10.12	34,129,705	13	11	1.86	€ 185,843,885
Q2'18	35,600,000	31,006,500	€ 14.47	50,538,000	13	11	1.50	€ 448,698,840
Q3'18	29,856,500	18,373,500	€ 18.58	42,121,000	13	10	1.72	€ 341,414,755

* weighted average

EUA auction clearing price formation

6 The graph below shows the clearing price over time for the EUA auctions held in this reporting period. The auction on 19 September 2018 was cancelled due to insufficient coverage, thus the clearing price fell by €19.93 between the two EUA auctions. The volume weighted average price per allowance was:

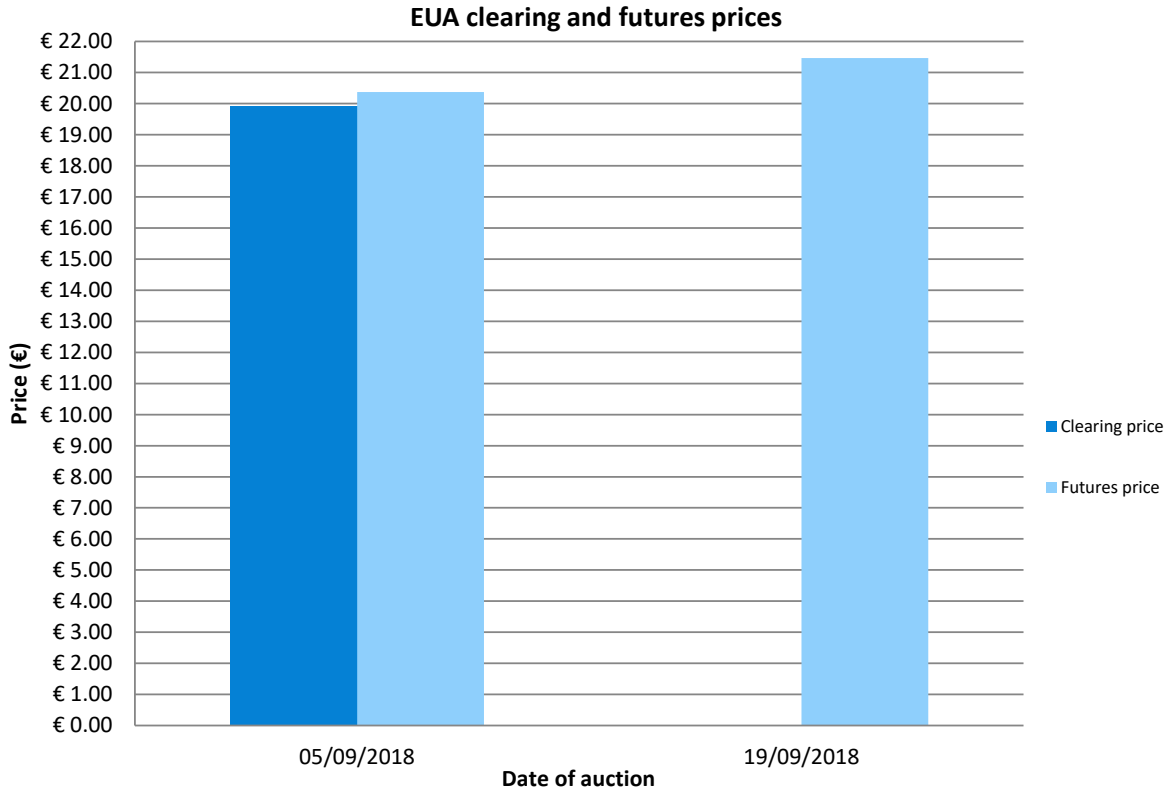
€ **9.97**



EUA auction clearing price formation

7 The graph below shows the clearing price compared to the ICE EUA futures price for the next December expiry at close the day of each auction. The 19 September 2018 EUA auction was cancelled due to insufficient coverage, the day futures price at the end of the auction day was €21.47. The graph shows that the auction clearing price was €0.44 below the end day futures price for the 09 September 2018 EUA auction. In this reporting period, the volume weighted average price differential was:

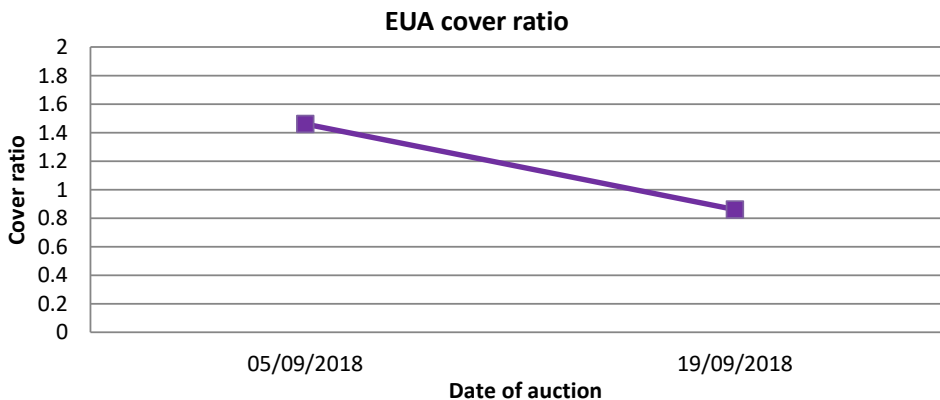
€ 10.96



EUA cover ratio

8 The graph below shows the cover ratio (allowances bid for divided by allowances auctioned) for the auctions held in this reporting period. For the 05 September 2018 EUA auction the cover ratio was 1.46. The cover ratio for the 19 September 2018 EUA auction was 0.86 therefore providing insufficient coverage for the auction to clear. Across this auctioning reporting period:

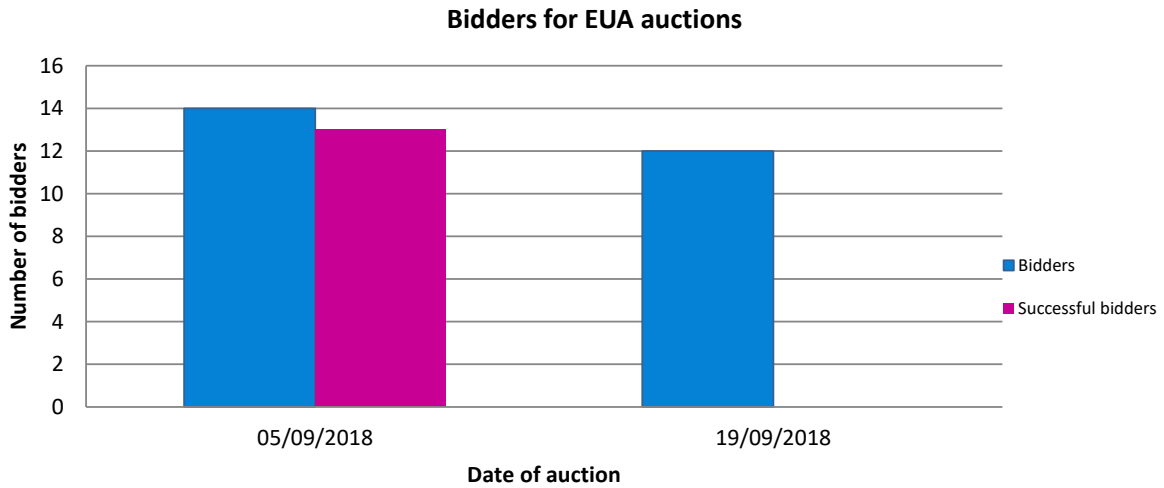
13.325m EUA allowances were bid for (rounded), and
1.16 was the volume weighted average cover ratio.



Number of bidders and successful bidders for EUA auctions

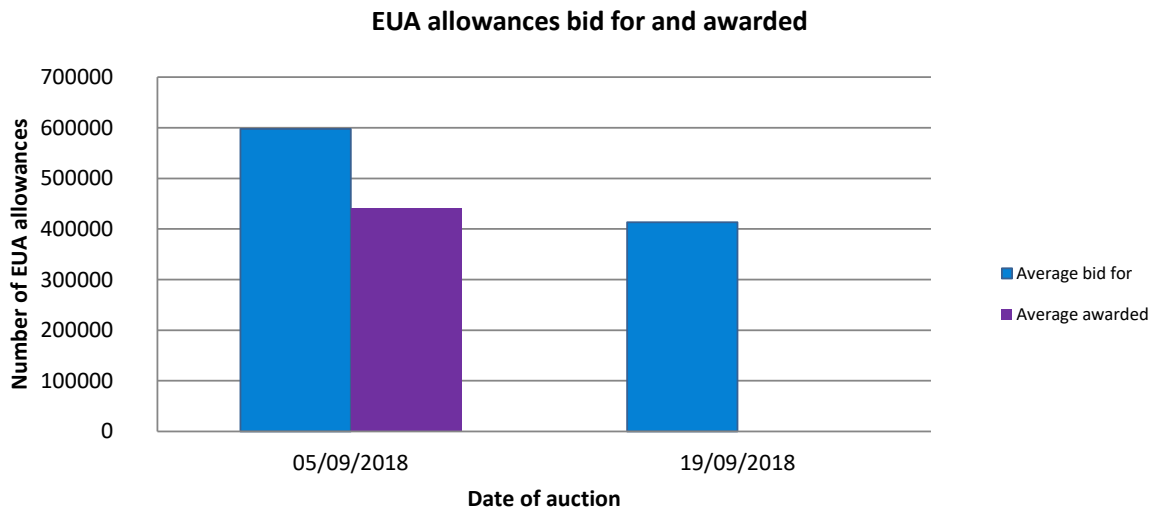
9 The graph below shows the number of bidders and number of successful bidders for the auctions held this reporting period. The 19 September 2018 EUA auction was cancelled due to insufficient coverage, therefore there were no successful bidders. There were no auctions where all participating bidders were successful. Across the period:

- 13** was the average number of bidders per EUA auction, and
- 7** was the average number of successful bidders per EUA auction.



10 The graph below shows the average number of allowances bid for by each bidder and the average number of allowances awarded to each successful bidder for the successful auctions held this reporting period. Across the period:

- 413,333** to **597,464** was the range of allowances bid for on average, and
- 441,992** to **441,992** was the range of allowances awarded on average.



Section 2: Implementation and compliance with the applicable rules

Fair and open access

- 11 ICE Futures Europe provides full details of the admissions process [9] on its website as required by the Auctioning Regulation. There were no irregularities or deviations from the admission and access requirements.

Transparency

- 12 ICE Futures Europe provides full details of the auction results [10] on its website as required by the Auctioning Regulation. This information includes details of how the clearing price is determined (subject to the confidentiality obligations under the Auctioning Regulation), how all participants have access to the same information at the same time and the EUA and EUAA contract specifications.
- 13 The ICE group operates a Recognised Investment Exchange, Recognised Clearing House and Recognised Auction Platform [11] supervised by the Financial Conduct Authority (FCA) and Bank of England, as applicable.
- 14 Monitoring by ICE Futures Europe in real-time of behaviour during the auction includes:
- monitoring of trading activity in ICE Futures Europe's markets to ensure that a fair and orderly market is maintained;
 - identifying bids which are out of line with permitted bid ranges;
 - identifying any unusual bidding behaviour;
 - calculation and publication of settlement prices; and
 - announcing and notifying auction results.
- 15 ICE Futures Europe's Complaints Resolution Procedures [12] were in place during the reporting period.
- 16 There were no incidents of abusive behaviour publicly reported during the reporting period

Technical and operational aspects

- 17 No irregularities or deviations from the requirements occurred regarding the auctions or the clearing and settlement processes.

Conclusion

Comments by the auction platform

- 18 There was one auction cancelled during this period. The 19 September 2018 EUA auction was cancelled in accordance to Article 7(5) of Regulation (EU) No. 1031/2010 due to insufficient coverage. This auction carried a legacy volume from a previous cancelled auction held on 11 July 2018, the carry over volume was added on to the 03 October 2018 auction. The original volume of allowances from the 19 September 2018 auction was spread across the four auctions starting from 17 October 2018. ICE Future Europe took the necessary steps to inform the market of the cancellation published an updated auction calendar for 2018 with revised volumes for the affected auctions following the cancelled auction [13].

Description of how comments have been taken into account

19 Not applicable this reporting period.

This report is based only on publicly available information on the auctions.
Use of the information provided in this report is solely at the user's risk.
For more information please contact: euetsauctionplatform@beis.gov.uk

[1] <https://www.theice.com/emissions/auctions>

[2] <https://www.gov.uk/government/news/decc-selects-company-to-run-phase-iii-eu-ets-auctions>

[3] <https://www.gov.uk/government/news/eu-emissions-trading-system-european-commission-approves-the-uk-s-national-auction-platform>

[4] <https://www.gov.uk/government/news/uk-confirms-position-as-leader-in-carbon-markets>

[5] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R1902#ntr6-L_2017269EN.01001301-E0006

[6] http://ec.europa.eu/clima/policies/ets/cap/auctioning/documentation_en.htm Regulation (EU) No 1031/2010

[7] <https://www.theice.com/marketdata/reports/ReportCenter.shtml#report/148>

[8] <http://data.theice.com/MyAccount/MyFiles.aspx>

[9] <https://www.theice.com/emissions/auctions>

[10] <https://www.theice.com/marketdata/reports/ReportCenter.shtml#report/148>

[11] <https://www.fsa.gov.uk/register/exchanges.do>

[12] https://www.theice.com/futures_europe_complaints.jhtml

[13] <https://www.theice.com/publicdocs/circulars/18160.pdf>