

EU Emissions Trading Scheme (ETS) – Consultation on design and organisation of emissions allowance auctions

This document is the questionnaire for this consultation. The survey contains **4** initial questions (A-D) to identify respondents, **86** questions for which responses will be made public and **4** questions that are classified confidential, must be sent directly to the European Commission and will not be made public. The questions that are classified potentially confidential are on two separate pages (2 questions on each page) and highlighted in green boxes.

Period of consultation

From 3 June 2009 to 3 August 2009 inclusive

How to submit your contribution

This consultation seeks to obtain feedback from all categories of stakeholders regarding the different aspects of auction design and implementation covered in the Consultation Paper.

We are sorry for the inconvenience, but the web-based survey is not available yet. If participants wish to complete the survey on this document and send their contributions back to contact_ets_auctions_consultation@icfi.com their responses can be accepted in this format. The web-based survey will be available as soon as possible if participants wish to wait till that is available.

Received contributions will be published on the Internet. It is important to read the specific privacy statement attached to this consultation for information on how your personal data and contribution will be dealt with.

Specific privacy statement

"Received contributions, together with the identity of the contributor, will be published on the Internet, unless the contributor objects to publication of his or her personal data on the grounds that such publication would harm his or her legitimate interests. In such cases the contribution may be published in an anonymous form. Otherwise, the contribution will not be published nor will, in principle, its content be taken into account. Responses for questions deemed confidential in the consultation will not be available for view on the website irrespective of contributor objecting or not. "

Instructions to filling out the questionnaire

- Questions may only be answered in designated response fields
- For certain multiple choice questions, simply click on box to indicate choice
- Answer [Y/N] questions by typing “y” / “Y” or “n” / “N” on underlined area (___)
- Some responses require explanations, additional comments and detailed answers. These will either be identified by underline (___) or an answer section (A:___). The amount of text that can be entered here is unlimited.
- After completing the survey, please save and send to contact_ets_auctions_consultation@icfi.com
- If any questions seem unclear in context or for method of response, please mail contact_ets_auctions_consultation@icfi.com to clarify

Thank you

Section 1: Questions to categorize participants

Question A

Name of Company/Organization: POWEO

Principal nature of activities: Electricity production and energy supply

Number of employees in 2008:

World-wide 261

Europe-wide 261

Turnover in 2008:

World-wide _

Europe-wide _____

Question B

Type of respondent:

Member State

Company operating one or more installations covered by the EU ETS

Electricity generators

Energy companies other than electricity generators

Industrial sectors

Aviation

Other. Please specify: _____

Approx Annual Emissions: 8 00 000 tCO₂

Intermediary

Financial institution

Trading arm of non-financial institution

Other. Please specify _____

Trader on own account

Financial institution

Trading arm of non-financial institution

Other. Please specify _____

Regulated market

- Carbon only
- Carbon and electricity
- Carbon and other energy products
- Other carbon market
 - Multilateral trading facility trading carbon derivatives
 - Carbon exchange trading spot carbon
 - Other. Please specify _____
- Clearing house
- Central counterparty
- Other (multiple choices apply)
 - Non-governmental organisation
 - Trade association
 - Carbon analyst
 - Carbon publication
 - Academic
 - Other. Please specify _____

Question C

Contact details will not be made public.

Question D

Questions relating to the "Specific privacy statement" above.

- Do you object to publication of your personal data because it would harm your legitimate interests? [Y/N]

If so, please provide an explanation of the legitimate interests that you think will be harmed:

A:

- Are any of your responses confidential? [Y/N]

If so, please indicate which ones and provide an explanation:

A:

Section 2: Survey questions (86) and potentially confidential questions (4)

Question 1

As a general rule throughout the trading period, in your opinion, are early auctions necessary? [Y/N] Y

We are requesting the early auction of Phase III allowances, as from 2011, in order to enable electricity generators to hedge the risk linked with long-term power supply contracts.

Indeed, when a generator performs a forward sale of its electricity, it ought to take into account the price of CO₂ to be emitted during the generation of the power sold. To this end, there is a need for generators to hedge the risk of future fluctuations in CO₂ prices.

An auction sale of “futures” allowances as from 2011 will help electricity generators to hedge the risk in an appropriate manner and limit the incidence on power prices.

Question 2

Do you think there is a need to auction futures? [Y/N] Y

If so, why so?

A:

We are requesting the early auction of Phase III allowances, as from 2011, in order to enable electricity generators to hedge the risk linked with long-term power supply contracts.

Indeed, when a generator performs a forward sale of its electricity, it ought to take into account the price of CO₂ to be emitted during the generation of the power sold. To this end, there is a need for generators to hedge the risk of future fluctuations in CO₂ prices. An auction sale of “futures” allowances as from 2011 will help electricity generators to hedge the risk in an appropriate manner and limit the incidence on power prices.

As it is essential for electricity companies that they can hedge risk, EUAs need to be hedgeable. That is why EUA futures are a necessity. Moreover, futures auctions require a much less initial outlay of cash than spot auctions.

Question 3

What share of allowances should be auctioned spot and what share should be auctioned as futures for each year?

A:

The amounts auctioned in 2011 and 2012 should be 20-30% in year n-2 (2011), 30-35% in year n-1 (2012). Indeed, as a general rule-of-thumb, the more EUAs auctioned ahead, the better. For the pre-2013 period, auctioning ahead of 50% or more is best. We assume that the figures refer to EUAs issued in any given year.

Going forward, following-on the position of Eurelectric from December 2008, we now believe that as many EUAs as possible should be sold as futures provided that Member States are able to properly arrange and solve the requirements for providing futures. This would be facilitated by a streamlined and fully harmonized approach in

auctioning aiming at a centralised bidding platform and avoiding the use of multiple auctioning places within the EU (in particular avoiding 27 separate auctioning places).

NB: The answer to this question will be published as part of the public consultation. Please do not submit confidential information as part of your answer to this question.

Question 5

For spot auctions:

What should be the **optimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

What should be the **minimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

What should be the **maximum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

Please provide arguments to support your case.

A:

We stresses the need to adopt a steady frequency for auctions that should take place at least monthly or even weekly, in order to ensure the proper functioning of the market and continuity of prices.

Indeed, frequent auctions would increase price stability and ensure participation of smaller operators. On the contrary, daily auctions could penalize small players, due to the amount of the operation costs.

Question 6

For spot auctions, what should be auction size?

A simple division of the number of auctions to be held per year and allowances available for that year would suffice. In the vast majority of cases, all auctions should have the same volumes give-or-take 2 or 3 percent. Under such an approach, each Member State could be required to bring x% of its annual volume to auction.

Question 7

For futures auctions:

What should be the **optimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

What should be the **minimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

What should be the **maximum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

Please provide arguments to support your case.

A:

We stresses the need to adopt a steady frequency for auctions that should take place at least monthly or even weekly, in order to ensure the proper functioning of the market and continuity of prices.

Question 10 In case futures are auctioned, should the volumes for spot and futures auctions be spread over the year in the same manner?

The amounts sold forward should be as large as possible so as to allow generators to hedge their needs – therefore, the amount sold in futures auctions should be greater. That said, both spot and future amounts should be spread over the same manner.

Question 12 Which dates should be avoided?

Major holidays in Europe and significant political events.

Question 14

How long in advance should each element of the calendar be determined?

Annual volumes to be auctioned:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Distribution of annual volumes over spot and futures (if applicable):

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Dates of individual auctions:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Volume and product type for individual auctions:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Each auctioneer carrying out auction process (if more than one):

- 1 year in advance
- 2 years in advance

- 3 years in advance
- more years in advance

Please provide arguments to support your case.

A:

The key issue here is to get frequency and amounts pre-determined and set. This will provide sufficient certainty so that setting a calendar **one year ahead is ok**.

Everything other than dates should ideally be set more than four years in advance (amounts, etc). Finally, there is no need to have to wait for a final confirmed emissions amount before auctioning can take place (e.g. 20% or 30% etc). The calendar should be binding to avoid political events.

Question 16 What should be the rule with respect to allowances not auctioned due to force majeure?

Firstly, any *force majeure* regime should be clearly-defined and codified in advance.

Secondly – and regarding what happens if force majeure is called, any affected allowances should automatically be added to the next auction on the calendar, irrespective of the auction process (or the next three auctions in the case where auctions are held monthly and there is little time until the following auction post-*force majeure*). The impact which this will have will depend on the frequency of auctions i.e. the greater the volumes and time between auctions, the greater the disruptive effect. If the disruptive effect of waiting for the next auction is too great, then the EUAs could possibly be released without auction.

Question 17

Is 1,000 allowances the most appropriate lot size? [Y/N] [Y](#)

If not, why not?

A:

Organising auctions with **small lot size** (for instance: 1000 t) on a regular basis will help to:

- Limit the influence of auctions on the market,
- Limit the risk of monopolisation of the market.

3. Auction design

3.1 Auction type

Question 18

Is a single-round sealed-bid auction the most appropriate auction format for auctioning EU allowances? [Y/N] Y

If not, please comment on your alternative proposal?

A:

A single-round, sealed-bid, uniform-price auction format is simple and efficient. As opposed to a multi-period dynamic auction, this type of auction lowers transactions costs, preserves bidder anonymity, increases understanding of the price-formation process and helps avoid any possible collusion.

Question 19

What is the most appropriate pricing rule for the auctioning of EU allowances?

- Uniform-pricing.
- Discriminatory-pricing.
- Indifferent.

Please provide arguments to support your case.

A:

A single-round, sealed-bid, uniform-price auction format is simple and efficient.

This gives a clear price signal for the value of a EUA, thereby increasing predictability. It also ensures that every successful participant pays the same price, meaning that the auction price will be fair and minimises the risk of distorting the secondary market.

Question 21

Should a reserve price apply? N

A: No.

Firstly, auctioning serves as an alternative to distribute allowances in the ETS market instead of grandfathering or benchmarking. That is the main goal of auctioning. Setting reserve prices may introduce the risk of ensuring government income or other policy goals. As any *ad hoc* intervention would reduce predictability and distort investment signals, there should be no intervention in the EUA market.

The greater the likelihood that intervention will occur, the greater the negative effect there will be on participants, and the higher the costs caused by subsequent risks created. Therefore, to preserve predictability, Member States and other relevant authorities should refrain from unduly intervening in the auction process *ex post* if the result is politically undesirable e.g. that prices rise or volatility increases. As such, no price floor or cap should be put in place.

Secondly, if market design is good, then there would be no need for a reserve price. Prices seen at auction would reflect fair market value as observed in the secondary market.

Question 22

In case a reserve price would apply, should the methodology/formula for calculating it be kept secret? [Y/N] N

Please comment on your choice.

A:

[See answer to question 21](#)

If such a reserve price was established, then its formulation and application should be fully published in advance.

Question 23

Is a maximum bid-size per single entity desirable in a Uniform-price auction?

[Y/N] [N](#)

Is a maximum bid-size per single entity desirable in a discriminatory-price auction?

[Y/N] [N](#)

Please comment on your choice.

A:

[We do not wish to have a limitation of the purchase volumes during auctions.](#)

[We actually reckon that an open access, a steady frequency of auctions and the existence of a supervisory authority are factors that shall help to limit the risks of monopolisation and manipulation of the market.](#)

[However, provision may be made for a “non-inhibiting” supervisory system linked to the platform: for instance, a mechanism similar to the alert system used by the Banque de France that triggers off a request for additional information on the bidder, in case of a bid for a volume that exceeds the pre-determined threshold.](#)

Question 24

If so, what is the desirable bid-size limit (as a percentage of the volume of allowances auctioned per auction – only one choice is possible):

10%:

15%:

20%:

25%:

30%:

More than 30%: Please specify: [No bid size limit](#)

Please comment on your choice.

A:

[See answer to question 23](#)

Question 25

In case only one of the two following options would be chosen, to limit the risk of market manipulation or collusion, which one would be preferable?

- A discriminatory-price auction format?
- A maximum bid-size per single entity?

Please comment on your choice.

[Neither. Intervention is not necessary if secondary EUA market functions properly, as it currently does. Only if there is market failure should a maximum bid-size be](#)

imposed. Otherwise, the monitoring provisions contained in the regulation should be the main means used to ensure that manipulation does not take place.

4. How will the auction(s) be implemented?

4.1 Pre-registration of auction participants

Question 26

Are the following pre-registration requirements appropriate and adequate?

Yes, most of the requirements listed are appropriate.

In addition, as the requirement list refers to a 5-year declaration timetables these may need to be harmonised at Member State level before application.

In order to be effective, declarations should relate to aspects that are relevant for the process in question and should have an objective and straightforward wording.

Question 27 Do you agree that the pre-registration requirements for admittance to EU auctions should be harmonised throughout the EU?

Yes, harmonised requirements would ensure a level-playing field as well as access to any auction for any participant.

Question 28 Should the amount of information to be supplied in order to satisfy the pre-registration requirements for admittance to EU auctions depend on the:

- means of establishing the trading relationship;
- identity of bidder;
- whether auctioning spot or futures;
- size of bid;
- means of payment and delivery;
- anything else? Please specify.

If so, what should the differences be?

This should only depend on the “means of establishing the trading relationship”. The identity of the bidder is part of this process.

In case the requirements of information are different, the information to be supplied should probably also depend on its creditworthiness (rating).

In any case, the pre-registration requirements should be common across all jurisdictions

Question 29 Should the bidder pre-registration requirements under the Regulation apply in the same manner irrespective of whether or not the auctioneer is covered by the MiFID or AML rules?

Yes

Question 30 Do you agree that the auctioneer(s) should be allowed to rely on pre-registration checks carried out by reliable third parties?

Yes, given that these third parties comply with requirements as strict as those for auctioneers in order to guarantee harmonisation and coherence and equal treatment among different countries.

Question 31

In order to facilitate bidder pre-registration in their home country, should the auctioneer(s) be allowed to provide for pre-registration by potential bidders in other (or all) Member States than the auctioneer's home country e.g. by outsourcing this to a reliable third party?

Yes, because the rules need to be harmonised. Ultimately, except for those restrictions highlighted in question 26, there should be no barriers to entry at Member State level. Ideally, there must be mutual recognition of pre-qualification agents. Where Member States do not trust or recognise one another's pre-qualification processes, the Commission should step-in to offer an EU-wide level prequalification option, thereby transcending any inter-member state trust issues.

If so, should such entities be:

- Covered by the AML rules?
- Covered by MiFID?
- Covered by both?
- Other? Please specify

Please comment on your choice.

The regulation should not cover these matters as they are already covered within existing legislation.

Question 33

Do you agree that the *level* of collateral accepted in EUA auctions should be harmonised for all EU ETS auctions? [Y/N] Y

If so, how should they be harmonised?

A:

We wish for the guarantees requested to take part in auctions to be reasonable and consistent with the corresponding bids.

If not, why not?

A:

Question 34 Do you agree that the type of collateral accepted in EUA auctions should be harmonised for all EU ETS auctions? If so, how should they be harmonised?

Yes, if proportionate. Collateral needs to be easily-tradable, liquid etc.

4.2.2 Collateral in spot auctions

Question 35 Do you agree that 100% collateral in electronic money transfer ought to be deposited up-front at a central counterparty or credit institution designated by the auctioneer to access spot auctions?

Not necessary for spot. Therefore, there should be no obligation to provide collateral for spot transactions. If one defaults, then there should be some form of participation deterrent, but no collateral obligation. Quantities unsold can be transferred to next auction.

4.5 Facilitating cost effective participation in EU auctions

Question 42

Which auction model is preferable?

- Direct bidding?
- Indirect bidding?
- Both?

Please comment on your choice.

A:

Poweo is requesting that access to auctions be open to all in keeping with the rules pre-established in the European Regulation.

We do not look forward to a system that requires a systematic use of intermediaries.

We strongly believe that, subject only to a requirement to demonstrate creditworthiness and provide financial assurance; any party should be allowed to participate in an auction. Any further restrictions on participation should be clearly objective, and must not be based on nationality and/or on firm type or size. Therefore, there should be no requirement to use intermediaries. Therefore we are firmly against any model which limits access solely to primary participants.

Opening up auctions to the widest number of stakeholders shall improve liquidity, breadth and depth of the market, thereby limiting the risk of a single player acquiring a volume of allowances big enough to be able to manipulate the market and the risk of collusion.

Moreover, we consider that the consistency of the rules of access to auction with the rules of access to the secondary market facilitates the continuity of prices between these two markets, thereby giving room for the emergence of a single price signal.

Question 43

If an indirect model is used, what share of the total volume of EU allowances could be auctioned through indirect bidding? [Not applicable. See answer to question 42](#)

Please provide arguments to support your case.

A:

[No. As we do not support obligatory use of intermediaries, then there should be no *ex ante* split or reservation of volumes between direct and indirect bidding pools. Use of intermediaries is for market participants to decide. See answer to question 42](#)

Question 44

If the primary participants model is used, what provisions would be desirable for mitigating disadvantages of restricting direct access (more than one answer is possible):

- Allow direct access to largest emitters, even if they trade only on their own account?
If so, who should have direct access and what thresholds should apply? _____
- Disallow primary participants trading on their own account?
- Impose strict separation of own-account trading from trading on behalf of indirect bidders?
- Other? Please specify: _____

[Not applicable. See answer to question 42](#)

Question 45

If the primary participants' model is used, what conflict of interest requirements should be imposed? (more than one answer possible)

- Separation of client registration and trading on behalf of clients from all own account trading activities.
- Separation of collateral management, payment and delivery on behalf of clients from all own account trading activities.
- Separation of anything else, please specify: _____

[Not applicable. See answer to question 42](#)

Question 46

What obligations should apply to primary participants acting in EU-wide auctions as:

- Intermediaries? A:
- Market makers? A:

Please provide arguments to support your case.

Not applicable. See answer to question 42

Question 47 Under what conditions should auctioning through exchanges be allowed (more than one answer possible):

- Only for futures auctions open to established members of the exchange?
- Also for spot auctions open to established members of the exchange?
- Only when the exchange-based auction is open to non-established members on a non-discriminatory cost-effective basis?
- Other? Please specify.

Please provide arguments to support your case.

“Only when the exchange-based auction is open to non-established members on a non-discriminatory cost-effective basis?”

We are strongly in favour of option 3 (i.e. exchanges). Easy, simple, non-discriminatory, cost-effective, already established. There is no logical alternative.

Question 48 Should direct auctions through:

- third party service providers; or
- public authorities

be allowed?

Yes, preferably third party service providers (i.e. exchanges) subject to the condition that rules are common, access is open to all participants and competency is demonstrable. This would reduce costs and would facilitate early auctioning.

4.6 Ensuring full, fair and equitable access to SMEs and small emitters

Question 49 Do the general rules for auctioning EUAs suffice for ensuring full, fair and equitable access to allowances to SMEs covered by the EU ETS and small emitters? If not, why not?

Fair and impartial rules applying equally to all emitters should be put in place. Smaller emitters will have easy access where access to the market is non-discriminatory (low administrative costs and reasonable financial conditions), lot sizes are small (i.e. 1000) and where there is a liquid secondary market in place. This means that SMEs have access to the auctions via an appropriate mechanism.

Question 50 Is allowing non-competitive bids necessary for ensuring access to allowances to SMEs covered by the EU ETS and small emitters in case of:

- discriminatory-price auctions?
- uniform-price auctions?

A simple sealed bid format will allow simple access for SMEs.

Question 55

What should be the minimum period of time before the auction date for the release of the notice to auction?

2 weeks 1 month 2 months

Other Please specify: _____

Please comment on your proposal.

In order to meet the need for predictability into the management of their CO2 allowances, the electricity generators would like for the timetable of the auctions and the volumes related thereto to be made known beforehand, and that any adjustments, such as what is provided for in Article 29a of the Directive, be communicated in an appropriate manner.

A minimum period of 2 months or more should be required, preferably in line with the auction calendar. Full transparency means that participants should have as much preparation time as possible. Any unplanned changes should be published immediately.

Question 58

What information should be disclosed after the auction:

2 weeks 1 month 2 months

Clearing price (if allowances are awarded on a uniform-price basis or in the case of non-competitive bids being allowed)?

Average price (if allowances are awarded on a discriminatory-price basis)?

Any relevant information to solve tied bids?

Total volume of EUAs auctioned?

Total volume of bids submitted distinguishing between competitive and non-competitive bids (if applicable)?

Total volume of allowances allocated?

Anything else? Please specify.

- Number of bids
- Number of successful participants
- Total amount unsold and carried over to next auction
- Number of participants (total)

- The aggregated supply and demand curve

Question 59

What should be the maximum delay for the announcement of auction results?

5 minutes 15 minutes 30 minutes

1 hour

Other Please specify: [As quick as possible](#)

Please comment on your proposal.

A: [The results of the auction ought to be made public forthwith following the operation. The closer to the event the better.](#)

Question 61

Should an auction monitor be appointed centrally to monitor all EU auctions?

[Y/N] [Y](#)

If not, why not?

A:

[We feel that auctions, and more generally, the market, need to be supervised at the European level in order to make sure they are operating properly.](#)

[As a result, we call for the designation of a European supervisory authority to monitor how auctions, and more generally, the market are managed.](#)

This entity shall be in charge of:

- [Ensuring the implementation of and compliance with the specific rules governing auctions as defined in the European Regulation,](#)
- [Ensuring that auctions are carried out properly on the one hand, and that the secondary market is equally functional on the other hand.](#)

Question 62

Do you agree that the Regulation should contain general principles on [mark those that you agree with,]:

- the designation and mandate of the auction monitor; and
- cooperation between the auctioneer(s) and the auction monitor?

Question 63

Is there a need for harmonised market abuse provisions in the Regulation to prevent insider dealing and market manipulation? [Y/N] Y

If not, why not?

A:

Please comment on your choice outlining the provisions you deem necessary and stating the reasons why.

A:

We feel that auctions, and more generally, the market, need to be supervised at the European level in order to make sure they are operating properly. See answer to question 61.

In case of fraud, manipulation of the market or non-compliance with the rules established, this entity may make use of the investigative and disciplinary powers conferred upon it (for instance it may give out fines, suspensions or bans from taking part in any auctions, reimbursement of undue profits and payment of compensation for damages caused, etc...).

Finally, we feel that **as a general rule, it is not appropriate to intervene in the market. However, any intervention with the aim of regulating auctions or the market ought to be exceptional and be limited to specific cases of proven misconduct as outlined in any of the European regulations.** Consequently, in case the market operates abnormally, it may be regulated using the volumes to be auctioned, following the procedures to be determined at the European level, in order to avoid impairing the predictability of the auction process, which is a vital factor to the different stakeholders.

Question 64

Should the Regulation provide for harmonised enforcement measures to sanction [mark those that you agree with,]:

- Non-compliance with its provisions?
- Market abuse?

Please provide arguments to support your case.

A:

The European supervisory authority shall be in charge of:

- Ensuring the implementation of and compliance with the specific rules governing auctions as defined in the European Regulation,
- Ensuring that auctions are carried out properly on the one hand, and that the secondary market is equally functional on the other hand.

Question 65

Should the enforcement measures include [mark those that you agree with,]:

- The suspension of the auctioneer(s) and/or bidders from the EU-wide auctions?
If so, for how long should such suspension last? _____
- Financial penalties?
If so, at what level should such penalties be fixed? _____
- The power to address binding interim decisions to the auctioneer(s) and/or bidders to avert any urgent, imminent threat of breach of the Regulation with likely irreversible adverse consequences?
- Anything else? Please specify: _____

Please provide arguments to support your case.

A:

In case of fraud, manipulation of the market or non-compliance with the rules established, this entity may make use of the investigative and disciplinary powers conferred upon it (for instance it may give out fines, suspensions or bans from taking part in any auctions, reimbursement of undue profits and payment of compensation for damages caused, etc...).

Question 66

Should such enforcement measures apply at:

- EU level?
- National level?
- Both?

Please comment on your choice.

A:

For a timely and harmonised organisation of auctions, enforcement at EU level seems inevitable. Oversight should also ensure that volumes are always brought to the market by Member States according to schedule and not withheld in order to drive prices up or wait for "better" moments.

We are calling for the designation of a European supervisory authority to monitor how auctions, and more generally, the market are managed.

Question 67

Who should enforce compliance with the Regulation (more than one answer is possible):

- The auction monitor?
- The auctioneer?
- A competent authority at EU level?
- A competent authority at national level?
- Other? Please specify: _____

Please provide evidence to support your case.

A:

We are calling for the designation of a European supervisory authority to monitor how auctions, and more generally, the market are managed.

See answer to question 61.

Question 68

Which of the three approaches for an overall EU auction model do you prefer? Please rate the options below (1 being the most preferable, 3 being the least preferable)

- 3 Limited number of coordinated auction processes.
- 1 Full centralisation based on a single EU-wide auction process.
- 2 The hybrid approach where different auction processes are cleared through a centralised system.

Please give arguments to support your case.

A:

First of all, we strongly are in favour of a centralised system.

Indeed, the use of a common centralised platform shared by all the Member States offers several advantages:

- Simplicity of installation and deployment,
- Limitation of auction organisation costs,
- Limitation of auction participation costs,
- Easiness of access for small players,
- Elimination of the risk of non-cooperative behaviour between the States, should there be rivalry between different platforms (owing to the fungible nature of the CO2 allowances, it is likely that the players on the market may converge towards the platforms that offer the

- highest comparative advantages and this may give rise to a risk of non-coverage of the auctions on less advantageous systems),
- Limitation of price gaps (which may otherwise be generated should there be a multitude of platforms),
 - Possibility of a proportionate redistribution of income from auctions to Member States, on the basis of their respective contributions.

Recognising political reality in the EU, other approaches delivering, in a limited time-frame (by 2015 at the very latest), a solution for Member States aiming to converge for a centralised system could be explored. Whichever model is chosen, it should lead towards a centralised system.

That said, the hybrid approach combines the benefits of a central bid book giving a single EU-wide auctioning price (which fits seamlessly with ETS and the secondary market) and easier harmonisation with the possibility given to Member States in the ETS directive to set up auctions. The use of a central bidbook resulting in a single price not only benefits the market, but has also benefits for Member States, since they all receive the same price for their allowances. This clearly avoids tensions or competition between Member States and thereby adds to the regulatory stability of the approach.

The hybrid approach would only really be a good first approach, which could grow into a central approach later.

However, we strongly oppose an auctioning scheme in which all Member States run auctions individually.

Overall our strong preference is for a “fully-centralised auction” based on a single EU wide auction process. The hybrid option, as proposed, would very much be a “second best”. In any case a centralized clearing would be required.