

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

UFE's RESPONSE

## Section 1: Questions to categorize participants

### Question A

Name of Company/Organization: UNION FRANCAISE DE L'ELECTRICITE

Principal nature of activities: French professional association for the electricity industry.

The French professional association for the electricity industry

It represents the sector's employers within the electricity and gas industries and acts in the interest of its members - producers, grid managers or electricity suppliers - in the economic and industrial field.

In France, our members - EDF, EDF Energies Nouvelles, ERDF, GDF SUEZ, SNET-E.ON France, POWEO, UNELEG, SER, RTE, France Hydro Electricité, ELE ...- employ 150 000 persons.

Number of employees in 2008:

World-wide \_\_\_\_\_

Europe-wide \_\_\_\_\_

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: \_\_\_\_\_ tCO<sub>2</sub>

- 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 Professional Association

### 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] 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] 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

UFE is 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:

UFE is 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 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 harmonised approach in auctioning aiming at centralised or interoperable bidding platform(s) 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:

UFE 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 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:

UFE 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 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:

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.

### 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.

### 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. The single-round and sealed-bid nature of the auction limits the risk of 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.



### Question 21

Should a reserve price apply? [N](#)

A:

UFE feels 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.

### 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.

### 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:

UFE does not wish to have a limitation of the purchase volumes during auctions. The UFE actually reckons 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 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:

[UFE wishes for the guarantees requested to take part in auctions to be reasonable and consistent with the corresponding bids.](#)

If not, why not?

A:

### Question 42

Which auction model is preferable?

- Direct bidding?  
 Indirect bidding?  
 Both?

Please comment on your choice.

A:

[UFE is requesting that access to auctions be open to all in keeping with the rules pre-established in the European Regulation.](#)

The UFE does not look forward to a system that requires a systematic use of intermediaries.

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, UFE considers 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:

[Not applicable. 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 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.

A:

[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.](#)

### Question 58

What information should be disclosed after the auction:

- 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](#)

### 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.](#)

### Question 61

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

[Y/N] [Y](#)

If not, why not?

A:

[UFE feels 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, UFE is calling 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:

UFE feels 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, UFE is calling 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.

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, UFE feels 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:

UFE is calling 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 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:

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

[See answer to question 68](#)

### 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:

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

[See answer to question 68](#)

### 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:

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.