

## 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](mailto: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 Otherwise, the contribution will not be published nor will, in principle, its content be taken into account.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](mailto: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](mailto:contact_ets_auctions_consultation@icfi.com) to clarify

**Thank you**

## Section 1: Questions to categorize participants

### Question A

Name of Company/Organization: Centrica

Principal nature of activities: Gas and electricity supplier and power generator

Number of employees in 2008:

World-wide 32304

Europe-wide 27304

Turnover in 2008:

World-wide £21.3 billion

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: 7.8 million 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 \_\_\_\_\_

**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

If so, what should the profile of EUA auctions be?

- 5-10% in year n-2, 10-20% in year n-1, remainder in year n
- 10-20% in year n-2, 20-30% in year n-1, remainder in year n
- 20-30% in year n-2, 30-35% in year n-1, remainder in year n
- Other? Please specify: \_\_\_\_\_

### Question 2

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

If so, why?

A: It is imperative that there is sufficient market liquidity in the emissions market to allow electricity generators to hedge their forward electricity sales. The volumes required for this forward hedging are such that surplus Phase II EUAs or JI/CDM credits will be wholly insufficient and the early release of Phase III allowances will be required in order to reduce the risk of volatile prices in the secondary market and associated impacts in power prices. We believe that allowances should be released at least 2 years and preferably 3 years ahead of the start of Phase III.

As the likely volumes required to forward hedge in the power industry are at least 1 billion allowances; the associated costs of these allowances is likely to be in the region of around €20 billion. If these allowances were only offered on a spot basis the cost of carry to many installations would be prohibitive, especially at a time when they are being called upon to make heavy investments to ensure both energy security and the objectives of the Climate and Energy package are met. Offering only spot allowances will certainly practically exclude many installations from purchasing in the auctions, effectively failing the principle of "fair and equitable access" to allowances.

### Question 3

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

SPOT

FUTURES

- year n : \_\_\_% | \_\_\_%
- year n-1 : \_\_\_% | \_\_\_%
- year n-2 : \_\_\_% | \_\_\_%

Please provide evidence to support your case.

A: We support and believe the release of allowances ahead of the start of Phase 3 is essential for power generators who typically forward hedge. We believe that due to the system constraints of the Registry, it will not be possible to auction spot allowances ahead of Phase 3. We therefore suggest that all allowances auctioned in advance of 2013 should be offered on a futures basis. During Phase 3 we believe that futures should also be made available within the auctions.

*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 4**

Should the common maturity date used in futures auctions be in December (so the maturity date would be December in year n, both when auctioning in year n-2 as when auctioning in year n-1)? [Y/N] Y

If not, please suggest alternative maturity dates and provide evidence to support your view.

A:

**This page contains two questions that will not be made public. These questions cannot be completed on this document**

**Request for potentially confidential information 1**

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

For ETS operators: what share of your expected emissions covered by the EU ETS in a given year n do you hedge and how much in advance?

- year n : \_\_\_\_\_%
- year n-1 : \_\_\_\_\_%
- year n-2 : \_\_\_\_\_%
- earlier years (please specify) : \_\_\_\_\_%

**Request for potentially confidential information 2**

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

What share of the annual quantity of allowances you intend to purchase *via* auctions would you wish to buy spot or futures respectively?

- |            | SPOT     | FUTURES |
|------------|----------|---------|
| • year n   | : _____% | _____%  |
| • year n-1 | : _____% | _____%  |
| • year n-2 | : _____% | _____%  |

Please specify whether you are an:

- ETS operator; or
- Other participant.



### Question 5

For spot auctions:

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

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Weekly across the EU should be the maximum frequency of auctions. Given the volume of allowances to be auctioned we see no reason why daily (excluding bank holidays etc) could not be held.

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: Daily

Please provide arguments to support your case.

A: We strongly favour more frequent auctions across the EU as a whole. We see no reason why these cannot take place on a daily basis, this would ensure an auction process that is smooth running and has predictable prices, it would also result in installation confidence in the process as a steady stream of allowances would be released into the market mitigating the potential for market abuse.

### Question 6

For spot auctions, what should be the:

- Optimum auction size? \_\_\_\_\_
- Minimum auction size? \_\_\_\_\_

- Maximum auction size? \_\_\_\_\_

If deemed appropriate, please indicate a range and/or distribution over different sizes.

Please provide arguments to support your case.

A: It is less the absolutely size of the auction but more that each Member State should be required to bring a set percentage of their allowances to the market in a timely manner. The optimum size of a auction directly depends on the frequency of the auctions, the size should be calculated by dividing the total number of allowances to be auctioned within any given year, by the number of auctions that are scheduled to take place. The fundamental principle is that the volumes released should be limited such that they do not adversely impact the secondary market.

### Question 7

For futures auctions:

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

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Weekly across the EU should be the maximum frequency of auctions. Given the volume of allowances to be auctioned we see no reason why daily (excluding bank holidays etc) could not be held.

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: Daily

Please provide arguments to support your case.

A: We strongly favour more frequent auctions across the EU as a whole. We see no reason why these cannot take place on a daily basis, this would ensure an auction process that is smooth running and has predictable prices, it would also result in installation confidence in the process as a steady stream of allowances would be released into the market mitigating the potential for market abuse.

### Question 8

For futures auctions, what should be the:

- Optimum auction size? \_\_\_\_\_
- Minimum auction size? \_\_\_\_\_
- Maximum auction size? \_\_\_\_\_

If deemed appropriate, please indicate a range and/or distribution over different sizes.

Please provide evidence to support your case.

A: It is less the absolutely size of the auction but more that each Member State should be required to bring a set percentage of their allowances to the market in a timely manner. The optimum size of a auction directly depends on the frequency of the auctions, the size should be calculated by dividing the total number of allowances to be auctioned within any given year, by the number of auctions that are scheduled to take place. The fundamental principle is that the volumes released should be limited such that they do not adversely impact the secondary market.

### Question 9

Should volumes of spot allowances be auctioned evenly throughout the year? [Y/N] Y

If not, how should volumes be distributed? (more than one answer possible) Please specify:

- A larger proportion in the first 4 months of the year?
- A larger proportion in December?
- A smaller proportion in July and August?
- Other? Please specify: \_\_\_\_\_

### Question 10

In case futures are auctioned, should the volumes for spot and futures auctions be spread over the year in the same manner? [Y/N] Y

If not, how should they differ? (more than one answer possible)

- No futures auctions less than six months before the maturity date.
- A larger proportion in December.
- A smaller proportion in July and August.
- Otherwise? Please specify how and comment: \_\_\_\_\_

### Question 11

Does the Regulation need to have provisions to avoid holding auctions during a short period of time before the surrendering date (30 April each year)? [Y/N] N

If yes, how long should this period be:

One week     2 weeks     3 weeks     1 month

In case futures are auctioned, should there be similar provisions with respect to the period immediately prior to the maturity date? [Y/N] N

If yes, how long should this period be:

One week     2 weeks     3 weeks     1 month

### Question 12

Which dates should be avoided? (more than one answer possible)

- Public holidays common in most Member States? \_\_\_\_\_
- Days where important relevant economic data is released? \_\_\_\_\_
- Days where emissions data are released? \_\_\_\_\_
- Other? Please specify: Last week of December

Please specify the dates you have in mind in your answers.

### Question 13

Is a harmonised 10-12 hrs CET auction slot desirable? [Y/N] Y

If not, what alternative(s) would you suggest?

A: \_\_\_\_\_

### 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 maximise predictability and confidence in the auction regime and to ensure that Member States act in the interest of releasing allowances to the market rather than maximising revenues, it is vital that once dates, volumes etc have been released then these are binding to all Member States. The time frame should be at least one year in advance preferably longer.

### Question 15

What should be the volume of allowances to be auctioned in 2011 and 2012?

- in 2011: 25 % of the 2013 volume and 0% of the 2014 volume
- in 2012: 35% of the 2013 volume and 25% of the 2014 volume

What percentage of these shares should be auctioned as futures?

- in 2011: 100% of the 2013 share and 100% of the 2014 share
- in 2012: 100% of the 2013 share and 100% of the 2014 share

Please provide evidence to support your case.

A: See q2

### Question 16

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

- They should automatically be added to the next auction on the calendar, irrespective of the auction process.
- They should be auctioned within one month, though leaving flexibility as to which auction(s) the EUAs should be added.
- They should be auctioned within three months, though leaving flexibility as to which auction(s) the EUAs should be added.
- Other? Please specify: \_\_\_\_\_

### Question 17

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

If not, why not?

A:

**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:

**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:

**Question 20**

Should the rules for solving ties in the Regulation be:

- random selection; or
- pro-rata re-scaling of bids?

Please comment on your choice.

A:

**Question 21**

Should a reserve price apply?

A:No

**Question 22**

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

Please comment on your choice.

A:Notwithstanding that we do not support a reserve price being set, if a reserve is adopted, the methodology for calculating it should be related to a heavily discounted secondary market price and should be set on an EU wide basis. It should be discounted to such an extent that it is only triggered in very extraordinary unforeseen circumstances i.e. systems or power failure in key Member States. We see no reason why bidders should be aware of the actual reserve price, as long as there are sufficient provisions in place that whenever a reserve price is evoked the circumstances surrounding the auction are investigated and the results published. This is to ensure that auctions are held in an appropriate manner and no market manipulation or gaming can occur.

### 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:Bidders should not be restricted by a maximum bid-size. Many large companies have significantly large requirements for allowances for legitimate compliance and contractual deliveries.

### 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 maximum bid size

Please comment on your choice.

A:See q23

### 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.

A: Neither option. We do not believe that there is a need to limit the risk of market manipulation or collusion. If the secondary market continues to function properly as it has done in Phase II, then the monitoring provisions outlined in the regulation should be more than sufficient to prevent market manipulation taking place.

### Question 26

Are the following pre-registration requirements appropriate and adequate?

*Identity:*

- Natural or legal person;
- Name, address, whether publicly listed, whether licensed and supervised under the AML rules; membership of a professional association; membership of a chamber of commerce; VAT and/or tax number;
- Contact details of authorised representatives and proof of authorisation; and
- CITL-Registry account details.
- Anything else? Please specify: \_\_\_\_\_

*Declarations with respect to the past 5 years on absence of:*

- Indictment or conviction of serious crimes: check corporate officers, directors, principals, members or partners;
- Infringement of the rules of any regulated or unregulated market;
- Permits to conduct business being revoked or suspended;
- Infringement of procurement rules; and
- Infringement of disclosure of confidential information.
- Anything else? Please specify: \_\_\_\_\_

*Declarations and submission of documentation relating to:*

- Proof of identity;
- Type of business;
- Participation in EU ETS or not;
- EU ETS registered installations, if any;
- Bank account contact details;
- Intended auctioning activity;
- Whether bidding on own account or on behalf of another beneficial owner;
- Corporate and business affiliations;
- Creditworthiness;
- Collateral; and
- Whether it carries out transactions subject to VAT or transactions exempted from VAT.
- Anything else? Please specify: Any pre-registering information required should be in-line with the current requirement of operating exchanges.

**Question 27**

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

Yes  No

Please comment on your choice.

A: Harmonised pre-registration requirements lead to a level playing field across all auction platforms for all participants.

### 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?

A:

### 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? [Y/N] Y

A:

If not, why not?

A:

Please provide arguments to support your case.

### Question 30

Do you agree that the auctioneer(s) should be allowed to rely on pre-registration checks carried out by reliable third parties including: [Y/N] \_

- Other auctioneers?
- Credit and/or financial institutions?
- Other? Please specify: \_\_\_\_\_

Please comment on your choice.

A:It is important that any administrative burden is minimised. As pre-registration should be harmonised across the EU, there is no reason why there should not be mutual recognition across pre-qualification agents.

### 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  No

Please comment on your choice:

A:It is important that any administrative burden is minimised. As pre-registration should be harmonised across the EU, there is no reason why there should not be mutual recognition across pre-qualification agents.

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:

A:The regulation should not cover these matters. It is already covered by financial regulations and legislation.

### Question 32

Should the Regulation prohibit the multiplicity of pre-registration checks in the case of Member States auctioning jointly?

Yes  No

Please comment on your choice.

A:As pre-registration should be harmonised across the EU, there is no reason why there should not be mutual recognition across pre-qualification agents.

**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:In line with rules already in the secondary market to avoid any distortions.

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? [Y/N] Y

If so, how should they be harmonised?

A:Collateral should be easily tradable, liquid etc.

If not, why not?

A:

**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? [Y/N] Y

If not, why not?

A:

What alternative(s) would you suggest? Please provide arguments to support your case:

A:

**Question 36**

In case futures are auctioned, should a clearing house be involved to mitigate credit and market risks? [Y/N] Y

If so, should specific rules – other than those currently used in exchange clearing houses – apply to:

- the level of the initial margin;
- the level of variation margin calls;
- the daily frequency of variation margin call payments?

If you have answered yes, please justify and elaborate on the rules that should apply and the mechanisms to implement them:

A: There should be no specific rules relating to the primary market. It is important that the rules are harmonised across the primary and secondary markets.

### Question 37

What are the most preferable payment and delivery procedures that should be implemented for auctioning EUAs?

- Payment before delivery.
- Delivery versus payment.
- Both.

Please comment on your choice.

A: For spot auctions, both payment and delivery should take place as close to the end of the auctions as possible. For auctioning futures this is unsuitable as the payment and delivery are made at a pre-determined date in the future, we therefore suggest that a futures delivery mechanism is used when auctioning futures.

### Question 38

Irrespective of the payment procedure, should the Regulation fix a maximum delay of time for payment and delivery to take place? [Y/N] Y

If yes; what should it be?

- 4 working days
- 5 working days
- 6 working days
- 7 working days

Other? Please specify: 2 Days

### Question 39

Should the Regulation provide any specific provisions for the handling of payment and delivery incidents or failures? [Y/N] Y

If yes, what should they be?

A: The Regulation should specify provisions to ensure a harmonised approach across all auction platforms. The provisions applicable to the defaulting party should be based upon the market damage.

### Question 40

Should the Regulation provide for all matters that are central to the very creation, existence and termination or frustration of the transaction arising from the EUA auctions? [Y/N] Y

If not, why not?

A:

If so, are the matters enumerated below complete? [Y/N] Y

- The designation of the parties' to the trade.
- The characteristics of the auctioned product:
  - Nature: EUAs or EUAAs, trading period concerned.
  - Date of delivery: date at which winning bidders will receive the allowances on their registry account.
  - Date of payment: date at which payment will be required from winning bidders.
  - Lot size: number of allowances associated with one unit of the auctioned good.
- Events of 'force majeure' and resulting consequences.
- Events of default by the auctioneer and/or the bidder and their consequences.
- Applicable remedies or penalties.
- The regime governing the judicial review of claims across the EU.

If not, what additional matters should be foreseen in the Regulation and why?

A:

#### Question 41

Should the Regulation provide for rules on jurisdiction and the mutual recognition and enforcement of judgments? [Y/N] Y

If so, should these be:

- specific to the Regulation;
- by reference to the Brussels I Regulation;
- by citing exceptions from the Brussels I Regulation;
- by citing additions to the Brussels I Regulation?

Please comment on your choice:

A:

If not, why not?

A:

#### Question 42

Which auction model is preferable?

- Direct bidding?
- Indirect bidding?
- Both?

Please comment on your choice.

A: To ensure full and fair equitable access to all parties, bidders should have the option of directly participating in any auction. Any enforced indirect access, such as the UK's primary participant scheme, leads to installations having less control over their bids and amendments, leading to a non-level playing field. This should be avoided at all costs. Some smaller installations may wish to use the services of an intermediary, but this should not be obligatory.

#### Question 43

If an indirect model is used, what share of the total volume of EU allowances could be auctioned through indirect bidding? This should not be defined

Please provide arguments to support your case.



A: To ensure full and fair equitable access to all parties, bidders should have the option of directly participating in any auction. Any enforced indirect access, such as the UK's primary participant scheme, leads to installations having less control over their bids and amendments, leading to a non-level playing field. This should be avoided at all costs. Some smaller installations may wish to use the services of an intermediary, but this should not be obligatory.

#### 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? Large emitters >0.25 million tonnes per annum.
- 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: To ensure full and fair equitable access to all parties, bidders should have the option of directly participating in any auction. Any enforced indirect access, such as the UK's primary participant scheme, leads to installations having less control over their bids and amendments, leading to a non-level playing field. This should be avoided at all costs. Some smaller installations may wish to use the services of an intermediary, but this should not be obligatory.

#### 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: To ensure full and fair equitable access to all parties, bidders should have the option of directly participating in any auction. Any enforced indirect access, such as the UK's primary participant scheme, leads to installations having less control over their bids and amendments, leading to a non-level playing field. This should be avoided at all costs. Some smaller installations may wish to use the services of an intermediary, but this should not be obligatory.

#### Question 46

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

- Intermediaries? A:see Q45
- Market makers? A:see Q45

Please provide arguments to support your case.

#### 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.

A: Auctions through exchanges should be allowed for all the options.

#### **Question 48**

Should direct auctions be allowed through:

- 1) Third party service providers? [Y/N] Y
- 2) Public authorities? [Y/N] Y

Please comment on your selection:

A: Preferably through exchanges (third party providers) as long as there is open access to all on a level playing field.

#### **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? [Y/N] Y

If not, why not?

A:

#### **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? A: No, fair and impartial rules applying to all installations should be specified within the Regulation. Smaller emitters should be able to place a bid within an auction either directly or through an intermediary or via the secondary market, we do not see the need for different treatment of small emitters where the lot size is sufficiently small (1000 tonnes) and where the secondary market is functioning properly (liquid).
- uniform-price auctions? A: No, fair and impartial rules applying to all installations should be specified within the Regulation. Smaller emitters should be able to place a bid within an auction either directly or through an intermediary or via the secondary market, we do not see the need for different treatment of small emitters where the lot size is sufficiently small (1000 tonnes) and where the secondary market is functioning properly (liquid).

#### **Question 51**

If non-competitive bids are provided for in spot auctions, what maximum share of allowances could be allocated through this route?

- 5%
- 10%
- Other? Please specify: \_\_\_\_\_

Please comment on your choice.

A: The vast majority of allowances are likely to be required by large and medium installations. It is only a small percentage that will be required by SMEs and small emitters who do not wish to compete directly in the auctions.

### Question 52

What rule should apply for accessing non-competitive bids (more than one answer possible):

- Participants should only be allowed to use one of the two bidding routes?
- Non-competitive bids should be restricted to SMEs covered by the EU ETS and small emitters only?
- Other? Please specify: see below

Please comment on your choice.

A: We do not support the introduction of non-competitive bids, however if they are introduced:-

Bidders should be limited to SMEs and small emitters

Bidders should be allowed to bid in both the competitive and non-competitive auctions

The number of allowances made available through the non-competitive auctions should be capped at a percentage of the allowances to be auctioned on a EU wide basis within the regulations.

Bids should all be scaled back if the bids exceed this cap.

### Question 53

What should be the maximum bid-size allowed for SMEs covered by the EU ETS and small emitters submitting non-competitive bids?

- 5 000 EUAs  
 10 000 EUAs  
 25 000 EUAs  
 Over 25 000 EUAs, please specify exact size and give reasons for your answer: \_\_\_\_\_

#### Question 54

Are there any other specific measures not mentioned in this consultation that may be necessary for ensuring full, fair and equitable access to allowances for SMEs covered by the EU ETS and small emitters? [Y/N] N

If so, please specify:

A: Fair and impartial rules applying to all installations should be specified within the Regulation. Smaller emitters should be able to place a bid within an auction either directly or through an intermediary or via the secondary market, we do not see the need for different treatment of small emitters where the lot size is sufficiently small (1000 tonnes) and where the secondary market is functioning properly (liquid).

#### 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: 1 year

Please comment on your proposal.

A: As stated previously, the auction calendar should be published at least 1 year in advance and preferably longer.

#### Question 56

What should be the minimum period of time before the auction date for the submission of the intention to bid?

1 week       2 weeks       1 month

Other  Please specify: If this is needed, then this should be within one day of the auction.

Please comment on your proposal.

A: We do not agree that an intention to bid submission is required if all the pre-registration checks have been carried out and are up to date. The pre-registration process should take place at least 2 weeks before the initial auction. Any intention to bid process will impact the ability to hold very frequent auctions (daily or weekly).

### Question 57

Are there any specific provisions that need to be highlighted in:

- The notice to auction?
- The intention to bid?
- Both?

Please specify what they are.

A: Any changes to the original auction calendar should be advised - this includes any additional EUAs to be auctioned and the reason why there are changes.

### 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 successful bidders and the total number of bidders.

### 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: ASAP between 5 and 10 minutes

Please comment on your proposal.

A: With a liquid secondary market the results of the auction should be made available as soon as practically possible to enable any accuracy checks to be completed.

### Question 60

Do you feel that any specific additional provisions should be adopted in the Regulation for the granting of fair and equal access to auction information? [Y/N] Y

If so, what may they be? Full and wide circulation of the results through a number of different channels at the same time. An EU Commission auction results website could also be included. As the results of the auction effect the secondary market it is imperative that no forward release to any one source is allowed.

### Question 61

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

[Y/N] Y

If not, why not?

A:

### 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?

If not, why not?

A:

Should these be supplemented by operational guidance, possibly through Commission guidelines? [Y/N] Y

If not, why not?

A:

### Question 63

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

If not, why not?

A: We believe that market abuse and manipulation is already dealt with under current regulation and legislation. We see no requirement to replicate this function within the Regulation.

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

A:

### 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: It is important that all participants (both bidders and Member States) adhere to the harmonised rules and penalties. A level playing field for EU auctions has to be created.

### 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? A sufficient period of time to prevent reoccurrence
- Financial penalties?  
If so, at what level should such penalties be fixed? market damage level



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:

### Question 66

Should such enforcement measures apply at:

EU level?

National level?

Both?

Please comment on your choice.

A: To ensure a EU-wide level playing field.

### 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:

### 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)

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

Please give arguments to support your case.

A: Preferably we would like to see a fully centralised EU-wide auction process, however, we understand that this may not be possible immediately. We therefore support a number of co-ordinated auction processes, that includes an EU Commission auction process, that will converge over time to become a fully centralised process. This convergence to a single process should be complete 2018 at the latest.

#### Question 69

If a limited number of coordinated auction processes develops, what should be the maximum number?

- 2
- 3
- 5
- 7
- more than 7, please specify: \_\_\_\_\_

Please give arguments to support your case.

A: It is essential to all participants that as few processes are developed as possible. The EU should make available a auction process that should be available to any Member State that does not wish to hold it's own auctions. There should be minimal other processes developed to allow the convergence to a single auction process to be achieved with least cost.

#### Question 70

Is there a need for a transitional phase in order to develop gradually the optimal auction infrastructure? [Y/N] N

If so, what kind of transitional arrangements would you recommend? \_\_\_\_\_

#### Question 71

Should the Regulation impose the following requirements for the auctioneer(s) and auction processes? [mark those that apply, ]:

*Technical capabilities of auctioneers:*

- capacity and experience to conduct auctions (or a specific part of the auction process) in an open, fair, transparent, cost-effective and non-discriminatory manner;
- appropriate investment in keeping the system up-to-date and in line with ongoing market and technological developments; and
- relevant professional licences, high ethical and quality control standards, compliance with financial and market integrity rules.

*Integrity:*

- guarantee confidentiality of bids, ability to manage market sensitive information in an appropriate manner;
- duly protected electronic systems and appropriate security procedures with regards to identification and data transmission;
- appropriate rules on avoiding and monitoring conflicts of interest; and
- full cooperation with the auction monitor.

*Reliability:*

- robust organisation and IT systems;
- adequate fallback measures in case of unexpected events;
- minimisation of the risk of cancelling an individual auction once announced;
- minimisation of the risk of failing functionalities (e.g. access to the bidding platform for certain potential bidders); and
- fallback system in case of IT problems on the bidder side.

*Accessibility and user friendliness:*

- fair, concise, comprehensible and easily accessible information on how to participate in auctions;
- short and simple pre-registration forms;
- clear and simple electronic tools;
- (option of) accessibility of platforms through a dedicated internet interface;
- ability of the auction platform to connect to and communicate with proprietary trading systems used by bidders;
- adequate and regular training (including mock auctions);
- detailed user guidance on how to participate in the auction; and
- ability to test identification and access to the auction.

Please elaborate if any of these requirements need not be included.

A:

Please elaborate what additional requirements would be desirable.

A:

### Question 72

What provisions on administrative fees should the Regulation include (more than one answer is possible)?

- General principles on proportionality, fairness and non-discrimination.
- Rules on fee structure.
- Rules on the amount of admissible fees.
- Other? Please specify: The Regulation should state that all fees should be recovered from the proceeds of the auction.

Please provide arguments to support your case.

A:It is important that all costs are kept to a minimum and that auction participants are not overcharged or charged for unnecessary actions (for example the setting up of a single Member State process). The most effective way of ensuring this to for all the admin charges to be taken from the auction revenues.

### Question 73

Should there be provisions for public disclosure of material steps when introducing new (or adapted) auction processes?

A:Yes

Should new (or adapted) auction process be notified to and authorised by the Commission before inclusion in the auction calendar?

A:Yes

#### Question 74

Which one of the following options is the most appropriate in case a Member State does not hold auctions (on time)?

- Auctions by an auctioneer authorised by the Commission.
- Automatic addition of the delayed quantities to those foreseen for the next two or three auctions.

What other option would you envisage? Please specify:

A:With a financial penalty taken from the proceeds of the auction.

#### Question 75

Should a sanction apply to a Member State that does not auction allowances in line with its commitments? [Y/N] Y

If so, what form should that sanction take?

A:A financial penalty

#### Question 76

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

If so, what should the profile of EUAA auctions be:

- 5-10% in year n-2, 10-20% in year n-1, remainder in year n
- 10-20% in year n-2, 20-30% in year n-1, remainder in year n
- 20-30% in year n-2, 30-35% in year n-1, remainder in year n
- Other? Please specify: \_\_\_\_\_

**Question 77**

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

If so, why?

A:

**This page contains two questions that will not be made public. These questions cannot be completed on this document**

**Request for potentially confidential information 3**

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

For aircraft operators covered by the EU ETS:

Have you determined a corporate hedging strategy for carbon needs?

Yes [ ] No [ ]

If so, what share of your expected emissions covered by the EU ETS in a given year n do you (intend to) hedge and how much in advance?

- year n : \_\_\_\_\_%
- year n-1 : \_\_\_\_\_%
- year n-2 : \_\_\_\_\_%

**Request for potentially confidential information 4**

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

What share of the annual quantity of allowances you intend to purchase *via* auctions would you wish to buy spot or futures respectively?

- |   |          | SPOT     | FUTURES |
|---|----------|----------|---------|
| • | year n   | : _____% | _____%  |
| • | year n-1 | : _____% | _____%  |
| • | year n-2 | : _____% | _____%  |

**Question 78**

What should be the optimal frequency and size of EUAA auctions:

- 2 auctions per year of around 15 million EUAAs?
- 3 auctions per year of around 10 million EUAAs?
- More than 3 auctions per year? Please specify: \_\_\_\_\_

Please comment on your choice.

A:

**Question 79**

What would be your preferred timing for EUAA auctions:

- Equally spread throughout the year?
- November – March?
- Other? Please specify: \_\_\_\_\_

**Question 80**

Should any of the EUAA auction design elements be different compared to EUA auctions (see section 3)? [Y/N] \_

If so, please specify and comment on your choice.

A:

**Question 81**

Do you agree there is no need for a maximum bid-size? [Y/N] \_

If not, why not?

A:

**Question 82**

Is there any information regarding aircraft operators made available as part of the regulatory process to the competent authorities that could facilitate the KYC checks performed by the auctioneer(s)? [Y/N] \_



If so, please describe what information is concerned and whether it should be referred to in the Regulation or any operational guidance published by the Commission.

A:

### **Question 83**

In your opinion, is there a specific need to allow for non-competitive bids in EUAA auctions?

A:

Would this be the case even when applying a uniform clearing price format?

A:

Please provide arguments to support your case.

### **Question 84**

Do you agree that there is no need for any specific provisions for EUAA auctions as regards [mark those that you agree with, ]:

- Involvement of primary participants, exchanges or third party service providers?
- Guarantees and financial assurance?
- Payment and delivery?
- Information disclosure?
- Auction monitoring?
- Preventing anti-competitive behaviour and/or market manipulation?
- Enforcement?

If not, please describe in detail what rules would be needed and why.

A:

### Question 85

Taking into account the smaller volume of EUAA allowances to be auctioned compared to EUAs, which of the three approaches for an overall EUAA auctioning model do you prefer? Please rate the options below (1 being the most preferable, 3 being the least preferable)

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

Does your choice differ from the approach preferred for EUAs? [Y/N] \_

Please provide arguments to support your case.

A:

### Question 86

Do you agree that there is no need for any specific provisions for EUAA auctions as regards. [mark those that you agree with, ]:

- Requirements for the auctioneer(s) and auction processes?
- Administrative fees?
- Rules to ensure appropriate and timely preparation of the auctions?

If not, please describe in detail what rules would be needed and why.

A: