

Position Paper

on the Consultation on Design and Organisation of Emission Allowances Auctions

Berlin, 30 July 2009

The German Association of Energy and Water Industries (BDEW) represents 1,800 members of the electricity, gas and water industry. In the energy sector, we represent companies active in generation, trading, transmission, distribution and retail.

We welcome the opportunity to comment on the Consultation Paper of Technical Aspects of EU Emission Allowances Auctions.

The answers of the attached questionnaire are based on BDEW's favoured model, which we would like to present in its major aspects in the following.

Auction design and price setting

BDEW strongly supports price setting by uniform pricing. This type of auction provides a simple and transparent rule for price setting for spot and futures contracts. Furthermore the auction should be a sealed-bid auction. Thus transaction costs are minimized and bidders' anonymity is kept.

Amount, Frequency, and Number of Auction Platforms

BDEW supports an evenly distributed allocation of the annual amount on a high number of auctions (preferably one each week). The frequency depends on the amount of certificates and on the number of exchanges. The higher the liquidity per auction, the smoother the process and the lower the risk of possible market distortions. Therefore, the amount of certificates sold per auction should be high. To keep the influence on a liquid secondary market as low as possible the frequency of auctions should also be high. Thus the time interval between two auctions is kept short which reduces uncertainty during the interval. Having this in mind, BDEW supports highly frequent auctions with evenly distributed amounts of certificates on a few exchanges. However it should be more than only one exchange, which reduces the risks of auction cancellations, due to technical failures or force majeure.

Regarding the start of the auctioning, BDEW strongly advocates that the beginning of carbon auctions must start as soon as possible, latest in mid 2011; for BDEW this is an essential prerequisite. Therefore, BDEW believes that early publication of the auction calendar is also essential to minimize uncertainty of the market players.

Auctioning Spot or Futures Contracts

BDEW strongly supports the auctioning of spot and future contracts with a strong emphasis on the auctioning of futures. For electricity companies it is vital to be able to hedge their positions ahead of time; i.e. closing their position (preferably) immediately. This requires that they are also able to cover their needs for long-term products (futures) directly through the auctions (particularly if the auctions are hold on a very frequent basis, which we propose). Otherwise we fear that it may, due to the respective risk exposure, lead to avoidable higher compliance costs. Spot markets are complementary as they provide the possibility for optimizing players' portfolios.

With this background BDEW answers the questions as follows: