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# **EUA Primary Market Auctions at EEX**

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June 24th, 2010



# Agenda

1. The EEX carbon market
2. The German EUA Primary auction at EEX
  - 2.1. Setup
  - 2.2. Statistics on auctions conducted
3. EUA Auctioning in EU ETS III



# EEX has offered trading of carbon products since 2005

- EEX uses electronic platforms for Spot and Derivatives trading of EUA/ CER certificates

## Spot Market

- Xetra platform which is a fully electronic trading system
- More than 90% of the entire share trading at German exchanges is handled through Xetra
- 79 members are admitted for trading EUA certificates at EEX

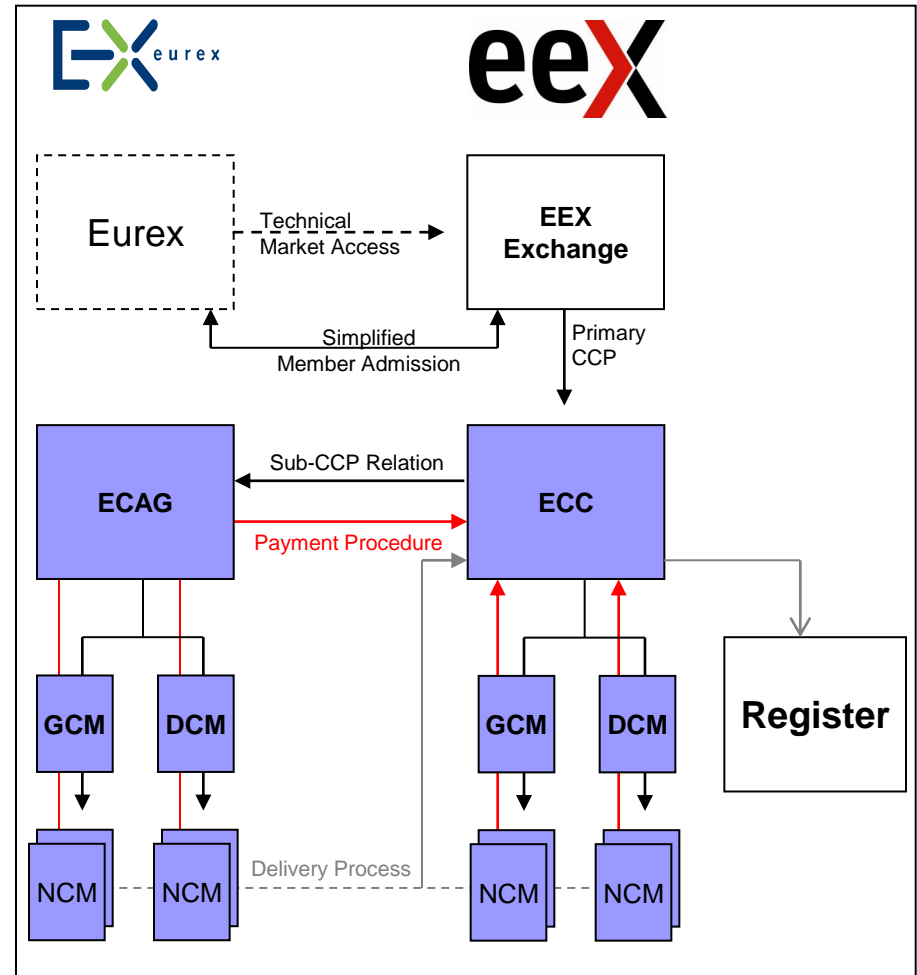
## Derivatives Market

- Eurex platform which has always been at the forefront of electronic trading in equity and fixed income futures and options
- Robust and reliable trading and clearing technology
- 140 members are admitted for trading EUA/ CER futures at EEX



# EEX Eurex runs a joint market model for product cooperation

- Emissions trading liquidity concentrated for derivatives products in a single order book held by EEX
- Access for Eurex members via their existing technical infrastructure
- Simplified EEX admission process for Eurex members
- ECC - will remain the primary CCP and perform the physical delivery function
- Eurex Clearing AG acts as sub-CCP
- EEX-Eurex cooperation enables more than 400 trading members access to trade EUA/ CER futures



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## Six EU member states use the option of auctioning in EU ETS phase II

- According to the European Directive 2003/87/EC member states have the option to sell a maximum of 10% of their EUA allocation in EU ETS phase II (2008 – 2012) via auction
- Approximately a total of 3% of the EU wide EUA budget is going to be sold via auction in the second trading period
- German auction at EEX accounts for around 66% of that total

| <b>Member state</b> | <b>Share of EUAs auctioned</b> | <b>Average annual quantity</b> | <b>Platform</b> |
|---------------------|--------------------------------|--------------------------------|-----------------|
| Germany             | approx. 9%                     | 40mn EUA                       | EEX             |
| UK                  | 7%                             | 17mn EUA                       | UK DMO          |
| The Netherlands     | 3.7%                           | 3.2mn EUA                      | Bank/ exchange  |
| Hungary             | 2.0%                           | 2.7mn EUA                      | Tbd             |
| Ireland             | 0.5%                           | 0.56mn EUA                     | Tbd             |
| Austria             | 1.3%                           | 0.4mn EUA                      | Climex          |

Source: EU, DG Climate



# EEX is the operating platform for the German EUA Primary auction

## **EEX Experience**

- The exchange is the leading power exchange in continental Europe
- Transparent and regulated market place with successful daily emission auctions since 2005

## **Service Provider to the German Government**

- The exchange is being used by the German government, through KfW, as a channel to issue EUA certificates to the market
- Until the end of 2009 a total volume of 3mn EUAs have been auctioned/ sold at the EEX in the secondary market
- EEX successfully auctioned more than 20mn EUAs certificates since the start of 2010 in the primary market

## Overview

- German guideline EHVV 2012 for emission trading sets the framework for the annual auction of approx. 40 million emission certificates in 2010 and 2011
- The auctions started on the 5th of January 2010
- EEX provide its electronic trading platforms for the auctioning of spot and derivatives contracts
- All already admitted participants for CO2 trading at the EEX have the possibility to take part in the auctions without any additional obligation
- The ECC carries out clearing and settlement

## Auction design

- The primary auction is operated as so called “Black Box Auction”
- No indicative price is displayed during the call phase
- Sell orders are exclusively placed by the auctioneer KfW authorized by the German Federal Ministry for the Environment



## Submission of bids

### **Only limited bids are valid**

- The minimum bid amount is 500 certificates for the spot market auction and 1 lot (1.000 certificates) for the derivatives market auction
- The bid price has to be submitted in euro with two decimal places (no market orders)
- All already admitted participants for CO2 trading at the EEX could submit their bids via the Xetra or Eurex platform directly
- EEX market supervision team is able to accept bids as “trading on behalf”
- EEX admitted execution broker can place bids in the auction for clients

### **No costs for participating in the auction**

- No additional fix charges for participating in the auction for EEX members



# Auction procedures

## **Auction on the spot market**

- 300,000 certificates every week from January to October
- From November 870,000 certificates to be auctioned weekly through spot market
- Spot auction scheduled every Tuesday at 11:00am CET
- From 9:00 to 11:00am CET participants can enter their orders

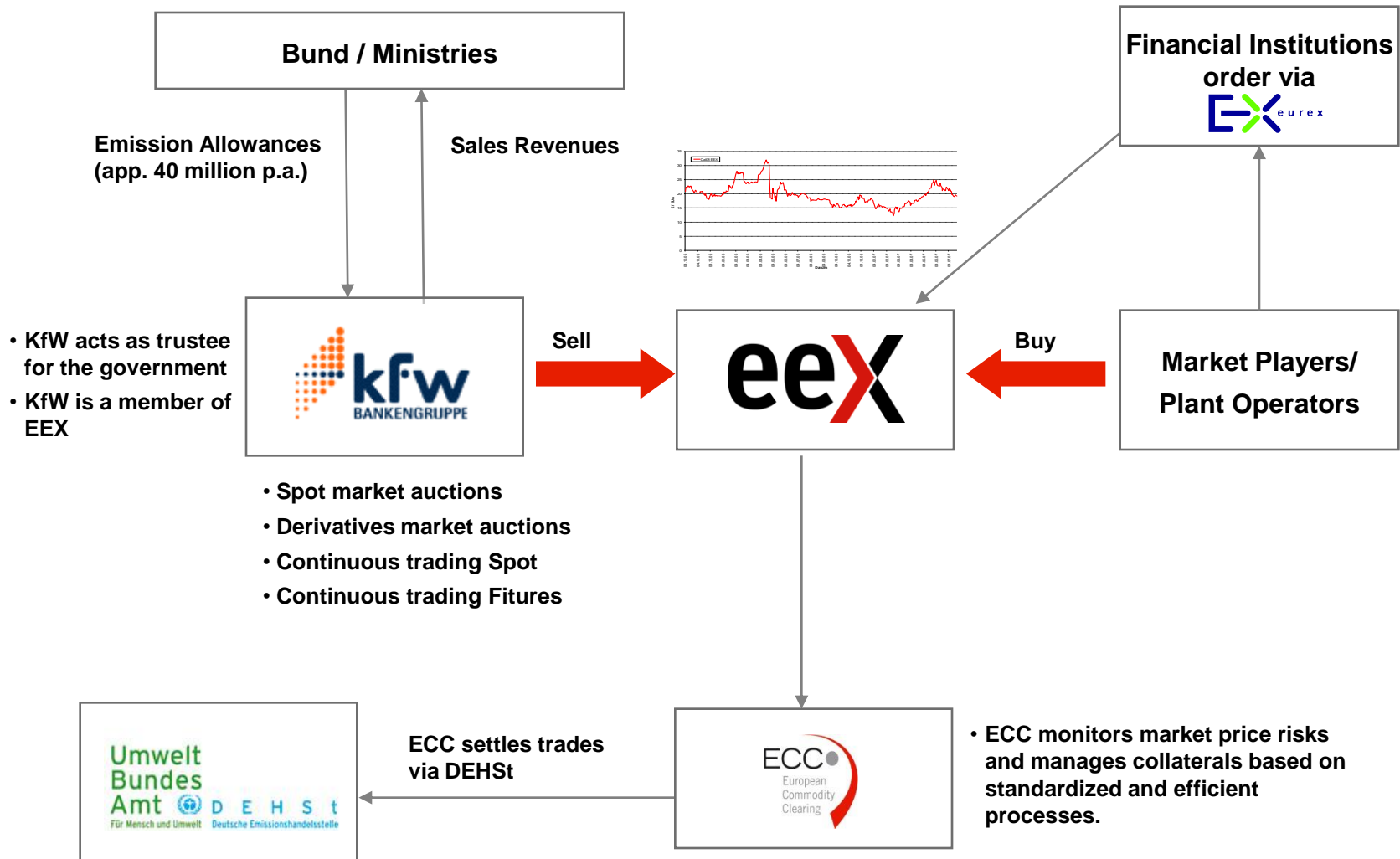
## **Auction on the derivatives market**

- 570,000 certificates (or 570 contracts) every week from January to October
- Derivatives auction scheduled every Wednesday at 3:00pm CET
- Auction participants can enter their bids during the 15 minutes call phase before 3:00pm CET
- During the auction, continuous trading in MidDec European Carbon Futures (F2EA) is not possible on EEX



# Contract specification for auction products

|  | Spot market – product T2PA   | Derivatives market – product F2EA   |
|--|--|---|
| Contract details for the primary auction | EU emission certificates SPOT for the second EU ETS trading period (2008-2012) | EU emission certificates DERIVATIVES for the second EU ETS trading period (2008-2012) |
| Delivery date/ Maturity                  | t + 1  | 2010: 22 <sup>nd</sup> December 2010<br>2011: 21 <sup>st</sup> December 2011          |
| Contract volume                          | 1 EUA  | 1,000 EUA   |
| Min bid amount                           | 500 contracts or a factor of that  | 1 contract  |
| Quotation                                | in €/t CO <sub>2</sub> with two decimal places                                 | in €/t CO <sub>2</sub> with two decimal places  |
| Fulfillment                              | Payment against delivery   | Payment against delivery  |
| Transaction fees                         | Exchange 0.20 ct/EUA<br>Clearing 0.10 ct/EUA                                   | Exchange 0.18 ct/EUA<br>Clearing 0.10 ct/EUA  |



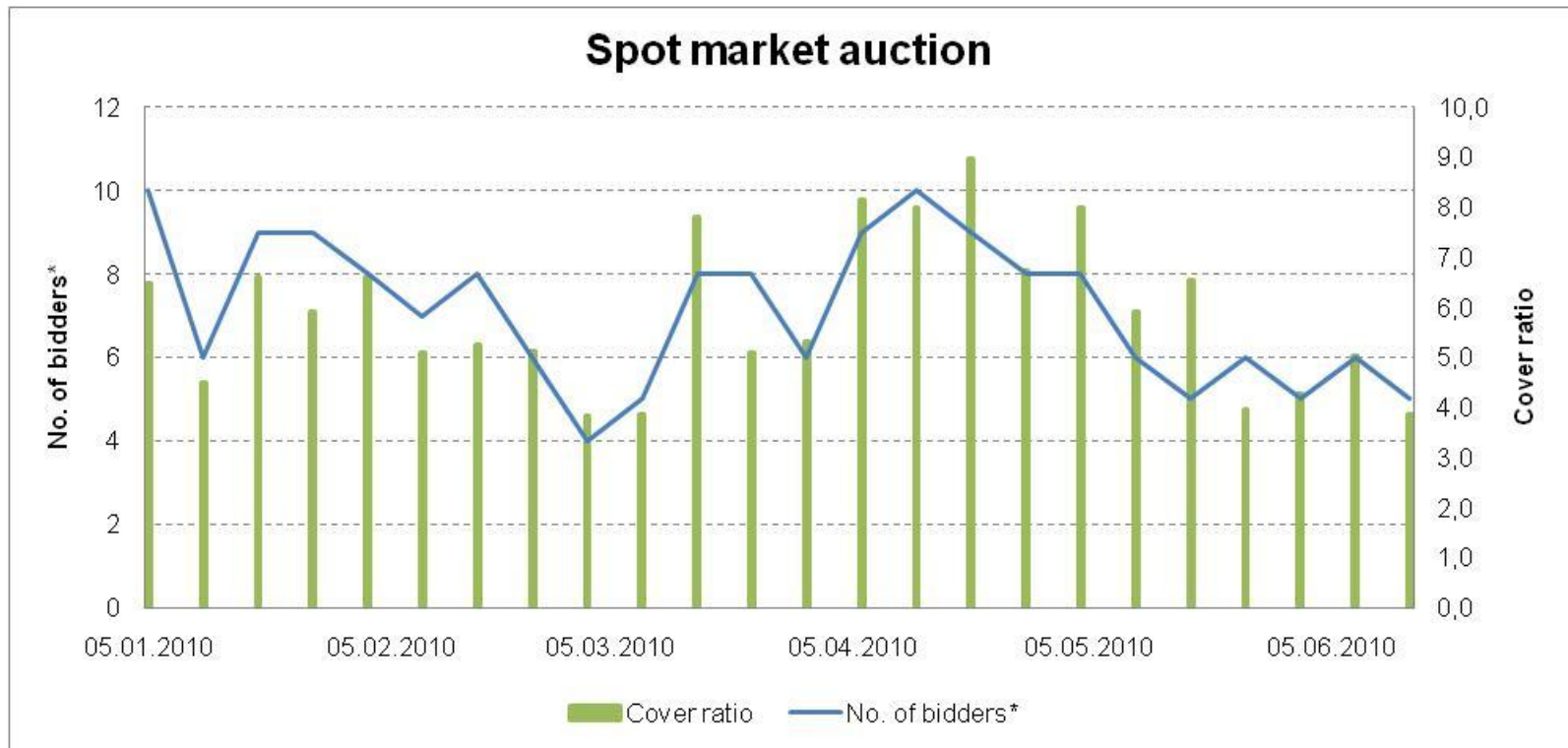


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# Statistics are showing huge interest in German EUA Primary auction

- EUA Primary Spot auction, Tuesdays 11am CET, 300,000 certificates
- Average number of bidders: 7.1\*/ Successful bidders: 3.3\*
- Average cover/ oversubscription ratio: 5.9

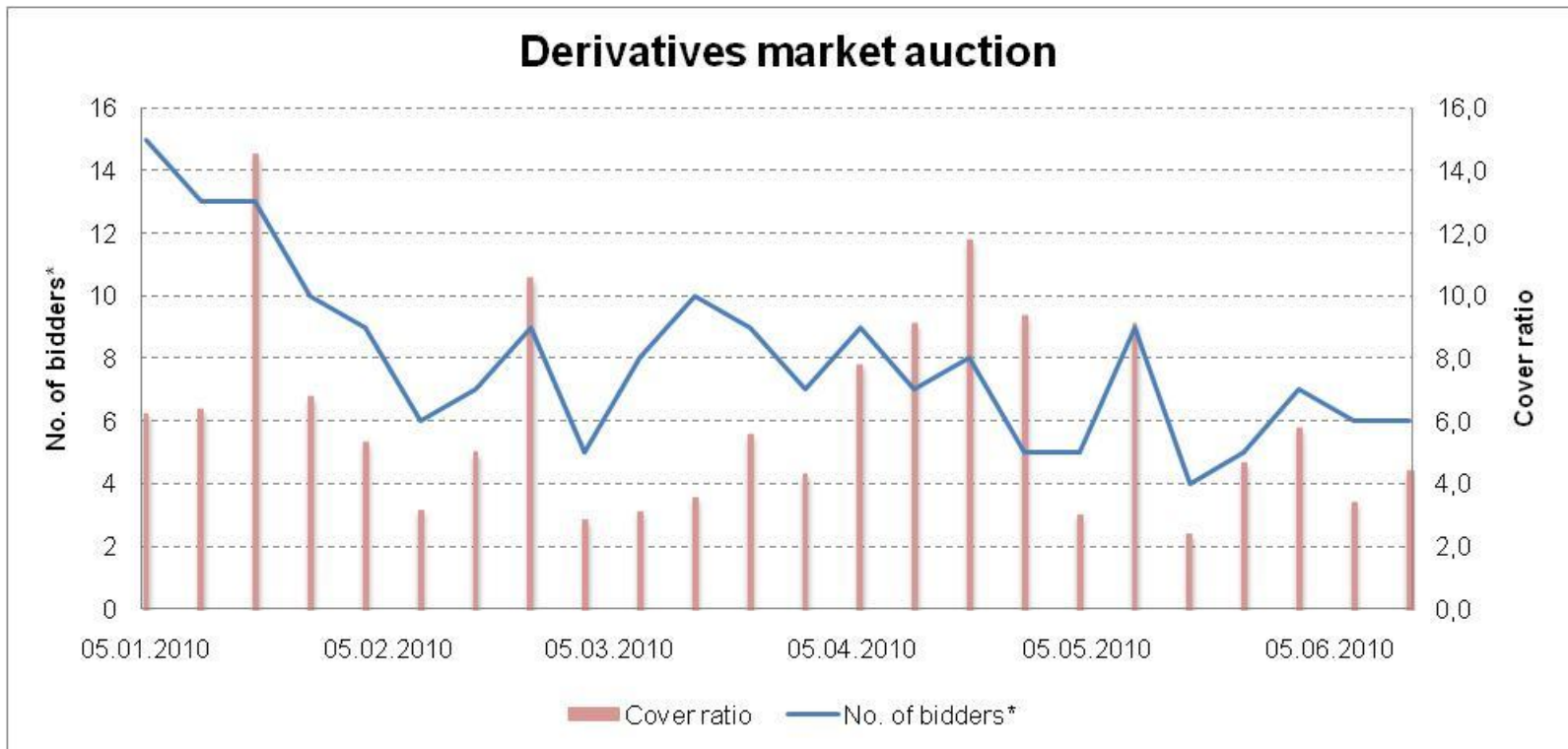


\* No separation between direct bidders and intermediaries



# Every auction was oversubscribed and placed successful so far

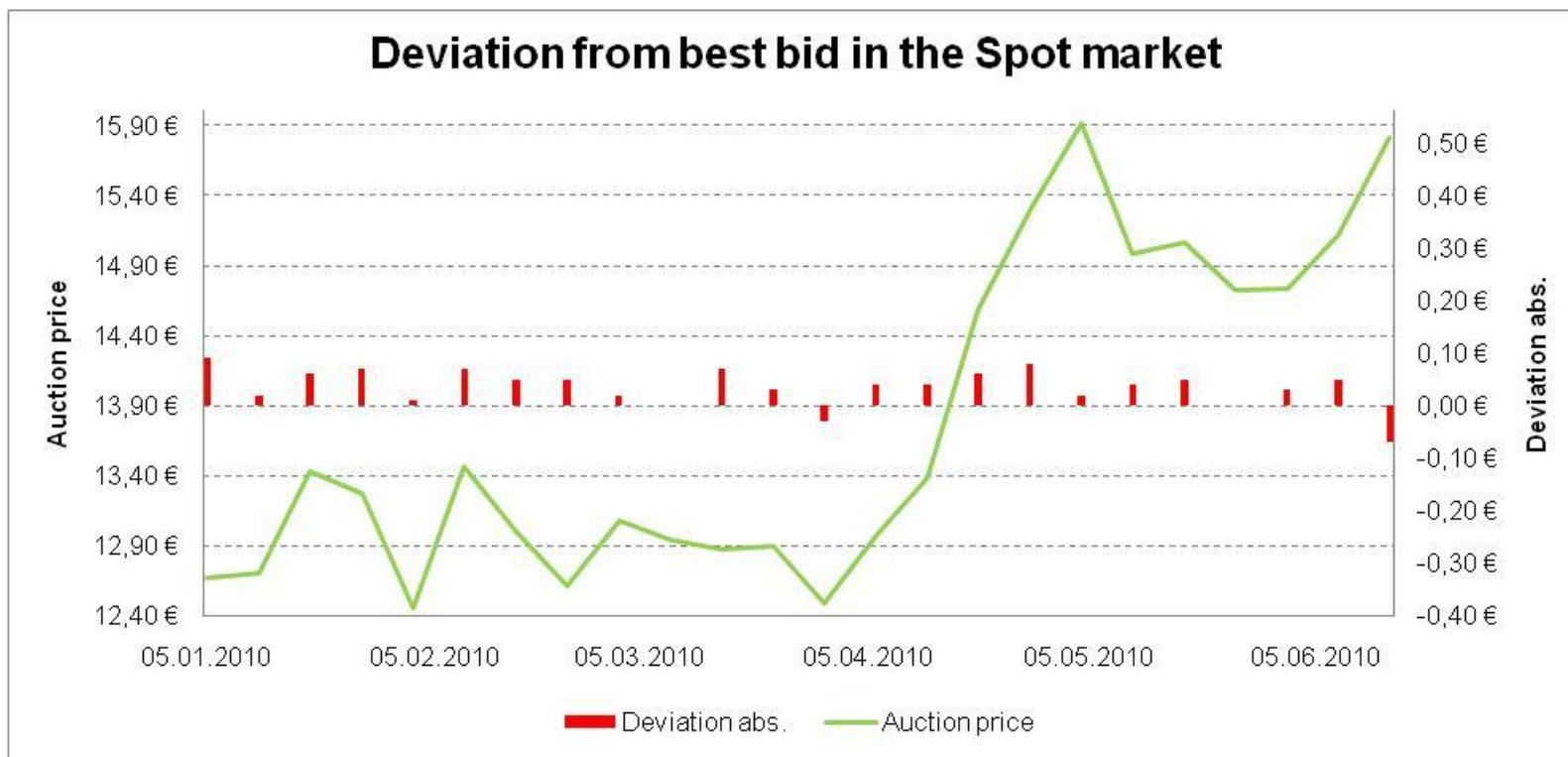
- EUA Primary Derivatives auction, Wednesdays 3pm CET, 570,000 certificates
- Average number of bidders: 8.0\*/ Successful bidders: 3.7\*
- Average cover/ oversubscription ratio: 6.2



\* No separation between direct bidders and intermediaries

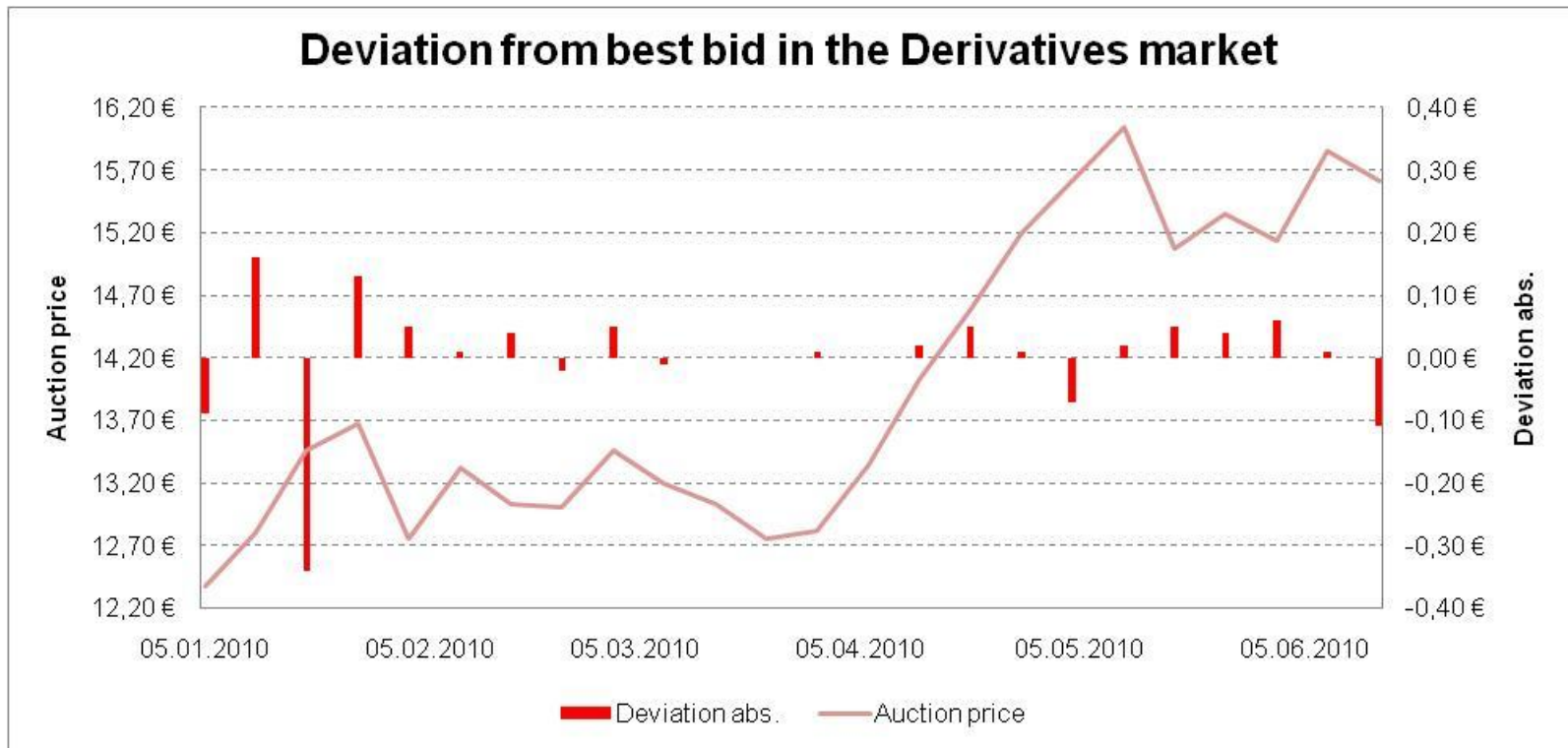
## Spot market

- Average deviation from best bid: +3.5ct or +0.263%



## Derivatives market

- Average deviation from best bid: +0.3ct or +0.026%





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## **A centralised, EU-wide cap on emissions**

- No further NAP set by individual Member States as of now

## **Cap will reduce annually by 1.74% of the average annual level in phase II**

- Starting point is [20%] reduction of greenhouse gases compared to 1990
- Overall reduction of [21%] below 2005 verified emissions by 2020

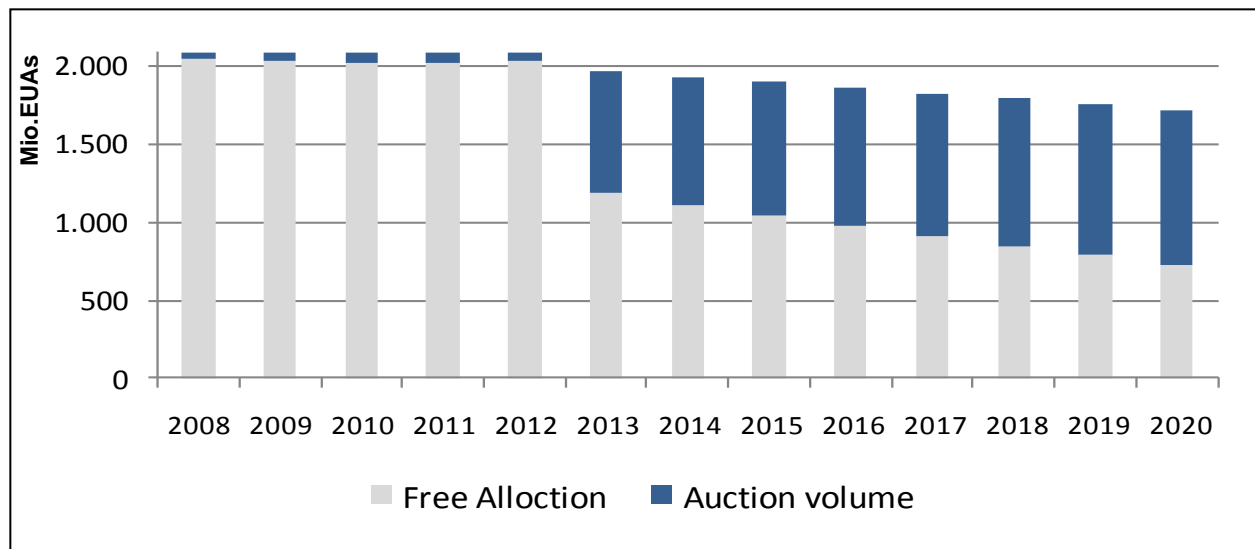
## **Significant increase in primary allocation via auctions**

- Across most of the EU member states primary allocation for the power sector will be 100% via auctions
- Phase III includes non-exposed industries with emissions >10.000t (95% of Europ. industry)
- Level of auctioning allowances including non-exposed industries in phase II will increase in a linear manner reaching 70% by 2020
- View to reach 100% by 2027, compared to around 3% in phase II

# Large auctions will create a substantial primary market in phase III

- Auctioning marks a significant change from the first two trading periods
- Primary market volumes will gradually increase as free allocation is decreasing
- Figures are based on the scope of the EU ETS amounting to 2.083 million tonnes
- Figures will be adjusted for several reasons:
  - Extensions of the scope in phase 2; Further extensions of the scope of the ETS in the third trading period
  - Any opt-out of small installations which lead to a reduction of the cap
  - Figures do not take account aviation, nor emissions from Norway, Iceland and Liechtenstein

| Year | Mio t CO <sub>2</sub> |
|------|-----------------------|
| 2013 | 1.974                 |
| 2014 | 1.937                 |
| 2015 | 1.901                 |
| 2016 | 1.865                 |
| 2017 | 1.829                 |
| 2018 | 1.792                 |
| 2019 | 1.756                 |
| 2020 | 1.720                 |




Source: European Commission COM (2008) 645 final

- European Council adopted climate-energy legislative package on April 6<sup>th</sup>, 2010, revised on June 3<sup>rd</sup>, 2010
- EU auction proposal still under discussion, final decisions ahead of July 14<sup>th</sup>, 2010




Common European platform



Stand alone platforms

- Plan allows member states to sell EUAs on existing platforms in 2011 and 2012 before the phase III auction platforms are established



Early auction platform  
in 2011 & 2012

- EEX is prepared to provide all potential setups



# EEX membership advantages

## **EEX operates an established EUA market**

- EEX is the leading power exchange in continental Europe
- Hosting a liquid secondary market for EUA spot and derivatives trading
- Has conducted the German EUA auctions since January 2010 successfully

## **EEX/ ECC using German DEHSt account**

- EEX/ ECC are using the already existing DEHSt account as national register where emission allowances – EUAs, CERs, ERUs, (AAs) – are kept
- No risk for transferring or banking allowances (from phase II to phase III)

## **EU ETS phase III contracts (post 2012)**

- EEX is currently creating post 2012 contracts for EU ETS phase III
- Trading will start on June 30<sup>th</sup>, 2010

## **Low Cost Access**

- EEX is able to offer a platform with very low fixed costs



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**Many thanks for your attention!**



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