

RECOMMENDATIONS ON THE EUA AUCTION DESIGN

EMART 2008 Geneva
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Who are we?

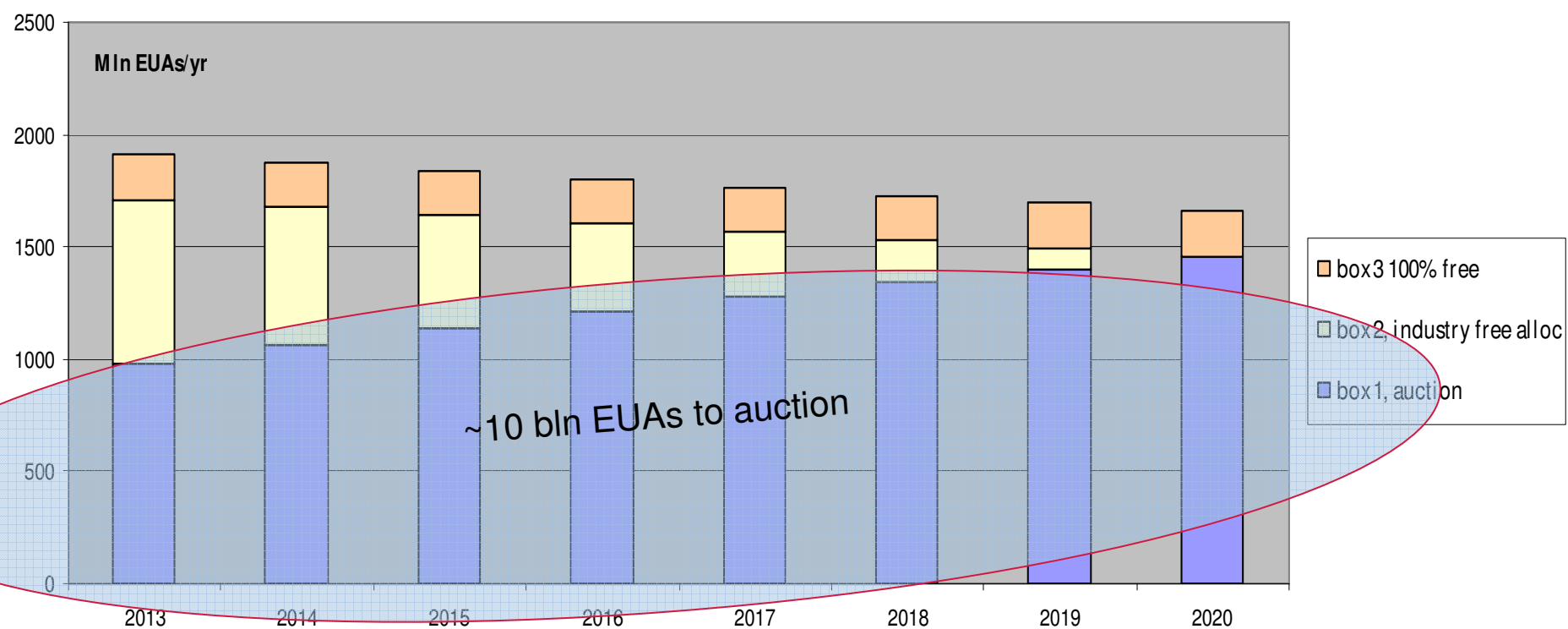


- ➔ The European Federation of Energy Traders (EFET) is an industry association which represents over 90 trading companies operating in 21 countries
- ➔ We promote pan-European energy trading in open, transparent and liquid wholesale markets
- ➔ We support trading mechanisms as the most cost efficient way to curb GHG emissions
- ➔ Our main activities include:
 - ➔ Promotion energy trading in Europe
 - ➔ Standardisation of contracts
 - ➔ Advocacy



Auctioning in ETS phase 3

What is it all about?



1. Background & Principles
2. Institutional Framework
3. Technical Aspects
4. Timeline
5. Conclusions

1. Background & Principles

Background

- ➞ ETS Phase 3
- ➞ Auctioning as the main method
- ➞ Comitology Procedure
- ➞ Request Commission

EFET Principles

- ➞ Clarity
- ➞ Transparency
- ➞ Simplicity
- ➞ Liquidity
- ➞ Reliability

2. Institutional Framework

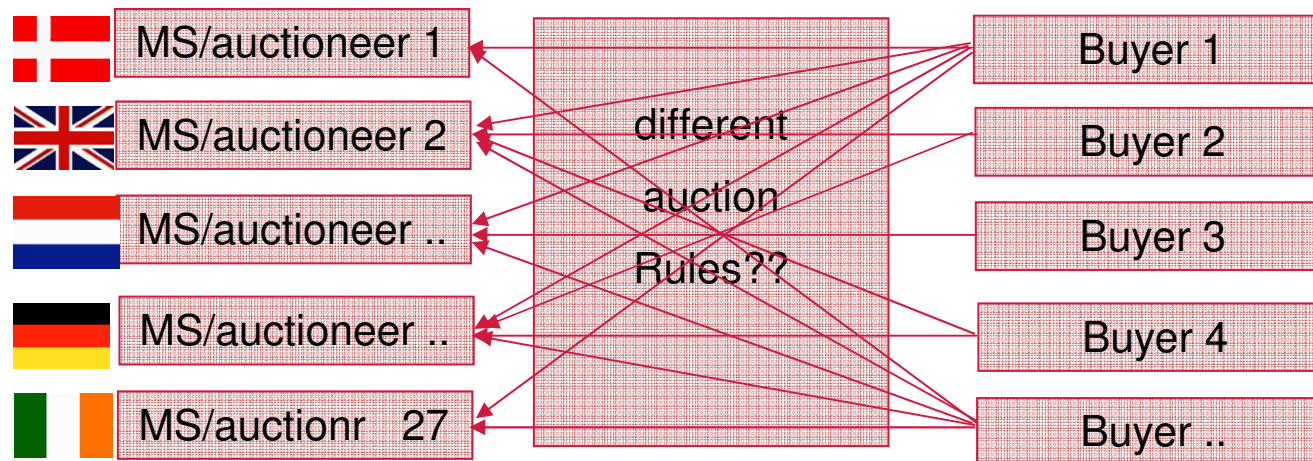


EFET recommends maximum harmonisation

- ➡ Preferred approach: A centralised platform
- ➡ Possible approach: Full Harmonisation and Supervision

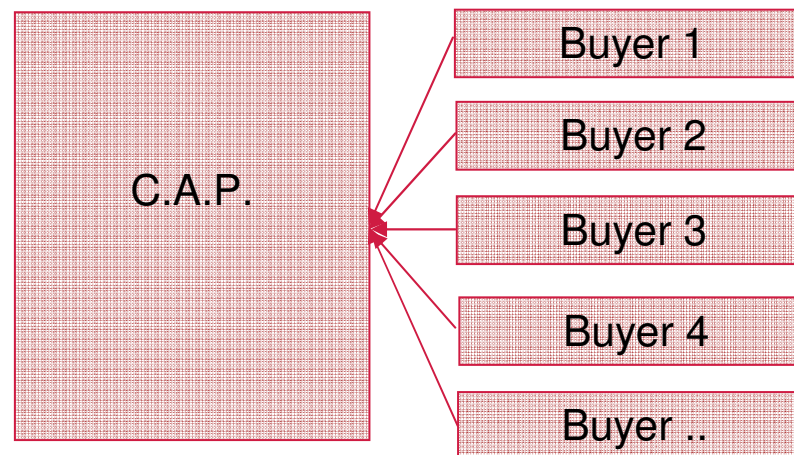
2. Institutional Framework

Rather than having up to 27 auction platforms...



2. Institutional Framework: CAP

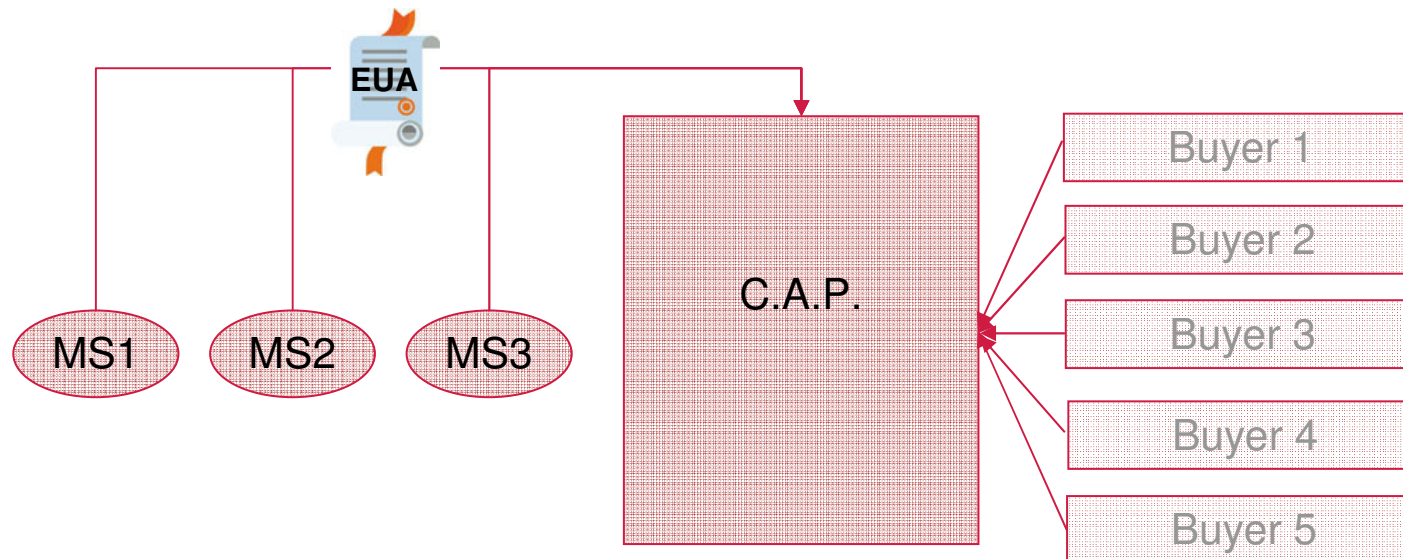
We strongly recommend one Centralised Auction Platform



“keep it central, stupid”

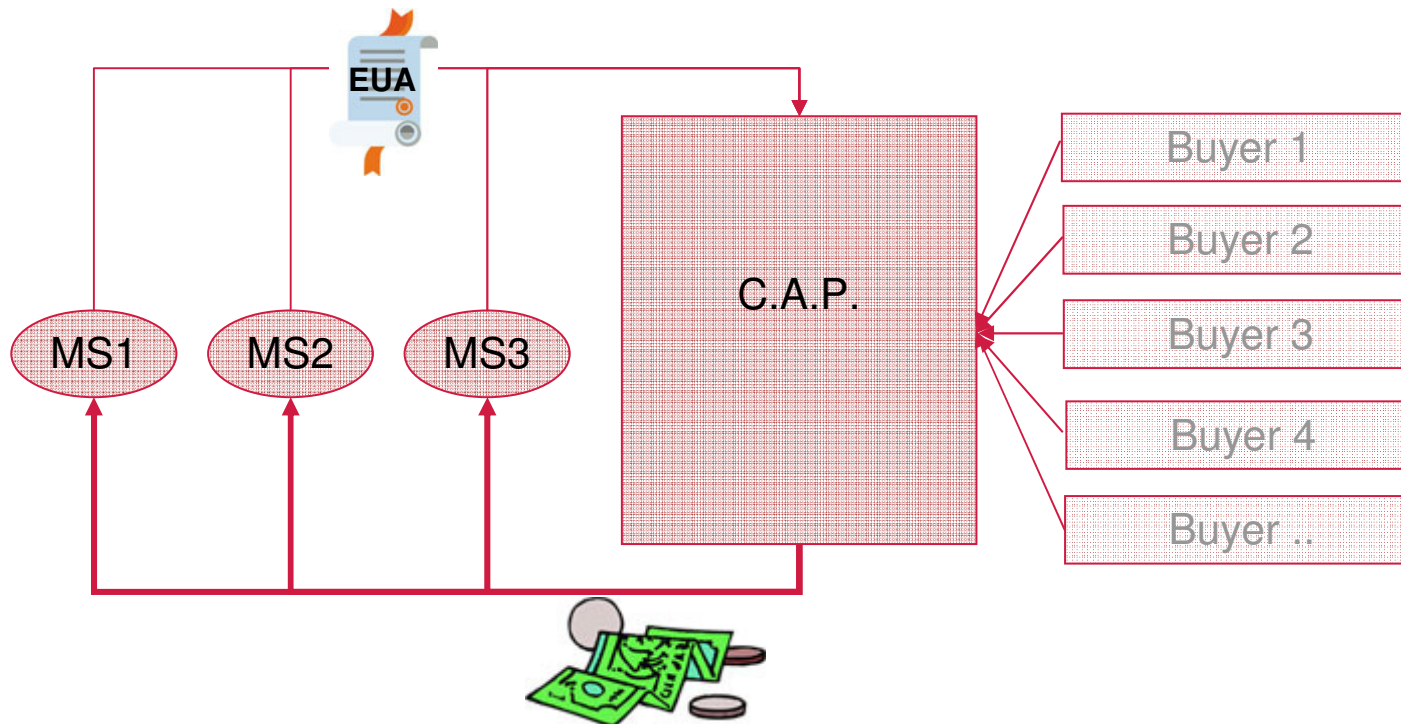
2. Institutional Framework: CAP

MS delegate their right to auction to the C.A.P.



2. institutional framework : CAP

MS however retain their rights to the EUA revenues



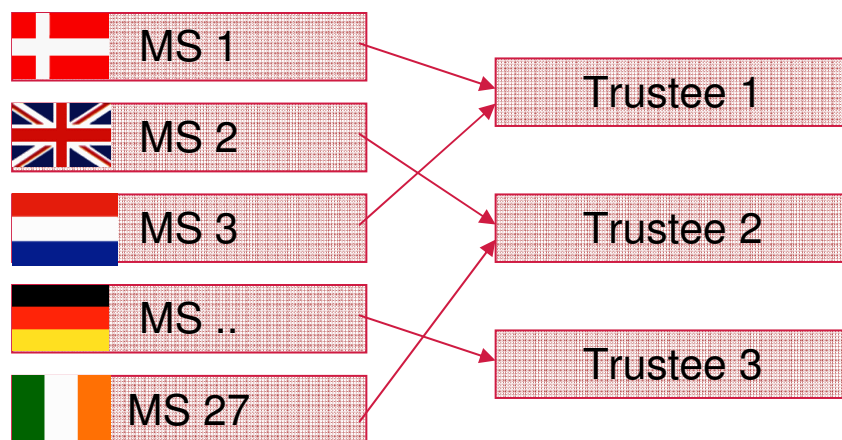
2. Institutional framework: CAP

The CAP approach will:

- ➔simplify procedures
- ➔enhance efficient conduction of auctions
- ➔provide more clarity and transparency to the market
- ➔avoid undesirable competition between MS

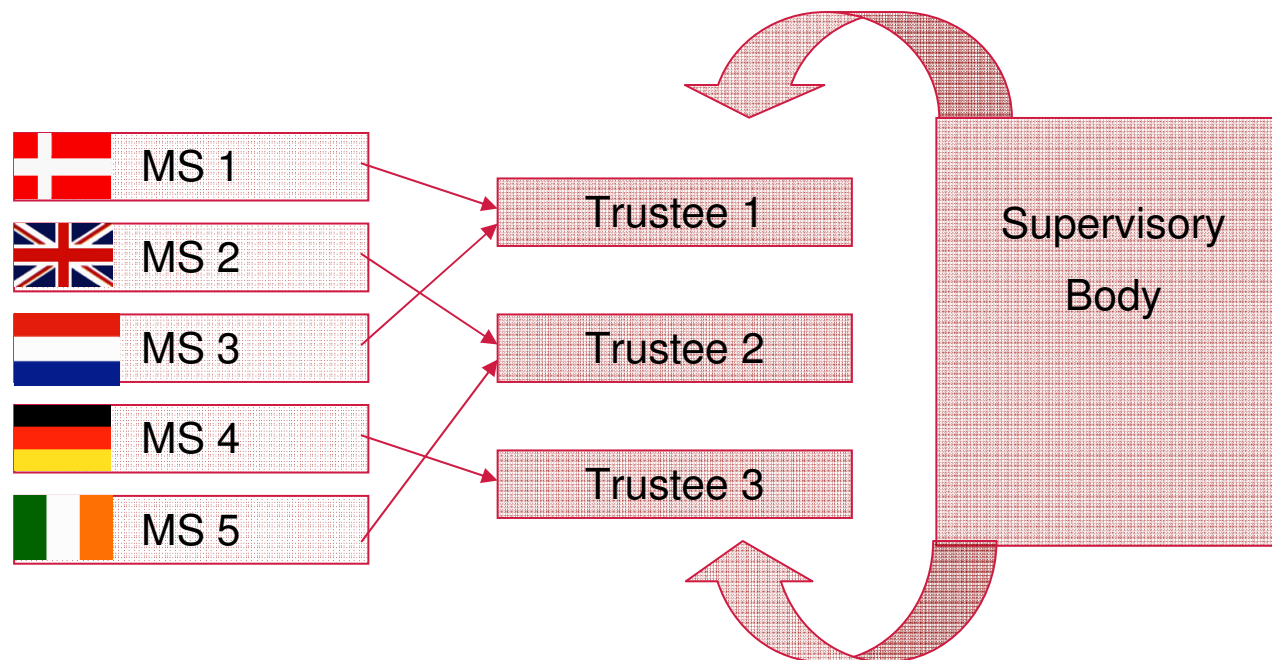
2. Institutional Framework: *Trustee Model*

"Option B" is a model by which MS can choose a trustee to carry out the auction:



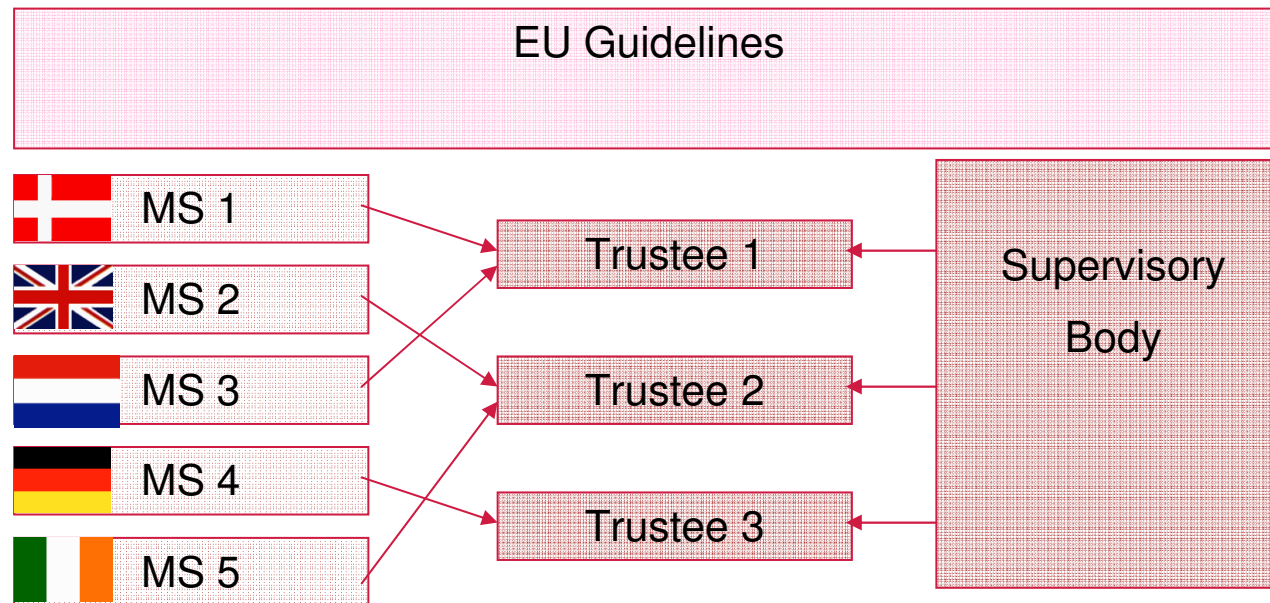
2. Institutional Framework: *Trustee Model*

Trustees will be supervised by an EU appointed central body to coordinate auctions and ensure a harmonised approach:



2. Institutional Framework: *Trustee Model*

EU Guidelines will stipulate the auction rules :



2. Institutional Framework: *Trustee Model*

Functions to be carried out by the different players:

<i>EU guidelines on auctioning procedures (EU Commission)</i>	
Auction Trustee <i>Accredited by the Supervisory Body</i>	Supervisory Body <i>Appointed by the EU</i>
<ul style="list-style-type: none">•Contract with and acts on behalf of the MS which is auctioning off allowances.•Registers auction participants•Conducts Auctions•Settles Auction results	<ul style="list-style-type: none">•Accredits Auction Trustees•Approves auction rules of individual Auction Trustees in compliance with EU guidelines•Supervises Auctions•Disseminates auction results•Deals with appeals and resolves conflicts

3. Technical Aspects



⇒ Timing

- Frequency
- Early auctions

⇒ Auction Type

⇒ Miscellaneous

3. Technical Aspects: Timing

Frequency

⇒ Frequent auctions, e.g. daily or weekly

⇒ To enable:

- consistent supply
- minimal distortion of secondary markets
- reasonable lot sizes (~5 Mton/day or 25 Mton/wk)
- reduced impact of potential problems, such as:
 - undesirable strategic behavior
 - limited participation
 - type of auction

3. Technical Aspects: Timing

Early start

➞ Forward auctions, from mid 2011

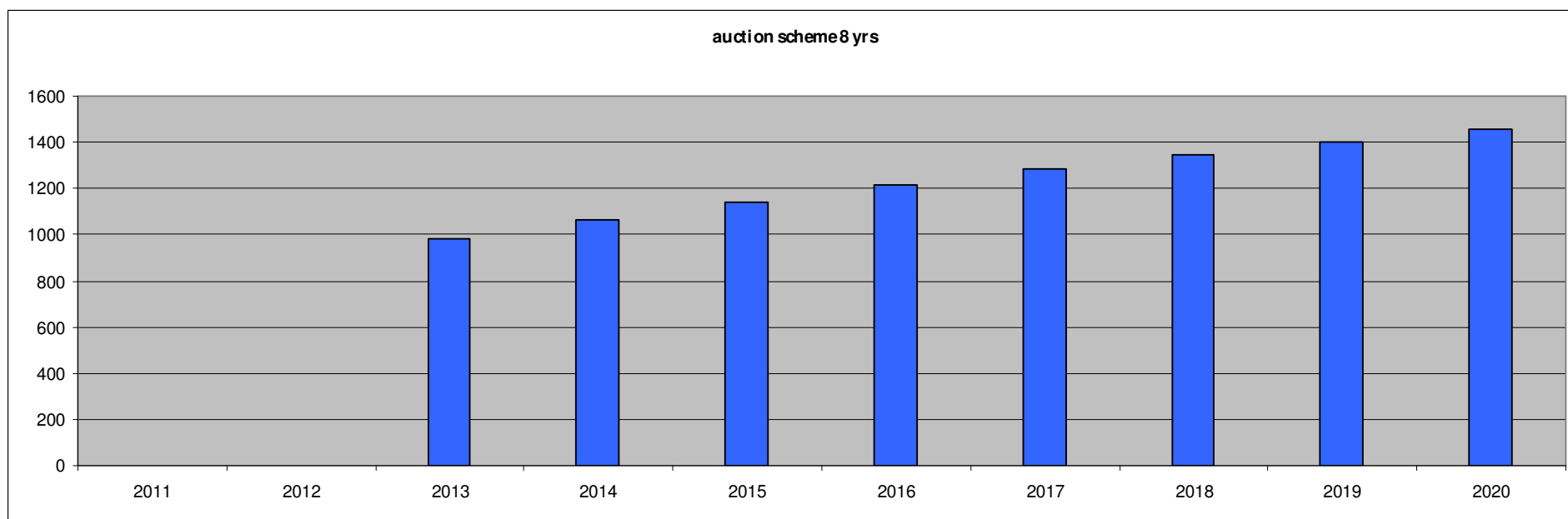
➞ To enable:

- Forward electricity contracts to be hedged
- Sufficient liquidity at the start
- Better guarantee of a timely implementation

3. Technical Aspects

Timing: how to schedule auction of 10 bln EUA's:

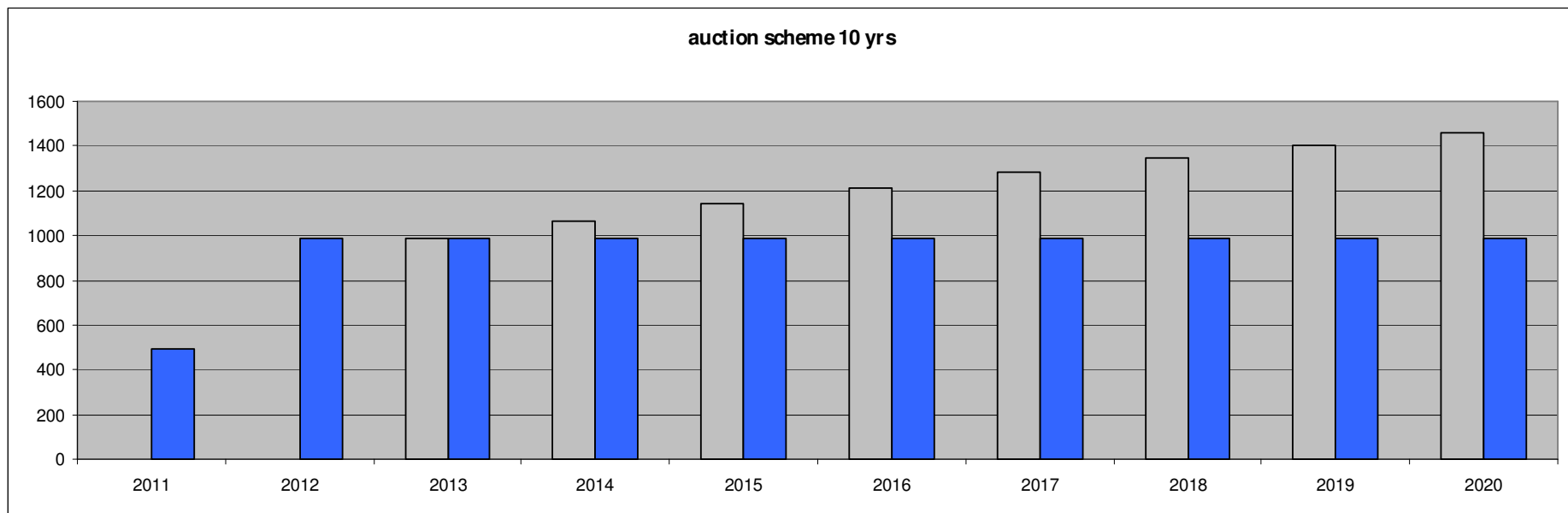
Not stick to the 'vintage amounts'



3. Technical Aspects

Timing: how to schedule auction of 10 bln EUA's:

But rather spread them equally over 9,5 years



3. Technical Aspects

Type of Auction

⇒ Requirements

- simple
- Efficient – low administrative burden
- confidential bidding strategy
- reflecting best practice of similar commodity markets

⇒ Auction type options

- Of little significance, given high frequency
- single-round, sealed bid
- ascending multi-bidding

⇒ Pricing system

- Of little significance, given high frequency
- System marginal price

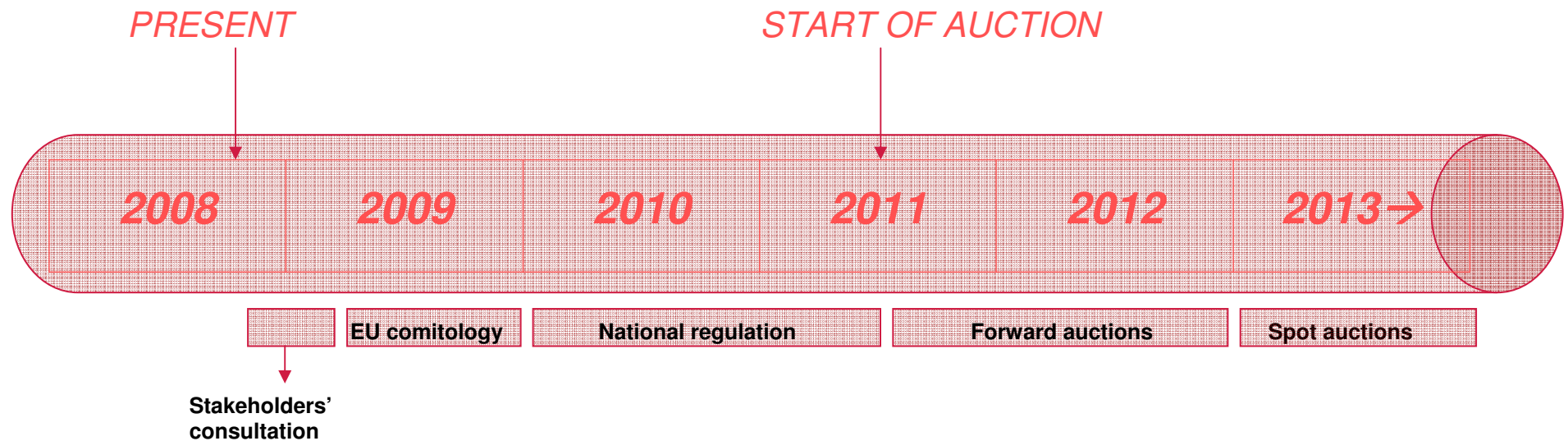
3. Technical aspects



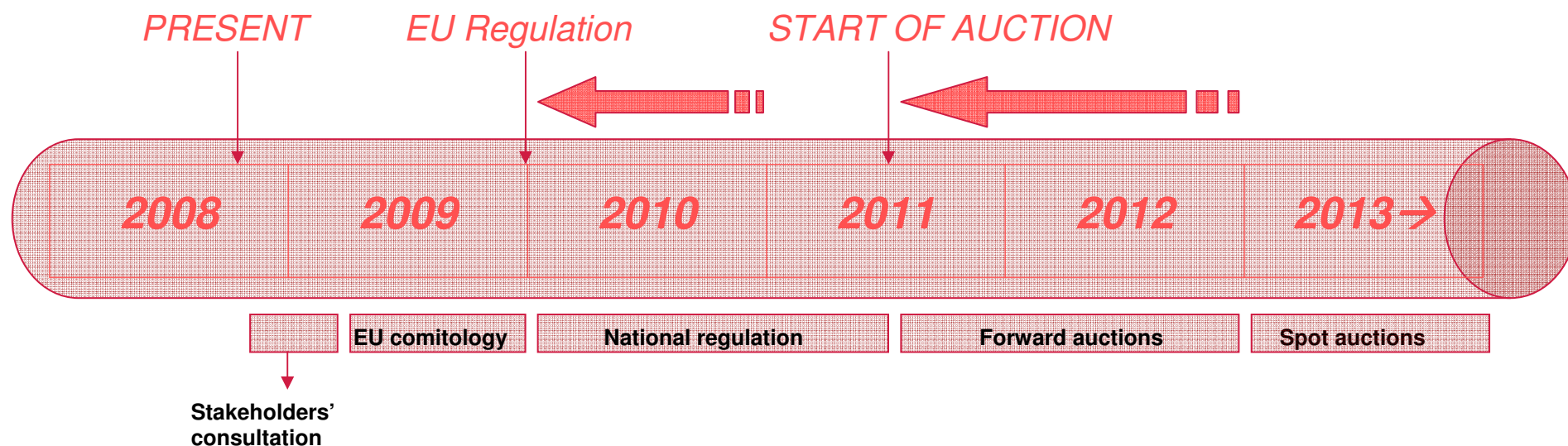
Miscellaneous

- ➡ Open Participation
- ➡ Reasonable credit requirements
- ➡ Reasonable lot sizes
- ➡ No reserve prices / price caps
- ➡ Immediate publication of results
- ➡ ...

4. Time Line for implementation



4. Time Line for implementation



5. Conclusions



EFET recommends:

- ➡ Strong institutional framework
- ➡ Maximum harmonisation & supervision
- ➡ Frequent (coordinated) auctions
- ➡ Commence auctions by 2011
- ➡ Regulatory speed up
- ➡ Understanding of MS

Thank you for your attention

More information on:

www.efet.org