Auctions in the EU ETS Phase III

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Auctioning history

Very few auctions in EU ETS Phase 1: 2.7515 million

Phase 2: UK, Austria, Germany, Netherlands have all held auctions.

But volume is relatively small:

> UK: 60.4 million to date (4.4 million more on Thursday).
> Germany: 38.2 million to date (870,000 each week).
> Netherlands: 4 million so far, 16 million in Phase II.
> Austria: 2 million EUAs in Phase II.

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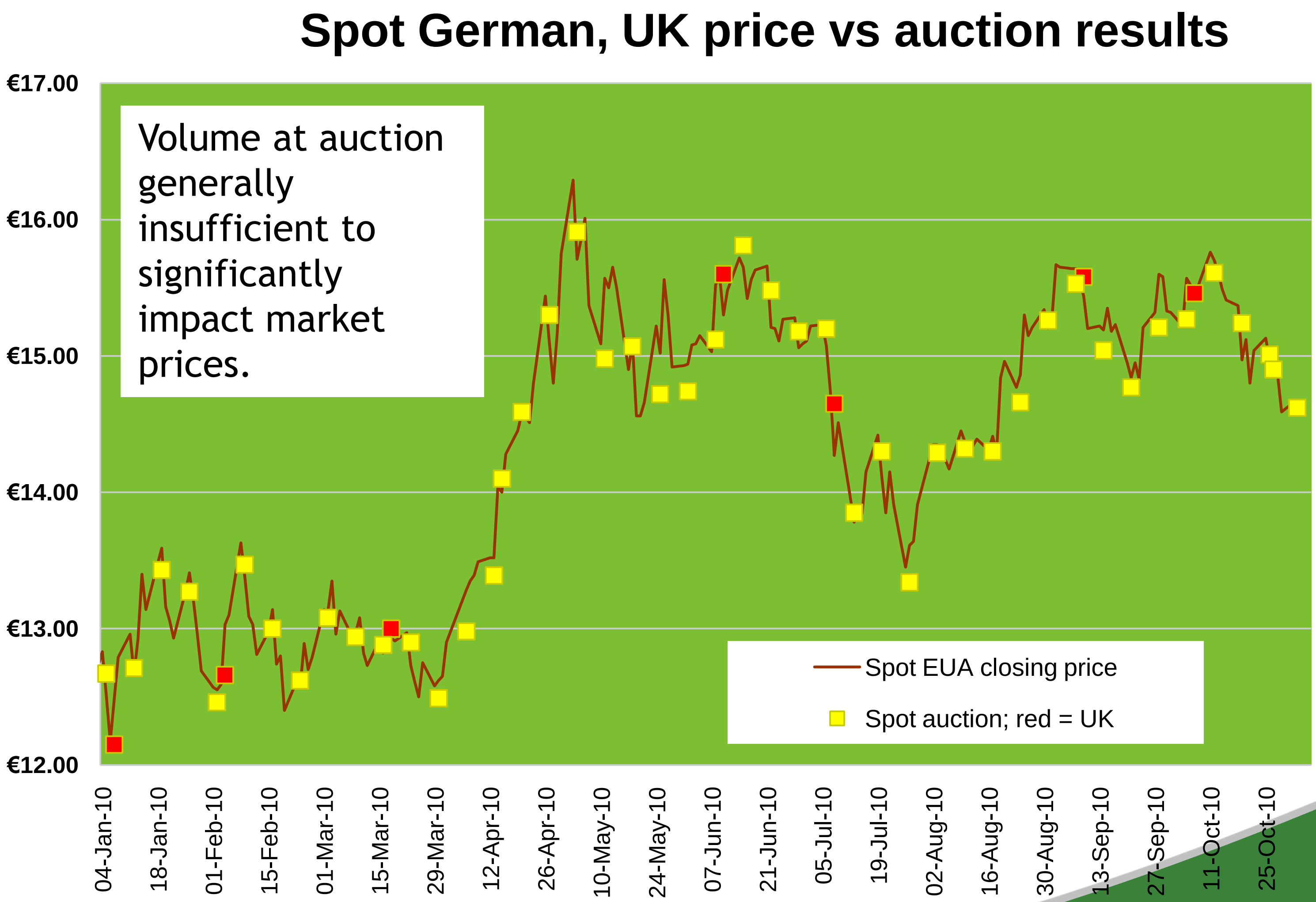
Phase III – all change

- Total estimated EUA auctions Phase II based on 4 member state sellers:
  - >303 million tonnes
- Estimated ***annual*** EU-wide auctions Phase III:
  - >1 billion tonnes
- In other words "you ain't seen nothing yet."

Auctioning history



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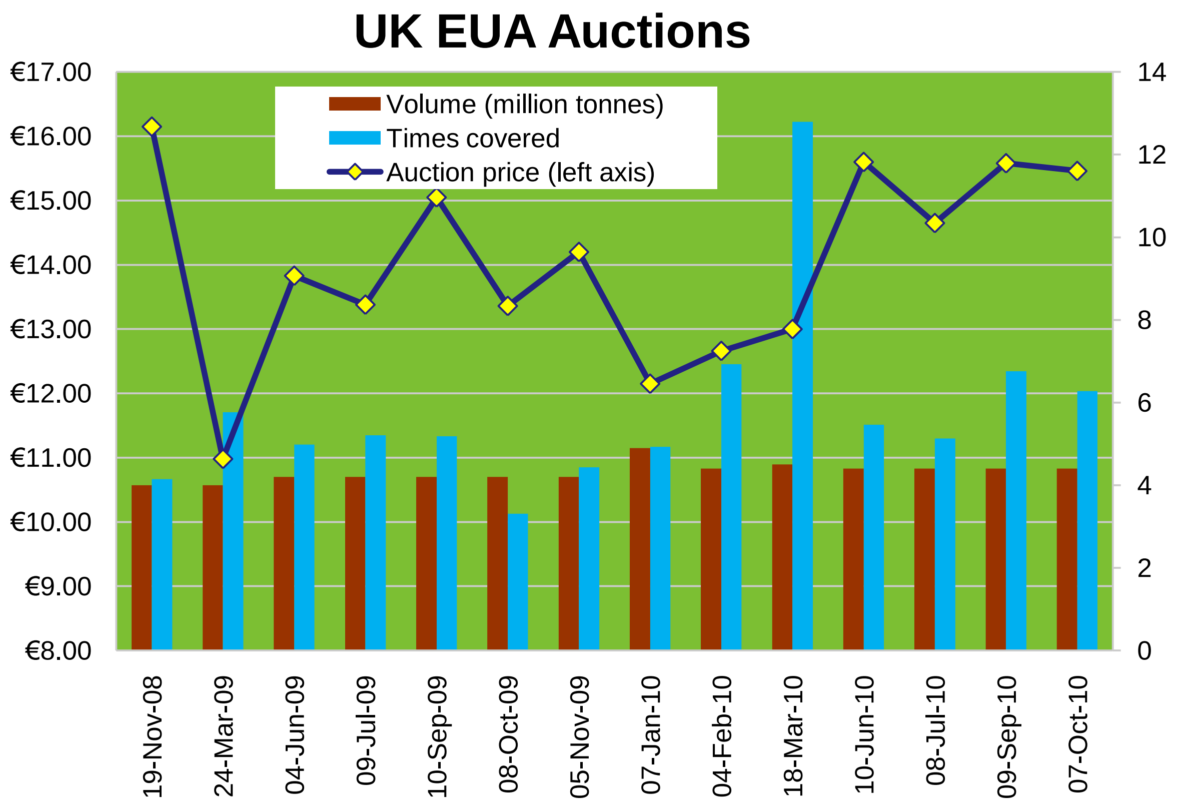
Auction/market relationship

- German auctions largely absorbed and no impact
- UK auctions have modest impact – time/size allow traders to “front-run” auctions = some volatility.



Phase III

- How to sell 1+ billion EUAs/year at minimal disruptive impact to market?
  - Smaller, more frequent sales – let them become “part of the furniture” of the market, cf. German Phase II sales.
    - e.g. 1 EU-wide sale of c. 20 million tonnes/week x 50 weeks = >1 billion EUAs.
  - Timing of auctions: regular or “seasonally weighted”?
    - Utility hedging season (Mar-May), holidays
  - National auctions (DE, UK, E, PL) make a highly organised market less likely.
    - “Competition” for timing?

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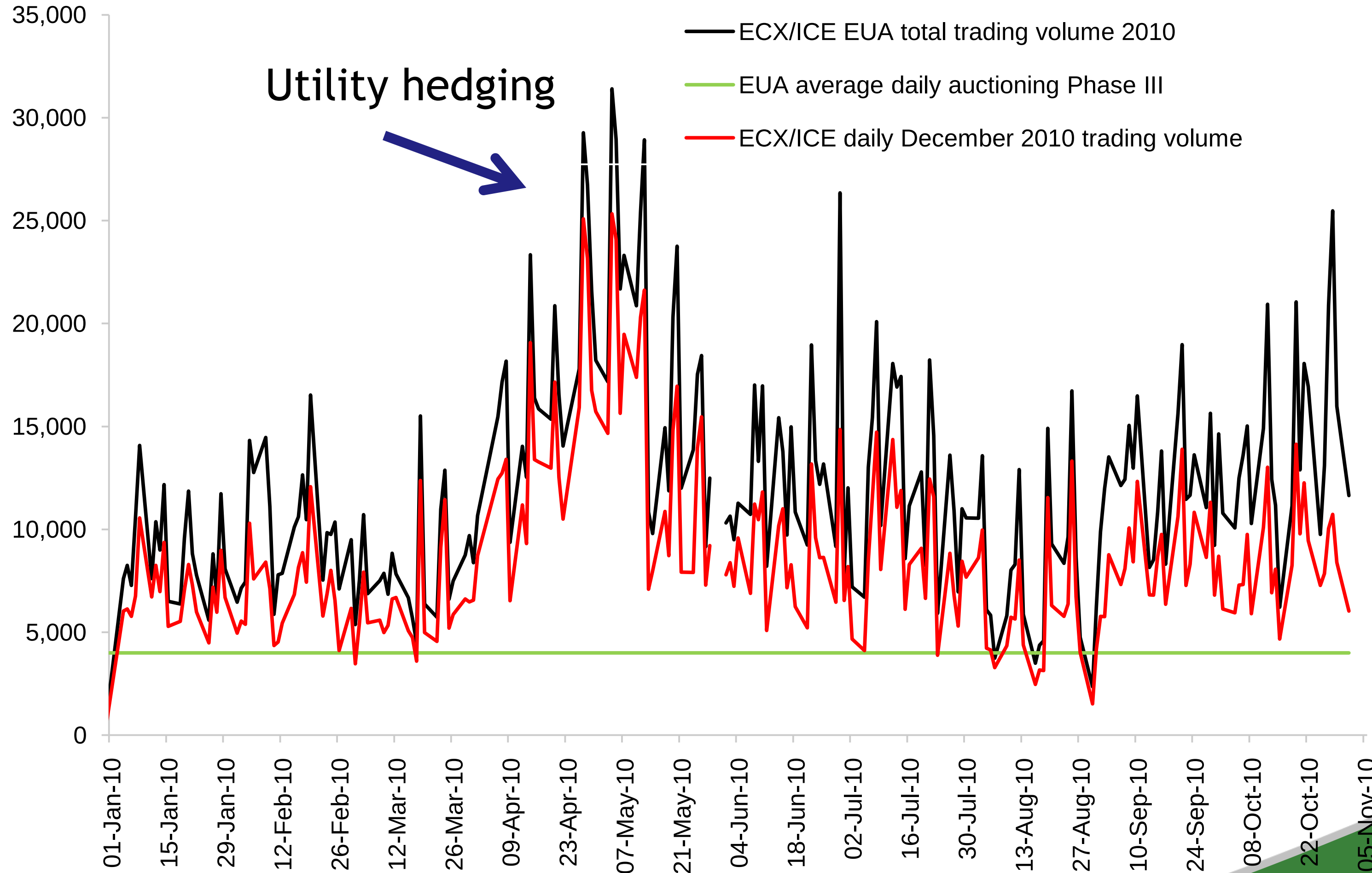
EUA trading volume could absorb daily auctions



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