

EU ETS Auction Workshop

University of Cambridge, 12th January 2007

Summary

A one-day workshop designed to address the economic and technical issues relating to **auctions for CO₂ allowances in the European Emissions Trading Scheme**. The workshop is **underwritten by Climate Strategies** and contributes to the research programme of the Electricity Policy Research Group, a multidisciplinary research group of the University of Cambridge.

Format

The programme will comprise short presentations of approximately 20 minutes each, followed by a discussion involving all delegates (20 minutes), identifying areas of shared understanding and aspects that require further analysis or discussion.

Participation is by invitation only. The workshop will be conducted under the Chatham House Rule.

Content

The workshop will be relevant both to the limited auctions volumes 2008-2012 of maximum 10% and to the potentially larger auctions post 2012. We will address:

- Frequency of auctions and implications on liquidity, cash flows, revenues, pre-emption;
- Price floor for auctions, and interaction with allowance price and CDM/JI market;
- Coordination across member states – requirements and opportunities;
- Institution hosting the auction;
- Auction format.

Three aspects are closely linked to the debate of auctions of CO₂ allowances. Short presentations on these aspects will be followed with a discussion on each to collect relevant arguments:

- Revenue recycling, purpose, competitiveness implications, state aid aspects;
- Implications for the CO₂ allowance price;
- Implications for product price.

Outputs

We will present the results of the discussion and a policy summary to relevant bodies (including the European Commission, the workshop's sponsors, and other interested parties).

Sponsored by Climate Strategies



<http://www.climate-strategies.org/>

Programme

09:00 Registration and coffee

09:30 Introduction and overview of key issues, Karsten Neuhoff, University of Cambridge

- Auction format; Impact on investment certainty; Impact on prices level (strategic effects); Revenue recycling and competitiveness; Coordination across Europe.

09:50 Session 1: Experience from other markets

Chair: Stefan Schleicher, Austrian Institute of Economic Research

- **US power market auctions**, Mary Sharpe-Hayes, New England ISO
- **T-Bond auctions**, Andreas Pick, University of Cambridge
- **Discussion**

Themes: Interaction with market liquidity; Interaction with related products; Who can/does participate, requirements, credit guarantees; Auction format; Who hosts the auction?; Price floor or other measures; What does and what does not apply to CO₂?

10:30 Coffee break

10:50 Session 2: Experience and discussion of CO₂ auctions

Chair: Paul Klemperer, University of Oxford

- **Hungarian allowance sales in Phase 1**, Peter Kaderjak, University of Budapest
- **The US RGGI program**, Dallas Burtraw, Resources For the Future, Washington
- **The UK ETS auction**, Stephen Smith, University College London
- **Irish auctions for CO₂ allowances: learning from Phase 1**, Ken Macken, Environmental Protection Agency, Ireland
- **Discussion (20 min)**

Themes: as session 1; what does and what does not apply Europe wide?

12:00 Session 3: Round-table discussion - Price impacts and transaction costs

Chair: Kate Hampton, Climate Change Capital

- Cash flow implications, **Jonathan Mirrlees-Black**, Exane BNP Paribas
- Options for institutional set up, **Stefan Teis**, European Energy Exchange AG
- Trading aspects, **Rupert Edwards**, Climate Change Capital
- **Discussion**
Themes: Preferred place of acquisition (broker, auction, free allocation);
Criteria for auction frequency (Cash flow requirement, hedging of long- and short-term sales); Value/cost of price floor and price ceiling.

13:00 Lunch

14:00 Session 4: Revenue recycling

Chair: Michael Grubb, University of Cambridge

- **Options for revenue recycling**, Martina Priebe, IETA
- **Constraints on revenue recycling**, Angus Johnston, University of Cambridge

Discussion

15:00 Tea

15:20 Session 5: Round-table discussion

Chair: Felix Matthes, Öko-Institut, Berlin

- **Where do the perspectives diverge?**
- **Where do we converge?**
- **Where is further discussion/analysis/experience required?**

16.40 Closing remarks

17:00 Drinks reception