HUNGARIAN ALLOWANCE SALES IN PHASE 1

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Electricity Policy Research Group Conference
THE HUNGARIAN I. NAP

• 66/2006. statutory order (I. NAP):
  • Announced: 27.03.06. ⇔ 01.01.05.

• Total cap: 94.98 million t (for 2005-07)
  • New entrant reserve: 1.89 mt (2,0 % of the cap)
  • Auctioned: 2.37 mt (2,5 % of the cap)
• The date of the announcement: 25 November 2006

• The date of the auction:
  11 (and 18) December 2006, between 11:00-12:00 a.m. CET

• Quantity: 1.2 mt EUA (half of the total)

• Electronic auction at the euets.com CO₂ trading platform

• Uniform-price auction
• The minimum price: closing forward price quoted at www.pointcarbon.com for the day before the particular auction round minus 0.90 EUR/EUA

• Minimum bid quantity/lot size: 1000 EUA

• Deposit the full collateral two working days before the auction

• Time-stamping
Source: ECX
THE RESULT OF THE AUCTION I.

- 1.197 million EUA was sold in 11.12.06., no second round
- Clearing price: 7,42 €/t
- Bidding volume: 3.42 million EUA
- Revenue from the EUAs: 8.88 million €
THE RESULT OF THE AUCTION II.

The day of the auction (11.12.06.)

Source: www.nordpool.no
1. Sell earlier

2. Our proposal
   - Sell two times per week at ECX in small size from September 2006 to December 2006
   - The revenue is less risky
   - Our estimated revenue from EUAs sales was more than 13.5 million € (≈8.8 m€)
WHY MARKET SALES?

![Source: www.nordpool.no](www.nordpool.no)

<table>
<thead>
<tr>
<th></th>
<th>Traded volume, first half, 2006 (mt)</th>
<th>Turnover, first half, 2006 (m€)</th>
<th>Share in turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECX</td>
<td>201,2</td>
<td>4 267,6</td>
<td>81,9%</td>
</tr>
<tr>
<td>Nordpool</td>
<td>26,0</td>
<td>566,4</td>
<td>10,9%</td>
</tr>
<tr>
<td>Powernext</td>
<td>12,4</td>
<td>268,0</td>
<td>5,1%</td>
</tr>
<tr>
<td>EEX</td>
<td>4,8</td>
<td>105,0</td>
<td>2,0%</td>
</tr>
<tr>
<td>EXAA</td>
<td>0,2</td>
<td>3,7</td>
<td>0,1%</td>
</tr>
<tr>
<td>SUM</td>
<td>244,5</td>
<td>5 210,7</td>
<td>100,0%</td>
</tr>
</tbody>
</table>

Price correlation: $r = 0.996$

Transaction cost: ~ 0,01 €

Daily average traded volume (first half 2006): 1,56 mt EUA

Hungarian supply = 1.5 days volume. Common knowledge

Source: www.nordpool.no
HUNGARIAN SUPPLY VS. MONTHLY DEVIATION FROM AVERAGE TRADE
Short-run price impact of additional 80 thousand tonns / day < 1%
3. If auction sale:

• The limit price should not be announced
• The transaction cost should be lower (0.05-0.2 €/t)
• Not only the Climex Alliance partner should join the auction
• Time-stamping ⇔ short bidding phase (1 hour)
• More transparency
THANK YOU FOR YOUR ATTENTION!

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