EIB – NER300 Sales

Summary report: Sales from the first tranche of 200 million EU allowances, December 2011 to September 2012

A- Overview

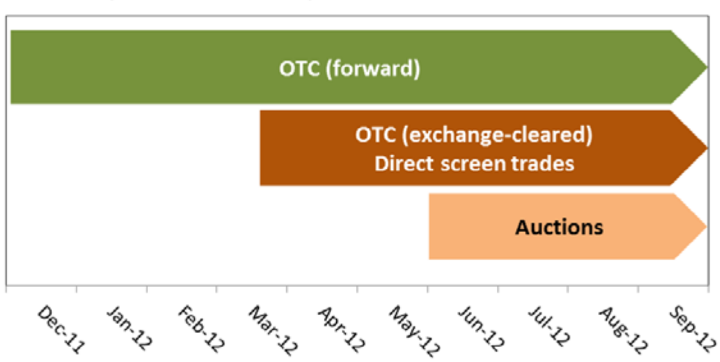
This report covers the sales of 200 million EU allowances (EUAs) from the first tranche of the NER300 Initiative from 5 December 2011 until 28 September 2012 (the Reporting Period). The report also provides an indication of overall proceeds likely to be available for the NER 300 funding programme.

The European Commission (EC) appointed the EIB as an agent for the implementation of the NER300 Initiative, which has the goal to raise financing for carbon capture and storage (CCS) and innovative renewable energy (RES) projects through the sale of EUAs from the New Entrant Reserve of the European Emissions Trading Scheme.[1] As part of this initiative, the EIB is selling 300 million EUAs divided into a first tranche of 200 million EUAs, which was completed during the Reporting Period, and a second tranche of 100 million EUAs. The decision on the second tranche sales, including timing aspects, will be based on a joint consultation between the EIB and the European Commission, with the two institutions building on experience gained from the first tranche.

B- Activity summary

The EIB monetised EUAs as either forwards or futures executed either as over-the-counter (OTC) transactions, on exchanges, or through auctions.[2] Figure 1 shows the staged approach used by EIB to implement all available sales channels.

Figure 1: Availability of NER300 sales instruments



Source: EIB

[1] For a detailed overview of the EIB's responsibilities as agent for the EC see 'Commission Decision C(2010) 7499' and 'Cooperation Agreement on the implementation of Commission Decision C(2010) 7499 between the European Commission and the European Investment Bank (OJ2010/C358/01)'.

[2] See Article 12, Corporation Agreement.

The EIB consulted leading market participants and industry groups on the appropriate instruments for the monetisation process. The vast majority expressed the view that the EIB should use a combination of all available instruments to minimise impact on secondary market prices and tap available market liquidity. The staged approach was a practical way of enabling the EIB to meet the timeframe during which membership to the two selected exchanges and their clearing houses had to be completed.[3] Auctions were the final instrument used as they required the publication of a schedule in advance of the auctions after the EIB obtained membership on the chosen exchanges. Sales were implemented in three stages:

1. OTC transactions via the use of market standard agreements defined by the International Swaps and Derivatives Association (ISDA) by December 2011
2. Direct exchange trades and OTC exchange-cleared transactions by March 2012
3. Auctions by June 2012

The EIB sold a total volume of 200 million EUAs for a total value of EUR 1,609,125,460 (before deduction of expenses and fees) during the Reporting Period. Sales were evenly distributed over the ten month period in order to maximise market liquidity and minimise any adverse market impacts. Figure 2 shows that the EIB sold an average of 20 million EUAs per month (with a low of 12 million in December 2011 and a peak of 23.5 million in February 2012). The December 2011 low point is a consequence of fewer available trading days: sales started on 5 December and market liquidity between Christmas and New Year liquidity is historically low. All transactions were executed on a forward or futures basis with delivery of allowances and receipt of revenues expected in December 2013.

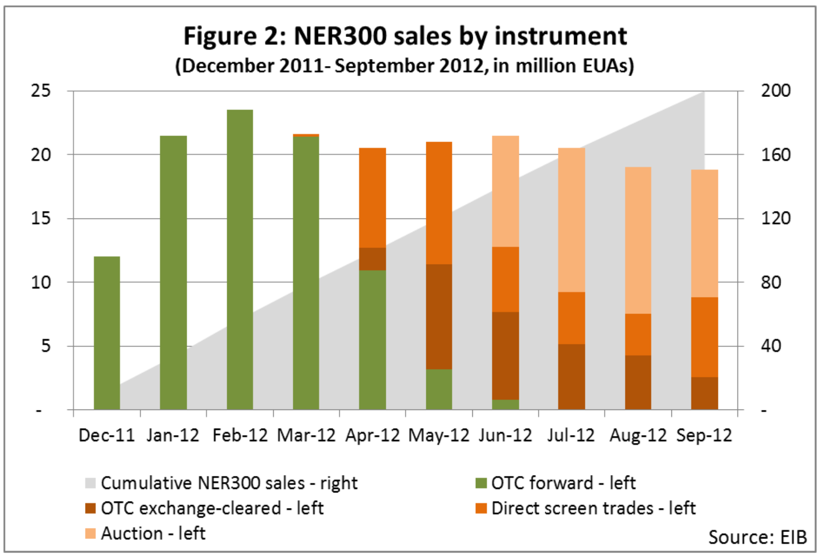
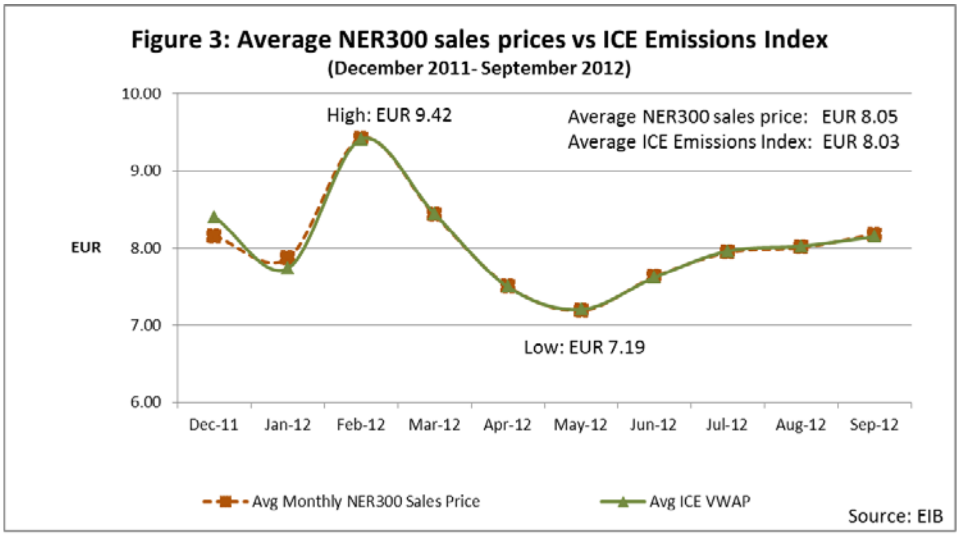


Figure 2: NER300 sales by instrument
(December 2011- September 2012, in million EUAs)

Figure 2 profiles the shift from OTC forwards (via ISDA) to exchange-based transactions, either as direct screen trades, OTC exchange-cleared transactions or auctions. EIB has sold 47% as OTC forwards with the remaining 53% being sold on the two selected carbon exchanges.

EIB transactions (except for auctions) were benchmarked against an index (Emissions Index[4]) representing the daily volume weighted average price (Figure 3). This price reflects all daily executed screen trades on ICE and is a true reflection of the prices and volume traded on the most liquid exchange for EUAs. EIB achieved an average sales price of EUR 8.05 during the Reporting Period, which slightly exceeded the Emissions Index during the same period.

[3] EIB selected (1) London based ICE Futures Europe Ltd. (ICE) and its clearing house ICE Clear Europe Ltd. (ICE Clear), and (2) Leipzig based European Energy Exchange AG (EEX) and its clearing house European Commodity Clearing AG (ECC) as eligible carbon exchanges through a public call for tender with a negotiated procedure.
[4] The ICE Futures ECX EUA futures Contract Emissions Index ("Emissions Index") is published by the exchange ICE Futures Europe Ltd. on a daily basis for each contract (e.g. December 2013) at https://www.theice.com/marketdata/reports/ReportCenter.shtml#report/82.



C- Detailed breakdown of monthly sales

The following table provides a detailed breakdown of monthly sales volumes, used sales channels and average prices per month:

Month	Sales channels	Volume sold (EUA)	Executed average price *** (EUR)	Deviation from Emissions Index (excluding auctions)	Value of sold allowances (EUR)
December 2011	OTC	12,000,000	8.15	0.000%	97,849,000
January 2012	OTC	21,500,000	7.87	+ 0.051%	169,201,000
February 2012	OTC	23,500,000	9.42	+ 0.003%	221,476,500
March 2012	OTC OTC exchange-cleared Direct screen trades	21,400,000 25,000 175,000	8.43	+ 0.001%	182,114,710
April 2012	OTC OTC exchange-cleared Direct screen trades	10,950,000 1,750,000 7,800,000	7.51	+ 0.002%	153,869,020
May 2012	OTC OTC exchange-cleared Direct screen trades	3,200,000 8,200,000 9,600,000	7.19	0.000%	151,028,600
June 2012	OTC OTC exchange-cleared Direct screen trades Auctions	800,000 6,854,000 5,096,000 8,750,000	7.54 * 7.76**	+ 0.003%	164,079,320
July 2012	OTC exchange-cleared Direct screen trades Auctions	5,125,000 4.125,000 11,250,000	7.99 * 7.90**	+ 0.003%	162,829,760
August 2012	OTC exchange-cleared Direct screen trades Auctions	4,300,000 3,250,000 11,500,000	8.06 * 7.97**	+ 0.004%	152,545,510
September 2012	OTC exchange-cleared Direct screen trades Auctions	2,550,000 6.300,000 10,000,000	8.25 * 8.12**	+ 0.007%	154,132,040
Total		**200,000,000**	**8.05**		**1,609,125,460**

* Average price executed via OTC, OTC exchange-cleared and direct screen transactions
** Average price executed via auctions
*** The executed average price is calculated before deduction of expenses and market and EIB fees. Market fees and expenses include margins on volume weighted average price transactions, trading fees, exchange and clearinghouse fees and collateral funding costs.

D- Available proceeds for NER300 funding programme

An analysis has been carried out to estimate proceeds available for project awards taking into account future expenses and fees. The projected proceeds are based on assumptions derived by market analysts' views and include a buffer for third-party expenses and potential collateral financing charges[5]. **On the basis of such conservative assumptions EUR 1.5 billion should be available for project awards.**

The available money for project awards can be defined as the proceeds from the sale of the EUA minus the EIB fees, third-party expenses and potential collateral financing charges.

The potential collateral financing charges for margin calls are currently unknown and will depend on future EUA prices, volatility and interest rates.
Regulated clearing houses require each counterpart to post collateral upfront (initial margin) and to secure their positions against changes in the daily closing price (variation margin) versus the initial selling price. This means that, for the required collateral, a funding cost needs to be projected and deducted from proceeds.

The projected available proceeds for project awards incorporated, therefore, a conservative buffer to cover call margin funding costs driven by uncertain future EUA prices and interest rates. The buffer may not be needed if EUA prices and interest levels do not significantly rise until December 2013. Any unused sales proceeds will be made available for the second tender.

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[5] The estimate furthermore assumes that returns from asset management are positive and no credit losses (for example from the insolvency of an OTC counterparty or a clearing house) occur. If any of the assumptions prove not to be correct, the amount of available proceeds may be smaller than predicted.