

European Investment Bank – NER300 Monetisation

Summary report on the monetisation of 300 million EU allowances (EUAs)

The European Commission (EC) appointed the European Investment Bank (EIB) as an agent for the implementation of the NER300 Initiative, which has the scope 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 sold 300 million EUAs, and such sales process, also referred to as ‘monetisation’, was completed in April 2014.

This report covers the monetisation process for the entire 300 million EUAs which was divided into two tranches: the first tranche of 200 million EUAs – sold in the period between the 05 December 2011 and 28 September 2012 – and the second tranche of 100 million EUAs – sold between 14 November 2013 and 11 April 2014.

The EIB sold 300,000,000 EUAs for a total value of **EUR 2,156,830,800** (before deduction of expenses and EIB fees) at an average sale price of EUR 7.19 per EUA.

The sale of the first tranche of 200 million EUAs has been executed at an average sale price of EUR 8.05 per EUA for a total value of EUR 1,609,125,460 (before deduction of expenses and EIB fees).

The sale of the second tranche of 100 million EUAs has been executed at an average sale price of EUR 5.48 per EUA for a total value of EUR 547,705,340 (before deduction of expenses and EIB fees).

Activity summary

Timing: The monetisation of the 300 million EUAs took place over a sales period of 15 months: 10 months for the first and 5 months for the second tranche.

Volume distribution: Figures 1 and 2 show that the EIB sold on average some 20 million EUAs per month.² In fact, sales were executed as to minimize the market impact, and this was achieved by means of spreading volumes to follow liquidity, both intra-day, daily and monthly. A good example of this is the month of December, which had fewer trading days and historically low liquidity between Christmas and New Year. The volume was therefore reduced to 12 million in December 2011 and 16.8 million in December 2013 to avoid a potential negative impact on the secondary market price. The highest monthly sales volume of 23.5 million EUAs was recorded in February 2012.

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 The volume sold in November 2013 and April 2014 was 10 million EUAs because not the entire month was available for the monetization activity. In particular, the sales in November 2013 started on 14th and in April 2014 ended on the 11th.

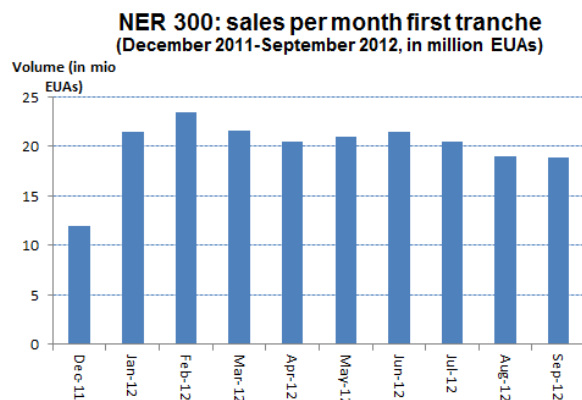


Figure1

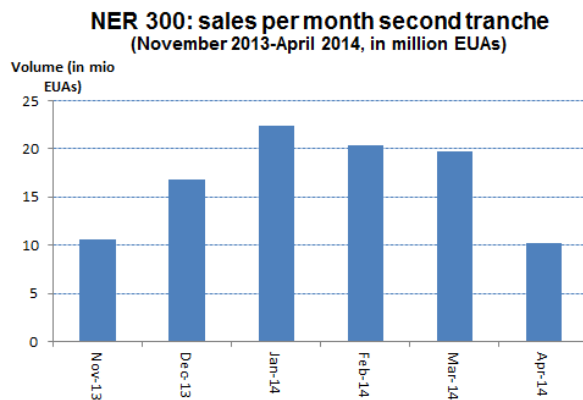


Figure 2

Availability of proceeds: Out of the total of 300 million EUAs, the EIB sold 210.55 million EUAs on a forward basis with delivery in December 2013 and the remaining 89.45 million EUAs with delivery in December 2014. For the former (delivery Dec-2013), all payments, EUA deliveries, collateral and margin settlements were performed without any disruption and an amount of EUR 1,656,072,780 was received out of which – after deduction of expenses, market and EIB fees – EUR 1,621,343,079 has been transferred into the asset management phase. By the end of 2014, the remaining 89.45 million EUAs will be settled, transferred to the asset management and, after subtraction of expenses, market and EIB fees, available for further disbursements to projects over the coming years, in accordance with the EC’s award decisions and the legal instruments agreed between the Member State and the project sponsors.

Sales channels: In terms of sales channels, the EIB followed different routes: (i) over-the-counter transactions (‘OTC forwards’)³ via the use of market standard agreements defined by the International Swaps and Derivatives Association (ISDA); (ii) over-the-counter transactions which are exchange cleared (‘OTC exchange-cleared forwards’), i.e. settlement and contract margining occurs on an exchange; (iii) direct exchange trades (‘futures’) on the selected carbon exchanges⁴ and (iv) auctions on the exchanges ICE and EEX. Whereas a combination of all sales channels has been used during the first tranche⁵, EIB could restrict sales to (ii) and (iii) during the second tranche⁶. Figure 3 provides a summary on the usage of different sales channels.

³ These are bilateral transactions without involvement of an exchange whereby EIB was acting as seller (on behalf of EC) and the counterpart as buyer.

⁴ EIB selected: (1) London based ICE Futures Europe Ltd. (ICE), its clearing house ICE Clear Europe Ltd., and (2) Leipzig based European Energy Exchange AG (EEX) and its clearing house European Commodity Clearing AG as eligible carbon exchanges through a public call for tender with a negotiated procedure.

⁵ As stated in article 12 of the Cooperation Agreement “*The EIB shall monetise the allowances for settlement in December 2013 at the earliest*”. During the period, in which first tranche sales were executed, the December 2013 contract was not the most liquid, and this was one reason for employing different sales channels during that time with the aim of minimizing the impact on the secondary market price.

⁶ In particular, auctions were not used as to avoid an over-concentration of auctions during the period of the second monetisation tranche – in fact, major auctions of EUAs by the EU and by some member states were taking place on a regular basis at the time.

Volume sold per sales channel

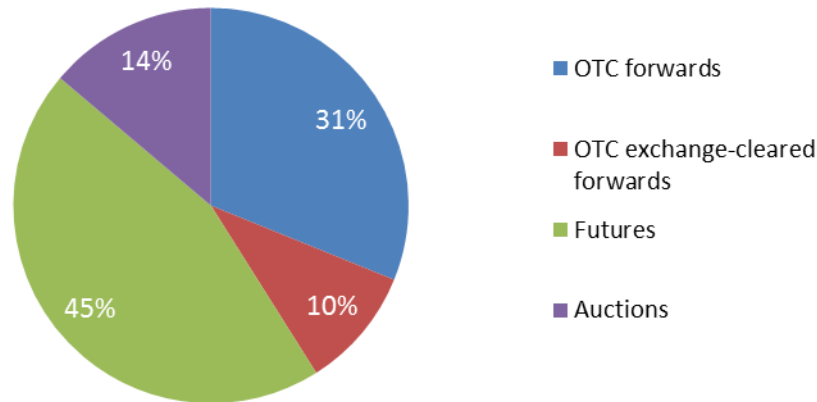


Figure3

Market environment: Figures 4 and 5 show the executed average monthly NER300 sales prices. It becomes clear that EUA contracts were trading lower during the period of the second tranche. In order to compare executed prices to the 'market price' and, in fact, in order to avoid intra-day market impacts via an adequate distribution of sales volumes during each trading day, EIB transactions (except for auctions) were benchmarked against the volume weighted average price ('Index') as quoted on ICE⁷. This price reflects all executed screen trades on ICE during a trading day and is, therefore, a true reflection of the prices and volume traded. As can be seen in Figures 4 and 5, EIB achieved average sales prices in line with such benchmark: in fact, the total of 300 million EUAs was sold with a slightly positive deviation from the Index (excluding auctions). For details concerning average monthly NER300 sales prices, the reader is referred to Annex 1.

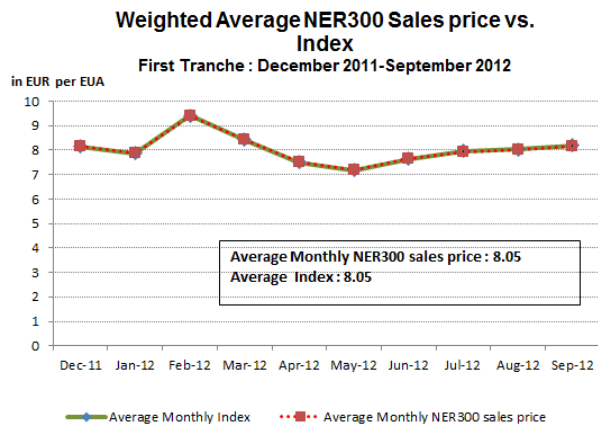


Figure 4

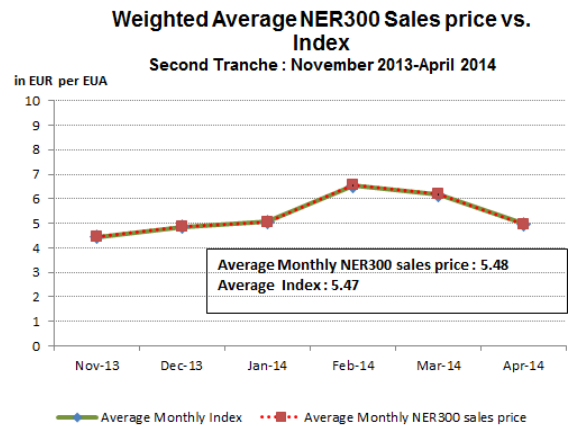


Figure 5

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⁷ The Index is available on a daily basis and represents the volume weighted average price or 'VWAP' of the contract under consideration.

Annex 1:

The following table provides a detailed breakdown of monthly sales volumes, sales channels used and average prices per month for both the first and the second tranche. The monthly and total deviations from the Index represent the volume-weighted averages of the daily deviations from the Index of the respective EU Allowance contract.

Month	Sales channel	Volume sold (EUA)	EU Allowance contract	Executed average price (EUR)***	Deviation from Emissions Index	Value of sold allowances (EUR)
Dec-11	OTC	12,000,000	Dec-13	8.15	0.000%	97,849,000
Jan-12	OTC	21,500,000	Dec-13	7.87	0.051%	169,201,000
Feb-12	OTC	23,500,000	Dec-13	9.42	0.003%	221,476,500
Mar-12	OTC	21,400,000	Dec-13	8.43	0.001%	182,114,710
	OTC cleared	25,000				
	Screen trades	175,000				
Apr-12	OTC	10,950,000	Dec-13	7.51	0.002%	153,869,020
	OTC cleared	1,750,000				
	Screen trades	7,800,000				
May-12	OTC	3,200,000	Dec-13	7.19	0.000%	151,028,600
	OTC cleared	8,200,000				
	Screen trades	9,600,000				
Jun-12	OTC	800,000	Dec-13	7.54*	0.003%	164,079,320
	OTC cleared	6,854,000		7.76**	-	
	Screen trades	5,096,000				
	Auctions	8,750,000				
Jul-12	OTC cleared	5,125,000	Dec-13	7.99*	0.003%	162,829,760
	Screen trades	4,125,000		7.90**	-	
	Auctions	11,250,000				
Aug-12	OTC cleared	4,300,000	Dec-13	8.06*	0.004%	152,545,510
	Screen trades	3,250,000		7.97**	-	
	Auctions	11,500,000				
Sep-12	OTC cleared	2,550,000	Dec-13	8.25*	0.007%	154,132,040
	Screen trades	6,300,000		8.12**	-	
	Auctions	10,000,000				
Total 1st Tranche		200,000,000		8.05		1,609,125,460
Nov-13	Screen trades OTC cleared	10,250,000 300,000	Dec-13	4.45	0.035%	46,947,320
Dec-13	Screen trades OTC cleared	16,300,000 500,000	Dec-14	4.86	0.014%	81,695,800
Jan-14	Screen trades OTC cleared	22,255,000 100,000	Dec-14	5.06	0.058%	113,163,030
Feb-14	Screen trades OTC cleared	20,195,000 100,000	Dec-14	6.55	0.117%	132,850,480
Mar-14	Screen trades OTC cleared	19,750,000 0	Dec-14	6.18	0.297%	122,100,510
Apr-14	Screen trades OTC cleared	10,250,000 0	Dec-14	4.97	0.116%	50,948,200
Total 2nd Tranche		100,000,000		5.48		547,705,340
Total		300,000,000		7.19		2,156,830,800

* 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.