

Electricity and Gas Infrastructures Priorities in S.E. Europe – Towards a Regional Market

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European Federation of Energy Traders

**Market liberalization and
Competition**
Trading: back to fundamentals

Andrea Siri

Andrea.Siri@Edison.it



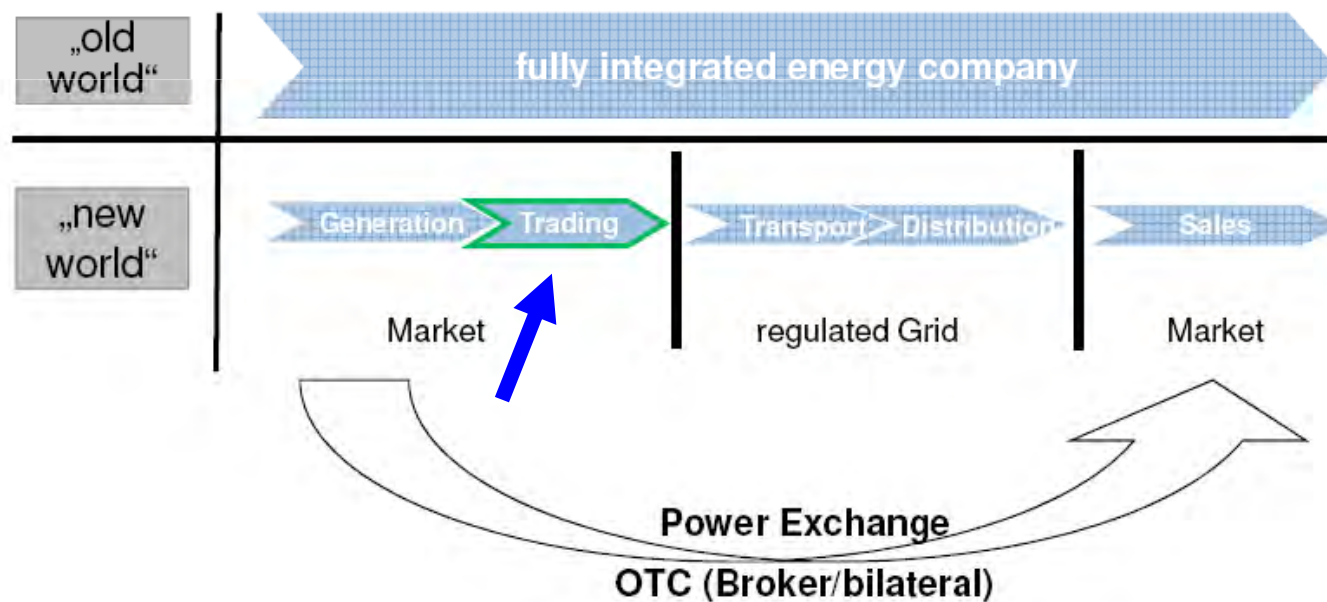
Overview

- Role of trading: back to fundamentals
- Liquid wholesale markets are needed
- Specificities of SEE Electricity Market
- EU Regulations developments
- Licensing
- Market Coupling : enhancing liquidity?

Role of trading: back to fundamentals

De-Regulation : Formation of markets

- Consumer has a free choice of supplier
- Supplier can supply consumers outside their supply area
- Development of Markets to organize and match these relations



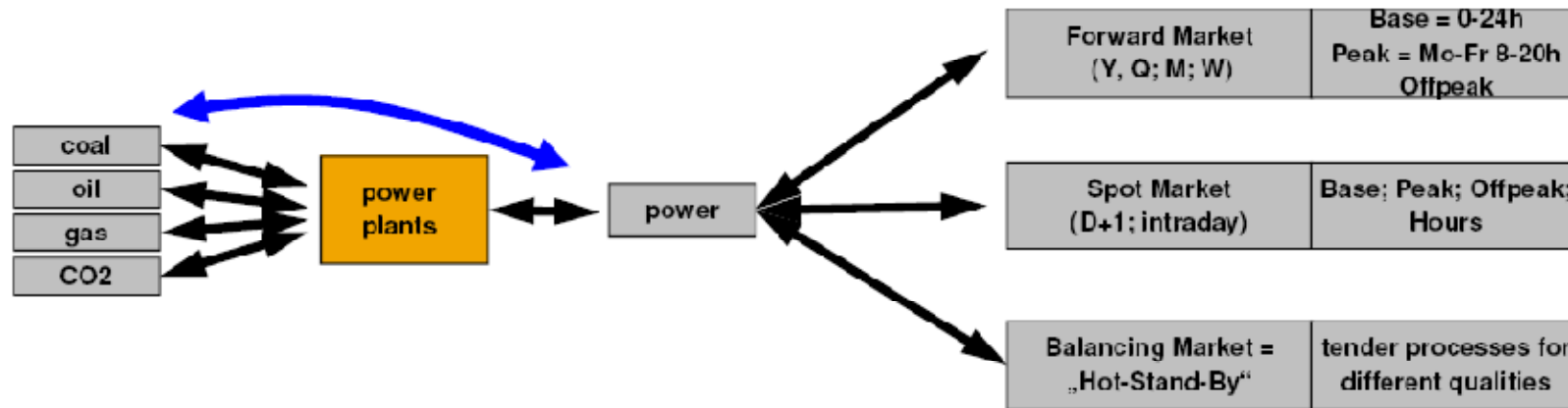
Asset backed trading

- objective: portfolio optimisation by using optionalities and flexibilities of assets (e.g. make-or-buy)
- objective: “lock-in” of margins (e.g. hedging of price and volume risks for generation and sales)

Proprietary Trading

- objective: generating profit by explicitly taking open positions s.t. a specific expectation
 - no intention to physically deliver
 - intentionally taking (pre-defined) risk

Trading around the asset



- ⇒ Trading is using all markets for continuous asset optimisation
- ⇒ Forward Market: long term hedging of price & quantity risk (incl. optimisation along time axis)
 - ⇒ “lock-in” of margin for generation and sales
- ⇒ “make or buy” decision open until intraday (= optionality of power plants): depending on market prices for power, fuels and CO2
 - ⇒ Spot market: last chance to optimise
 - ⇒ power already sold: asset backed trader is buyer if market price < variable costs
 - ⇒ power not sold yet: asset backed trader is seller if market price > variable costs
- ⇒ given high liquidity: asset backed trading and sales trading can be done independently

Trading around the asset : example of Gas and Power Companies' structural position



In respect of assets and customers Gas and Power Companies have a long term structural commodity positions

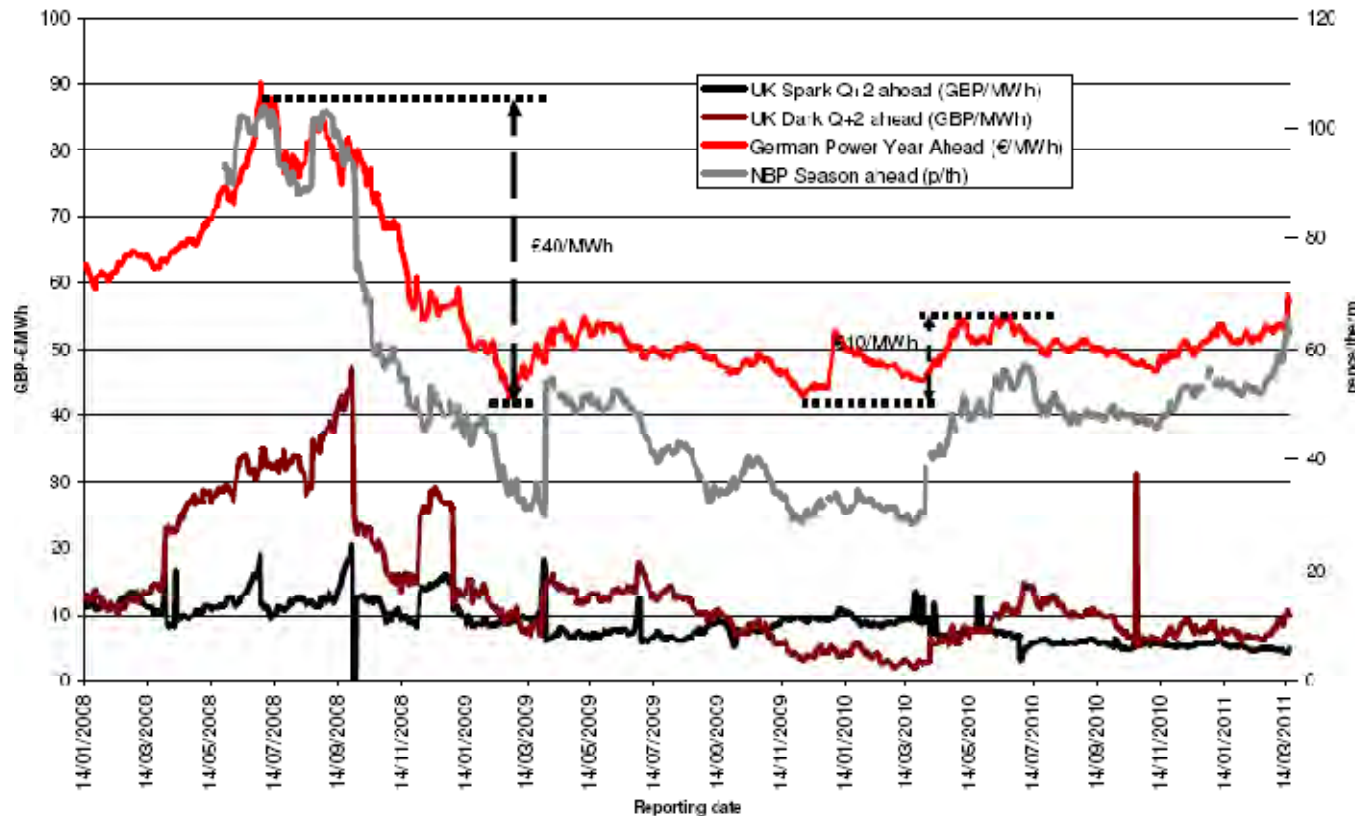
Example: Large integrated European Gas and Power Company portfolio				
	Gas Generation	Coal Generation	Outright Power	Gas
Capacity	7GW	15GW	10GW	
Typical annual Volume	30TWh	100TWh	75TWh	500TWh
Impact of €1/MWh change in annual prices...	€30m	€100m	€75m	€500m

... but investment in generation are there for more than an year...
Market Risk always present

Market price volatility



Market price volatility can be also more than 10 €/MWh ...



Un-hedged structural positions expose the energy company to significant earnings volatility and higher investment risk and cost

Liquid wholesale markets are needed

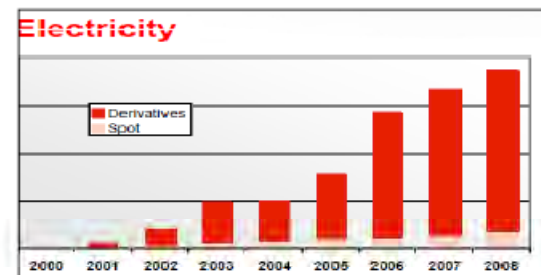
Mature wholesale markets are like ...

Standardisation



- Standard-Products:
 - Base: Mo-Su: 0:00 – 24:00h
 - Peak: Mo-Fr : 8:00 – 20:00h
- For OTC: 1 Standard Master Contract (EFET)

Liquidity



Example: EEX-Futures Market

- ~ 2.5 x consumption in DE
- 5 Market Maker: continuously simultaneous bids & offers

Transparency

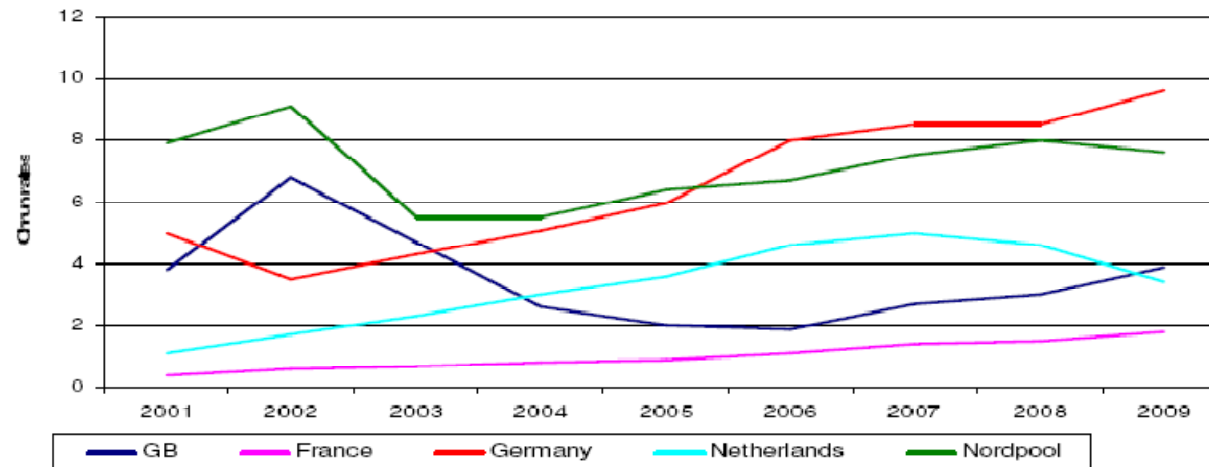
Trading data: Prices & Volumes → PXs & Broker

Fundamental data: Generation data (incl. RES) → e.g. EEX; Nordpool; RTE

Grid data: transmission data → ENTSO-Vista

And in terms of traded volumes and churn rates ...

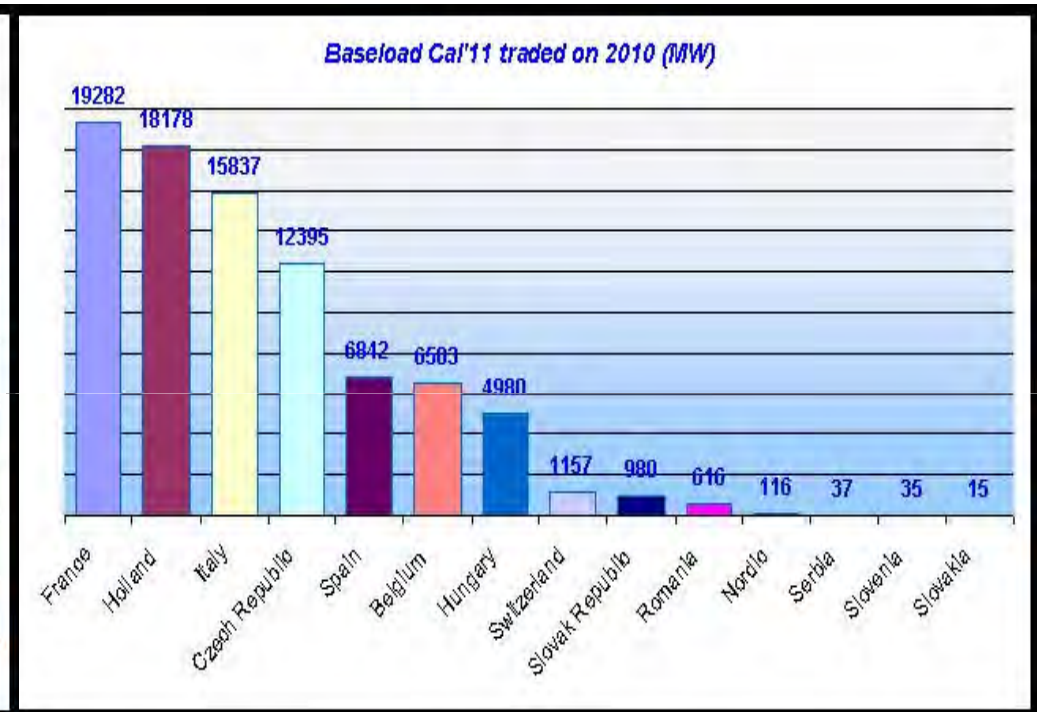
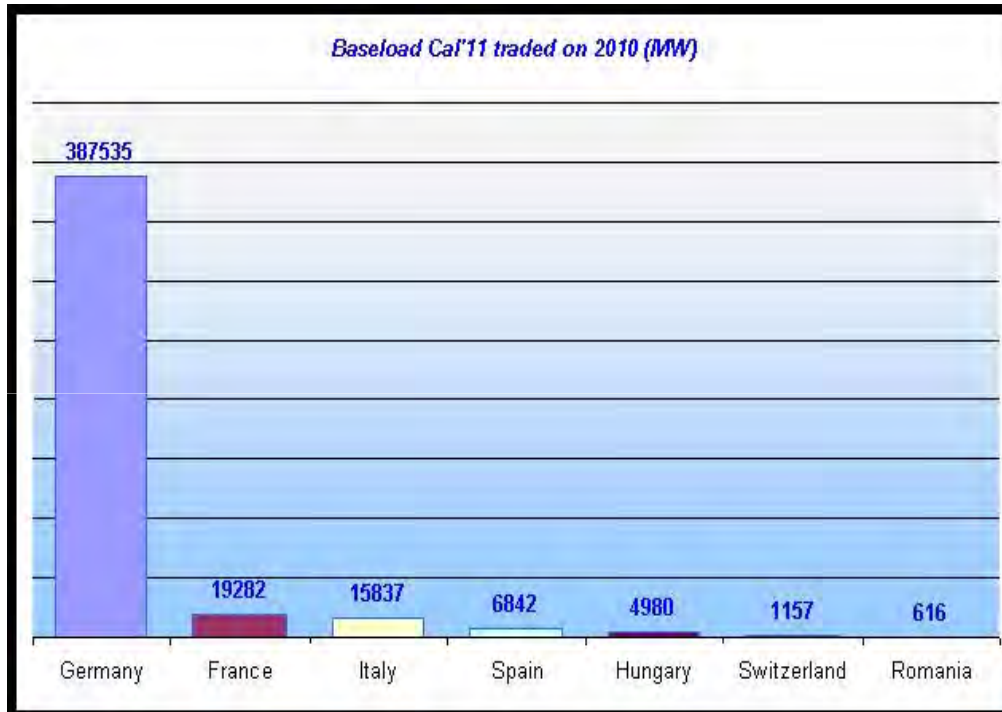
Churn rates in selected EU electricity markets



	Volumes (PX/OTC; Spot/Forward)	Trading Multiple
Germany	6.000 TWh	10
France	900 TWh	2
Netherlands	400 TWh	4
Belgium	90 TWh	1
Great Britain	1.200 TWh	4
Nordpool	4.000 TWh	8

Source: OFGEM Report „GB wholesale electricity market liquidity: summer 2010 assessment“

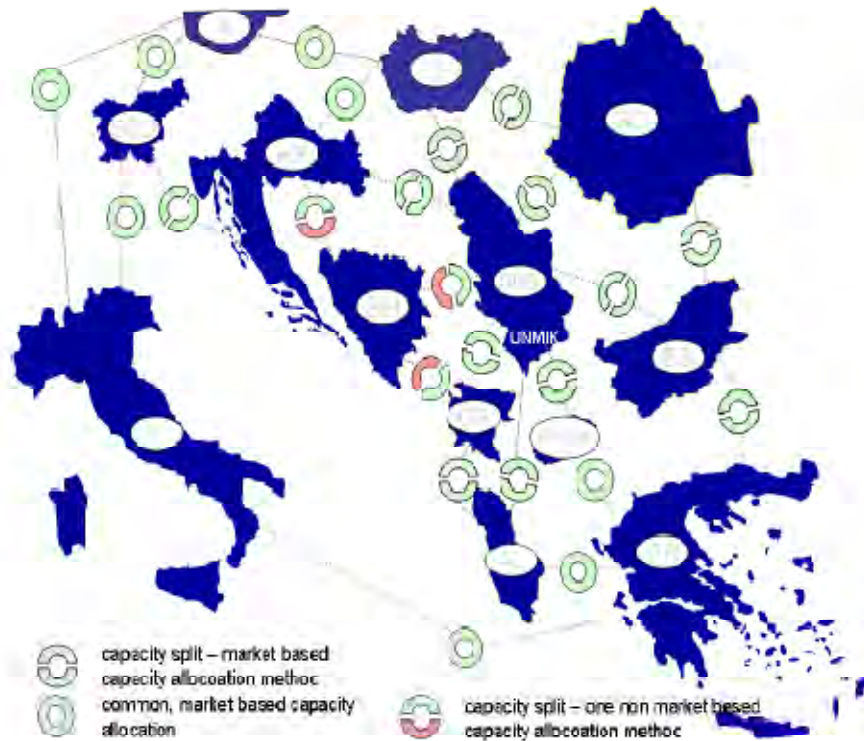
Different markets in EU



Transactions through broker platforms

Specificities of SEE Electricity Market

Specificities of SEE Electricity Market



SEE
13 market designs
24 borders
population of 137,12 million

June 2011 first month of commercial activity Interconnections Turkey ⇔ Gr/BG

Typical Obstacles to Market Entry



Specificities of SEE Electricity Market



License Fee

- Market entry barrier
- Discourages trading activity and thus, liquidity
- In countries requiring a local legal presence of foreign entities accompanied by additional cost of accounting, tax and legal advisors (often on annual basis and often more expensive than the license itself)

Scheduling Fee

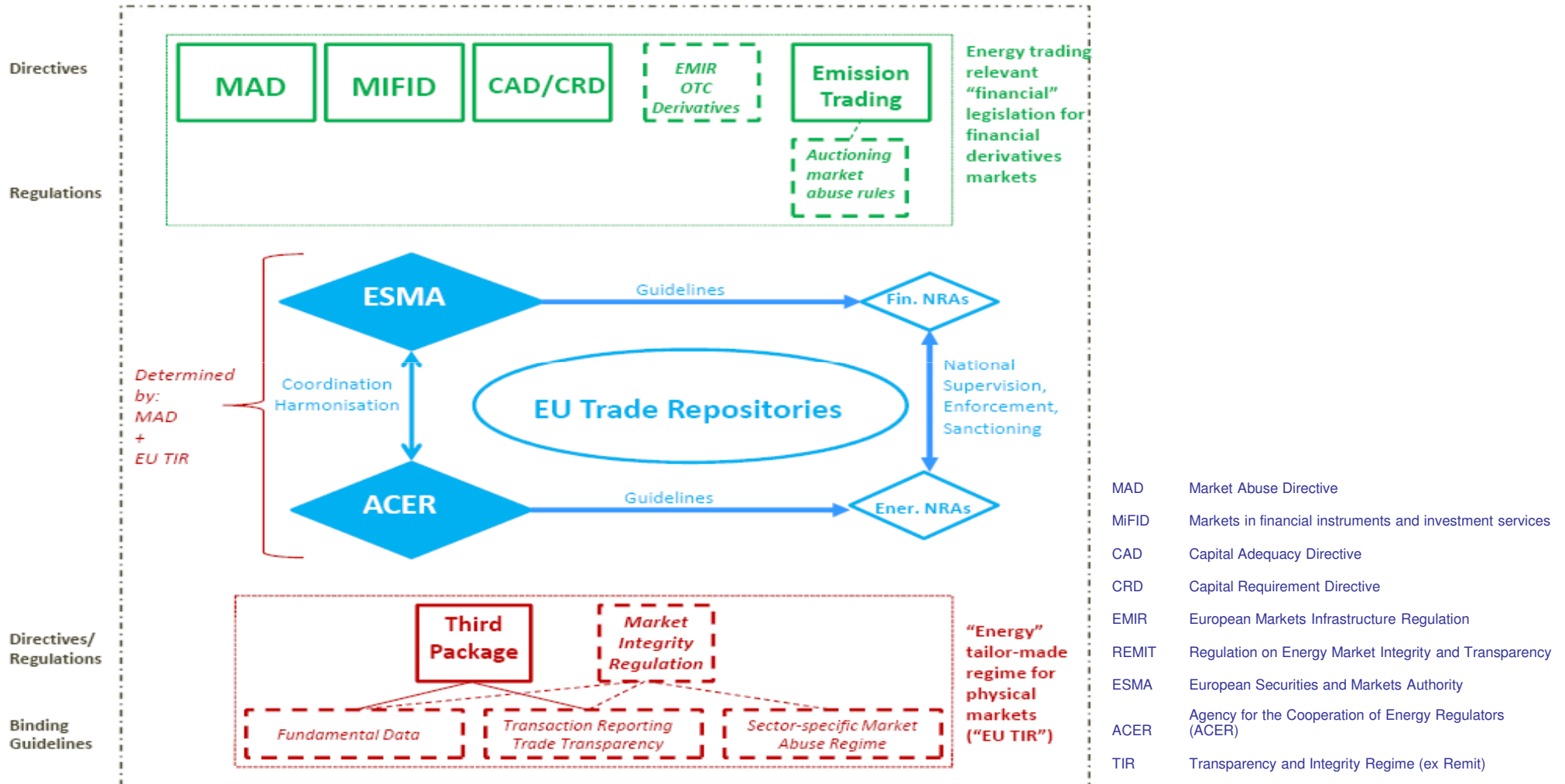
- discourages trading activity and thus, liquidity

Export Fee

- negative investment incentive
- poisons the idea of a single European electricity market (common merit order)
- blocks the implementation of Market Coupling

EU Regulation developments

On going EU regulatory scheme



Licensing

- There is mixed picture from EU Countries
- Some Member States have licensing regimes in place for energy trading, often related to burdensome requirements (reporting, fees, branch office,...)
- Other Member States do not have licensing regimes in place

Energy Wholesale Trading Passport?

Major considerations



- **Identification:** EFET supports that market participants should be known to Regulators
- **Harmonisation:** there should not be different regimes across Europe to be able to trade energy
- **No duplication:** a European Energy Trading Passport is useful if it **replaces** national licensing regimes and related requirements
- **Simple process:** administrative requirements should be kept at minimum level and the process should be clear and simple

- Experience shows that license requirements for energy wholesale markets are **questionable**
- Some European countries deem a license for energy trading as **indispensable**, but there is not a common view
- A number of **initiatives** to limit the burden of national requirements have brought little progress
- Several countries have **increased** bureaucratic barriers for energy trading

A European energy trading passport
can ensure a **harmonised** approach

Harmonisation of reporting



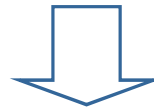
- The reporting activity only based on **harmonised** provisions at European level (e.g. REMIT)
- No additional **national reporting** obligations to report transactions/statement of accounts or maintain records
 - No separate reporting/statement of account for transactions “in” host country
 - No national methodologies for “separated book-keeping” or national rules on the “allocation of revenues and expenses”
 - No different national activity reports in host Member States
- The exchange of information between national regulatory authorities should be ensured through ACER or bilateral cooperation

Replace national licensing regimes



- A European regime should clearly spell out the rights of the holder of the passport
 - National Market barriers are often created by the licensing process itself
 - Additional effects are created by on-going license obligations
- Additional national licensing requirements should not be imposed

It is crucial that the license regime clearly stipulates which measures host countries may not take.



“Nothing more than this”

Other national requirements must be abolished



- No requirement to have a **branch office**
- No **regulation fees** (one-time or recurring) in host countries
 - License fees can only be levied by the home regulator (based on the cost of the licensing process, not the turnover).
- No **exams for trading personnel** can be required
- Need to distinguish between wholesale and retail: no **supply-related requirements** to pure wholesale market participants
 - e.g. requirement to setting up customer call centres
 - metering stations
 - publishing general terms and conditions for the supply of end-customers)
- No **in- and exports (network) fees** for cross-border transactions

A simple process

Requirements that should be complied with



- Exclusive competence by **home regulator**
 - Only home regulator can issue and withdraw the passport
 - Only home regulator can sanction the energy trading firm for violations related to the passport regime
- Limited **checks**
 - Verification of existence of the legal entity
 - Check that board members have a clean criminal record
 - Markets and Countries in which the Market participant is active
 - In case applicants are required to demonstrate the capability to fulfil regulatory duties, these must be based on concrete requirements e.g. designating a regulatory compliance officer

It should not be the purpose of a license process to check a trader's potential of economic success

An Energy Trading passport should



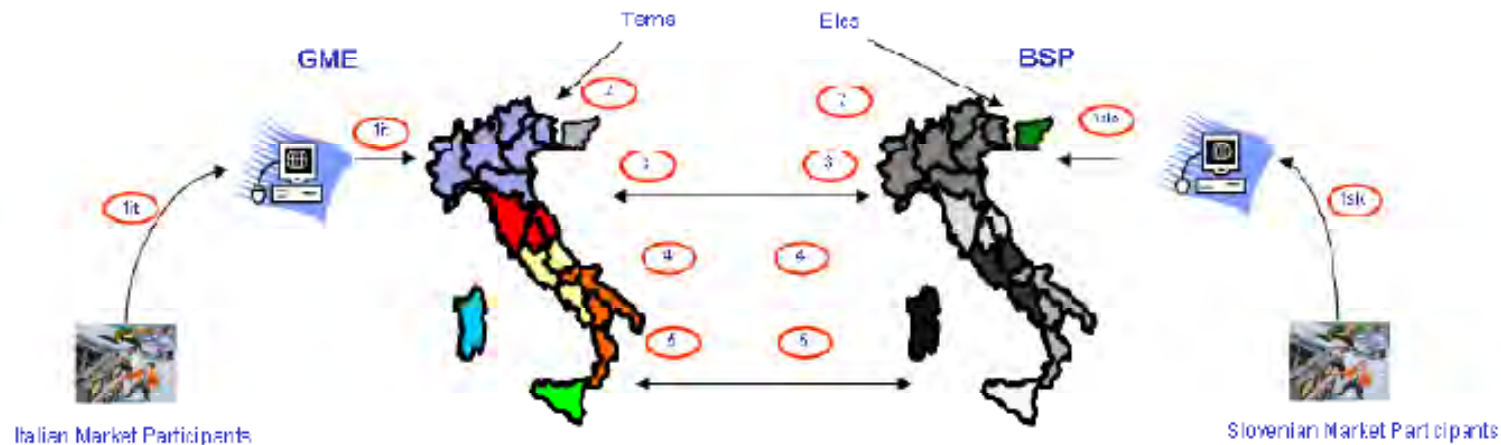
- Ensure a balanced approach and harmonisation across EU
- Avoid duplication and replace national approaches
- Be based on simple and appropriate requirements
- Take account of many issues not yet discussed
 - Process (release, withdraw, penalties,..)
 - Non EU based traders
 - Applicability to the Carbon market

Market Coupling : enhancing liquidity?

Market Coupling: a chance to enhance liquidity Slovenian experience

Slovenia

From 1st Jan 2011 Market Coupling is in force between Italy and Slovenia



- 1r Italian market participants submit bids/offers to GME
- 1s Slovenian market participants submit bids/offers to BSP
- 2 Each TSO send ATC values for the SI-Ita border to its local PX
- 3 GME and BSP share bids/offers (in anonymous way) and ATC values communicated by respective TSOs
- 4 GME and BSP simultaneously run the matching algorithm and compute results
- 5 GME and BSP check the consistency of results and publish results

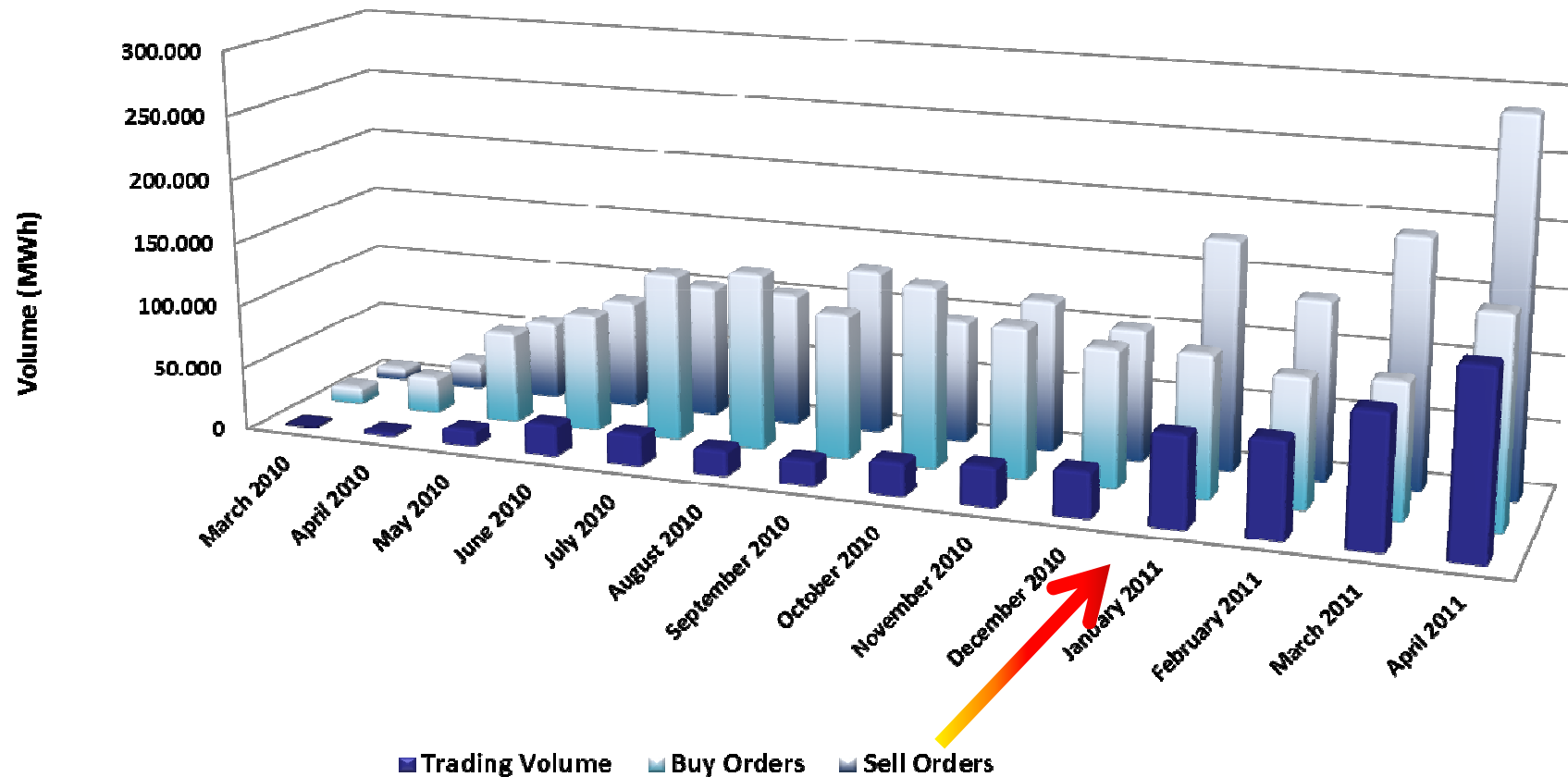
We kindly thank BSP SoutPool for the assistance



Market Coupling: a chance to enhance liquidity Slovenian experience



Volume of entered orders and total trading volume in the Slovenian market in the period from March 2010 to April 2011



We kindly thank BSP SoutPool for the assistance

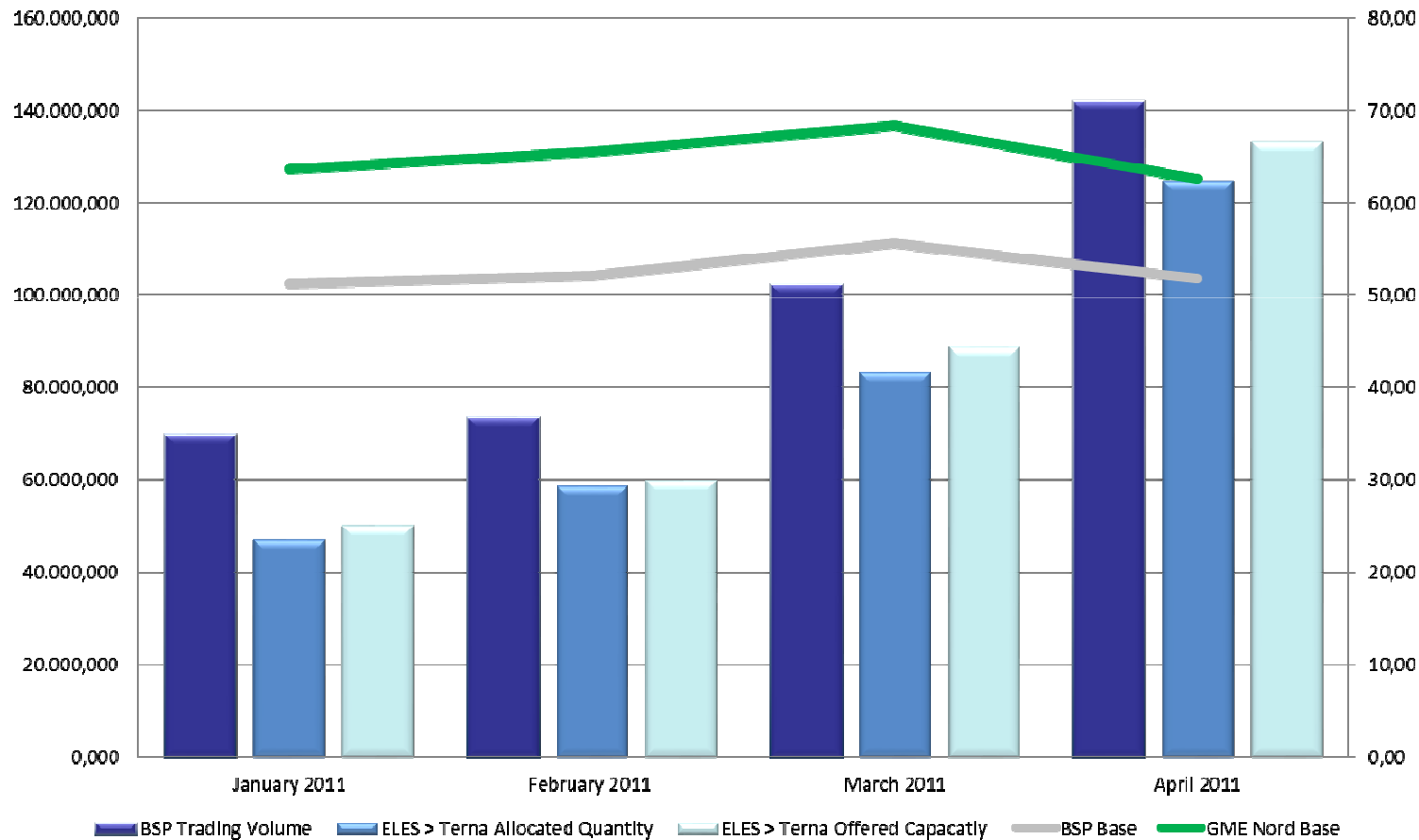


Market Coupling: a chance to enhance liquidity



Offered and actually allocated daily capacities through implicit auctions in the direction SI-IT (on average more than 95% of offered capacities were also allocated in the period from January to end of April 2011)

MC on SI-IT border at BSP SouthPool in the period from January to April



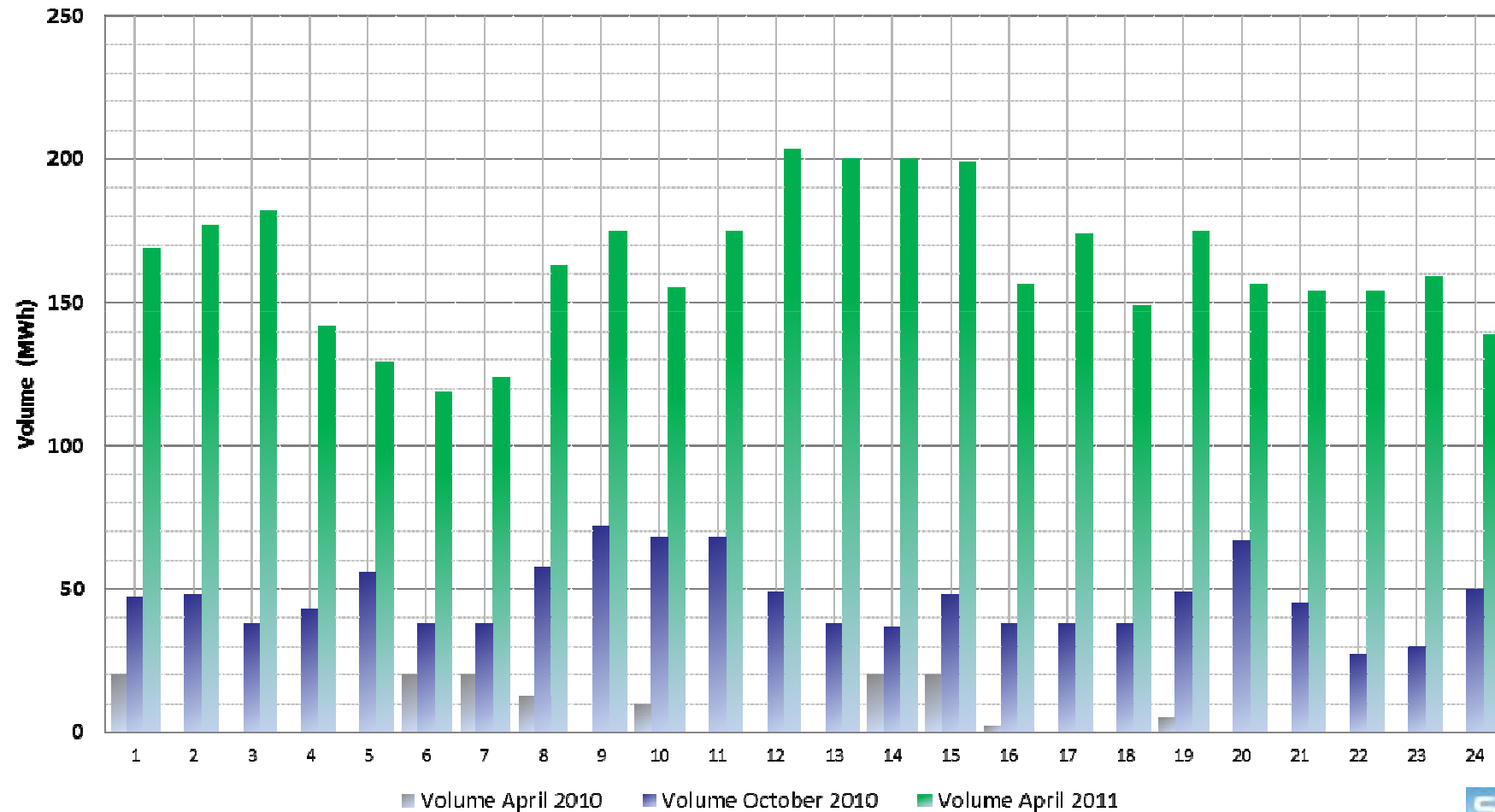
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Market Coupling: a chance to enhance liquidity



Slovenian Market Volumes
Delivery Day: 3rd Wednesday



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Thanks for your attention



European Federation of Energy Traders

**Amstelveenseweg 998
1081 JS Amsterdam**

**Tel: +31 (0)20 5207970
Email: secretariat@efet.org
www.efet.org**