

Eastern European and Central-Western European markets are becoming more aligned in terms of market rules and trading procedures, Interview with Mr. Tobias Paulun Director Strategy & Market Design, EEX

Categories : [SEE Energy News](#)

Date : September 24, 2012

Indeed the pilot projects of market coupling in Central-Western Europe have led to a steep learning curve for all partners of those projects. What has probably been underestimated at most is the complexity of those projects, which arises from the large number of parties involved—TSOs, power exchanges, clearing houses, energy and financial regulators, and service providers. With regard to transparency, the transparency platform of EEX may actually act as a role model for SEE. In fact, the technical infrastructure of the platform is designed to be expandable to new countries. Talks about a cooperation in this segment have already been initiated.

Serbia-Energy.com: EEX is surely one of the most important and developed power exchanges in European Union. Can you tell us more about its startings and later development, how far is power market developed actually, what remains to be done?

Our position has evolved from the strong position which EEX has on the electricity market in Germany. Already in mid-2000 exchange-based physical power trading was launched in our domestic market. At the very beginning we had two local exchanges which merged in 2002 into the current EEX. With the products we have developed and the standards we have set, the exchange contributed to market's growth. One example is the creation of the "Phelix" (Physical Electricity Index) which is calculated in the spot market auction of EPEX SPOT, a joint venture of EEX and French Powernext. Today, the Phelix is the undisputed reference

price for electric power throughout Europe and serves as reference as well for the bilateral market. This index also formed the underlying for our “Phelix Future” which is the most liquid derivatives contract in Continental Europe. At this stage, we would consider the CWE region to be the most developed region. The establishment of EPEX SPOT which EEX founded together with our partner Powernext (EPEX SPOT started operations in 2009) was an important step to further develop power trading in this region and to support harmonized trading and settlement standards. Currently the European Union follows an ambitious path towards a fully integrated internal electricity market by 2014, so the next steps will be further harmonization of market rules and an extension of price coupling initiatives.

Serbia-Energy.com: What are the experiences and best practice examples which could be transferred to future South East Europe integrated power market, considering both power-gas and CO2?

From our viewpoint, there are several essential elements for successful energy market development: these include standardised products and processes, efficient market access with dedicated trading mechanisms, clear market rules and transparency but also clearing via a Central Counterparty for physical and financial settlement of the transactions. I would like to focus here on clearing as a “best practice example” because it is a central element of the energy market. Central clearing helps to increase the liquidity by facilitating off-exchange transactions and brings volume to the exchange while allowing counterparties to trade OTC-contracts through their preferred venue and submit the trades to the clearing house for central clearing.

Turning to energy markets, the very nature of the commodity requires a particular model to allow for a liquid market. To facilitate the physical delivery of electricity (or natural gas), the clearing house will need to be in very close coordination with the system operator and needs to act as a balance responsible party on behalf of its participants. Our clearing house European Commodity Clearing AG (ECC) is an outstanding example for this. ECC acts as central clearing house for six exchanges and is linked to various TSOs and registries all over Europe. This connection enables traders to benefit from a network of partners and maximal cross-commodity effects.

Serbia-Energy.com: What is your opinion on current level of development of CEE/SEE power exchanges like South Pool (Slovenia) and OPCOM (Romania)? How do you see other countries power potentials in the future, do you expect some further integration with Hungarian or Austrian power markets?

We have seen a very promising development in Eastern Europe during the last years. As European politics pave the way towards more market integration and a fully integrated internal market in 2014 we see that a lot of effort is being undertaken, in particular in Eastern Europe. In terms of physical consumption and expected total trading volumes, Eastern European countries may not have the same size as Central-Western Europe but nevertheless recent initiatives of some countries prove that it is possible to establish reliable prices and exchange trading in those countries as well. In addition to that, there are close contacts between the market operators and the TSOs from Eastern Europe and the respective parties in Central-Western Europe. For example, the Hungarian power exchange

HUPX cooperates with EPEX SPOT as a service provider for market operation. This shows that Eastern European and Central-Western European markets are becoming more and more aligned in terms of market rules and trading procedures, which is of course a prerequisite for full market integration. Eastern European markets will benefit from this process and catch up markets which are already more mature; nevertheless we expect that there will continue to be a clear European reference price and concentration of liquidity in one market, as liquidity attracts further liquidity.

Serbia-Energy.com: Energy community for SEE region aims to reform and integrate small national power markets, in your opinion how far did we actually come in this process?

Market integration is key for higher efficiency in the market, reduction of market entry barriers and thus increasing competition. The SEE region has made significant progress but the challenge of market integration is to overcome national interests and to focus on a common vision. This common vision—which ultimately is an integrated European market—still needs to be strengthened. We have seen in SEE that the roles of each individual partner are not yet fully clear; for example, the trilateral market coupling that has just started does not cover the whole region. Moreover there are ongoing discussions about the best model for market coupling (such as flow-based approaches); such questions need to be agreed since they should not hinder further integration of markets. So overall, we think that great improvements have been achieved in SEE but further steps need to be taken towards the targets for 2014.

Serbia-Energy.com: Gas supply dependency from Gazprom is evident and strong in SEE region, even EU is coping to generate alternative supply routes. Gazprom is becoming even more present in SEE region, South Pool is just one of the strategic projects. In your opinion what is the gas supply future path or strategic orientation of SEE power markets?

With regard to power markets, the envisaged market integration process will also contribute to security of supply and thus to national interests. This holds also true for natural gas markets—which usually follow suit the market integration of power markets—but the national perception is slightly different compared to power, as the flow of natural gas is closely monitored and subject to national interests. We currently see that all Central and Eastern European countries aim to diversify their supply routes, which creates competitive situations between producers and consumers, and also between gas transporters. We need to make sure that with a view on 2020 and beyond, this situation does not hinder the creation of a European market.

Serbia-Energy.com: SEE electricity prices as well as power trading market is yet to be developed into more transparent and attractive for bigger number of participants. EU is aiming to integrate and develop SEE power market via Energy Community platform in order to have region integrated with EU power markets. What could be your advises and positive practice examples which could be transferred to the SEE region ?

Indeed the pilot projects of market coupling in Central-Western Europe have led to a steep learning curve for all partners of those projects. What has probably been underestimated at most is the complexity of those projects, which arises from the large number of parties

involved—TSOs, power exchanges, clearing houses, energy and financial regulators, and service providers. We have however found ways to secure that the common target of all project partners is actually delivered at the end. One of the key requirements is to agree on a clear distribution of roles and responsibilities within the project from the start. If that is ensured, other challenges such as algorithm design and implementation, coordination of technical interfaces etc. become much less difficult. And of course the parties involved in CWE may act as service providers in SEE to prepare for a coupling of regions. Between the power exchanges, this model is already followed with EPEX SPOT.

With regard to transparency, the transparency platform of EEX may actually act as a role model for SEE. In fact, the technical infrastructure of the platform is designed to be expandable to new countries. Talks about a cooperation in this segment have already been initiated.

Source Serbia Energy Magazine