

Statkraft: "The location of SouthPool offers a unique chance to be one of major market places in Europe"

BSP SouthPool at the 15th Athens Forum

Market Coupling follow up

BSP SouthPool is the regional cross-border energy exchange in the South Eastern Europe (SEE) offering a comprehensive range of services on Slovenian and Serbian markets. In addition to day-ahead energy trading process its services include clearing and financial settlement and from July 2009 also submission for clearing (OTC) of day-ahead products. The company with its headquarters in Ljubljana, Slovenia has common electronic trading platform, which currently enables trading with electricity on Slovenian and Serbian markets. At this moment BSP SouthPool has 23 members from 10 European countries: Austria, Belgium, Bulgaria, Denmark, Italy, Hungary, Germany, Slovenia, Serbia and Switzerland. In accordance with company's strategic goals of entering new markets of SEE region BSP SouthPool had signed a Letter of Intent on co-operation on the Macedonian energy market with ELEM (Macedonian power plants) in July of 2009. Together they aim to establish the trading infrastructure for the new Macedonian energy market.

The ultimate objective of the BSP Regional Energy Exchange is, firstly, to become a leading cross-border energy exchange in

the South Eastern European region and, secondly, to become a bridge among European energy markets through the mechanisms of market coupling or implicit auctions. Highly competent, neutral and transparent regional energy exchange will be a promoter of energy markets' liberalization and efficiency and facilitate knowledge transfer by provision of expertise and experience to the SEE.

Trading report for November 2009

Total volume of concluded transactions on BSP Regional Energy Exchange in November reached 1.140 MWh, of which 60 MWh was reached on the Slovenian market and 1.080 MWh on the Serbian market. It is interesting that November was the first month when trading volume on Serbian day-ahead electricity market exceeded trading volume on Slovenian day-ahead electricity market.

In the Slovenian market transaction was concluded with Euro-peak product. In the Serbian market transactions were concluded with Base product. Average price for Base product in the Serbian market reached 28,33 EUR/MWh in the aforementioned period.

In the Slovenian and Serbian market 172 orders in the total volume of 22.800 MWh were entered in November. In the Slovenian market 105 orders were entered, most of them (44) with Base product. In the Serbian market 67 orders were entered in the same period, most of them (66) with Base product.

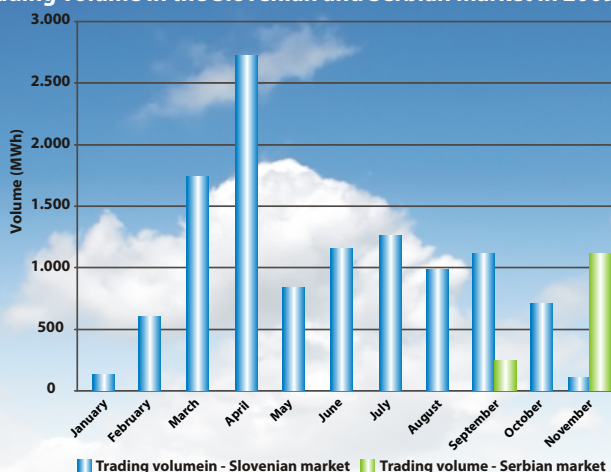
Market Statistics for 2009

Total volume of concluded transactions from the beginning of the year 2009 until the end of November reached 12.292 MWh, of which 10.972 MWh was reached in the Slovenian and 1.320 MWh in the Serbian market.

In the Slovenian market 151 transactions were concluded, of which 57 with Base, 49 with Off-peak1, 42 with Euro-peak and 3 with Euro-off-peak2 products in the aforementioned period. In the Serbian market 5 transactions with Base product were concluded in 2009.

The total volume of entered orders on both markets reached 373 GWh until the end of November 2009, as of more than 79 percent of all orders were entered in the Slovenian market. The total volume of entered orders in the Slovenian market until the end of November reached 296 GWh and in the Serbian market reached 77 GWh.

Trading volume in the Slovenian and Serbian market in 2009



Volume of entered orders and total trading volume in the Slovenian and Serbian market in 2009



“The location of SouthPool offers a unique chance to be one of major market places in Europe”

Interview with **Plamen Popov**, Managing Director of Statkraft South East Europe. Statkraft already operates gas and hydro power plants with more than 2000 MW installed capacity and trades power across 35 European borders every day. They are also very active participant in the emissions and green certificates markets. They became a member of the BSP SouthPool in April 2009.

How long have you been present on power markets in SE Europe? What does Statkraft find most interesting about the electricity markets of the SEE region comparing with European energy markets?

Though Statkraft was not established as an independent enterprise until 1992, its power plants and business operations date as far back as the end of the 19th century, when the power of the country's waterfalls was first harnessed. In 1998 the company expanded its trading activities to cover the European continent through the establishment of trading offices in Düsseldorf and Amsterdam. After only 11 years of continental operations, Statkraft already operates gas and hydro power plants with more than 2000 MW installed capacity and trades power across 35 European borders every day. In addition we are very active participant in the emissions and green certificates markets.

In 2006 Statkraft opened its first office in Sofia and I was the first employee of the company in South East Europe. Today we also have offices in Bucharest, Belgrade, Tirana and Istanbul. Generally our first step in entering a new market is the establishment of a wholesale trading presence. Decisions about investments in power generation assets are not going to be made until we understand the market rules and have an insight in the industry and power system conditions.

All markets in South East Europe are still in the emerging stage – market rules are under development. Most of major players are still lacking the needed knowledge in order to participate in a free, competitive market. One of the biggest obstacles for the development of liquid and well functioning wholesale markets apparently is the coexistence of liberalized and regulated segments. There is a lack of experience of national regulators and lack of harmonization at regional level. The need for obtaining national trading license is another obstacle which prevents us from trading in some of the SEE countries. However there is a visible progress within the last 5-6

years. There is a room for significant investment in the power sector especially in the light of the European targets to reach 20% renewable production by 2020, there is a need for new power plants. For the time being we started the construction of hydro power plants in Turkey with a planned capacity of 530 MW (or 1.8 TWhrs) and investment of probably 500-600 MEUR. In addition we have a concession to build 3 HPPs of Devoll cascade in Albania together with EVN (investments of about 950 MEUR). But we are following the development and business opportunities in all countries in the region.

We consider the region as one market, which will be part of the Pan-European power and gas market within next 5-10 years. We believe in the European future of all countries in the region.

You became a member of BSP SouthPool in April 2009. How would you evaluate benefits of the BSP SouthPool for the SEE region energy markets?

There is a strong need of an organized market within the SEE region. A Day-ahead market for physical delivery, organized as a Power Exchange, is an excellent mechanism to serve the market participants' needs. It creates single market prices; it improves market liquidity; it decreases the credit risks and imbalance risks. In other words PX helps the market participants to establish a trust in the market.

All above is 100% applicable to the role and the mission of SouthPool. The location of SouthPool, close to both West- and East-European markets offers a unique chance to be one of major market places in Europe. The more national markets are covered by the SouthPool trading platform, the easier the coupling of those markets in the near future will be. And there are no better trading conditions for market participants, than to have harmonized, or even uniform rules and requirements in all countries of activity.

What would be your suggestions for future development of the BSP regional energy exchange from the member point of view?

Well, I partially answered that question above. Coverage of many national markets by one uniform platform is always a dream of market participants. Simple and reasonable market rules that are binding on all market participants are always desirable.

In particular, for the Serbian market e.g. it will be better to introduce the same standard products (Euro-peak/off-peak) as in the other markets as well as longer time horizons for trading – weeks, months.

But crucial for the liquidity is the involvement of traders with substantial, diversified

portfolios and power producers. Such players, known as MARKET MAKERS are extremely important to create a market price and minimum liquidity especially in the initial phases of market functioning.

The current tender procedures used by many state-owned energy producers and consumers are a very inefficient way of trading. I hope, SouthPool will be able to convince the relevant governmental bodies and regulators to rely more on transparent and efficient market places like SouthPool.

According to the development projects in the region, how would you evaluate the possibility of the increase in liquidity at BSP SouthPool?

Even under the conditions of a global economic recession and extremely wed hydrological conditions as in 2009, we see significant power flows across borders in the region. We in Statkraft strongly believe that the industry in Europe and in the SEE region as part of it will soon turn to positive growth. The need for more investments in general infrastructure in the region, compared to Western Europe, determines an increase in power demand which should be met by the building of new power plants and reinforcement of transmission and distribution grids. All existing and new industrial market participants will use all available and suitable market mechanisms, including Power exchanges and in particular SouthPool to trade efficiently and this will of course increase the SouthPool liquidity itself.

But I would like to have a look at that issue from another angle: The existence of SouthPool, the existence of Power Exchanges in general, helps investors to understand and create trust in the power market. This trust is crucial for taking positive investment decisions. That is how SouthPool also increases the liquidity of the market for projects and investment.

The conclusion can be put in the following equation:

“Transparent and reasonable market rules + as many countries with harmonized rules as possible = predictable and efficient power market = benefit for industry and society.”



“The existence of SouthPool, the existence of Power Exchanges in general, helps investors to understand and create trust in the power market.”



New members:

EVN and Elektro Celje

In October and November BSP has connected 2 new members; EVN Trading South East Europe and Elektro Celje. Currently, BSP has **23 members**.

BSP SouthPool at the 15th Athens Forum

At the 15th Athens Forum, an institutional body advising the Energy Community held in Athens on 25 and 26 November, BSP SouthPool has presented its views on the 'South East Europe Wholesale Market Opening' study procured by World Bank and delivered by Pöyry and Nord Pool Consulting.

BSP SouthPool has supported market coupling as the key element of regional market integration and called for harmonisation of market rules in the region, where improving market transparency, introduction of effective balance responsibility and abolishment of export/import fees have been pointed out as the main prerequisites. On the issue of improving the day-ahead liquidity in the region, the need for market based day-ahead capacity allocation has been pointed out, and BSP SouthPool's offer to provide the exchange infrastructure needed for decentralised market coupling in cooperation with TSOs, regulators and other power exchanges in and around the SEE region has been reiterated once again.

Market Coupling follow up – December 2009



Market Coupling (MC) between Italy and Slovenia focuses on establishing common day-ahead energy market between Italy and Slovenia on the basis on implicit allocation of capacities. In the first step parties aim to run MC considering all daily available transmission capacities (ATC) and to progressively increase ATC, in a view of allocating the entire NTC via market coupling. The overall goal is to maximize the total surplus for all participants. This can be achieved by considering that one market will export to another for as long as the marginal offered price in one is lower than the marginal bid price in the other, until the point that prices converge or available cross-border capacity (ATC) is exhausted.

On the first kick-off meeting of the **project for a Market Coupling (MC) between Italy and Slovenia that was held in Rome in May 2008**, a bilateral Working Group (WG), involving representatives from Italian and Slovenian Ministries, Regulators, TSOs, MOs and PXs has been established. Since then WG met four times and have made a great progress. Parties involved in WG work in parallel both on the technical aspects and the governance/contractual issues of the implementation phase. Parties have already defined the role of a Shipping Agent and they agreed its form, they defined governance structure that will cover responsibilities regarding calculating of ATC and electricity prices, gate closure times, terms of payments, modality and timing exchange of information, roll-back procedures, software, costs, etc.

Master agreement between Parties is to be signed in beginning of February 2010 and quadrilateral agreement between responsible TSOs and PXs is to be signed in March 2010. Official start up of the MC is planned for Q3 2010.

Next Exchange Trader Training Course

Due to demand on the market we published a new date for the **Exchange Trader Training Course**. The next Exchange Trader Training Course

will take place
on 14th of January 2010.

MERRY CHRISTMAS AND ALL THE BEST IN THE YEAR 2010.

BSP SouthPool team



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