

ELEM: "Regional approach seemed to us the most promising one".

Eurex: "We are very excited to pursue the vision of developing BSP into a truly integrated cross border power trading exchange in South-Eastern Europe."

Visit BSP SouthPool at E-world this week!

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 January 2010

Total volume of concluded transactions on BSP Regional Energy Exchange in January 2010 reached 120 MWh. In the Slovenian market 1 transaction was concluded with Base product. The price for Base product reached 48,25 EUR/MWh.

There were no concluded transactions in the Serbian market in the aforementioned period. In the Slovenian and Serbian market 38 orders in the total volume of 4.422 MWh were entered in January. In the Slovenian market 31 orders were entered, most of them (24) with Base product. In the Serbian market 7 orders were entered in the same period, most of them (6) with Base product.

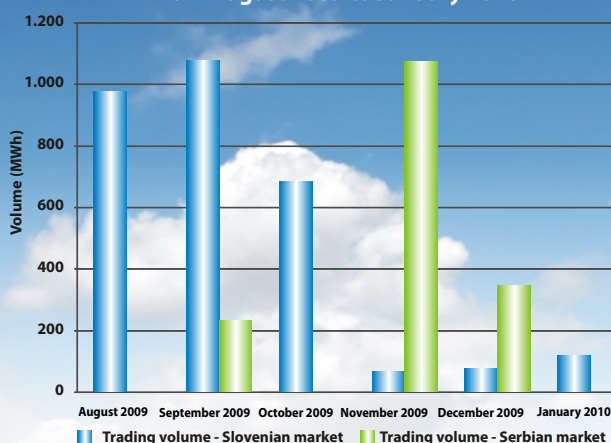
Trading Report from August 2009 until the end of January 2010

Total volume of concluded transactions from August 2009 until the end of January 2010 reached 4.676 MWh, of which 2.996 MWh was reached in the Slovenian and 1.680 MWh in the Serbian market.

In the Slovenian market 44 transactions were concluded, of which 25 with Base, 18 with Euro-peak and 1 with Euro-off-peak2 products in the aforementioned period. In the Serbian market 7 transactions with Base product were concluded in the last six months.

The total volume of entered orders on both markets from August 2009 until the end of January 2010 reached 157 GWh, as of more than 63 percent of all orders were entered in the Slovenian market. The total volume of entered orders in the Slovenian market reached 99 GWh and in the Serbian market reached 58 GWh. In the same period 1.145 orders were entered in the Slovenian market, most of them (524) with Base product. In the Serbian market 310 orders were entered, most of them (283) with Base product.

Trading volume in the Slovenian and Serbian market from August 2009 to January 2010



Volume of entered orders and total trading volume in the Slovenian and Serbian market from August 2009 to January 2010



“Regional approach seemed to us the most promising one”.

In 2009 BSP SouthPool had signed a Letter of Intent on co-operation on the Macedonian energy market with ELEM (Macedonian power plants). We have talked about this project and also about the development of the Macedonian market with Mr **Vlatko Cingoski**, General Manager and the President of the Management Board of the JSC Macedonian Power Plants – AD ELEM.

How would you evaluate current situation and recent development of the Macedonian market comparing to other SEE energy markets?

Generally, the internal electricity market in Macedonia is still not fully developed. After adoption of the latest changes in the Energy Law in September 2008, the market development got some impetus. At present two different and specific market parts can be distinguished: the regulated market where most of the electricity is sold and consumed and, the open market where some of the so called eligible customers are doing procurement of electricity directly from electricity traders. Speaking about the volumes, almost 75% of the market belongs to the regulated market, and the remaining 25% belongs to the open market.

On the regulated market, main players are AD ELEM (Macedonian Power Plants) as the major electricity producer (produces more than 96% of the domestically produced electricity), and EVN Makedonija AD as the Distribution company, Operator of the distribution grid and solely Supplier of electricity to all tariff customers. Tariff customers at present include all household customers, small and medium industry and all other customers directly connected to the distribution grid up to the 35 kV level. For each of those customers, special tariffs are defined by the Independent Energy Regulatory Committee (ERC). The ERC also has responsibility to define the maximum approved income for both regulated companies AD ELEM and EVN Makedonija AD. Therefore, ERC actually defines the production and selling prices for the whole regulated market. We have to mention here also the third large energy company in the country AD MEPSCO which acts as the Transmission System Operator and the Market Operator. The ERC also sets specific regulated tariffs for AD MEPSCO too, specially for transmission cost and market operation cost.

On the open side of the market, we could find more than sixteen licensed electricity trading companies, among which 5 or 6 are the most active on our market. In addition, on this market one can find also the AD ELEM as a trader with a fraction of its electricity production which remains as unsold to the regulated part of the market, then EVN Trade as the trading part of the EVN Macedonia Holding, and about 9 eligible customers who are allowed to procure electricity free on the market.

In conclusion, Macedonian energy market is gradually, step-by-step making its pioneering efforts towards establishing free and open electricity market which in accordance with the Energy Treaty should be fully established and operational by January 2015 when all customers could freely selected their own electricity supplier.

Many of the biggest European energy traders have large interest in the Macedonian market. In your opinion, why is this so and what will be the main issues on the Macedonian market in the future?

Your observation is correct. I already mentioned that more than 16 licensed electricity trading companies have been established in Macedonia. That is a huge potential for the realization of the open trading platform in Macedonia in near future. Why is that so? My personal opinion is that there are several advantaged that contributed to this. First, in recent years Macedonia become dependable on electricity imports. In the last five years the electricity imports amounted between 15 and 25 percent of the total electricity consumption in the country, or in volumes, up to 2 000 GWh per year, which having in mind the average electricity prices in the region of about 60 euros/MWh, created annual electricity trading market of about 120 million euros. This is non negligible. Macedonian economy is in its transformation and large expansion, the foreign investments increase, and finally Macedonia as a country, is quickly and definitely approaching EU and NATO standards. All these contribute significantly towards the impression that Macedonia is for sure interesting business destination place to be. And as always, who is the first could gain the most. It was similarly with Romania and Bulgaria several years ago. Now it is Macedonian turn.

Secondary, not only Macedonia, but all countries in this neighbourhood have the similar problem – lack of electricity, i.e. Albania, Kosovo, Greece, Montenegro, and south Italy, just to mention some. Thirdly, Macedonia has a central position and it is actually at the cross-road of all major electricity interconnections North-South and East-West. Having a very-well developed high voltage transmission grid (400 kV grid is significantly developed towards North, South, and East, with plans for new lines towards North and West), actually provides interesting hub for setting a trading platform positioned on the Western Balkan, further South of the existing markets in Germany, Austria and Romania. Therefore, according to my opinion, Macedonia definitely is going to be a place where some of the most interesting activities in the electricity sector would take place in near future.

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. How the exchange market in Macedonia will develop? Do you together aim to establish the trading infrastructure for the Macedonian energy market?

Yes, AD ELEM defines a Letter of Intent on co-operation with BSP SouthPool last year. The idea was that, if any kind of organized trading platform, marketplace or exchange is opened by BSP SouthPool in Macedonia, AD ELEM is willing and would like to participate on that market through its recently established daughter company ELEM Trade. AD ELEM at this moment is selling some of its excess electricity on the open market using the model of auctions. This model is good only in the case when someone needs full transparency in the trading process. However, as the wide European experience shows, having a organized electricity trading market such as EPEX, EXAA, or OPCOM brings a lot of advantages not only to the sellers but even more to the electricity buyers and traders, increases security of supply, decreases the price index and, generally on a long run, helps of establishing better market conditions for all participants providing the



Mr **Vlatko Cingoski**, General Manager and the President of the Management Board of the JSC Macedonian Power Plants - AD ELEM.

optimum prices. The real question here might be why BSP SouthPool was our choice? It is very simple, because BSP provides regional coverage and establishes regional network and connections between producers, traders, suppliers and eligible customers which is important in our case where we are among several relatively smaller internal markets. The other reason is that because we have smaller markets, there are many interconnections and the cross-border electricity wheeling sometimes is quite difficult, expensive or even impossible. Therefore, regional approach seemed to us the most promising one. According to all that I said, we at AD ELEM are really looking forward to see how this approach would be successful, and we expected that as soon as possible the BSP SouthPool office would be established here in Macedonia.

What are the main strategic goals of ELEM in the future?

AD ELEM is a small but very compact and well balanced electricity production utility. We own about 1330 MW of generation capacity of which 60% (800 MW) in lignite fired thermal power plants, and the remaining 40% (530 MW) in storage based hydropower plants. AD ELEM also exploits lignite mines which help us to optimize thermal electricity production. The thermo-hydro coordination is quite well, and could be in future even further improved. The generation capacities are relatively old, but very well maintained and reliable.

Our main activities are focused on several parallel directions, such as rehabilitation and modernization including improvement on the environmental impacts of the existing power plants, construction of new generation capacities which would support our main point on diversification of power resources, so beside the lignite fired thermal power plants, we are aiming at construction of new gas-fired combined heat and power plants (cogeneration plants), and construction of new hydropower plants and storages, including the first reversible power plant in Macedonia. We also pay significant attention towards production of so-called green energy and exploiting all possibilities of development of wind and solar power plants on the Macedonian territory.

Finally, we are looking forward to further increase the operational efficiency, decreasing our production costs and strengthening the position of our company domestically and abroad, in order to be prepared for the fully opening of the electricity market. We would like to play important role on this market, therefore, we must be fully prepared for all the challenges that this market opening could bring to us.

“Macedonia definitely is going to be a place where some of the most interesting activities in the electricity sector would take place in near future.”

“Market coupling is one important key target, the launch of new markets is another”

Interview with Mr **Peter Reitz**, Chairman of the Supervisory Board of BSP SouthPool. Mr Peter Reitz is a Member of the Executive Board of the Eurex, European derivatives Exchange, that is the largest owner of BSP SouthPool at the moment and holds a 66% of ownership structure.

How do you see BSP SouthPool's development since its start of operations in November 2008?

Since the foundation of BSP SouthPool in 2008 year we have successfully overcome several regulatory and political hurdles and managed to build up quite a large member base. BSP has chosen the well established ComXerv system as a basis for a pan-European trading platform, starting with Slovenian and Serbian markets with further South Eastern European (SEE) countries to be connected.

What are the main strategic goals for Eurex to be achieved via its shareholding in BSP SouthPool ?

We as Eurex are very excited to pursue the vision of developing BSP into a truly integrated cross border power trading exchange in South-Eastern Europe. We believe that market coupling with adjacent countries is one important key target. The launch of new markets, thus connecting more SEE

countries to the existing ComXerv platform is another. Besides IT, Eurex will also support with its clearing know-how and experience to introduce an efficient central counter party clearing in the region. As soon as an underlying market with sufficient liquidity is established, we will also provide the infrastructure not just for the spot market but also for a derivatives market.

Currently, the liquidity both in the region and at the exchange is still low. What do you see as the main drivers for future improvements?

Improving order book liquidity clearly is the main objective of BSP Southpool. We consider very important the further integration of both Slovenian and Serbian power markets via market coupling initiatives such as the one between Italy and Slovenia to be launched in Q3 2010.

Another aspect is to activate the existing members to more actively use the trading platform. If you look at the current member list, we already have the most relevant West European industry players as well as many regional companies connected. But the number of actual trades is still low and this needs improvement. Besides market maker agreements and price incentives, a more long-term effect can be reached via the BSP shareholder structure which could be enhanced by key international and regional players.

And last but not least we want to strengthen our ties with the adjacent countries, first of all Serbia as the biggest market. Macedonia and Bulgaria would also be natural steps towards a South-Eastern Europe exchange. But each country requires time and effort to understand the particular environment and regulatory framework. It is crucial to have the support of the relevant parties for successfully connecting the corresponding market to an integrated cross border power exchange.

“We as Eurex are very excited to pursue the vision of developing BSP into a truly integrated cross border power trading exchange in South-Eastern Europe.”



Mr **Peter Reitz**,
Chairman of the Supervisory Board of BSP SouthPool

“As soon as an underlying market with sufficient liquidity is established, we will also provide the infrastructure not just for the spot market but also for a derivatives market.”

Next Exchange Trader Training Course

Please note: the next Exchange Trader Training Course will take place on 24th of March 2010.

Exchange Trader Training Course offers professional training and examination for traders wishing to trade on BSP SouthPool Markets. Skills supplementation can also be attended by those who wish to obtain new knowledge in electricity trading. Main focus is entitled to Day-ahead Market, Trading Rules, Auction Trading, Continuous Trading, Products and Schedules, Possible Technical Problems, Physical Settlement, Clearing and Financial Settlement, Financial Guarantees, Invoicing, Trading Platform, Matching System and Simulations. The Course takes about 8 hours and is organized at BSP SouthPool's office premises in Ljubljana.

For further information and registration please contact Mr. Jan Zakrajšek (e-mail: jan.zakrajsek@bsp-southpool.com or call: +386 (0)1 620 76 73.

EGL on Slovenian day-ahead market

Beside participation on Serbian day-ahead market EGL has also entered a Slovenian day-ahead market in January 2010. At the moment BSP SouthPool has 23 members.

Are you tempted by South Eastern European power markets?

We are here.

Ljubljana / Slovenia 46°03'N 14°30'E

Belgrade / Serbia 44°49'14"N 20°27'44"E

Skopje / Macedonia 42°0'N 21°26'E

VISIT BSP AT E-WORLD 2010 THIS WEEK!
Essen, 9th - 11th February 2010

Regional energy exchange
BSP SouthPool
kindly awaits you at this year's
E-World! Come and visit us
between **9th and 11th of February**
at our **booth no. 117** in Hall 1.

We are looking forward to meet you at our stand.

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