

The interlinking of the European Energy Exchange in Leipzig and Powernext in Paris was another step in the consolidation of European energy exchanges. Many other moves are being made, but bottlenecks in market coupling will have to be overcome before trading markets can become truly integrated.

Power exchanges move towards European integration



| by Stefan Schroeter

The lift in Leipzig's "City-Hochhaus" rises up 23 floors before stopping at the floor of the EEX European Energy Exchange AG. Here, 60 employees organise and monitor German exchange trading in power, natural gas, emission rights and carbon. The spectacular view from up here over the historic German trading town of Leipzig is obscured a little by fog on this October morning. But for Toralf Michaelsen, Head of Market Supervision, other issues are more important at present. On September 29 the EMCC (European Market Coupling Company GmbH) together with its five corporation partners Eon Netz GmbH, Energinet.dk, Vattenfall Europe Transmission, NPS Nord Pool Spot AS and EEX coupled together the German and Danish power markets. Such market coupling allows efficient use of the existing cross-border interconnecting lines between national networks and represents an important step towards the integration of the power trading markets in Europe. In so-called implicit auctions the participating exchanges and network operators together give out power supply contracts and cross-border transmission rights.

However, the German-Scandinavian market coupling project had to be stopped only a few days later. This was because the intended price alignment did not work out as planned. 'At some hours there were price differences between Germany and Denmark which did not correspond to the direction of the power flows', Michaelsen says. So, since October 9 the Danish-German bottlenecks at the DK1-Eon interconnection are managed once again through explicit auctions. Michaelsen is convinced that it will be possible to resume market coupling soon. 'I think that we will find a way to harmonise the systems', he says as he sets off for Hamburg for a meeting with the other project partners. The success of the German-Danish market coupling would also be an important sign for another large project: France, Belgium and the Netherlands, which introduced market

coupling last year, want to link their power systems with Germany and Luxembourg as well. The 'trilateral market coupling' will become a 'pentalateral' one.

Growing together |

The more the European energy markets grow together the greater the need for interlinking the national energy exchanges. Nord Pool has already demonstrated how this can work in Scandinavia. Nord Pool sees itself as a leading European Energy exchange. Thanks to the early deregulation of the Scandinavian energy market it had already started trading in 1996. The APX Amsterdam Power Exchange followed in 1999. In Germany from 2000 the EEX in Frankfurt/Main and the LPX Leipzig Power Exchange initially competed with each other until they merged in Leipzig in 2002. Nord Pool played a key role in the development of the LPX and was subsequently involved with the EEX for a long time, but after the merger its influence decreased and it sold its share to Eurex Zürich AG.

EEX has now achieved a strong position in continental Europe and wishes to strengthen this further through partnerships with other European energy exchanges. As the initial partner the Leipzig players were able to attract the French energy exchange Powernext SA. Thus in September EEX and Powernext established the joint spot market company Epex Spot SE based in Paris. All of the power spot trading of both the EEX and Powernext energy exchanges will be consolidated in this company by the end of the year. Each of the partners holds 50 percent of the shares in this Societas Europaea (SE). This legal form makes it possible to merge registered companies or to form holding companies or a joint subsidiary company in various member states of the European Union. Practical and legal limitations arising from different legal systems are thus avoided.

Early in September EEX had already branched off its power futures market business into a company of its own - EEX Power Derivatives GmbH, in which EEX

initially holds 100 percent of the shares. Powernext is to contribute the French power futures market to this company in the 1st quarter of 2009 and in return it will receive 20 percent of the company shares. The EEX will remain as the majority shareholder with 80 percent.

By April 2009 Powernext will also begin to clear its exchange trading through the Leipzig EEX subsidiary ECC European Commodity Clearing. The ECC will then also take over the clearing of the French power futures which are traded through the futures market company in Leipzig, and of the Powernext gas exchange which is planned for the end of 2008.

Catalyst |

The directors of EEX and Powernext see their cooperation as a catalyst for market coupling projects in central and western Europe. The partners already have a declaration from the Belgian Energy exchange Belpex SA stating their intention to participate in a collaboration. The Dutch APX which is itself working on an expansion of its business sector is also seen as a prospective partner. In September it agreed with the likewise Amsterdam based Endex European Energy Derivatives Exchange N.V. to purchase 90.85 percent of the shares of Endex and to merge the activities of both companies. According to the companies, Endex will become a subsidiary of APX and part of the APX Group, becoming the largest European gas exchange. In gas trading the combined exchange operates at Europe's three most liquid gas hubs: National Balancing Point in the UK, Title Transfer Facility in the Netherlands and Zeebrugge in Belgium. Stephan Follender Grossfeld, Chief Executive of Endex, said: 'Merging the activities of APX and Endex is an important step towards the creation of the Dutch Gas Roundabout. The APX-Endex combination will be able to play an important role in the consolidation and integration of the European energy markets.' This combination also contains a Leipzig element: Since June 2007 all Endex products are cleared through the EEX subsidiary ECC. ■