

Interview Hans-Bernd Menzel, ceo EEX

'The euro is our example'

European Energy Exchange (EEX) in Leipzig is working on an alliance with other European energy exchanges. EEX has established a joint operation for spot market trading with Powernext in Paris. Belpex in Belgium and the Dutch exchange APX may also join in and there are talks with other exchanges. Dr Hans-Bernd Menzel, chief executive of EEX: 'We could be close to having an electricity market stretching from Portugal to Finland.'

| by Stefan Schroeter

Powernext and EEX are aiming to merge all their electricity spot trading activities under Epex (European Power Exchange) by the end of the year. How will this work exactly?

At the moment, efforts are under way to bring business together under this new company. On the one side we've got the French submarket, with our submarket on the other, incorporating Germany, Austria and Switzerland. It is expected that France will transfer Powernext's electricity spot market directly into this company. By the same token, we also expect to bring our company, EEX Power Spot GmbH, under Epex as a subsidiary at the same time. Once the tax issues have been sorted out, a merger of the two will take place. We anticipate that this will be in 2009. On both sides, the stated aim of the shareholders is to build the French enterprise up into a pan-European power spot operation. To this end, our intention is to expand our partner base. Regardless of developments in this area, we will retain an operating site in Leipzig.

Plans are also in place to include the Belgian power exchange, Belpex, in this spot market cooperation. What progress has been made in this respect?

Including Belpex in this alliance continues to be our goal. We are also optimistic that this will turn out to be the case, but certain details still need to be resolved.

Last year, you were also in negotiation with the Scandinavian power exchange, Nord Pool Spot AS, resulting in a Memorandum of Understanding being drawn up.

We developed a model at ceo and chairmen level, set down in the form of an MoU. The French and German sides were also prepared to sign the MoU with Nord Pool Spot. But we didn't get as far as the signature stage. Talks resumed in May and we hope that a solution can be found. We would then be very close to achieving Commissioner Piebalgs' vision of having a European electricity market stretching from Portugal to Finland.

Nord Pool would be the strongest of the partners in question.

If we take physical consumption in the region concerned as the variable measured, then the combination of France, Germany, Austria and Switzerland is, of course, more than twice as significant as Scandinavia.

You mean in terms of potential for power exchange trading. But in terms of electricity volumes actually traded, Nord Pool Spot is much further ahead of Powernext and EEX.

Yes, but you also need to take a close look at what lies behind this.



Photo: Bodo Tiedemann

In May, the EU's energy commissioner, Andris Piebalgs, suggested that the standards for power exchange trading would now be set by EEX and Powernext. In his view, neighbouring countries must also be able to have a say in shaping these standards. To what extent is this currently the case?

Anyone who would like to take part is invited to do so. Our contracts are designed from the outset to ensure that further partners are welcome, and anyone on board can have their say. But you can't sit on the fence watching the grass grow and then gripe about how things turn out.

Does this mean that there is no consultation with exchanges currently outside the cooperation?

There is Europex, the European Association of Power Exchanges. I'm a member of the Association's steering committee, as is Jean-Francois Conil-Lacoste (chief executive of Powernext – ed.), Erik Saether (chief executive of Nord Pool Spot – ed.) and the heads of the other 15 member exchanges. We have already been working on these issues in this context. Of course, the degree of cooperation here has to be different than that between France and Germany.

Do you think that the cooperation between EEX and Powernext can be a centre of gravity for other European energy exchanges? Or will other regional centres for energy exchanges emerge?

I can well envisage both scenarios. This is also in keeping with the European Commission's regional concept, under which there are six different regions, one being central western Europe i.e. Germany, France and the Benelux countries. We will bring Austria and Switzerland into this region with us. If Belpex joins us, the region would almost be covered. That would leave only the APX in Holland, which would have to decide whether to opt in or not. I can imagine that similar regional formations

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in central and southern Europe will also emerge. Our objective is to create an environment in the electricity market – and subsequently also in the gas market – along the lines of what happened with the euro.

To date, your cooperation has extended to western European exchanges. What role do southern and eastern European exchanges play?

Beyond Europex, they still play no role for me at the moment, unfortunately. Market development has advanced very differently in European countries and regions. This can be

seen in terms of where futures markets are operating. When it comes to energy markets, we think of spot markets first. However, for large-scale industrial consumers, it is much more important to know the average price that they will be able to buy power for next year rather than knowing what will be happening tomorrow afternoon at two thirty. Futures markets with a daily price-fixing exist in Germany, France, the Netherlands, Scandinavia and to a small extent in Britain. Nowhere else. There are, of course, many initiatives in place that transcend these markets. The Borsa Italiana in Italy and the Prague Stock Exchange in the Czech Republic carry out such activities. But these are not really sufficiently resilient futures markets in the sense that we are talking about. Cooperation with these exchanges thus continues to be difficult. We would welcome such cooperation and there may well be interactions. One such interaction which we expect from our cooperation with France, is the stimulation of the French futures market. Through our cooperation and the direct daily confrontational comparison with what's happening on the other side of the Rhine, we hope, as does Powernext, that this will act as a stimulus. To move away from subsidised prices, away from Tartam (a French system of regulated prices for non-household customers which is under investigation by the European Commission – ed.).

It has been reported that you have applied to expand the electricity spot market in Britain. Can you confirm this?

Compared to the market in Germany, France and the Netherlands, the British market is underdeveloped. Different kinds of initiatives are in place, including the spot market, a small futures market and OTC products ("over the counter" – direct power trading between companies – ed.). But when you look at the volumes involved, it just doesn't compare with what's happening on the continent.

Excitement is slowly mounting.

The British market is of great interest to us. Can it be that there is no electricity market in Britain? The number of our British trading participants has risen from 16 to 35 since the beginning of 2006. There are days when half the trade volume comes from London. This means that the trading participants, the competence, the access to markets and the interest in such activities are all there.

At the end of September, you launched the coupling of the German and the Danish power markets together with your partners. This venture was then put on hold due to technical difficulties. Will German, French and Dutch electricity customers be able to buy reasonably priced Swedish and Norwegian hydroelectric power by means of this market coupling?

The EU's policy objective is to bring about a uniform price on the European wholesale market. This would also mean, of course, that Swedish producers who sell electricity to continental Europe could obtain a higher price.

Will it also mean that customers could enjoy a lower price than with German electricity from coal?

The further this integration process progresses, the more similar prices will become. Today, the price curves in more developed markets are already converging more and more. Where they are not converging, movements are parallel. The fact that there are still differences is also linked with the technical bottlenecks that prevail when it comes to transporting electricity between national grids.

How optimistic are you that you will be able to overcome the technical difficulties of the German-Danish market coupling?

According to our current information, this is a coordination issue between the EMCC (European Market Coupling Company, see article on p. 98, ed.) and Nord Pool Spot. We regret very much that the coupling of the markets needed to be suspended. On our side, I see few further options for possible action at the moment.

In the pentilateral energy forum, Germany, France, Belgium, the Netherlands and Luxembourg are working on coupling their electricity markets from 2009 onwards. What changes do you think will result for power trading if this coupling is successful?

The particular challenge we face here lies in the fact that we are no longer working in a “string of pearls” model – we also have cross connections and interlinking. Germany-France, France-Belgium, Belgium-Netherlands, Netherlands-Germany. There are interactions. This poses another fundamental challenge. And then there is the alignment of this project, which is already relatively complex given the number of participants, with other projects. These issues constitute genuine challenges when it comes to managing the bottlenecks.

It has been said that risky futures market transactions have acted as a catalyst to the global financial crisis. In its business model, EEX is now focussing very decisively on futures trading in the electricity market. Given current events, do you need to change this strategy?

Quite the opposite. For EEX, but also for conventional financial exchanges, September was a particularly trade-intensive month. This is linked to the fact that many people, who didn't want to admit it previously, recognised that regulation, supervision and control of a free market may well have a positive impact. What we need is a market under supervision – and that means exchanges. Many people have recognised this. As a result, the period following the Lehman Brothers' crash in particular saw a real influx. In the case of the Enron collapse in 2001, many market players were affected by the fact that their counterpart in Enron was gone. Those trading with us were not affected – they didn't lose a single euro at that time. The whole process could be handled securely. With our protection measures, such as settlement and clearing, customers pay a premium for being supplied in case of damage. All the same, the hope is that this insurance won't be needed.

In European Commodity Clearing AG you have your own clearing house whose services you also offer to other European energy exchanges. Will the clearing house come out of the financial crisis completely unscathed?

As long as nothing happens, the clearing house has no risk position of its own. Instead, it tries to safeguard the risk positions of trading participants as efficiently as possible against each other. If something fails, as in the case of the Lehman collapse, the clearing house automatically has its own risk position. Then a seven-stage protection process kicks in. The first stage involves margins that Lehman provided, just like every other customer. We took these margins to handle the Lehman

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case and for us the matter was then dealt with. There are six further stages that could also have been drawn on. In terms of the mechanism used, it is a very secure process which is almost 100% reliable. Personally, I'm anticipating everything else from the crisis, but not a decline in our business.

In June 2007, EEX launched gas exchange trading in two German market areas. At least in the BEB/Gasunie market area, start-up has been very difficult. How has trade in this area developed since then?

The other market area, Eon Gastransport, remains dominant. That has not ultimately been a surprise given the different sizes of these two market areas. We are still hoping to be able to achieve something here. In particular, we believe that a stimulus will once again be generated through the takeover of the market area by Gasunie (in July 2008 – ed.). The Federal Network Agency also gives us hope. It has been very helpful in setting up the market and is continuing its efforts. Further consolidation of the German market areas will take place, but we should not forget that we have lost eight years when it comes to the gas market in continental Europe. Gas markets were formally liberalised in 1998 but the sign on the door of the gas exchange was put up only last year.

When do you think EEX gas exchange trading will have developed to the extent that you can talk with other gas exchanges about cooperation?

We are already talking with other exchanges or initiatives about cooperation. In trade volume, we have already reached a level similar to that in the Netherlands. This is also reflected in the prices. In continental Europe – as with electricity – the differences in price between the marketplaces are becoming smaller and smaller. ■