

Interview: Erik Saether, ceo Nord Pool Spot

‘Merging exchanges is not the solution’

European energy exchanges may be undergoing a process of consolidation, Erik Saether, ceo of Nord Pool Spot (NPS), is not eager at this moment to merge with his European competitors. ‘It will be better for Europe if local markets are improved first.’

| By Stefan Schroeter

Although the power derivative exchange Nord Pool (NP) is targeting European and even global expansion, its sister company Nord Pool Spot (NPS), by far Europe’s largest spot power exchange, looks at possible European mergers with a wary eye. NPS is ahead of most of its European rivals in terms of liquidity, transparency and costs. It does not want to give up its lead just to become bigger, explains ceo Erik Saether in an interview with EER.

[Some time ago Nord Pool Spot was invited to join the co-operation between EEX and the French energy exchange Powernext. Why didn’t you join them?](#)

We were not asked to participate in the co-operation, we were invited into a cross-ownership agreement. We think they should complete their ongoing merger process before they merge with others.

[Do you mean they should complete their merger first, then perhaps Belpex or APX can join, and then you can speak with the merged companies about a co-operation?](#)

Personally I don’t see the benefits of a merger for Nord Pool Spot for the time being. The existing liquidity in the continental markets is just too small at this point. There are fifteen spot exchanges in Europe today. Most of them have limited or no liquidity at all. If you take all the liquidity of all the power exchanges in Europe and add them together, it is still less

than the liquidity in the Nordic market. We think that it will be better for Europe to first improve the local markets. It will add more value and benefit for society, if for example the Polish, Hungarian and English markets become more liquid. This is much more important than to merge two entities which are quite successful on their own.

[Why don’t you see any benefits for Nord Pool Spot in a merger?](#)

Because the purpose of a merger should be to reduce transaction fees for the market participants and increase the liquidity. In my opinion it must bring value to our customers. Today, Nord Pool Spot has the lowest transaction fees in Europe, because we have the highest volumes. Therefore, the utilities in the Nordic countries will not benefit from a merger with a European exchange. The cost of transactions at Nord Pool Spot is three eurocents per megawatt hour. In continental Europe it is twice as much. So it is hard to see the benefits for Nordic market participants if we integrate European exchanges in their existing markets and align with their transactions costs.

[But if you merged you would add to your liquidity. Wouldn’t that be useful for you?](#)

It has taken Nord Pool many years of hard work and painstaking adjustments of market functionalities to go from zero to the 70% market share that we have now. (i.e., 70% of physical power consumption in the Nordic region is traded

on NPS, editor) We believe it is important for Europe to follow our example and improve liquidity in its local markets. Poland for example has had a market for a few years, but its liquidity is low. What you have to do is figure out why this is so. Our primary objective concerning co-operation on a European level, is to implement measures for improving the liquidity of all the local markets. Then, later on, when all the national markets have become as liquid as the Nordic market, we can discuss how we can bring the marketplaces together. It's a sequence, and you have to start it at the right end.

How much time do you think this process will take?

It will take maybe 10 to 15 years. Germany started liberalisation of its energy market in 1998, and the liquidity at the power spot exchange is now 150 terawatt hours, out of 550 terawatt hours of physical consumption. In France, they have a liquidity of 40 out of 600 terawatt hours. These things take time and the exchanges must implement measures to increase their liquidity in close cooperation with the market participants.

They have a different market structure.

Definitely. We are very positive about contributing to the development of the European power market. We have proposed to EEX and Powernext to co-operate on market transparency, because the lack of liquidity may be caused

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by the fact that the continental markets are less transparent than the Nordic market. The exchanges should develop more uniform market transparency rules with market surveillance, including explicit surveillance for insider trading. We have also proposed to co-operate on intraday trading. The intraday trading is something which is driven by the Transmission System Operators, but the power exchanges should push this as well to get more market-based solutions. We believe also that harmonising rulebooks and the organisation of the markets would support market liquidity as the barriers between the markets will be lowered.

What has been the response of EEX and Powernext?

They have been positive, and perhaps our experience in these areas can contribute to further development in other European markets.



Photo by: Robert Essel NYC/Corbis

Are you also motivated by a desire to remain independent from other power exchanges operating in markets which are potentially much larger?

All power exchanges are independent. I remember how Nord Pool got started in Norway. After some years, Sweden was included. The process to create one market took years. Then came Finland and Denmark, and again it took years. You don't solve market challenges by merging two exchanges, if the fundamentals remain the same. Market development and harmonisation takes years. We believe in European

'Market development and harmonisation takes years'

consolidation, but we think it should start on the national level, and then become regional, and then European. We cannot jump over the most important steps of improving market functionality.

Nord Pool Spot and Nasdaq OMX Commodities have been chosen by the Futures and Options Association in the UK to establish a spot and derivatives power market there. Which potential do you see in this market?

The physical size of the UK market is approximately 400 terawatt hours. So I would be pleased if we could achieve one quarter of that.

What is the time frame for this?

It is hard to say. The UK market was the first to be deregulated and they have had various spot power exchanges, but they have not been able to establish a reliable price reference for derivatives, as in the Nordic and German markets. In the UK the gas market is more liquid than the

power market, probably because the gas spot price is more accepted as a reference price than the spot power price. Now the regulators and stakeholders in UK are concerned with improving the functionality of the power market and are putting some pressure on market participants.

Is this the main reason for optimism?

The main reason why I believe that this will be successful is the fact that the FOA, the organisation of trading parties in the UK, wants to have a continental market model. They would like to see daily price fixing in order to get a price index which they can trust. They have been the driving force to have a new market supplier in the UK. To improve trust in the spot price, I believe a solution would be to improve the liquidity in the day-ahead market. This would give a better idea of marginal costs.

In March 2008 Nord Pool Spot and Energinet.dk have started a gas exchange. How successful is it?

It's still a start-up so we have not achieved very high volumes. To have a standalone gas business in Denmark is not necessarily a big business. Somehow you need to connect to the rest of the gas network in Europe. At some point in time there will be cross-border capacities between Germany and Denmark. That will open up new opportunities. At some point in time it will be possible to trade storage. So we see some business opportunities.

Could you also establish gas exchanges in other Nordic countries?

Not in Norway, we don't use gas here. We only export it. Finland has some gas consumption, in Sweden it is limited. It may be coming, but not like the power market. If we want to grow the gas business, we have to look at the borders, at the storage business, at the North Sea and at liquefied natural gas. So there's a long way to go. ■

Who is Erik Saether?

Erik Saether was managing director of TransCurrent in San Francisco from 1998 to 2000, providing risk and portfolio management services to utilities in California. After that, he worked as chief trading officer and managing director in the power trading business unit of the Swedish Vattenfall Group in Germany and Sweden. He became ceo of Nord Pool Spot on 1 July 2008.



Photo by: Stefan Schroeter