



Photo by: Bart Willemssen

**Interview:** Bert den Ouden, ceo APX

## Dutch exchange looks at gas to retain independence

*To arm itself against the ongoing consolidation in the European energy trading market, the Anglo-Dutch gas and power exchange APX has moved ahead of its rivals into gas trading. ‘The sense of urgency to create an integrated market is bigger in gas than in power’, says ceo Bert den Ouden.*

*'Bureaucratic obstacles make it increasingly difficult for energy companies to build new plants'*

| By Karel Beckman

'Will APX give up?' This intriguing question appeared recently on a Power Point presentation given by Erik Saether, ceo of APX-rival Nord Pool Spot. Saether asked the question in the context of the consolidation taking place in the European energy trading sector. APX, which celebrates its 10th birthday in June, is small compared to Nord Pool and to the new French-German combination Powernext-EEX. With the steadily growing integration of North-West European energy markets, many market watchers expect the exchanges to follow suit – and APX to be snapped up by one of its bigger rivals.

But ceo Bert den Ouden says that consolidation of the exchanges is not what he is primarily concerned with at this moment. 'Further consolidation is possible, but it is not the most urgent issue. What should have priority at this stage is further integration of markets. That will have real benefits for market players and for the economy as a whole. Whether or not the exchanges follow, is much less important.'

Den Ouden is proud of the "market coupling" which the Netherlands, France and Belgium achieved in 2006 ('one of our finest hours'). As a result of this coupling, market players can now trade power freely across the Dutch, French and Belgian borders, which has led to considerable price convergence in the three markets. A similar attempt – by Nord Pool and the

German exchange EEX, together with three transmission system operators – to couple the Danish and German markets failed last year, because of technical difficulties. 'They made a false start, unfortunately. We did very extensive tests before we became operational. When you launch an airplane, it has to fly. But I am sure they will do all they can to be successful next time.'

Although Den Ouden prefers not to talk about possible future partnerships, it is clear that APX has no intention of 'giving up' without a fight. It has made several moves in recent years to strengthen its market position. Some years ago it managed to acquire the UK gas exchange EnMo from National Grid, making APX at one stroke the largest gas spot market in Europe. 'That was another of our finest hours', says Den Ouden. 'After this acquisition, we became profitable. Before that, we were not.' Last year, APX acquired (in fact, re-acquired) the Dutch power and gas derivatives exchange Endex. APX, also active in electricity spot trading in the UK, has a 10% interest in Belgian power exchange Belpex and has drawn in Belgian gas TSO Fluxys as shareholder, in addition to its other two shareholders, the Dutch gas and power TSO's Gasunie and Tennet.

But it is APX's gas activities above all that Den Ouden considers the most promising. 'You can be ahead of the pack, but you also

have to be big enough', he says. 'It is a tough lesson we learned in the electricity market. Other countries can imitate what you do and become bigger. That is why we focus on gas now.'

In volume, Den Ouden says, gas is a bigger business than electricity. And price differences in electricity will remain bigger than in gas. 'This is one reason why we focus on gas long-term. The sense of urgency to create an integrated market is bigger in gas than in power.'

In addition, as a large gas producer, the Netherlands has a natural advantage in the gas market. 'In electricity we will never be the biggest. In gas we do have the opportunity to become a market integrator.'

The Dutch government has the stated ambition of turning the Netherlands into the "gas roundabout" of North West Europe. Den Ouden supports this idea, but he says the Netherlands should not try to go for it alone. 'We should do this together with our neighbouring countries.' It is not a competition between trading platforms, he says, but between hubs, in particular the Dutch, Belgian and British hubs (TTF, NBP and Zeebrugge). 'What the traders want is to merge these hubs into one big virtual hub. If you make sure the lines to Britain and Germany are open, you have the possibility to create something big.' Den Ouden is convinced there will soon be one central European gas hub, like Henry Hub in the United States. 'It will be here sooner than a power hub. There won't be room for many others. So we have to act now.'

The Dutch government has shown leadership in the coupling of the power markets, says Den Ouden. It should do the same in gas. 'I know they have the will, but they have to show more urgency. They have to show leadership. Speed is of the essence in this.'

In the Dutch power market, APX keeps gaining market share, says Den Ouden. The economic crisis seems to boost rather than shrink volumes, as market players probably consider the exchange, with its clearing services, less risky than some of the

bilateral trading. One of Den Ouden's ambitions is to bring in more medium-sized power producers. 'Think of cogeneration and wasteprocessing plants. Together these two produce more electricity than wind power and nuclear power producers combined.' APX also participates in Climex, which auctions CO<sub>2</sub>-credits for governments. 'It is a niche in the CO<sub>2</sub>-market, but you don't have to be the biggest in everything you do.'

One of the major projects currently going on at APX is the move from the "trilateral" market coupling towards "pentalateral" market coupling, with Germany and Luxemburg joining France, Belgium and the Netherlands. Den Ouden expects this to be ready by early next year. APX is also involved in the BritNed cable, which is being built by Dutch TSO Tennet and UK TSO National Grid, and which will open up the possibility of market coupling between the UK and the Netherlands. APX is designing the trading system that will apply to the cable. The UK looks set to be a battefield between Nord Pool, which will be entering the UK spot power market soon, and APX, which is already active in the UK. Interestingly, last year the Dutch and Norwegian power markets were interconnected with the 700 Megawatt NorNed cable, so there will be a connection between Norway and the UK through the Netherlands. Ironically, the two countries, both major gas producers, do not have a gas pipeline connection – Norway is connected by gas pipeline to Belgium.

So what will the future look like for the European market? Years ago, when the liberalisation of the energy markets got started, optimists predicted that the whole of Europe would become "one copper plate". For a long time, this looked to be a pipe dream, but with all the market coupling activity going on, the dream suddenly does not look so fanciful anymore. Den Ouden believes in it. 'That copper plate will become reality one day.' Most likely, the market will be moving what experts have called the "dome model", says Den Ouden. 'There will be a number of integrated regions which in their turn are connected through a coupling mechanism.' ■

## 'Power market is getting stuck!'

'Bureaucratic obstacles make it increasingly difficult for energy companies to build new plants. It's a complaint I hear from all over Europe.' Bert den Ouden, the Dutch ceo of APX Group in Amsterdam, is sounding the alarm. He says licensing procedures and other regulatory obstacles have led to a situation where it has become extremely difficult, in many cases impossible, for companies to build power plants. This, Den Ouden says, is harmful to the economy. 'If our economy needs new investments, we have to give energy companies the chance to build new plants.'

In the Netherlands, the highest national court decided recently to refer a decision on the licensing for several newly to be built coal-fired power plants to the European Court in Luxemburg. The Dutch court wants to know if the plans are in line with European environmental legislation. 'A nightmare for the companies', Den Ouden says. 'The licensing system is completely stuck. Not only in the Netherlands – we are not even the worst. I hear it from everywhere. And it does not even matter whether you want to build a coal power plant or a nuclear plant or a windmill – everything is getting stuck in red tape. This is really having a detrimental effect on investments. And when the economy picks up again, we could well be faced with energy shortages.'