

Gen-I: "Fresh approach of BSP SouthPool will stimulate the development of the daily trading in the region"

HSE: "After the introduction of market coupling the increase of exchange liquidity is expected"

Formal Members Chamber meeting on 29th of October 2009 in Ljubljana

BSP SouthPool is the regional energy exchange in South Eastern Europe. It provides complete and high-quality liquid, competitive, and transparent services of organised electricity market for market participants. At the moment, BSP enables trading with electricity on Slovenian and Serbian market. BSP energy exchange has an international ownership structure and is open for admission of new partners. Our ultimate objective is to become a leading regional cross-border energy exchange in South Eastern Europe.

Trading report for September

Total volume of concluded transactions on BSP Regional Energy Exchange in September reached 1.320 MWh, of which 1.080 MWh was reached in the Slovenian market and 240 MWh in the Serbian market.

On the Slovenian market 15 transactions were concluded, of which 9 with Base and 6 with Euro-peak product. Average price for Base product reached 43,22 EUR/MWh and for Euro-peak product reached 50,18 EUR/MWh. In the Serbian market 1 transaction with Base product for 40,50 EUR/MWh was concluded in the aforementioned period.

In the Slovenian and Serbian market 448 orders in the total volume of 48 GWh were entered in September which represents 33% increase in comparison to August when 32 GWh orders were entered. In the Slovenian market 322 orders were entered in September,

most of them (148) with Base product. In the Serbian market 126 orders were entered in the same period, most of them (123) with Base product.

No transactions were submitted for clearing (OTC) in September 2009.

Market Statistics for 2009

Currently, BSP has 21 members and their activity in the after-summer months appears to be improving, i.e. we have noticed a constantly growing number of entered orders on both markets, the Slovenian and Serbian. By the end of September, the total trading volume on the Slovenian and on the Serbian market has reached 10.448 MWh, the total volume of entered orders was 321.788 MWh.

The total volume of entered orders on both markets reached 321 GWh until the end of September 2009, as of more than 82 percent of all orders were entered in the Slovenian market. The total volume of entered orders in the Slovenian market until the end of August reached 266 GWh and in the Serbian market reached 55 GWh.

Trading volume and average Base price in the Slovenian and Serbian market in September 2009



Volume of entered orders and total trading volume in the Slovenian market in 2009



"Fresh approach of BSP SouthPool will stimulate the development of the daily trading in the region"



Igor Koprivnikar, PhD., Member of the Management Board for electricity trading at GEN-I, Slovenian major trading and sales company.

Interview with **Igor Koprivnikar**, PhD., Member of the Management Board for electricity trading at GEN-I, Slovenian major trading and sales company.

1. How long have you been present on power markets in SE Europe? How would you evaluate the development and the actions taken on these markets?

The beginnings of GEN-I date back in the first half of 2004 when we concluded first transactions and built basic infrastructure for electricity trading and selling and established first balance groups in Slovenia, Austria and Germany. Soon after we began to trade on the ex-Yugoslavia markets, and in the year 2005 we have already entered into the segment of selling electricity to the Slovenian end-users. Right from the beginning we are constantly increasing the scope of our business operation, expanding and strengthening our local presence in the area of SE European countries and in our representative offices. Within the framework of the GEN-I Group today, we are present with our eight subsidiaries and branched business infrastructure on 14 foreign markets; through Germany, Austria, and Italy on the West, and Hungary, Romania, and Bulgaria on the East, and to the Greece and Albania on the South. We have managed to increase the number of concluded transactions with electricity with cross-border transmission capacities and financial instruments each year. Of course, the number and scope of our active participation in international tender bidding for purchase and sales of electricity is also growing. We have substantially increased the scope of our business operation in Hungary, Greece and Albania, and according to our estimation the GEN-I Group will pass the border of 8 TWh of all supplied values of electricity in 2009.

An important milestone for SE European markets was the signing of the Energy Community Treaty in 2005. Since then, many important steps towards more unique legislation and rules have been taken, which unquestionably promoted the development of the regional market and its integration to the EU market, as well as provided an access for new actors to the market.

Notwithstanding the fact that things are getting more and more regulated on the paper, the practice shows the opposite, where we must cope with different difficulties and issues, which are hard to imagine within the structured environments; whereas, however, this also represents the challenge and opportunity. One, who is capable of understanding the operation and processes on these markets,

can successfully manage the risks, which are present. The key to the success is an intertwining of appropriate information, fair business moves, experiences, and maximum flexibility.

2. You have been a member of BSP SouthPool from the beginning. In your opinion, what is the role and the meaning of the power exchange in the region?

With its extension in the range of trading products and the establishment of trading zone in Serbia, BSP SouthPool entered the fragmented market of SE Europe, where, excluding three countries (Slovenia, Romania, and Greece), the organised trading has not yet been known. It is not only about the establishment of the regional energy exchange, but mostly about the establishment of an organised exchange trading on the internal markets within individual countries with the transparent electricity pricing and their publishing. Generally, the exchange trading is more transparent and simple than bilateral trading and the model of an organised trading brings the standardisation for all trading operations. We estimate that the fresh approach of BSP SouthPool will deepen the market liquidity, attract new actors, and actively stimulate the development of the daily trading in the region at large.

Trading on organised markets and through trading platforms is not uncommon for the company GEN-I. Within the framework of its wholesale trading, our group is actively present on four exchanges and has been a member of Borzen, the predecessor of BSP SouthPool, since 2004. We also take part in trading on many other markets in SE Europe where the method of exchange trading has not yet been established. For GEN-I, the beginning of trading at BSP SouthPool represents an additional opportunity for the optimisation of our trading portfolios. Being one of the most evident actors in the region, we strive to deepen its liquidity with an active cooperation with BSP SouthPool and with our daily entries with a small difference between bid and ask values. We are aware, however, that the establishment of BSP SouthPool is a lengthy process; that the changes will not come over night, and we will have to make every effort as some of the features of SE European markets are changing only gradually. In any case, the potential in BSP SouthPool remains and consequently the intent of GEN-I to enter the ownership structure of BSP SouthPool remains as well.

3. According to the development projects in the region, how would you evaluate the possibility of the increase in liquidity at BSP SouthPool?

Similarly as in Scandinavia, the market coupling among France, Netherlands and Belgium has increased the utilization of cross-border transmission capacities; therefore I estimate that the establishment of such a concept can lead to similar positive effects in our region as well. Better utilization of cross-border transmission capacities contributes to a better liquidity of an individual market and, indirectly, such an approach simplifies the access of new actors on the regional market. In general, implicit auctions decrease market risks (simultaneous transaction of cross-border transmission capacities and energy) and at the same time additionally increase market transparency. Aforementioned should have a positive influence on liquidity and transparency of the daily market, generally the robust daily indices represent the basic starting point for the development of the financial trading.

4. What are the main strategic goals of your company in the future?

The strategic goals of the GEN-I Group are: to further strengthen the position of our company and our balance group on the electricity market in Slovenia where we are present in all segments of selling of electricity to end users – from large industrial consumers to households; to increase the power of GEN-I on regional markets in SE Europe; to upgrade already effective risk management with new approaches within the entire chain – from purchase and trading to the selling of electricity as a reliable and advanced supplier; to be a reputable business partner, and to be successful in business operation in general. Last year, GEN-I has doubled the volume of sold quantities of electricity directly to users and distribution companies and, with foreign trading, we were therefore able to highly enhance our role in the Slovenian wholesale market supply. With an input of higher volumes of electricity we have succeeded to achieve an important share of the supply on the domestic market and promoted ourselves as a net importer of electricity to Slovenia. Current financial year will be even more successful and we were able to increase the volumes of electricity sold in the area of SE Europe despite the consequences of the economic crisis.

"After the introduction of market coupling the increase of exchange liquidity is expected"



Tomaž Štokelj, PhD., the Executive Manager of the Sales & Trading Division at Holding Slovenske elektrarne (HSE), Slovenian major producing and trading company.

Interview with **Tomaž Štokelj, PhD.**, the Executive Manager of the Sales & Trading Division at Holding Slovenske elektrarne (HSE), Slovenian major producing and trading company.

1. How long have you been present on power markets in SE Europe? How would you evaluate the development and the actions taken on these markets?

HSE has been present on power markets in SE Europe almost from the beginning, i.e. from 2002 onwards. At that time, some administrative impediments, such as licences, companies, etc. did not yet exist. The trading took place mostly on the borders of individual countries (Croatia, Bosnia and Herzegovina, and Serbia). Soon after, in 2004, HSE established its first representative office which was located in Beograd. The representative office's aim was to gather information on electricity trading, as well as establishing contacts and opportunities for lease or purchase of the generation capacities. Later on, the subsidiary company HSE Balkan Energy LLT has been established on this basis. As a consequence of the power markets' liberalisation and the implementation of EU directives, the SE European countries began to amend their power legislations. Due to the results, HSE had to establish companies and subsidiaries in order to maintain and also expand its presence in the SE European area. In 2006, the company HSE Hungary has been established in Hungary and HSE Adria in Croatia. We have opened our representative office HSE Romania in Romania in 2007, in 2008 we have formed HSE Bulgaria in Bulgaria, and HSE MAK Energy in Macedonia in 2009. We are continuing with the establishment of our representative offices and the expansion of our business operation also in Greece and in Bosnia and Herzegovina. The conditions on power markets on the SE European area are very specific. Clearly, notwithstanding the implementation of EU directives, the power market in the SE Europe is still not liquid and transparent enough. The state-owned power companies still maintain a monopolistic position in their countries.

position in their countries. The electricity is still perceived as a social property; the percentage of paid electricity is substantially lower than in the notorious Europe. Due to financial problems, some state-owned power companies have been partially privatized. In the near future we expect the negative trend to continue, as problems and setbacks in some countries are still growing due to the recession. By this we mean especially the investments in the generation capacities and the transfer of electricity. As they do not have their own money (except in some rare exceptions), the "help" from the institutions from West Europe, strong in capital, will be necessary. The privatization of state-owned companies is also possible for which some of the biggest European energy companies are highly interested (CEZ Group, Enel, Edf, RWE, Verbund etc.).

2. You have been a member of BSP SouthPool from the beginning. In your opinion, what is the role and the meaning of the power exchange in the region?

The power exchange development project in the region is important from the viewpoint of transparency of prices on the markets for producers as well as for consumers of electricity.

3. According to the development projects in the region, how would you evaluate the possibility of the increase in liquidity at BSP SouthPool?

On the regional exchange SouthPool, there were 1,7 GWh of concluded transactions in November and December 2008, while in the first nine months of 2009 there were 10,2 GWh of concluded transactions. These data clearly show that the liquidity is increasing which also strengthens the meaning of the exchange.

This gives a more transparent and a securer price signal to the market participants and increases the market transparency. After the introduction of market coupling, the increase of exchange liquidity is expected, but the scope of the increase depends mostly on the degree, to which the exchange will be included to the organizational structure after the introduction of market coupling. As far as the SE European markets are concerned, any comprehensive activities on the field of the establishment of the regulatory frameworks for the establishment of a transparent power market are hard to be expected in the near future. A substantial problem in establishing a regional exchange, which would include more countries of ex Yugoslavia, lies in the "unconnection" of these markets and unwillingness to cooperate among individual countries.

4. What are the main strategic goals of your company in the future?

In the future, the goals of HSE will be oriented in the provision of a reliable, safe and secure electricity supply in Slovenia and a concurrent expansion to the SE European markets. The focus will be on the further development projects and the construction of electricity generation capacities that will increase the Slovenian power self-sufficiency.

BSP SouthPool is entering the market of Macedonia

BSP signed a Letter of Intent with Macedonian ELEM

BSP SouthPool and ELEM (Macedonian power plants) have signed a Letter of Intent on cooperation on the Macedonian energy market. By the end of 2009, the partners aim to establish the trading infrastructure for the new Macedonian energy market. This is another important step to enter new markets on the Balkans alongside serious dialogues with partners in all Western Balkan states. With the signed Letter of Intent, BSP SouthPool has committed itself to expand its trading into new markets of SEE Europe.

New members – Q3 report

Till the end of Q3 2009 BSP has connected 8 new members in 2009; several large European utility companies are among them, e.g. EGL, E.ON Energy Trading SE, Statkraft Markets and Verbund. Their confidence in us is our biggest achievement and we are very proud that we succeeded in bringing both big European energy players and important regional actors to our exchange. With the rest of companies active in the region we are still in the process of admission. Currently, BSP has 21 members.

Enlarged activity on the BSP SouthPool Serbian electricity exchange market

After a longer period of time there has been a trade on the Serbian electricity exchange market. Market participants completed a trade for 240 MWh of base load power at price 40,50 EUR/MWh. The movement on Serbian market is a result of increased number of members accompanied with their enlarged activities on the BSP SouthPool Serbian Day-ahead market. So far BSP SouthPool has 21 members among which 8 are market participants on Serbian market.

First Formal Members Chamber meeting

As pre announced in the October issue the first Formal Members Chamber meeting will take place on **29th of October 2009** in Ljubljana.

Next Exchange Trader Training Course

Due to demand on the market we published a new date for the **Exchange Trader Training Course**. The next Exchange Trader Training Course

will take place on **22nd of October 2009**.

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