

Market coupling between Italy and Slovenia in progress The new facility on BSP SouthPool – OTC Clearing First formal Exchange Chamber meeting in October

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 July - August

Total volume of concluded transactions on BSP Regional Energy Exchange in July reached 1.212 MWh which represents a slight increase in comparison to June 2009 when the total volume reached 1.102 MWh. On the Slovenian market 16 transactions were concluded in July: 10 with Base and 6 with Euro-peak products. An average price for Base product reached 39,67 EUR/MWh.

In August we recorded a slight decrease in volume of concluded transactions in comparison to July. The volume reached 960 MWh which represents a 20 % decrease in comparison to July 2009. On the Slovenian market 11 transactions were concluded, all of them with Base product. Average price for Base product reached 35,45 EUR/MWh.

There were no concluded transactions in the Serbian market in July and August 2009.

Market Statistics for 2009

Total volume of concluded transactions from the beginning of the year 2009 until the end of August reached 9.128 MWh for the Slovenian

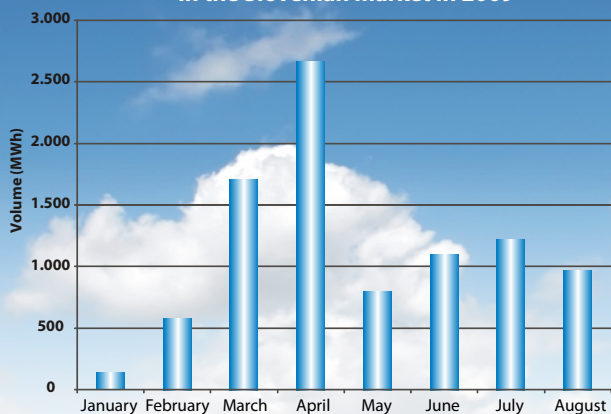
and Serbian market. In the Slovenian market 121 transactions were concluded, of which 49 with Off-peak1, 46 with Base, 24 with Peak and 2 with Euro-off-peak2 products in the aforementioned period. There were no concluded transactions in the Serbian market from the beginning of the year 2009 until the end of August.

The total volume of entered orders on both markets reached 271 GWh until the end of August 2009, more than 85 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 236 GWh and in the Serbian market reached 35 GWh.

The new facility – OTC Clearing

On 8 July BSP launched day-ahead OTC Clearing for both Slovenian and Serbian markets. Market participants have the possibility of submitting OTC trades for clearing via the ComXerv trading platform every working day from 08:30 to 10:00 for the Slovenian market and from 08:00 to 12:00 for the Serbian market.

Volume of concluded transactions in the Slovenian market in 2009



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



Interview with
Giovanni Battista Aruta,
Director of Markets at GME
(Gestore del Mercato Elettrico).

Market coupling between Italy and Slovenia in progress

GME and BSP Southpool representing PXs in Working Group engaged in the market coupling project for the Italian and Slovenian electricity markets. Mr. Giovanni Battista Aruta, GME's Executive Director of Markets, was interviewed on this topic.

GME is a company established in 2001 and indirectly owned by the Italian Ministry of Economy. GME manages the Italian wholesale electricity market, also known as Italian Power Exchange (IPEX), as well as Environmental Markets. In 2010 GME will add a new facility to its business. It will start to manage the Italian regulated wholesale gas market (Gas Exchange). In 2008 232 TWh were traded on GME's Day-Ahead Market (one of the markets making part of GME's Spot Electricity Market). This figure accounts for 69% of Italian electricity consumption.

Which are the most important benefits of market coupling for traders?

Market coupling provides a range of benefits to traders. First of all, by combining energy and capacity trading, market coupling enables traders to lower their operating costs and trading risks with respect to trading energy and capacity separately. Moreover, market coupling gives impetus to the growth of liquidity in less mature and less developed markets, increasing transparency and opportunities for traders to expand their activities also in new markets.

BSP SouthPool is your partner in the market coupling project. What is the role of regional markets in the project?

How has your cooperation with BSP SouthPool evolved so far?

There is a general consensus in Europe that market coupling is the most efficient solution that can be adopted in order to create a European energy market by integrating local Day-Ahead Markets. Various market coupling projects are already in place in different regions, such as central-western Europe. Therefore we do not think that we have completed our project - which has seen a factual cooperation between the partners - by merely coupling Italy and Slovenia. Our project is open to PXs of other countries willing to join. Hence, this is only the first step on a wider integration path, which may involve other countries neighbouring Italy and Slovenia.

Why have you chosen the Italian-Slovenian border as a first market coupling initiative?

The border between Italy and Slovenia has different features that are very important for our market coupling initiative. First of all, the interconnector capacity is relatively small compared to the interconnector capacities on other Italian borders. This is optimal, because our initiative may be a "pilot" project in our region. Results and feedbacks from our project might be the starting point for extending our initiative to other borders. Furthermore geographically, the border between Italy and Slovenia may represent the node that links market coupling projects of several European regions. Therefore, we believe that our project may be the first step of a longer and multi-regional integration process, in which GME and BSP may play a central role.

Do you think that the prices for electricity on both markets will be more transparent after market coupling?

Other European experiences show that market coupling increases the liquidity of less mature markets. The higher the market liquidity is, the more robust and transparent the market prices are. Consequently we are confident that increased transparency is one of the goals that we will achieve through market coupling between Italy and Slovenia.



Giovanni Battista Aruta,
Director of Markets at GME
(Gestore del Mercato Elettrico).

In what stage is the project right now?

In May 2009, the main stakeholders involved in the project (PXs, TSOs, Regulators and Ministries) set up a Working Group (WG) with the mission of defining a roadmap towards the implementation of market coupling. The WG identified the key issues to be tackled in order to launch the project. Additionally, by the end of September, GME will make available an electronic platform on which PXs and TSOs will be able to run tests and simulations. The outcomes of these tests and simulations might give important results and feedbacks that will be also used in further decision process made by WG.

When will the implicit auction replace the daily auctions for transmission capacity?

Both technical and regulatory aspects are to be accommodated and harmonised to make the project operational. Implementing market coupling is a challenging task, in which many parties are involved. Converging onto the most efficient solution for Market Participants (and thus for final customers) requires different experts and organisations to share their expertise and skills. Hence, the operational start off the project is subject not only to a working plan, but also to variables beyond the control of the WG.

»By combining energy and capacity trading, market coupling enables traders to lower their operating costs and trading risks with respect to trading energy and capacity separately.»

First formal Exchange Chamber meeting

At the end of October gathering of the representatives of the BSP SouthPool Exchange Participants is planned on the first formal Exchange Chamber meeting. In accordance with BSP SouthPool Exchange Rules Members Chamber is the body representing interests of all Exchange Participants in relation to BSP. Its powers and responsibilities shall be:

- election of Chairman and Vice-Chairman of the Members Chamber;
- election of Members Chamber's representatives to the Exchange Council which shall coordinate the work of Members Chamber and Market Committees
- formulation of Market Committees which are the bodies representing interests of Exchange Participants active in the individual Country of BSP Operation in relation to Members Chamber.
- formulation of reasoned opinion on the matters of fundamental importance for Trading and Clearing at BSP;
- proposing changes to the BSP Rules and procedures;
- discussion on general issues related to business environment of the markets where BSP operates;
- adoption of reasoned positions on any issue related to the above and its submission to the Management.

Prior to the event each Exchange Participant is to receive nomination sheet on which it will nominate its official representative to the body. The nominated representatives will be invited at the beginning of the October in the written form to the meeting.

For any further information on the topic feel free to contact:
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**Three new
members joined
BSP SouthPool
during the summer:
E.on, Elektro
Ljubljana and
Edelweiss**

During the summer the number of members of BSP Regional Energy Exchange exceeded 20. In July Elektro Ljubljana became a new member and in August two more joined, E.on Energy Trading and Edelweiss Energia. At the moment BSP SouthPool has 21 members.

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.**



Make your bussiness in south-east Europe safer...

...use OTC clearing - new facility on BSP SouthPool.

In July 2009 BSP SouthPool added the facility to clear day-ahead OTC (over the counter) transactions.

NEW FACILITY IS THE ANSWER TO THE COSTUMERS' NEEDS ON THE MARKET.

In the market where still a larger share of transactions are concluded bilaterally OTC clearing facility is enabling safer trade and is also adding value to participants which are trading through PX because:

- Market participants are not always interested in the anonymity of trading,
- High volume orders are usually not entered in the order book because this can affect the price.

WHAT BENEFITS DOES OTC CLEARING OFFER YOU?

- **Market position optimisation.**
In case that trading volume limit with certain partner is exceeded restriction of OTC trading with that partner can be avoided, trough this facility existing trading limits can be used more extensively;
- **Lower risks.**
Clearing member has the possibility to transfer the credit risk to the one counterparty (BSP SouthPool), the amount of securities can be lowered, if OTC clearing is used compared to bilateral settlement, standardized, very efficient and safe settlement with high degree of automation is used contrary to different processes used by partners
- **Lower costs.**
Less financial transactions because transactions between different partners, for different products and delivery periods are netted against each other, credit inquiry for partners is not needed in the same extent, less management of securities is needed,



HOW TO USE NEW FACILITY?

For using the new facility no administration procedure is necessary. BSP SouthPool exchange members get direct access to the OTC clearing facility in the markets they participate in during the continuous phase of trading. That is between **8:00 a.m. and 12:00 p.m on the Serbian day-ahead market and** from 8:30 a.m. until 10:00 a.m on the Slovenian day-ahead market.

UNIFORM CLEARING FEE

In order to promote trading, BSP SouthPool has set **uniform clearing fee for OTC transactions to €0.08/MWh**, with no additional costs charged to the BSP SouthPool market participants.

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