

Cooperation between EXAA, PXE and TGE

**Workshop on the Organized
Electricity Market in Central
East Europe**

Vienna, 12. April 2010

Background

Recent Developments in Europe and in CEE

- **Central Allocation Office** set up by TSOs in Freising (Germany) preparing Flow-based Explicit Auctions for Capacity Rights in the Region.
- Presentation by the PCG (Project Coordination Group) of a Target Model for Market Integration in Europe at the Florence Forum in December 2009, with the goal of a **Pan-European Price Coupling** in 2015.
- Finalization of the Report “**CEEPEX Regional Power Exchange**” by Accenture and Nord Pool Consulting studying the Organized Electricity Market in the Region Central East Europe.

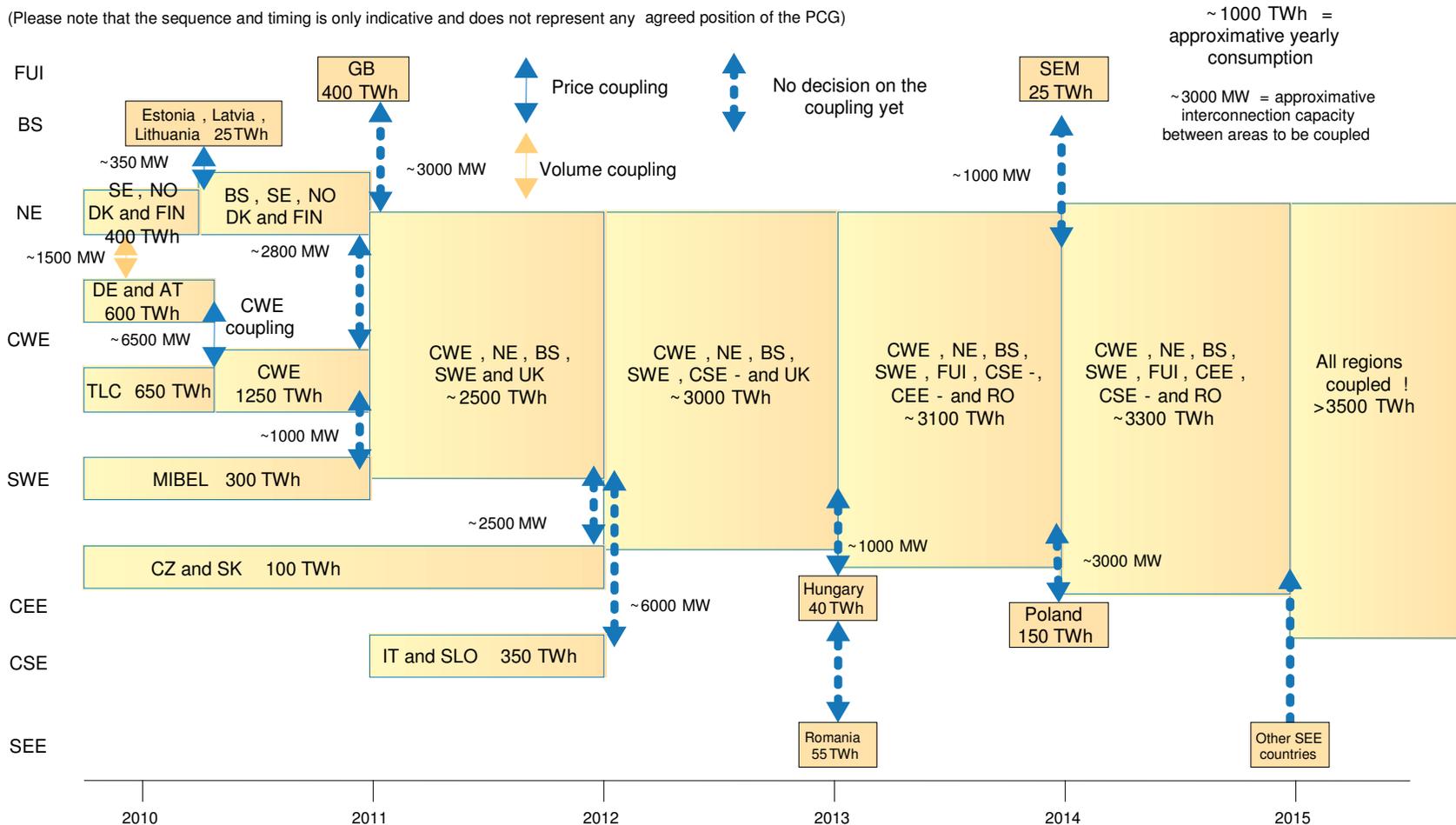
Most Important Agreements Made during the Last (XVII) Florence Forum

- Acceptance of Draft Final Study on the Regional Initiatives, describing activities of regional regulators from the perspective of delivering a **more integrated European** energy market
- Acceptance of a **European target model** for electricity market and a tentative roadmap for the implementation
- Acceptance of a proposal to continue the work and to launch three implementation projects:
 - European **capacity calculation concept** based on a common grid model and flow based calculation, where clear benefits can be demonstrated
 - Target model for **intra-day trade** as well as means for its implementation where appropriate
 - Governance framework for **day-ahead market coupling** by 2015 including using price-coupling methodology.

Florence Forum: Market Coupling – Target Model

Possible sequence of European market coupling

(Please note that the sequence and timing is only indicative and does not represent any agreed position of the PCG)



Source: "PCG Report to the XVIIth Florence Forum, 10&11 December 2009, Rome"

MoU Signed by Ministers of Economy from Central and Eastern Europe

On 7th of December, 2009 Ministers responsible for economy from 7 EU countries (Germany, Poland, Czech Republic, Slovakia, Austria, Hungary and Slovenia) signed the *Memorandum of Understanding* to establish a regional platform at the ministerial level „**Central Eastern European Forum for Electricity Market Integration**” (CEE Forum).

The CEE Forum will provide political support and coordination among ministries of the participating countries on legal harmonisation and commitment to the process of regional integration of the electricity markets towards a regional Central Eastern European Electricity Market. It would be a stepping stone towards a single EU wide market in compliance with respective directives and regulation of the European Community.

The CEE Forum initiative provides space for realizing the goals outlined during the last Florence forum in an accelerated way.

Accelerated Plan for the Integration of the CEE Market

CEE countries may establish a regional market coupling solution, which will be gradually integrated with the main solution, rather than individual countries joining the solution over time as shown.

MoU between APX ENDEX, BELPEX, EPEXSPOT, GME, Nord Pool, OMEL Signed in March 2010

Goals of cooperation:

- Implementing a price-coupling mechanism in Central and Western Europe, Nordic countries and South Europe – **PRICE COUPLING OF REGIONS**
- Implementation will include: Portugal, Spain, Italy, Belgium, Holland, Great Britain, France, price region of Germany and Austria, Switzerland, Denmark, Norway, Sweden, Finland and Baltic countries
- Time horizon – operational in 2011 at the earliest

Price MC Regions



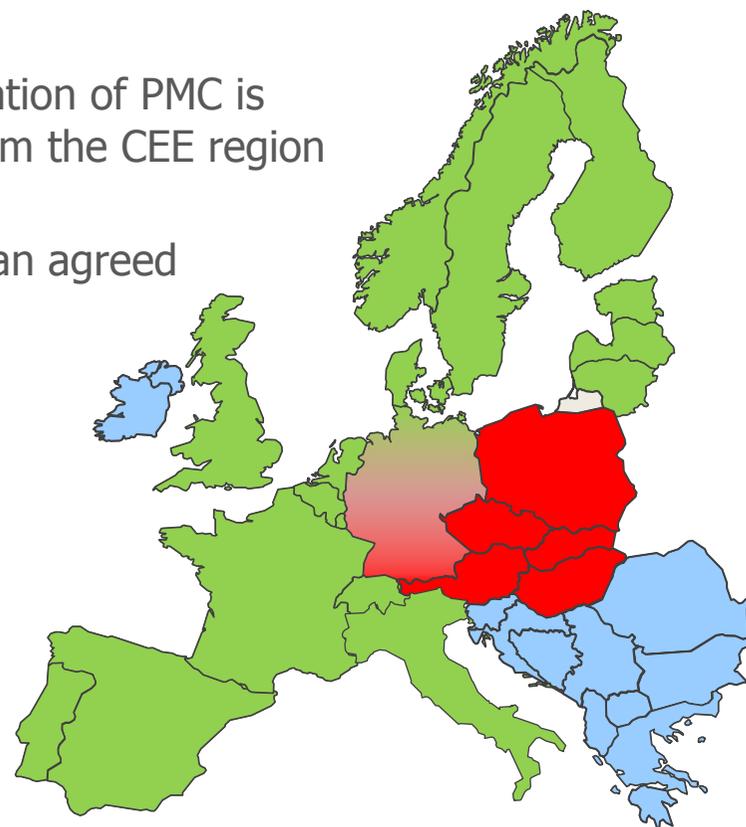
Markets in which PCR can be gradually implemented under a 6 PX cooperation



Markets in which parallel implementation of PMC is possible under cooperation of PXs from the CEE region



Markets that will join next as part of an agreed European roadmap



MoU

between

EXAA, PXE and TGE

Purpose of the MoU

- Parties will work in partnership to develop an:

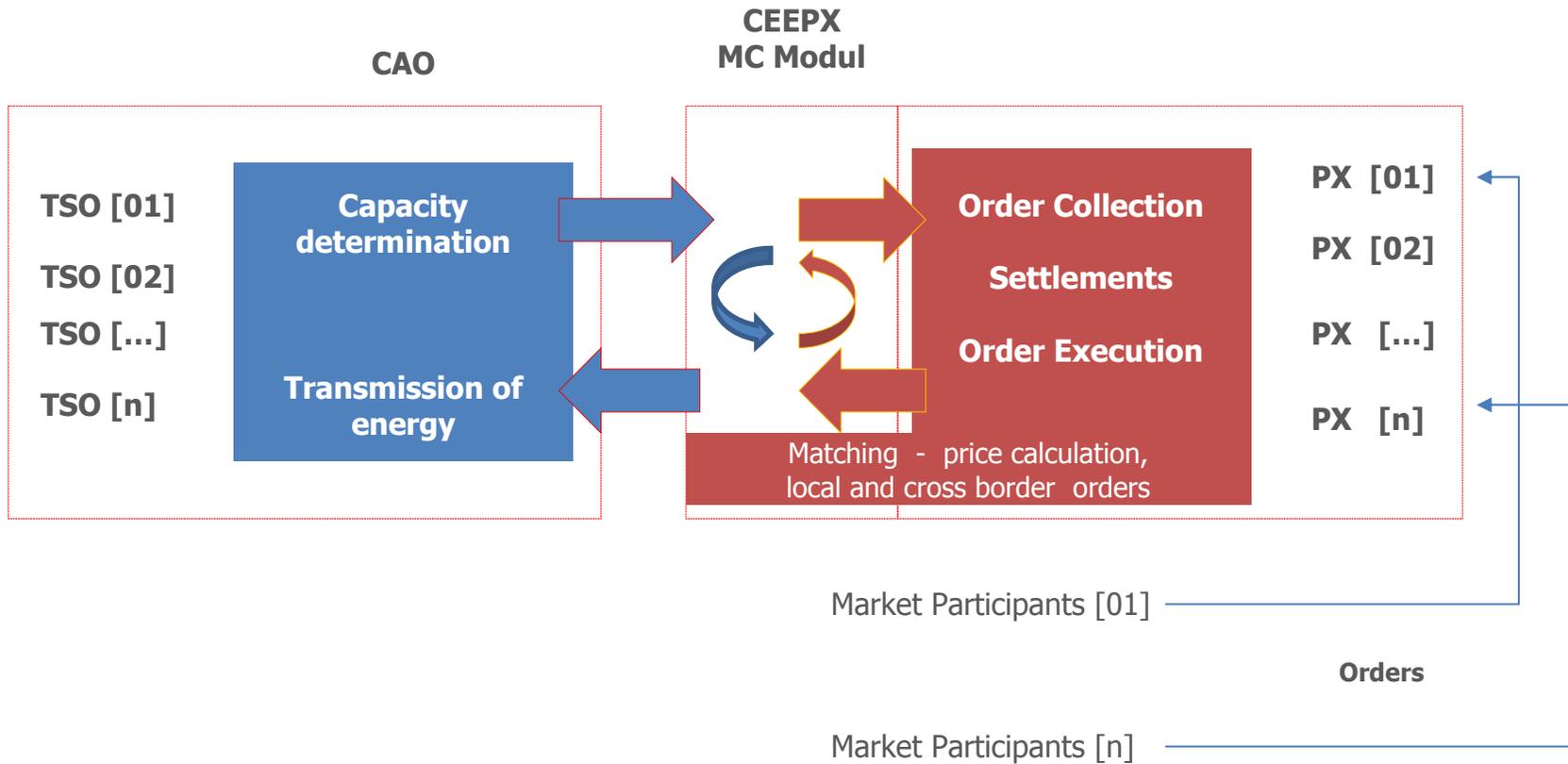
Integrated Central Eastern European power market

- Cooperation is opened to other power exchanges and stakeholders who could contribute to the development of an integrated CEE market.
 - Purpose 1 - Establishing within the forthcoming 12 months a spot trading platform for the area of activity of the participating exchanges.
 - Purpose 2 – Establishing a common Central and Eastern European market based on the market coupling principle by contribution of each party into this cooperation.

Basic Principles

- **Accelerate** – create unified CEE market as soon as possible
- **Liquidity** – increase liquidity by merging the existing spot exchange platforms
- **Step by step** – no 'big bang' solution is intended – the CEE market is expected to be built gradually step by step depending on available transmission capacities
- **Compatibility** – the solution must be compatible with CWE and Nord Pool solution so that the CEE market can be integrated with these zones as soon as they are ready to connect

Price Market Coupling – Overall Approach



Main Assumptions of the Alternative Path for Implementing the Target Model

- **Consensus to speed up the process will be achieved and involvement of main stakeholders will be assured:**
 - Power exchanges – power exchanges must agree first how to organize the market and subsequently
 - TSOs (represented by CAO?) must be involved as capacity providers and the potential impacts that could influence the security of supply must be investigated together

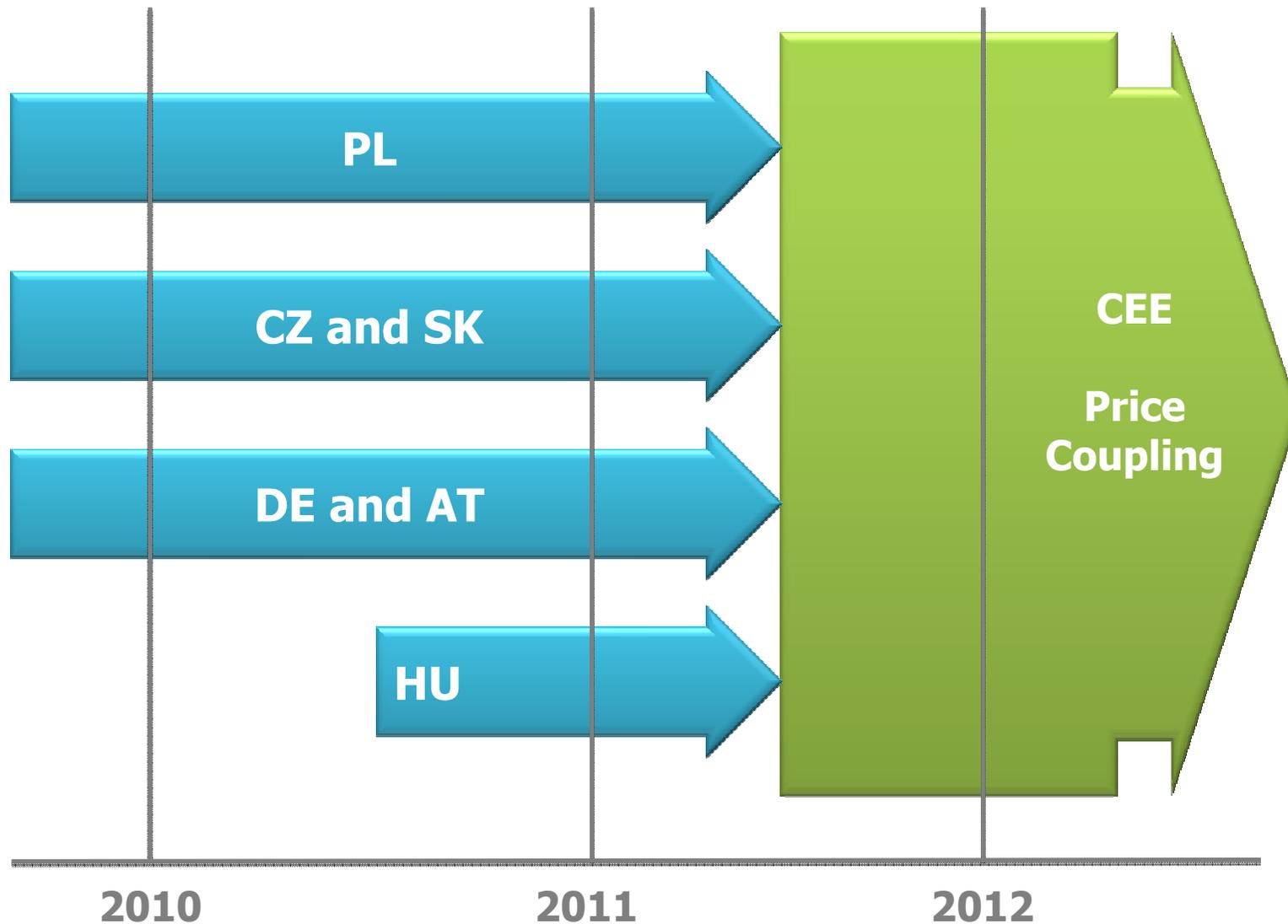
- **Regulators**

- **Solution based on price market coupling.**

Key Factors for Success

- The proposal of the Exchanges involved in the MoU becomes a **part of the Target model** and might speed up its implementation
- The solution implemented in the scope of CEE will be compatible with the solution which is now realised as a part of the **PRICE COUPLING OF REGIONS** initiative
- **ABSOLUTELY ESSENCIAL** – to gain support for speeding up the implementation of Target Model from:
 - System Operators from the CEE region
 - Regulators
 - Governments and Administration

Advanced Alternative Roadmap for CEE



Benefits

Advantages (1)

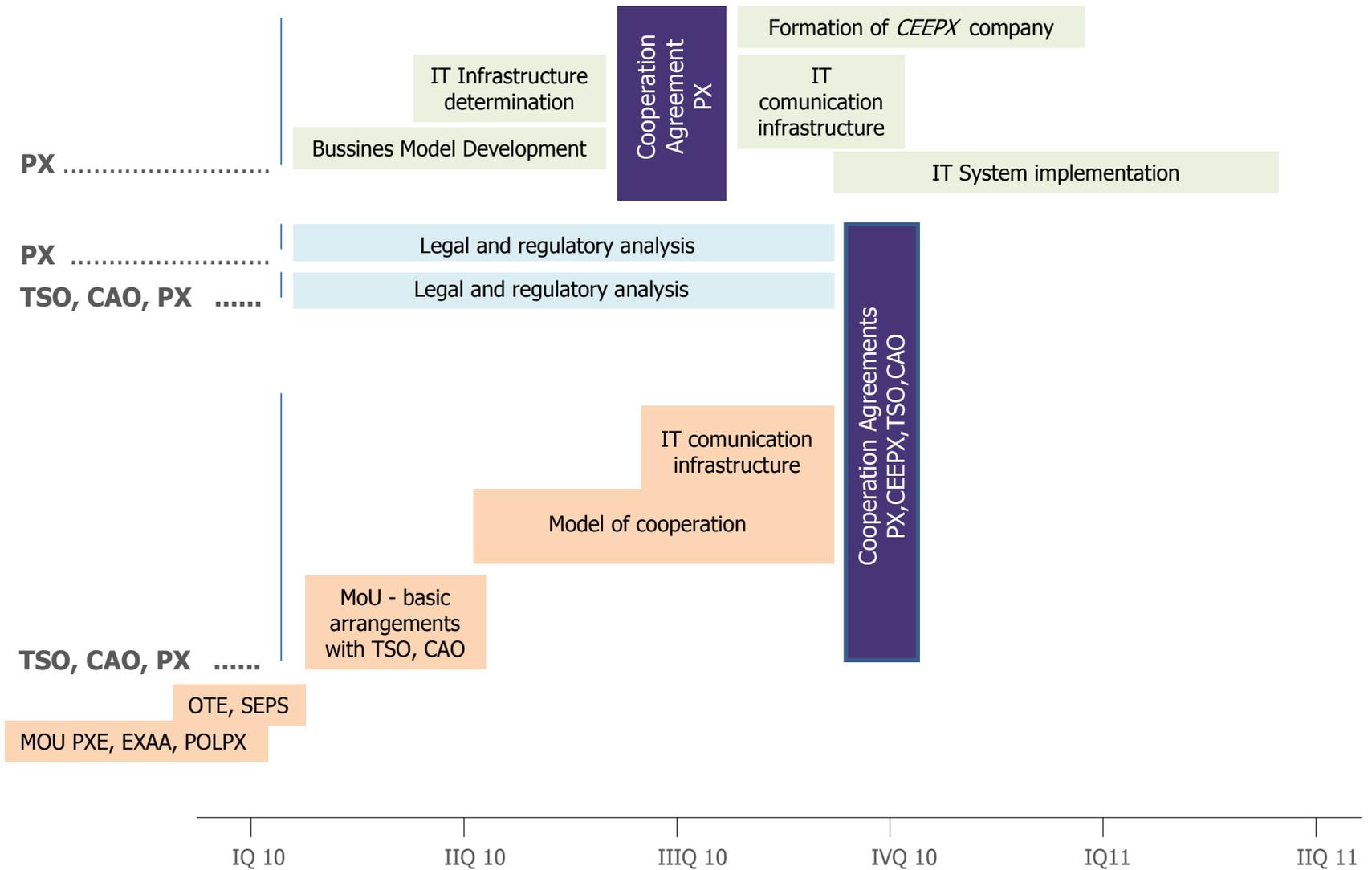
- **Acceleration of the implementation of a price MC solution in the Pan-European Market,**
 - CEE integrated already in 2011,
 - Achieved initial integration with CWE (via German/Austrian market),
 - Easier progress of integration between CWE and CEE – final solution can be expected before 2014
- **Valuable concepts for the implementation of Market Integration via Price Coupling is already available and shall be used in the project:**
 - Report „*A Study on the Organized Electricity Market in the Region Central East Europe*”
 - Experience with Market Coupling from the project between Czech Republic and Slovakia
 - Experience with the integration project in CWE

Advantages (2)

- **Implicit allocation of day ahead cross border capacities in CEE will improve system security:**
 - Flows resulting from implicit allocation are “firm”
 - Coordination with other regions (especially CWE) becomes easier
- **By cooperation of the Exchanges in Order Collection and Clearing and Settlement:**
 - Access for the traders to all the participating exchanges via their preferred system (use of the same system to bid for all delivery zones)
 - Traders can use their preferred local Clearing and Settlement arrangements for all the markets

Roadmap

Road Map



- **Towarowa Gielda Energii SA (“POLPX”)**
 - POLPX is the sole owner of commodity exchange license in Poland;
 - Offer: spot and future transactions on energy, energy certificates, emission allowances;
 - Participants – 1150; Direct participants – 47 (DAM);
 - 17 shareholders; State Treasury with 22.3% stake.

- **POWER EXCHANGE CENTRAL EUROPE, a.s. ("PXE")**
 - PXE an established trading platform for electricity trading in the Czech Republic, the Slovak Republic and Hungary with its primary focus on physical and financial futures trading
 - PXE was established in 2007 and it currently has 34 market participants
 - The company is 100% controlled by Prague Stock Exchange ("PSE"), PSE is 93% owned by Vienna Stock Exchange.
 - Annual traded volume reaches approximately 33 TWh

- **EXAA Abwicklungsstelle für Energieprodukte AG (“EXAA”)**
 - EXAA is operating an efficient and sound power spot market in Austria and Germany
 - EXAA is also operating a carbon emissions market;
 - EXAA was founded in 2001 and it has currently 80 market participants
 - 12 shareholders the most important one being APCS Power Clearing and Settlement AG with 34.56% stake and Vienna Stock Exchange with 25.12% stake.

Other Potential Stakeholders

MoU among EXAA, PXE and TGE is open to other exchanges that want to participate, especially to:

▪ **OTE, a.s.**, operating the Czech spot market platform – OTE was officially invited to join the initiative, the decision has yet to be made

▪ **SEPS, a.s.**, operating the Slovak spot market platform - SEPS joined the MoU initiative by sending two observers for the time being and indicated that the new Slovak market operator will eventually join, as soon as it is formally established (by law) as of January 1, 2011.