

Workshop on Organised Electricity Market in Central Eastern Europe

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EFET Comments on

“Market Model for the Establishment
of Central East European Energy
Exchange, CEEPEX”

A study conducted by
Nord Pool Consulting/ Accenture-Hungary

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EFET Comments on the CEEPEX study I

Merits



- In principle, the study points in the right direction:
 - Emphasis on Market Coupling
 - Building on the existing organised market infrastructure as opposed to a green field approach

- A comprehensive overview of EU legislation and market examples
 - Useful for those who are not familiar with

EFET Comments on the CEEPEX study II

Shortcomings I



General comments

- *Establishing an exchange is **first and foremost a commercial matter!***
- No comprehensive **Roadmap**
- No recommendations on **eliminating obstacles to trading** (e.g. licensing, export fees, etc.)
- **Nordic model bias** in the report (e.g. day-ahead implicit auctions (the Nord Pool Spot legacy) features prominently, but long-term capacity allocation and physical cross-border hedging are undermined)
- **Methodology**

The study fails to:

- interview potential customers of an exchange
- examine in detail the products of existing exchanges
- analyse the existing patterns of OTC imports and exports

EFET Comments on the CEEPEX study III

Shortcomings II



- A regional exchange with offices in different countries using different local languages – undermines the idea of a *common* regional exchange
- Creating incentives for incumbents to trade on the exchange – of paramount importance, but not discussed in the report
- Wrong conclusions in the comparison of CEE with EEX and Nord Pool (p. 6) (e.g. state ownership of utilities (PL, HU); end consumer price regulation, etc.)
- Price areas not defined (p. 14)
- Possibility to split the bidding area into more price areas not discussed (p. 36)

EFET Comments on the CEEPEX study IV

Shortcomings III



Misunderstandings and ambiguities

- “...Flow Based Allocation (FBA) provides better overall welfare not just for the day-ahead, but also for the longer-term allocation...” (p. 14)
- “If in addition the majority of the interconnection capacity is auctioned off explicitly, the regional competition effect is further reduced.” (p.25)
- “Allocation of at least part of the cross-border capacities to the regional exchange” (p.27)
- “Calculation of capacities to be used for implicit auction will have to take place before the bids in the Day Ahead Market known...” (p. 35)
- “The first bid must be equal to the minimum price limit.....“ (p. 37)
- “Implicit auction will always lead to contractual flows in direction towards high price area” (p.37)

EFET Comments on the CEEPEX study V

Recommendations



- Establish a *comprehensive and realistic ROADMAP*
- Learn from the experience of other regions, but **consider the features of the CEE region in drafting a roadmap** (e.g. long-term capacity allocation and physical cross-border hedging should not be undermined)
- **Regulators** should **facilitate the process** of establishing a regional exchange **by removing obstacles to trading**
- **Need for a commercial**, rather than a regulatory **push to stir the process of creating CEEPEX**

Thanks for your attention



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