



Obstacles to Electricity Trading in Central & Eastern Europe

Who are we?

The European Federation of Energy Traders (EFET) is an industry association which represents over 80 trading companies operating in about 20 countries.

The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market.

EFET main activities include:

- Advocacy
- Promote energy trading in Europe
- Standardisation of contracts

Requirements for a well-functioning wholesale market

- Well functioning balancing mechanism ('Balancing Market')
- Well functioning liquid spot market
- Market access support mechanisms and market transparency
- Clear roles for market participants

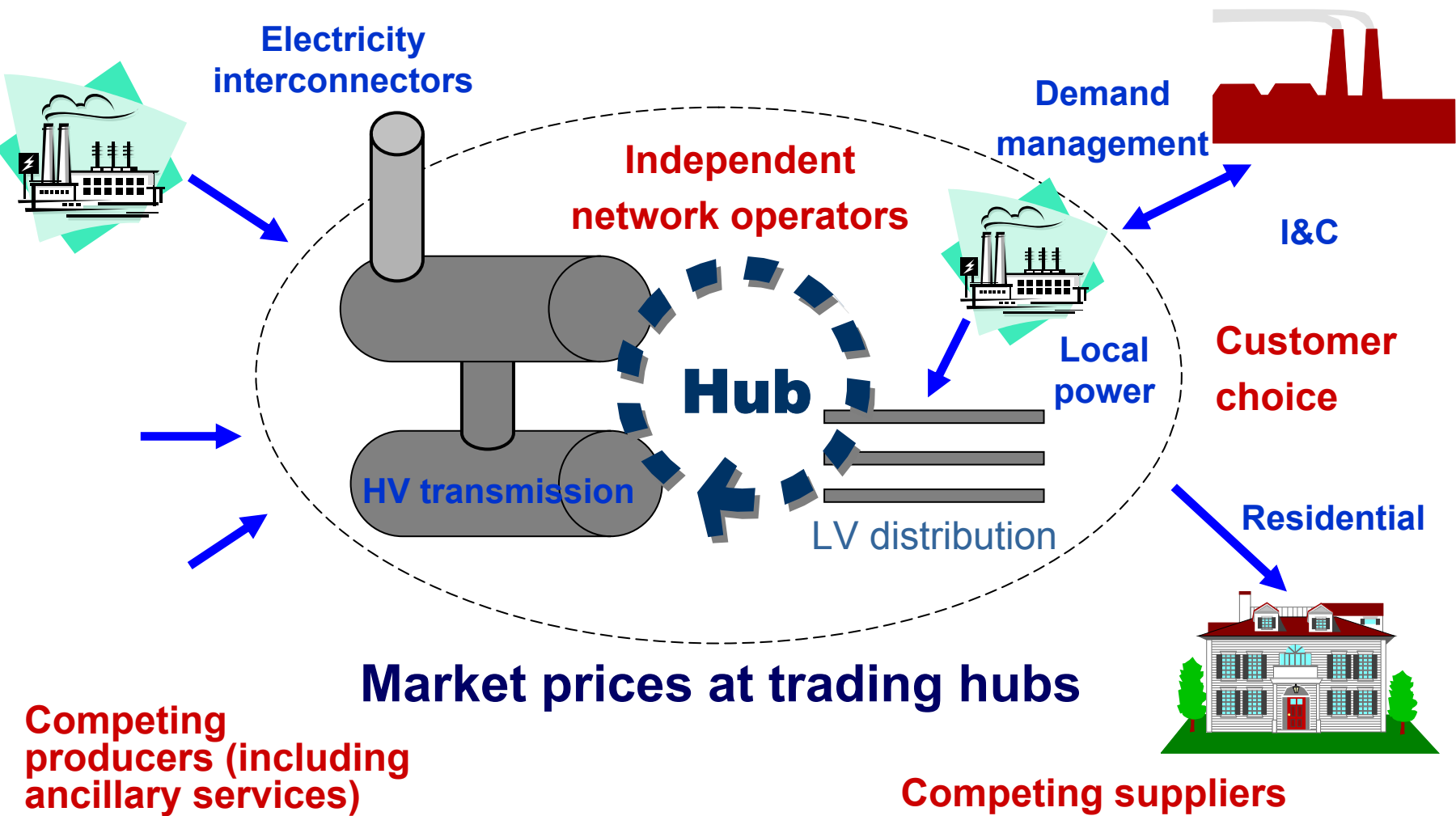
Clear roles in the wholesale market (I)

- TSO: provides low cost & transparent balancing services
- Producers/suppliers: utilise market to lay off risks ('hedging')
- Traders: provide liquidity by actively taking price risks
- Exchange: eliminate price risks at competitive transaction costs
- Brokers: compete with exchange as efficient intermediaries

Clear roles in the wholesale market (II)

- A trading company operates from its trading floor equipped by IT infrastructure which enables the connection with the scheduling systems of grid and/or market operators and power exchanges in all countries of the business interest
- Deals are usually closed via telephone or via broker's and exchanges' screens
- No permanent staff in countries necessary

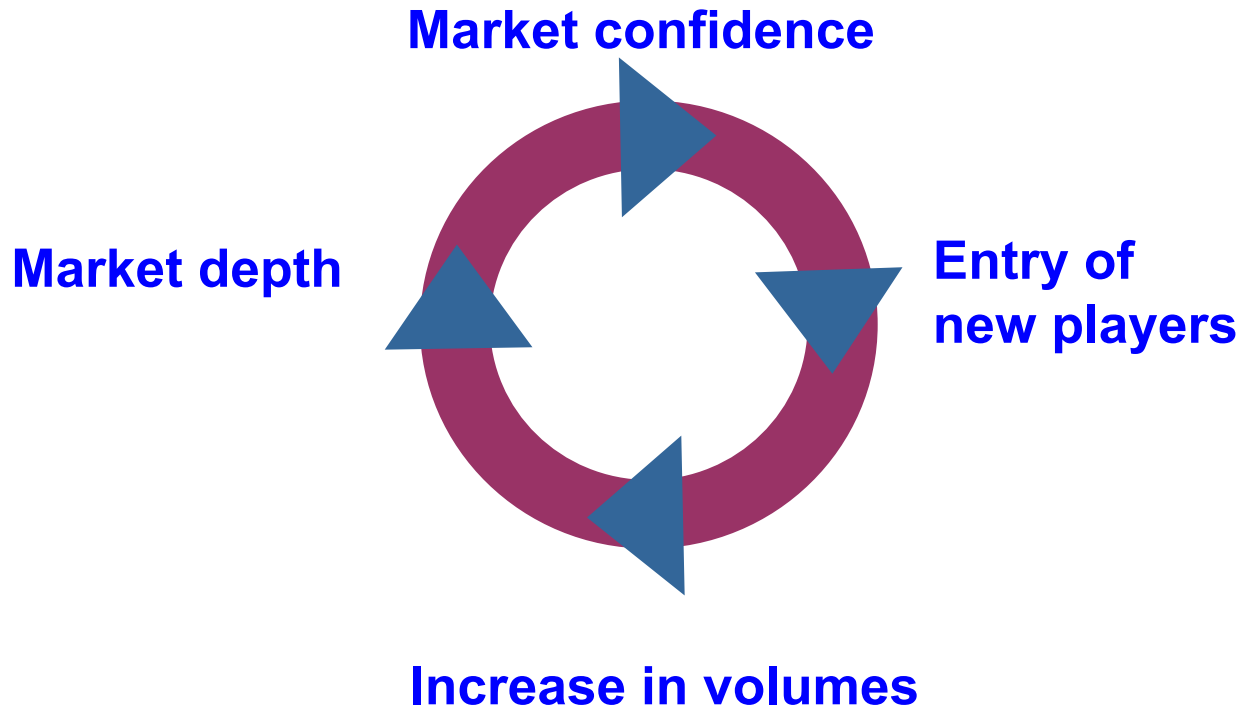
Illustration of electricity market wholesale function



Market transparency stimulates trading

Market transparency

- Ability to explain prices
- Forecasting



The typical categories of barriers to entry

Network access administration and bureaucratic formalities

(license and subsidiary requirements, language barriers, contract volume charges, bank guarantees, etc)

Market fragmentation and regulatory divergence

(different levels of unbundling, different national support schemes for renewables, various national ways of implementing electricity disclosure, CHP-support schemes, capacity payments, white certificates)

Market structure and Timetable for the trading day

(unsynchronized timelines for all day-ahead power activities, nominations and biddings, intraday cross-border market and non-harmonized allocation mechanism for cross-border capacities)

Divergent IT Platforms and Data Delivery

Trading in the CEE region (I)

Current picture

- Markets are gradually opening and liquidity is improving
- Market based cross-border capacity allocation mechanisms are becoming the norm

Trading in the CEE region (II)

Remaining Challenges

- Addressing the dominant position of vertically integrated national generators and suppliers
- Establishing effective forward market reference prices
- Maximising cross border transmission capacity allocation and making capacity rights firm

Other improvements to be addressed

- Abolish all licence requirements for wholesale trading
- Simplify transaction procedures (e.g. harmonize operational platforms and scheduling processes)
- Generalize the use of standard contracts to facilitate financial trading
- Reducing credit risk by encouraging effective clearing solutions

Obstacles to trading in Poland

Licenses and requirements to trade	<ul style="list-style-type: none"> - Complication of the licensing process although no local representations are required - Restriction in grid access
Operational	<ul style="list-style-type: none"> - Technical profiles in the coordinated auctions that can be used to set and restrict cross-border capacity when it is available. - Difficulties in nomination (nomination should be done through someone with a physical connection to the grid) - trader-to-trader nomination is not allowed - High cost of nomination system - Transaction costs – charges per MWh scheduled - Lack of clear balancing market rules - non-standard imbalance settlement - Excise tax – uncertain modification
Liquidity	Liquidity is affected by the long term PPAs blocking ~ 50% of capacity
Transparency	<ul style="list-style-type: none"> - No ex ante generation information - No ex post or real time cross-border flow information
Regulation	<ul style="list-style-type: none"> - Capped end-user with free wholesale prices

Obstacles to trading in the Czech Republic

Licenses and requirements to trade	<ul style="list-style-type: none"> - A trading license is required - Licenses are only granted to companies with local representation although only a local branch is required
Operational	<ul style="list-style-type: none"> - Technical profiles in the coordinated auctions that can be used to set and restrict cross-border capacity when it is available - Complicated nomination system (Internal and external nomination responsibilities divided across CEPS and OTE) - Two different cross-border nomination platforms depending on borders - Performance of E-trace - Language issues: License applications and power exchange platform in Czech language only
Liquidity	<p>Low liquidity affected by:</p> <ul style="list-style-type: none"> - Operational obstacles (Complicated platforms, language issues, etc...) - Long term PPAs on the Czech borders
Transparency	<ul style="list-style-type: none"> - No ex ante generation information - No ex post or real time cross-border flow information

Obstacles to trading in Hungary

Licenses and requirements to trade	<ul style="list-style-type: none"> - Two different licenses required by HEO (one for internal and the other for cross-border trading) - Local representation in Hungary needed for trading. A local branch is not enough and a fully registered company is required. - High cost of licenses
Operational	<ul style="list-style-type: none"> - Language issues when applying for licenses
Liquidity	<p>Low liquidity affected by:</p> <ul style="list-style-type: none"> - The lack of power exchanges - Low market opening - Regulated balancing prices - Delays in the implementation of daily capacity auctions across the Slovak border
Transparency	<ul style="list-style-type: none"> - No ex ante generation information - No ex post or real time cross-border flow information

Obstacles to trading in Slovakia

Licenses and requirements to trade	<ul style="list-style-type: none"> - License required, and only granted to companies with local representation (representative needs to sit for an exam to be authorised)
Operational	<ul style="list-style-type: none"> - Technical profiles in the coordinated auctions that can be used to set and restrict cross-border capacity when it is available. - Unclear nomination rules - Nominations rejected if matching is not possible
Liquidity	<p>Low liquidity affected by:</p> <ul style="list-style-type: none"> - Lack of power exchanges. A trading platform (SPX) has been recently launched but its liquidity is still very poor - Delays in implementing the short term auction across the Hungarian border - Long term PPAs on the Slovak borders
Transparency	<ul style="list-style-type: none"> - No ex ante generation information - No ex post or real time cross-border flow information

Obstacles to trading in Austria and Germany

Licenses and requirements to trade	<ul style="list-style-type: none"> - Need for a balance group for each control zone balance area (three for Austria alone)
Operational	<ul style="list-style-type: none"> - Intraday cross-border trading impossible at borders of some control areas
Liquidity	<p>Liquidity affected by:</p> <ul style="list-style-type: none"> - Low number of actively trading market parties in Austria (OTC as well as exchange trading) means in case of congestions to Germany (currently not declared), liquidity in Austria will be low - Some long term PPAs on borders limiting available capacity (e.g. Czech border)
Transparency	<ul style="list-style-type: none"> - Limited ex ante and ex post generation information - No ex post or real time cross-border flow information - Intransparent calculation methods for determination of congestions

Is the trading licence really necessary?

- In some countries a national trading license is required by the national Energy Law
- In some countries the Commercial Code makes the issuing of a licence conditional upon a place of establishment in that country (company or registered branch)
- A requirement for a trading licence combined with the obligation for a place of establishment often causes tax complications for foreign market entrance

Removing the wholesale licence requirement: An immediate opportunity

- In most of the EU countries there is no legal requirement!
- Foreign companies have to close transmission and balancing agreements with the national grid/market operator anyway. Their credit requirements are often stronger than requirements in the licensing procedure!
- EU market abuse rules cover all trading of a financial nature

Three possible solutions

- Licence not required at all
- National license decoupled from requirement for place of establishment
- Only a common EU licence ("EU-passport")

Individual approaches differ:

Member State	Trading License	Establishment Requirement	Comment
Czech Rep.	Yes	Branch	
Hungary	Yes	Company	
Poland	Yes	EU Entity	Branch necessary due to excise tax refund
Slovakia	Yes	Branch	

Before joining EU, international trading among these states was easier, companies traded with the delivery point at the border. There was no need to be licensed in the other states. No security of supply problem was caused by cross-border trading.

Once the trader has a license, scheduling obstacles occur

- Bureaucratic application process for wholesale grid access
- Nomination:
 - IT systems so far only with limited functionality
 - In most cases expensive system with high fees
 - Limited possibilities to adjust schedules
 - Scheduling only accessible for a reduced number of market actors
 - Non-transparent in terms of cost

Improvements necessary for proper scheduling

- Regulation power market and balance settlement driven by supply & demand
- Market participants able to adjust their schedules as close as possible to the hour of operation (intra-day market, spot market, D-1 or intraday cross border nomination)
- Easy & standardized contracts for grid access
- No fees for nomination and IT systems

Liquid spot market is a must!

- Create a cost-efficient market place for day-ahead and intra-day market
- Allow competition between exchange and OTC as intermediaries
- Remove entry barriers for all market participants
- Encourage clearing possibility for OTC trading (to eliminate credit risk)
- Simplify trading license requirements
- Phase out legacy (non market price) power purchase contracts as soon as possible
- Encourage market participants to sell/buy energy via exchanges or OTC

Role of Power Exchanges – German Example

Traded Volumes at EEX

