



# **SouthPool** ***Setting-up a*** ***Regional Energy Exchange***

2<sup>nd</sup> South East Europe Energy Dialogue  
Thessaloniki, 21<sup>st</sup> May 2008

*Tomaž Lajovic, BSP Regional Energy Exchange*





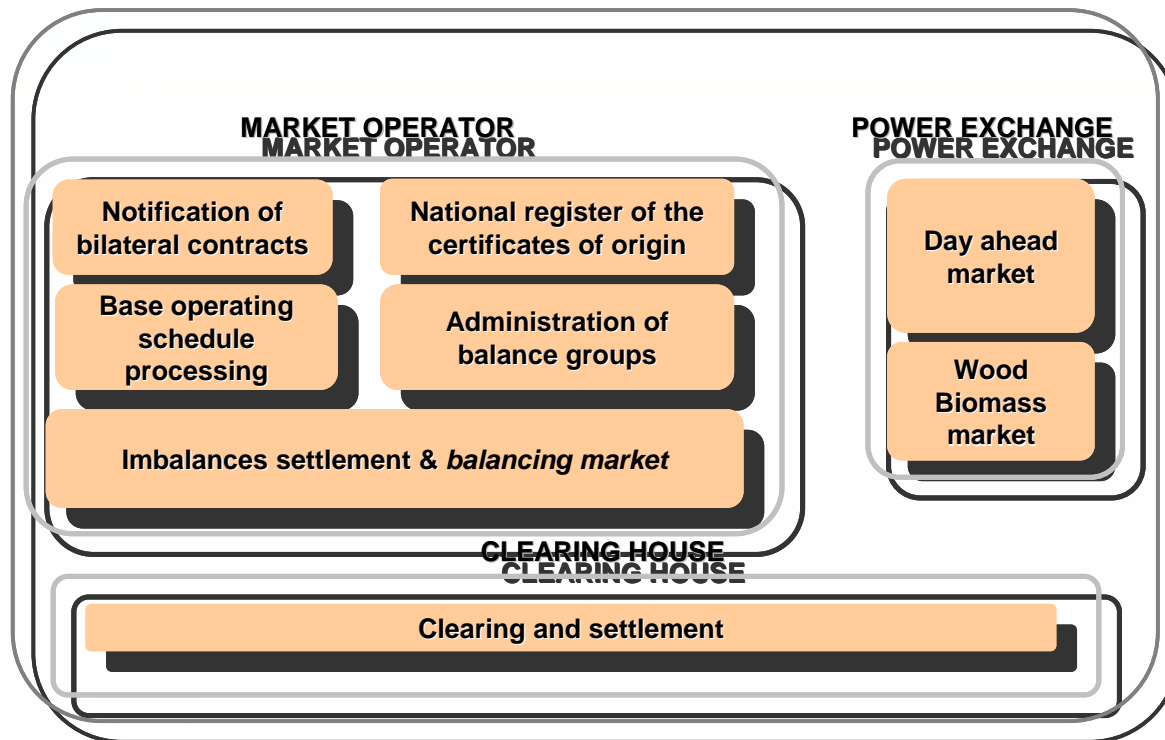
# Borzen Company Profile

- Exchange established by Slovenian Energy law to provide services for the Slovenian energy market as **public and commercial service provider**.
- Government owned
- **Borzen - Power Market Operator**
  - management of balance groups
  - calculation, financial clearing and settlement of imbalances
  - Balancing market under development
- **Borzen - Power Exchange and Clearing House**
  - day ahead spot electricity market and other market segments (wood biomass etc.)
  - trading on spot electricity market is voluntary
  - flexible and efficient internet based trading platform
  - 17 market members
  - cofounder and active member of EuroPEX
- **Financial Data**
  - Total operating revenues in 2007:  $\approx$  2,3 million €
  - Number of employees: 26





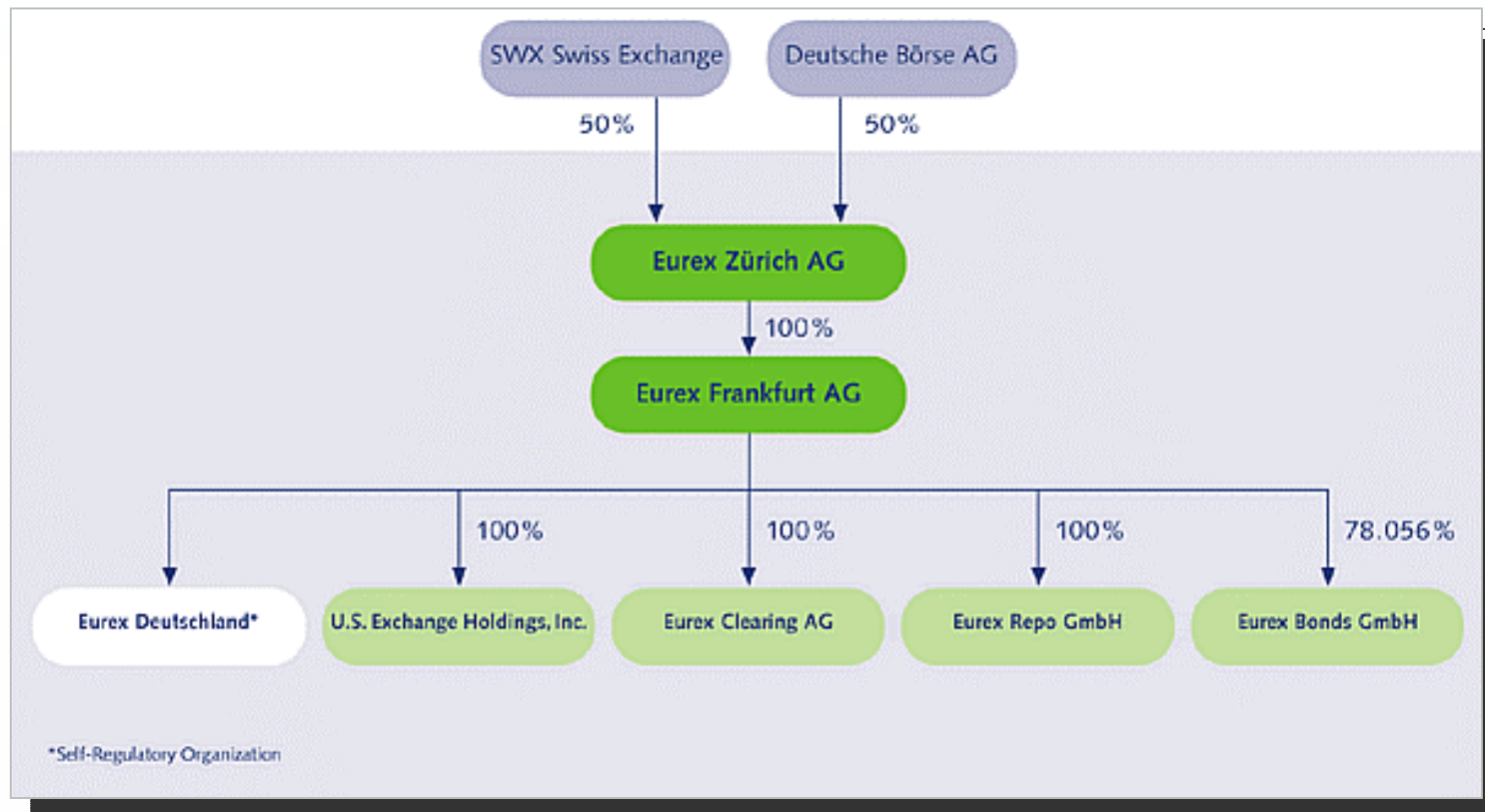
# Borzen Slovenian PX and MO



- Founded in 2001 by ELES (100% owned by the Slovenian Government).
- Offers a flexible and efficient internet based trading platform
- In 2004, launched the project Borzen SouthPool with the goal to establish a Regional power exchange in SE Europe.
- In April 2005, Borzen started auction trading for allocation of cross-border transfer capacities for import or export of power at Slovenian borders.
- In addition, it began activities to establish a centralised database on appurtenance of entitled consumers to



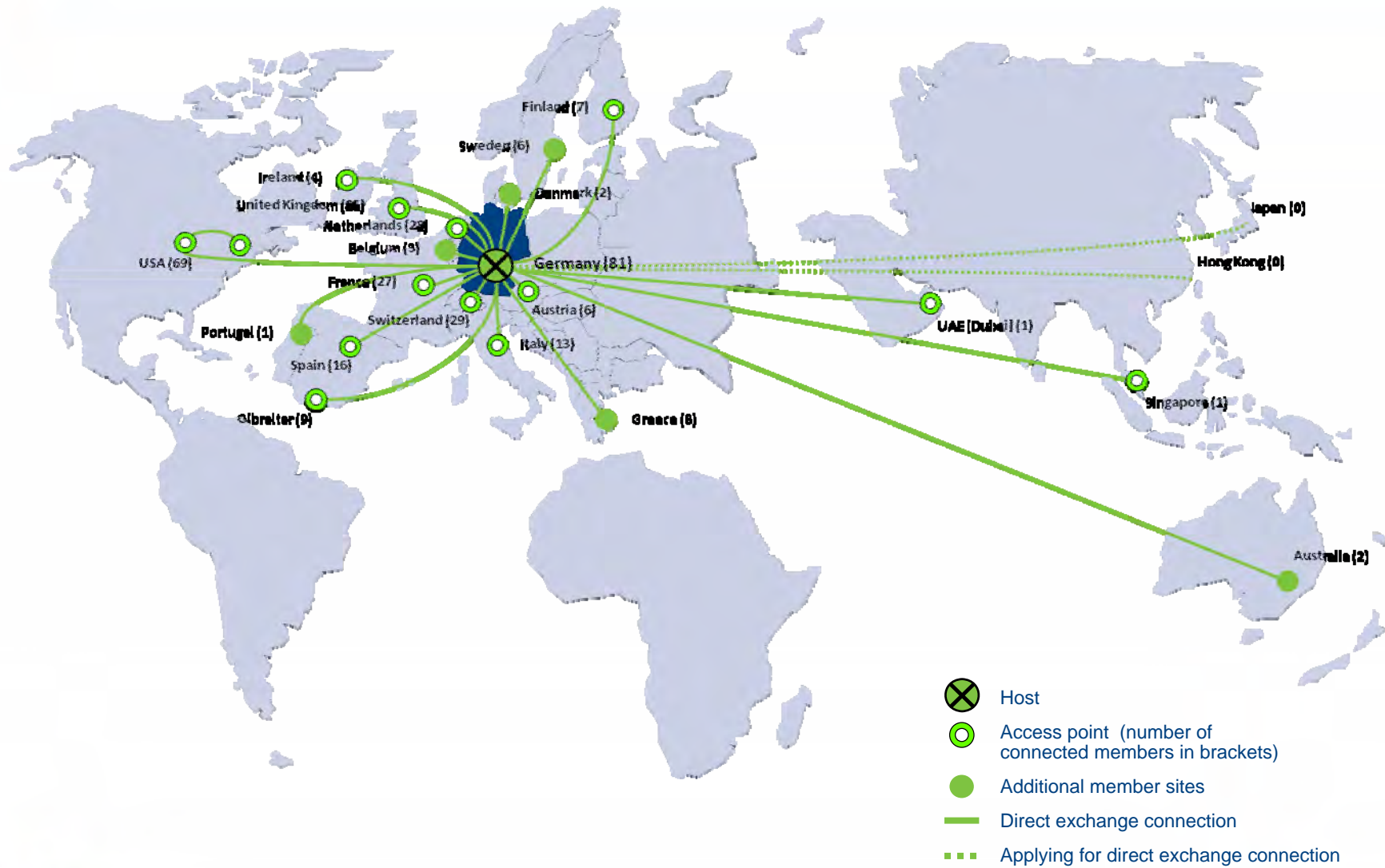
# Eurex Ownership Structure



- Eurex Zürich AG is a public company and owned in equal parts by Deutsche Börse AG and SWX Swiss Exchange.
- Eurex Frankfurt AG operates the Eurex Exchanges, Eurex Clearing and the electronic communication networks Eurex Bonds and Eurex Repo.



# Eurex 399 Members in 20 Countries





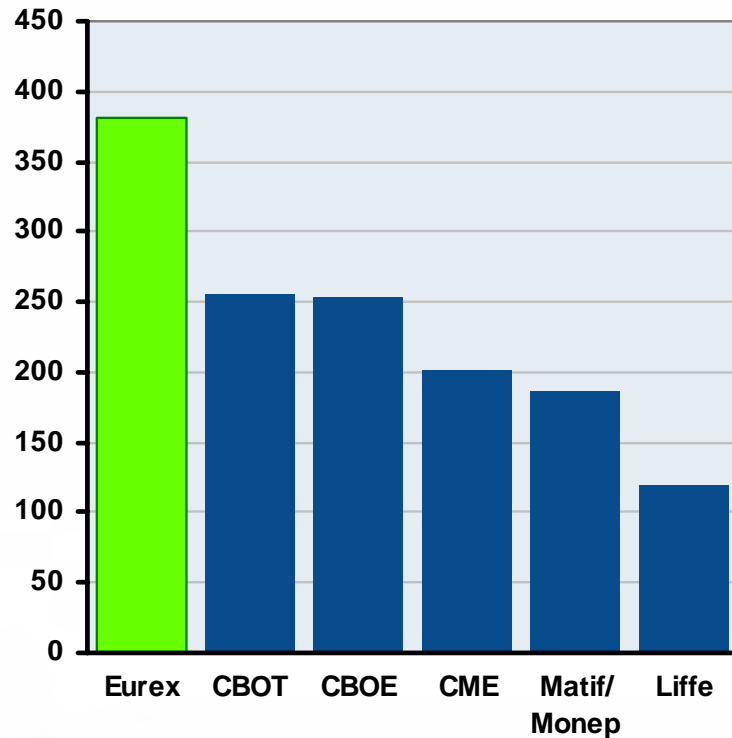
# Eurex Leading Derivatives Market

Eurex took the pole position  
in 1999 ...

... and maintained the lead in  
2006.

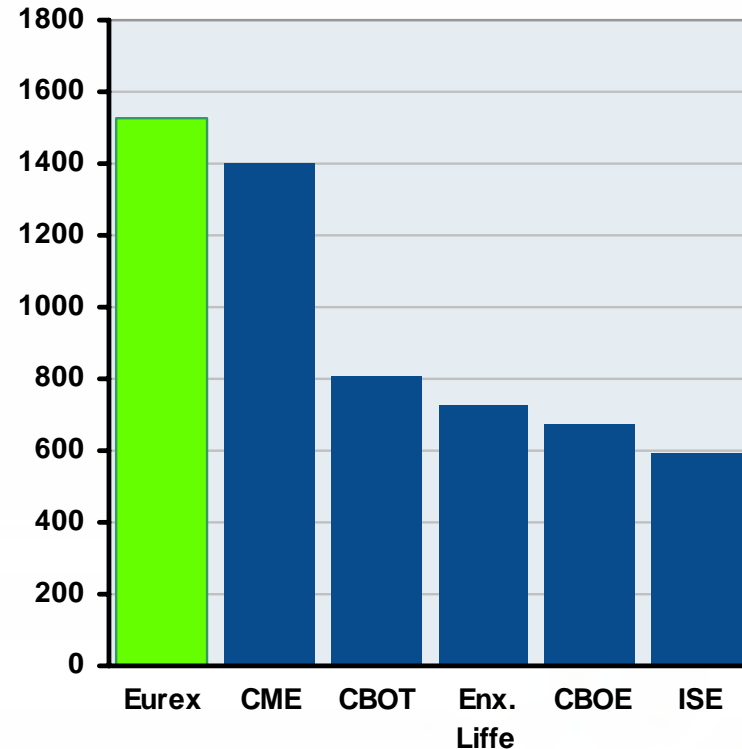
Traded  
contracts  
(in millions)

1999



Traded  
contracts  
(in millions)

2006





# SouthPool At a Glance

- Borzen and EUREX have entered into cooperation as initial partners to develop a regional wide alliance (SouthPool Alliance) in order to develop a cross border regional power trading & clearing & settlement in South East Europe.
- The foundation of stand alone company - BSP Regional Energy Exchange (branded SouthPool) is Ljubljana (Slovenia); Borzen and EUREX as initial partners; open

**SouthPool aims to become the leading regional cross-border energy exchange in South Eastern Europe with spot and derivatives markets for power, gas and associated energy products.**





# SouthPool Strategic Goals

- Development of a **single regional trading & clearing & settlement infrastructure** - developing relevant and reliable price indices for each price zone
- Gaining the **support from trading community** with market makers and shareholding – gaining liquidity and regional recognition
- **Market participants will benefit** from streamlined spot trading procedures, lower risks, financial security, and lower costs
- **Catch up with Western European energy exchanges** – gaining similar volumes and support of a physical market of significant size



Source of map: ECS





# SouthPool Strategic Reasoning

## BORZEN

- Ensuring liquidity and growth of the market by internationalization
- Enlarging the portfolio of services and markets
- Expansion of participants range to the regional and European trading community
- Increase the know how and technology resources

## EUREX

- Export liquidity, transparency and efficiency benefits from its model to the SEE area
- Market entry into commodity products
- Driver for building up financial trading and clearing hub in SEE
- Facilitate access to its participants to SEE energy

## Other partners

- Easy access to the regional-wide market
- Efficient and cost effective business infrastructure
- Financial security & lower risks
- Investment opportunities
- Development of the national markets

Leading  
regional  
cross-border  
energy  
exchange in  
South Eastern  
Europe



# SouthPool Our Offer to the Market

## Market participants benefit

- Efficient and client oriented business infrastructure
- Easy and regional-wide market access
- Pooling of liquidity
- Financial security and lowering risks (hedging)
- Lower costs (administration, state of art technology, counterparty risk)
- Common state-of-the-art technology
- Wide portfolio of high quality services for energy markets



# Energy Community Common Framework of SEE Market

- The Energy Community is a process that aims to extend the EU internal energy market to the South East Europe region.
- **Energy Community Treaty** signed on 25 October 2005 and **entered into force on 1 July 2006**; new deadlines for the further development
- The task of the Energy Community shall be to organize the relations between the Parties and create a legal and economic framework in relation to Network Energy

The main goals of the Energy Community:

- **create a stable regulatory and market framework** capable of attracting investment in gas networks, power generation, and transmission and distribution networks
- **create a single regulatory space** for trade in Network Energy
- **enhance the security of supply** of the single regulatory space by providing a stable investment climate
- **improve the environmental situation** in relation to Network Energy and related energy efficiency, foster the use of renewable energy, and set out the conditions for energy trade in the single regulatory space
- **develop Network Energy market competition** on a broader geographic scale and exploit economies of scale



Source of map: EC



# SouthPool

## Overcomming the Market Fragmentation

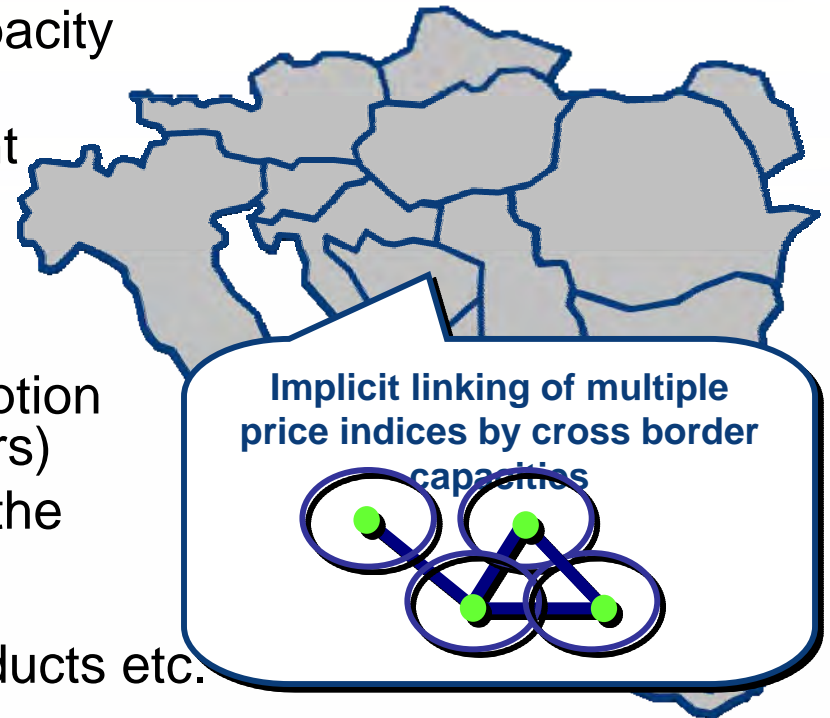
- SouthPool has committed to promote effective implicit allocation of cross-border capacity
- With all relevant stakeholders (Regulators, TSOs, PX) - involvement in the region-wide market coupling

### Development Stage I.

- Region-wide price formation - initially multiple zonal price formation (perception that congestion consists on all borders)
- Removing obstacles to trade across the region - easy, transparent and non-discriminatory access to the market, standardization of products etc.

### Development Stage II.

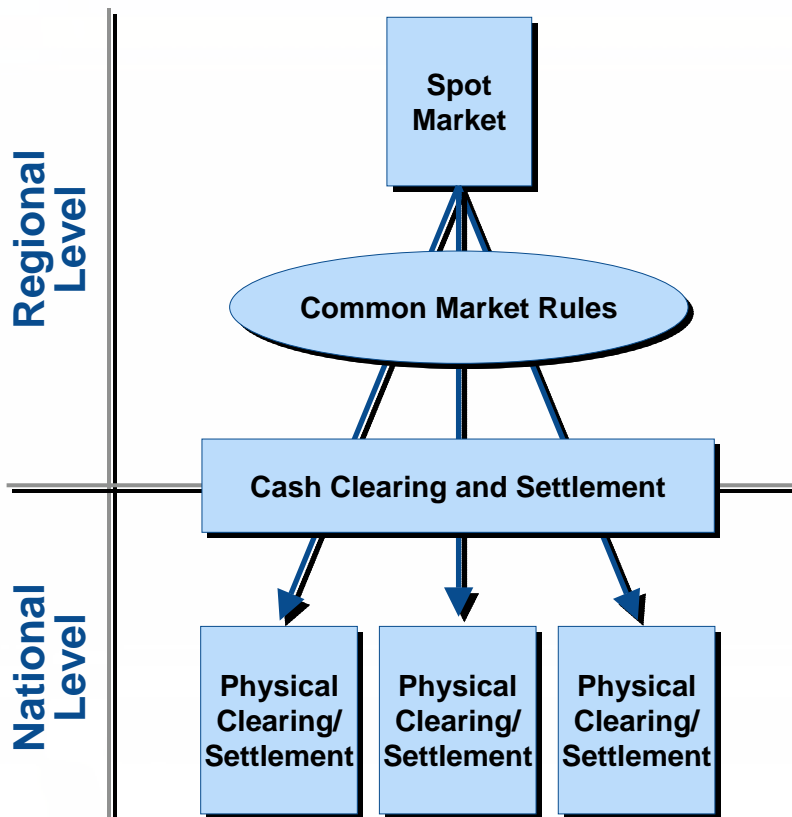
- Market coupling – integrated regional price formation (expected uniform wholesale price index for more than 50% of the time)
- Ensuring efficient use of interconnector capacity (recent TLC example)





# SouthPool Regional and Local Operations

## SouthPool Market Set-up



- Main Regional Responsibilities
  - Market rules and coordination
  - Trading System and Clearing system (Risk fond, risk mgmt.) operation
  - Central Market Coupling algorithm
  - Financial settlement
  - Regional markets access
  - Regional helpdesk service
- Main Local Responsibilities
  - Financial settlement
  - Physical settlement – balance group responsibility
- Potential Local Responsibilities
  - Local energy settlement
  - Market development
  - Local helpdesk service
  - Local promotion
  - Local relations – key account

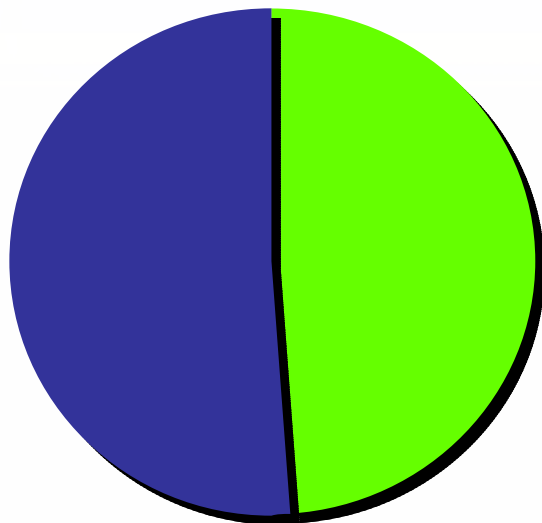


# SouthPool Incorporation and Future Ownership

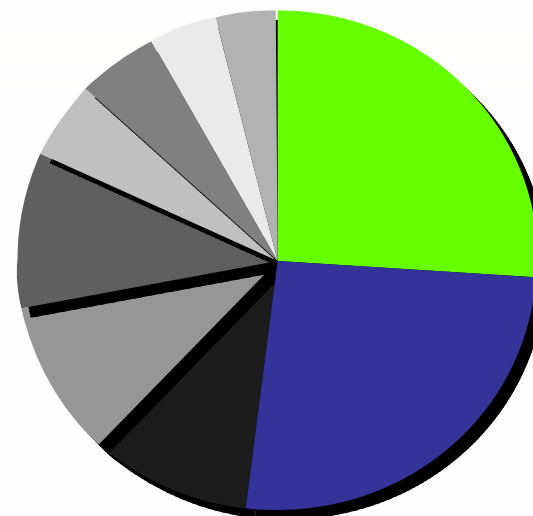
TODAY



FUTURE



Eurex  
Borzen



Eurex  
Borzen  
Partner 2  
Partner 3  
Partner 4  
Partner 5  
Partner 6  
Partner 7  
Partner 8

- Incorporation of a stand alone company in Ljubljana (Slovenia) named BSP Regional Energy Exchange and branded SouthPool
- Initially owned by Borzen and EUREX and open to admission of further partners.



SouthPool

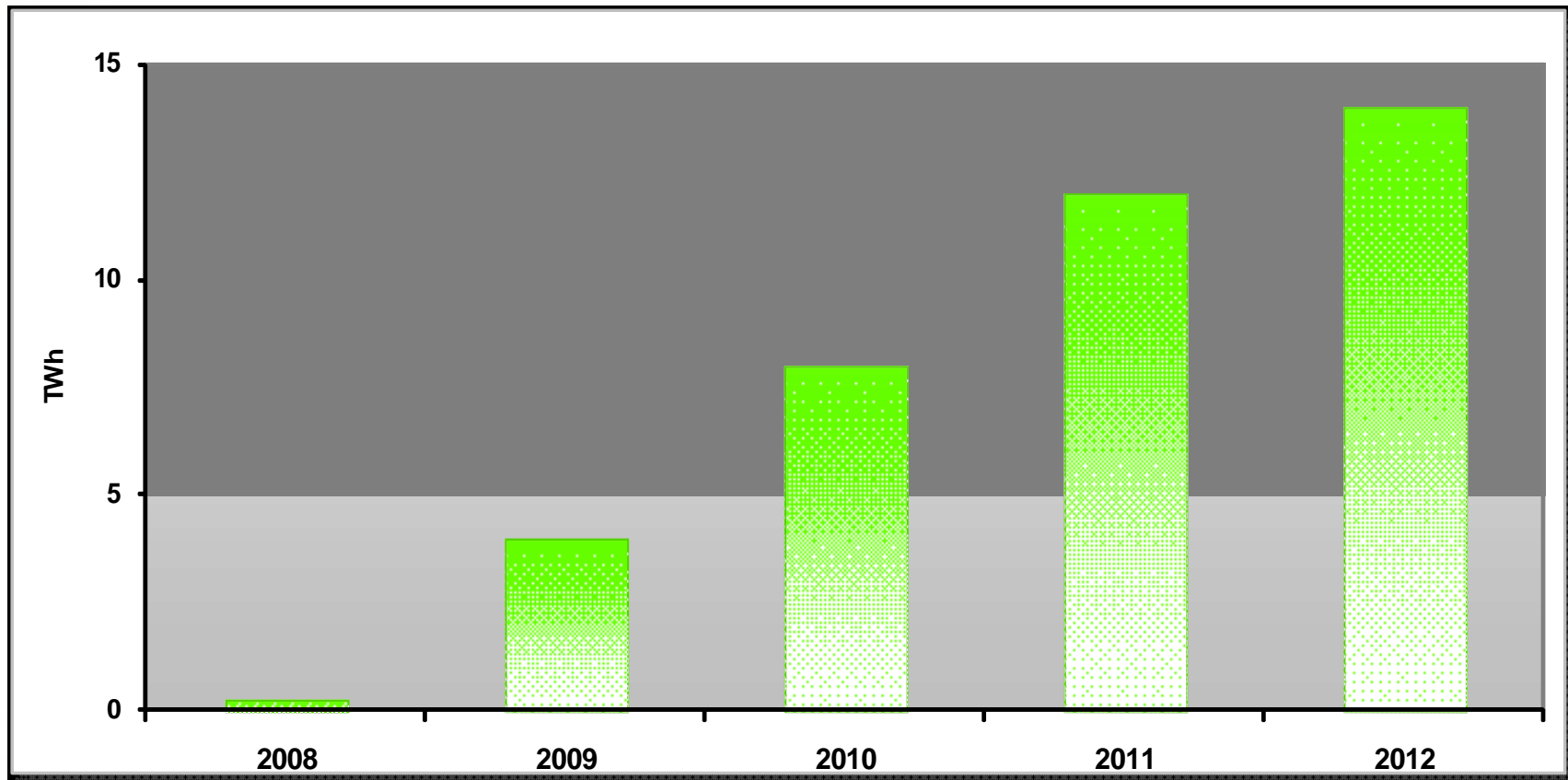
## Various Commitments of the Partners

- general **support of the SouthPool idea**
- exclusive support for the SouthPool alliance
- **commitment to provide liquidity** in national (single) market
- **commitment to provide liquidity** in regional (multiple) markets
- commitment to develop the national market design and cross border mechanisms in order to support SouthPool business objectives
- **commitment to provide cross-border capacities** for the market coupling





# SouthPool Spot Market Expected Volumes

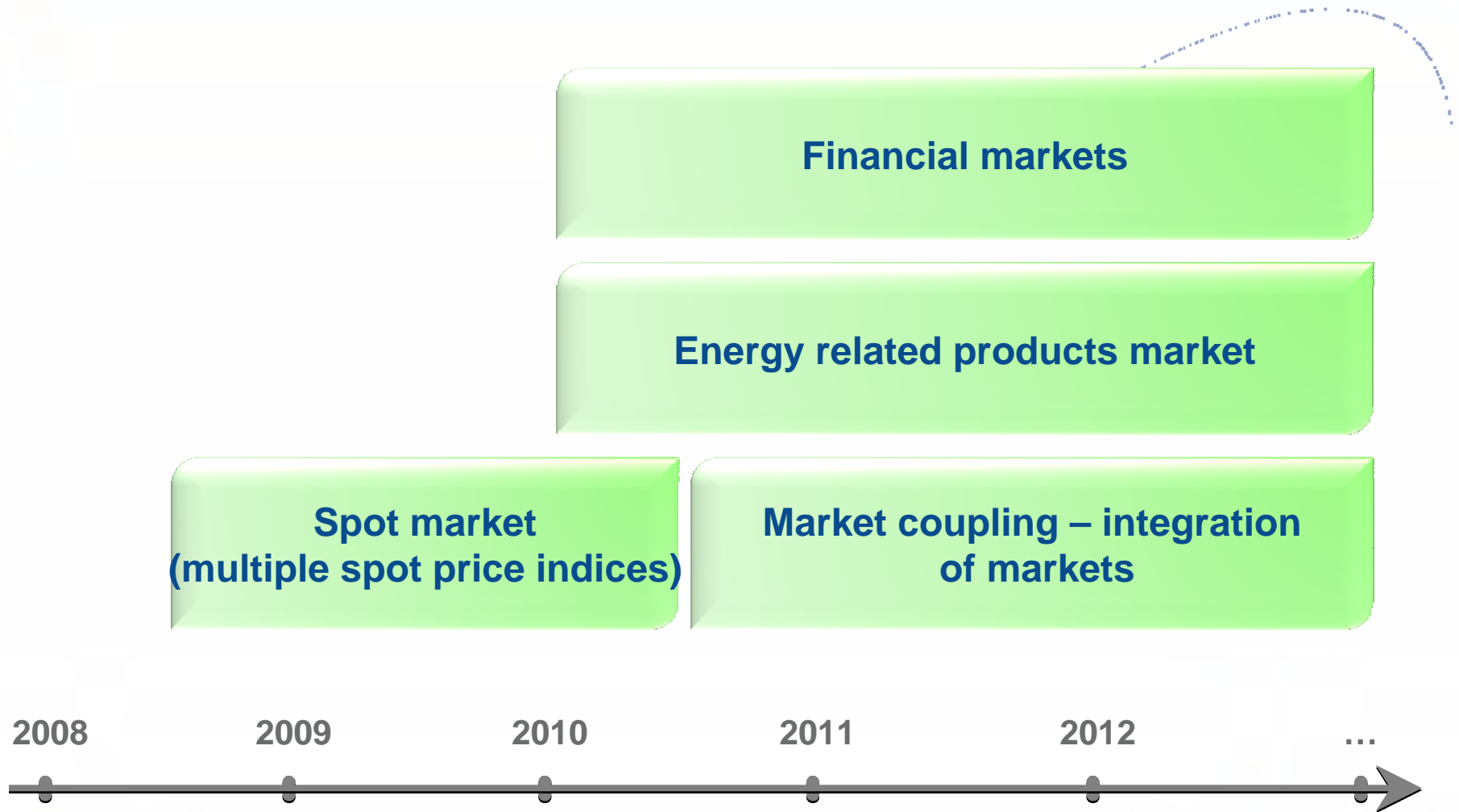


- From 30 (2008) up to 70 members in 2012 expected.





# SouthPool Markets Development





SouthPool

# Adding Value to Regional Power Trading

- Provision of relevant and reliable price indices
  - Local price indices
  - Enabling trading in power derivatives
- Financial clearing in a single location of choice
  - Single set of collaterals required
  - Enacting “Trade Globally – Clear Locally” philosophy
- Regional physical swaps products
  - Special products resembling cross-border capacity
  - Enabling seamless region-wide portfolio optimisation
- Implicit allocation of available capacity
  - Market Splitting within and Market Coupling with neighbouring exchanges in auction trading sessions
  - Continuous (Asymmetrical) Market Splitting in continuous trading session



# SouthPool Relevant and Reliable Price Indices

- Local price indices
  - **Relevance** – enough liquidity behind the prices established
    - Significant volume traded in the spot market
    - Substantial volume of the remaining orders not executed on both sides (buy & sell) of the market
  - **Reliability** – trust in the index price always being established on the long run
- Enabling trading in power derivatives
  - **Purely financial hedging** against the chosen underlying value (index price)



# SouthPool

## “Trade Globally – Clear Locally”

- Regional trading activities of member’s group result in execution of **only one financial transaction**
  - SouthPool members can trade in any number of products available
    - on behalf of all companies within the company group in the region
    - requiring only **one set of collaterals**
  - Clearing ensures both **anonymity and settlement optimisation** by execution of appropriate assignments
    1. between SouthPool and its members and
    2. within the group of affiliates
  - **One financial transaction per settlement day** between a member and SouthPool



Lower settlement cost and decreased





# SouthPool Physical Swap Products

- Physical swaps are **offers by members wishing to transfer energy** from one market to the other – at a price (positive or negative)
  - If there are appropriate (price difference and volume) buy orders and sell orders in the respective markets , the orders and the swap get executed
    - **Buy order + Sell part of swap** in one market
    - **Sell order + Buy part of swap** in the other market
  - No cross-border transfer and possible linking of won-adjacent markets
- The hedge for the member offering swap can be:
  1. Physical generation / dispatchable load (or even supply option) positions in the respective markets
  2. Possession of physical transmission options between the markets
- Swap is a seamlessly and anonymously multilateral deal



# SouthPool Implicit Capacity Allocation

- Auction trading sessions with integrated capacity allocation
  - Market Splitting within the markets operated by SouthPool
  - Market Coupling with neighbouring exchanges, like for example GME, EXAA and OPCOM
- Continuous trading sessions allowing for implicit allocation of available capacity
  - Asymmetrical Continuous Market Splitting - only for the markets within operation of SouthPool

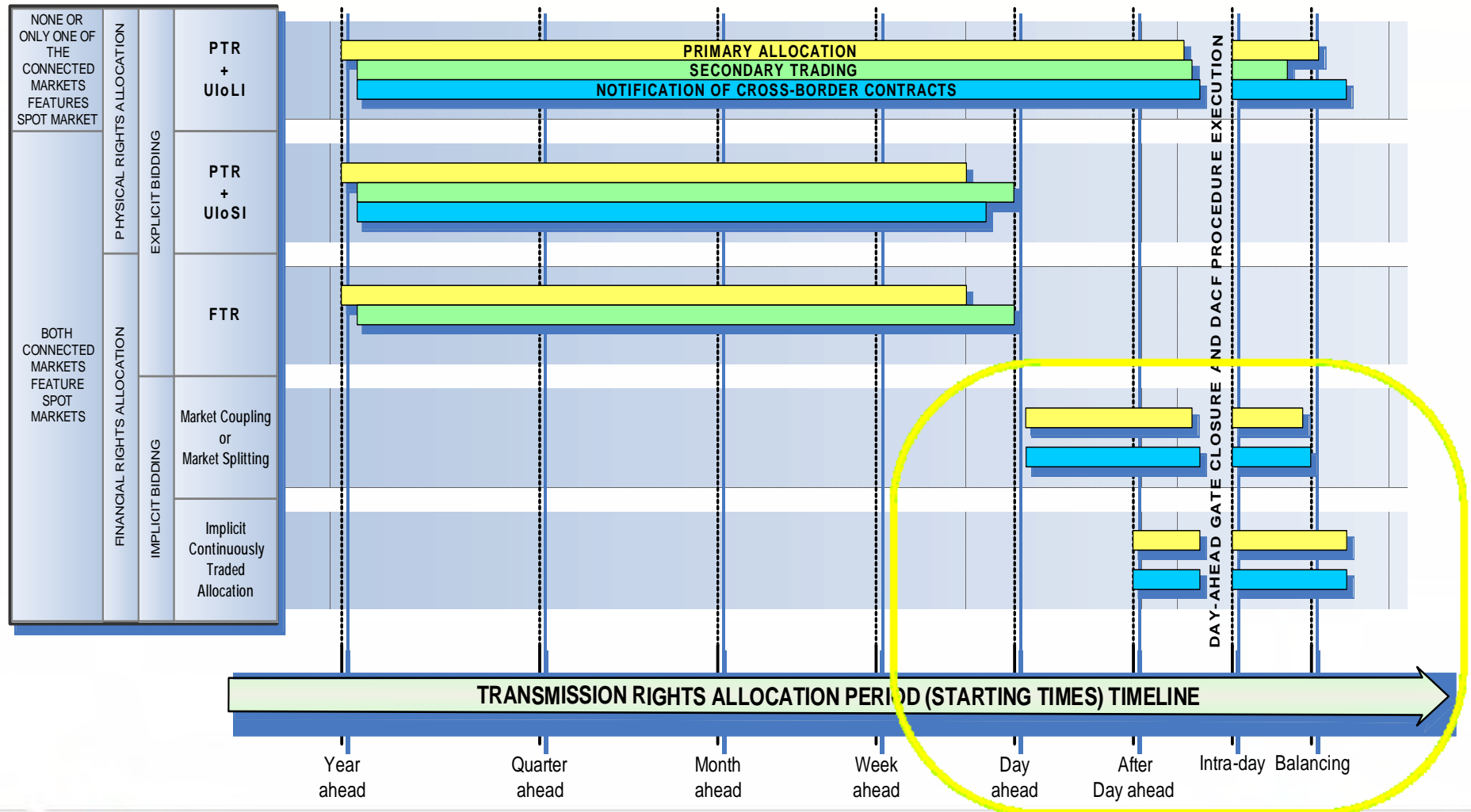


Well-established in the Nordic intra-day





# SouthPool Implicit Capacity Allocation Periods





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# LET'S MAKE A TRULY FUNCTIONAL REGIONAL MARKET

