



Improving Capacity Allocation for SEE Market Integration

3rd South East Energy Dialogue

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BSP SouthPool Strategic Reasoning

BORZEN

- Ensuring liquidity and growth by internationalisation
- Enlarging the portfolio of services and markets
- Expansion to the regional and European trading community

EUREX

- Market entry into SEE energy products
- Build up financial trading and clearing hub in SEE
- Export its transparency and efficiency model to the SEE area

OTHER PARTNERS

- Development of the national markets
- Easy access to the region-wide market
- Improve investment opportunities

**Leading
regional
cross-border
energy
exchange in
South Eastern
Europe**

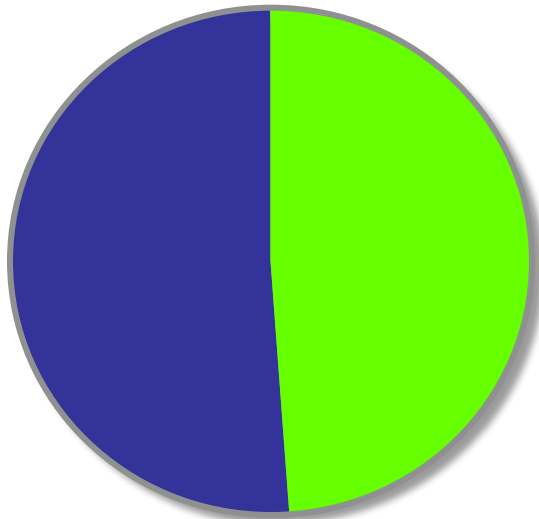


BSP SouthPool Incorporation and Future Ownership

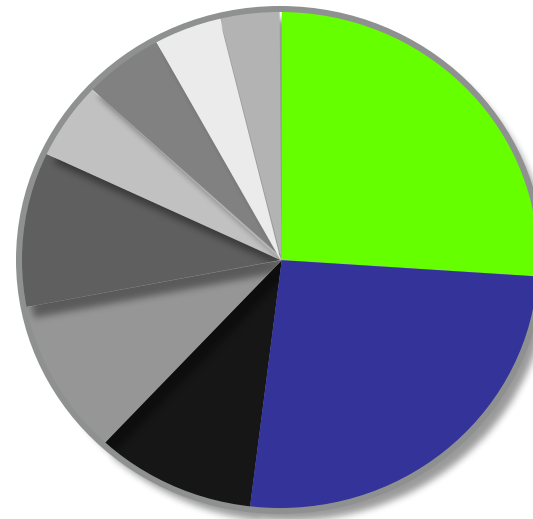
TODAY



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 LL C and branded **BSP SouthPool**
- Initially owned by Borzen and EUREX and open to admission of further partners



Market participants benefit

- **Efficient** and client oriented business infrastructure
- Easy and region-wide **market access**
- Pooling of **liquidity**
- **Financial security** and lesser risks
- **Lower costs** (administration work, counterparty risk management)
- Common **state-of-the-art technology**
- Wide portfolio of **high quality services**



BSP SouthPool Markets Evolution

- BSP SouthPool is a power exchange based in Ljubljana, offering **trading in power delivered in two markets**:
 - Serbian day-ahead electricity market
 - Slovenian day-ahead electricity market
 - ... further markets to follow shortly
- **Starting as isolated markets**, moving further to their integration
 1. Cross-border interaction between the markets limited to OTC (out of exchange) transactions
 2. **Integration of the markets**
 - Implicit capacity allocation
 - Introduction of cross-border physical swap products



BSP SouthPool Implicit Capacity Allocation Infrastructure

- Auction trading sessions with integrated capacity allocation
 - Market Splitting within the markets operated by BSP SouthPool
 - Market Coupling with neighbouring exchanges

Market Coupling between Italy and Slovenia

enjoys unanimous support

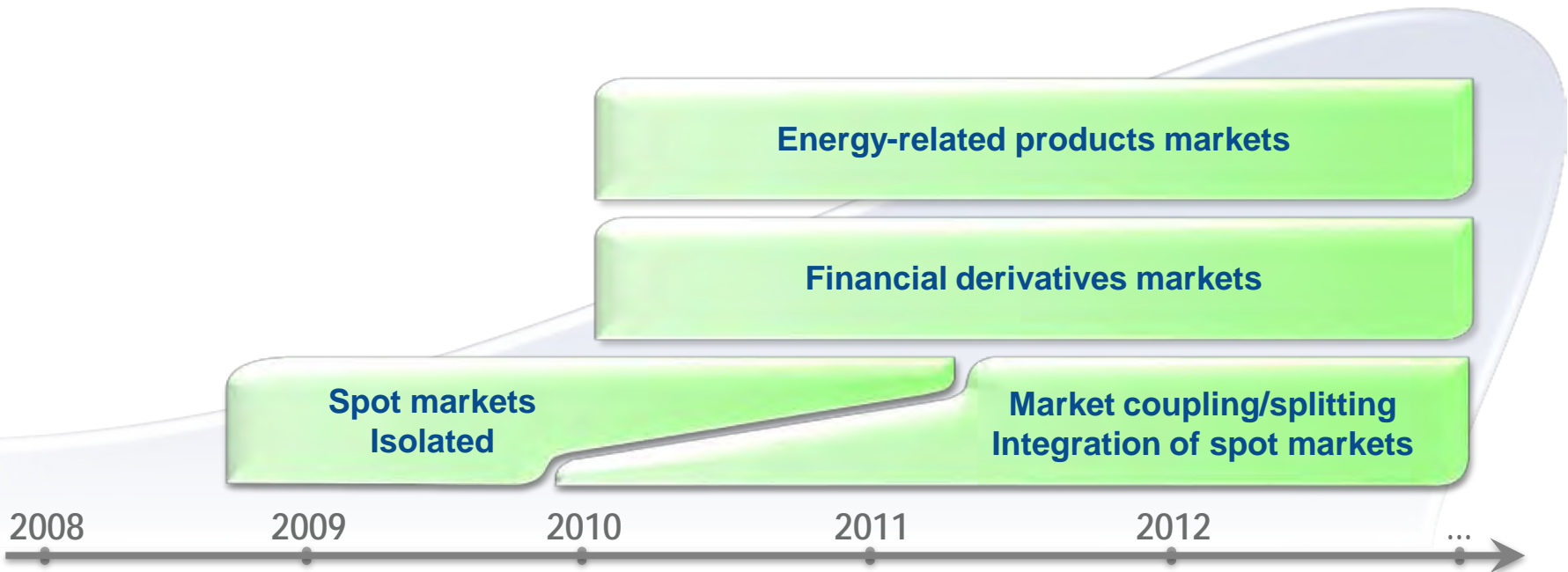
*by the Governments, Regulators, TSOs, Market Operators
and Power Exchanges (BSP SouthPool and GME),*

starting in 2010

- Continuous trading sessions allowing for implicit allocation of available capacity
 - Asymmetrical Continuous Market Splitting - only for the markets within operation of BSP SouthPool
 - Well-established in the Nordic intra-day market



BSP SouthPool Markets Development



- BSP SouthPool will deliver **relevant and reliable price indices** of which robustness to be further enhanced by integration of the exchange markets via
 - implementation of market coupling/splitting
 - introduction of cross-border physical swap products
- Price indices will form the **underlying values** of the cash-settled products on the financial derivatives markets
 - margining (required collaterals) based on mark-to-market of open positions
 - introduction to follow established minimal historical record of a price index



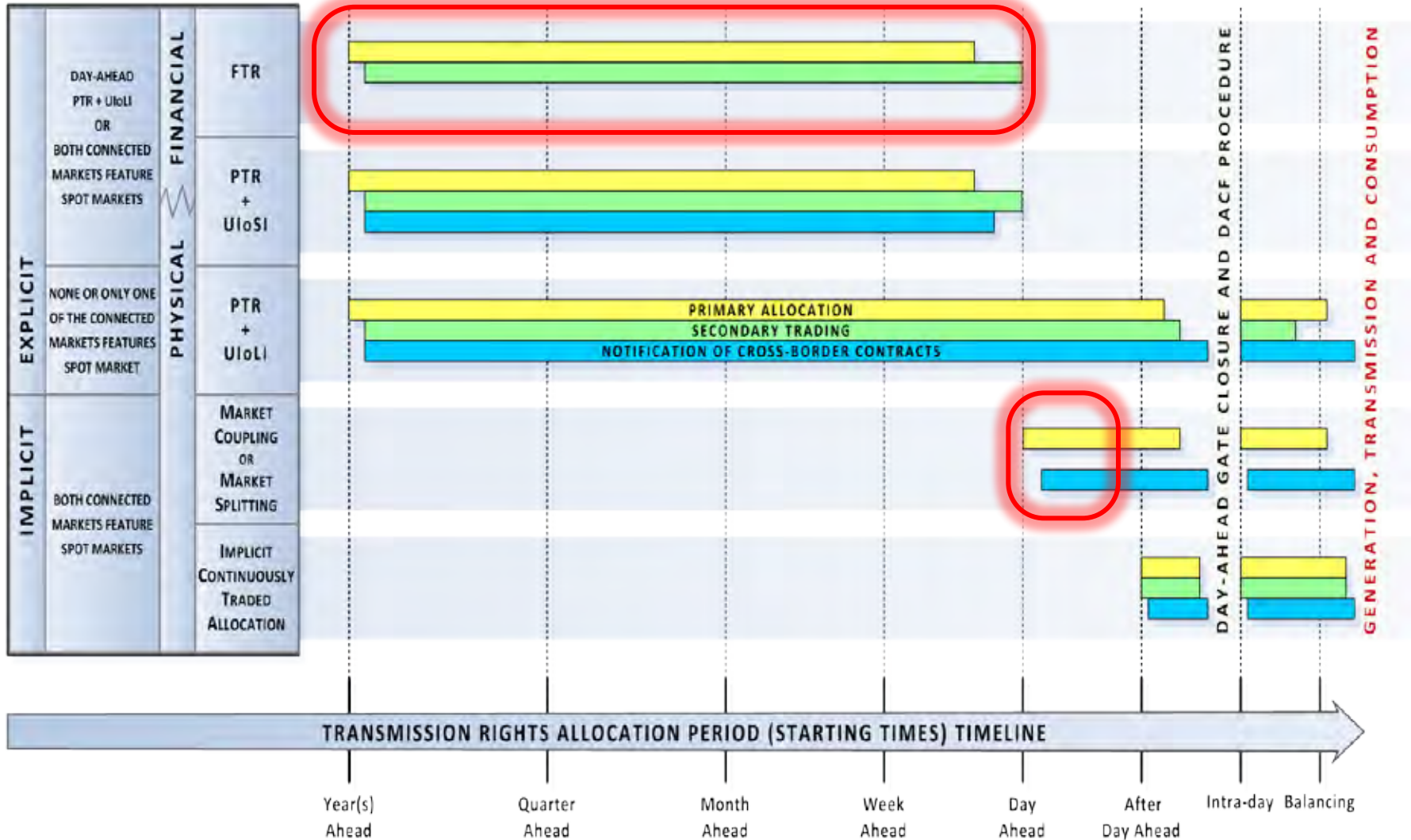
SEE Markets Integration

Improving Capacity Allocation

- The CAO project is **behind schedule**
 - Coordinated auctions (region-wide, all TSOs together) will not be in place for a long time
 - A serious push is needed to get at least to **(bilateral) joint allocations NOW**
- Longer-term allocations have to become (more) financial
 - **PTR + UIoSI**
 - **FTR**
- **Day-ahead allocations** have to be introduced on all borders



SEE Markets Integration Coherency of Capacity Allocation





SEE Markets Integration

Capacity Allocation is the Key

- Long-term capacity allocation of financial rights provides for a **perfect hedge** to market participants as they can cash it in to acquire physical capacity on the daily allocation
- TSOs can operate more securely as they only allocate physical capacity on the day-ahead level, **when they know the system's state**
 - **No curtailments** are needed
 - **The cost is entirely transparent**, if more rights have been allocated than the capacity actually available on the day
- Allocation of all available capacity day-ahead enables **seamless transition to implicit auctions** on the borders where and when conditions to do so are fulfilled, i.e. power exchanges on both sides of the interconnection



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European Partnership for a Regional Energy Exchange