

Opening Statement by Peter Reitz, CEO European Energy Exchange AG

EU High-Level Conference on

"The completion of the EU internal energy market: getting to 2014"

Panel Discussion: Harmonising Market Rules and Network Operational Rules

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Dear Commissioner, Ladies and Gentlemen and Dear Colleagues,

It is a true pleasure and an honour for me to take part in today's conference. I would like to thank Commissioner Oettinger and the Directorate-General for Energy for inviting me and for organising this important event.

In February the European Council concluded on the basis of European Commission's 2020 energy strategy, that the internal energy market should be completed by 2014. Although this is ambitious, we will make our contribution to achieve this goal. Now it is of utmost importance to bring the requirements to life.

However, the recent incident in Fukushima resulted in a fundamental break in the energy policy in a number of EU-member states, particularly in Germany.

Against this backdrop, it is even more important to come back to the European perspective and discuss the status quo and the challenges ahead of Europe's energy market integration.

The transformation to an energy production predominantly based on renewable energy sources requires not only significantly enhanced grid integration, but also solutions for further market integration. Over the last few months, we observed that the energy markets are already highly integrated, and that national markets therefore cannot be considered in isolation, from each other anymore. National markets already dispose of a high degree of connection to a large number of its neighbouring markets through market coupling projects, such as the Central West-Europe Market Coupling (CWE) and the European Market Coupling EMCC.

Indeed, with the completion of market coupling in Central Western Europe and the Nordic regions, a major step towards market harmonisation has been achieved. After almost a year, we reached a full price convergence in the majority of all the hours between Germany, France, Belgium and the Netherlands. We have to watch this development closely. However, what we can say is: Today the major European power markets are coupled.

The question is now, how we achieve a truly integrated European market within the coming years?

Ladies and Gentlemen,

The liberalisation of the energy markets in Europe since the late 1990's constituted an essential cornerstone for further market integration. And the creation of Energy Exchanges and the development of energy trading are some of the most visible results of this process.

Let me make it clear what energy exchanges stand for:

Energy Exchanges play a pivotal role in energy markets. They organise and provide central market places in a neutral manner bringing together supply and demand. They enable a non-discriminatory access to a wide range of trading participants. Trading at Energy Exchanges is optional and anonymous and accessible to all participants meeting the given admission requirements.

One of the main objectives of Energy Exchanges is to ensure a transparent and reliable wholesale price formation mechanism. The determined prices are published and used as references.

Furthermore, a number of Exchanges also provide information on electricity fundamental data. For example, the EEX transparency platform ("Transparency in Energy Markets") makes production information freely available for the German and Austrian markets. The structure of the platform ensures that further countries can be easily integrated. Therefore, it is a nucleus for a truly European transparency platform.

It is also as important to recognise, that Energy Exchanges eliminate the counterparty risk through clearing and settlement – in our case through the clearinghouse European Commodity Clearing AG (ECC). Thereby, Exchanges and Clearinghouses assume an additional role and responsibility for the market by keeping the risk out of the market. Since the beginning of the financial crisis, and with the default of Lehman Brothers, we have proven that clearing is a safe haven in uncertain times.

As a result, Energy Exchanges facilitate efficient and liquid wholesale markets as a prerequisite for competitive retail markets and hence for the end consumer.

As I have just mentioned, the visibility of Energy Exchanges and energy trading becomes particularly obvious when we look at the significant increase in the number of Exchanges and other market places for energy and related products:

In 2003, there were "only" about 15 Exchanges and market places – mostly for power trading.

Today, we see more than twice as many Energy Exchanges, market places and brokers as well as a large OTC-sector – which do not only allow for power trading but also for natural gas and emissions trading.

However, after a phase of establishing mostly national wholesale markets and Exchanges we are now at a stage of consolidation towards supra-national market places.

Coming back to the question I posed in the beginning – “How can we achieve a truly integrated European market within the coming years? – I can therefore respond:

We as an Exchange have already taken concrete steps towards a cohesive European energy market. The Franco-German Power Exchange EPEX Spot – a joint venture of Powernext and EEX founded in 2008 – is designed to be the nucleus of the European market integration. Today, EPEX Spot covers almost one third of the European power consumption with its three market areas France, Germany/Austria and Switzerland. And it is open for other partners to join.

Nevertheless the structure of Energy Exchanges throughout Europe is still heterogeneous. Energy Exchanges' organisational schemes differ due to the principles of subsidiarity, respective national legal regimes and economic conditions.

This diversified structure does not as such constitute any concern though. Today's Energy Exchanges operate in efficient, well-functioning and compatible markets. The mere fact of a heterogeneous situation throughout Europe constitutes no reason for legislative action per se.

Of course, concerns regarding the possible future status of Energy Exchanges were recently expressed in a consultation paper by the European Energy Regulators. Here, market coupling was interpreted as one of the reasons for the entire proposal of the regulation of Energy Exchanges.

It is therefore necessary to clarify that market coupling constitutes only an auxiliary activity of Energy Spot Exchanges. The amount of cross-border capacity traded via the market coupling mechanism represents less than 10% with only a marginal share of the total volumes traded at energy exchanges.

In this context, Energy Exchanges generally cannot be considered to be in a monopolistic position which would justify regulation. They are in competition with each other and with other trading venues, such as broker platforms and OTC. As an example, the overall trading volume at EPEX Spot and EEX for the German power spot and derivatives market is about 1,400 TWh. For the total German market volume, the European Commission assumes about 4,500 TWh in its impact assessment to the REMIT regulation.

Regulation must never be an end in itself, and should only be the last resort in case of a real drawback which cannot be solved otherwise. With REMIT, being a major and significant step in the right direction which has been designed to foster integrity and transparency in Europe's energy markets, it is now of utmost importance to implement this new regulation for the whole of Europe.

Coming back again to the question I posed in the beginning – “How can we achieve a truly integrated European market within the coming years? – the answer in this context is clear:

Oversight in terms of supervision and the harmonisation of general principles of the organisation of trading venues like Energy Exchanges must be distinguished from, and should not go as far as, the regulation of the overall market design. An adequate degree of harmonisation concerning the oversight of energy exchanges is desirable for the further integration of the European energy markets and for the competition between energy exchanges.

Ladies and Gentlemen,

Coming to an overall conclusion it is important for me to point out that when we talk about market integration we should also talk about how this goal could be achieved through market-based approaches.

We are convinced that market mechanisms would help to achieve the overall goals of EU energy policy: competitiveness, security of supply and sustainable development.

Therefore, markets should be:

- preserved where they exist and make sense
- enabled where supply and demand exists
- developed where adjustments are necessary

However, there is still scope for improvement for more market-driven initiatives:

- A uniform set of rules and harmonised supervision
- Free space for innovations
- Clear definitions of the market parties' roles
- Entrepreneurial risk as a chance for new developments

Let me sum up with a clear statement:

In other words: In liberalised markets, competition ensures efficiency and quality while legislation should only provide the framework for a level playing field, where market places such as exchanges can develop in competition with each other. Otherwise the commitment of the EU to achieve a fully liberalised wholesale energy market by 2014 could be put at risk.

I thank you for your attention and am looking forward to our discussion.