

Principles of creating a derivatives market for Gas.

ENDEX

European Energy Derivatives Exchange as a successful example





- **Introduction**
- **ENDEX as an example**
- **Why having a gas exchange?**
- **How to built a gas exchange; shopping lists**
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**Studied business economics & law
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- 1986: Attorney at Netherlands Bar
- 1990: In-house legal counsel, MeesPierson NV (Private Wealth Management bank)
- 1994: Chief Legal Counsel, Amsterdam Stock Exchange (AEX)
- 2000: Consultant to Energy companies; E.ON, RWE, Essent, Nuon, others
- 2002: Founder & CEO of ENDEX – European Energy Derivatives Exchange
- 2009: Founder & managing partner, CEFIN



Introduction of CEFIN:

- Energy markets experts; ‘make your market work’
 - Mr. Stephan Follender
 - Mr. Dirk van Vuuren
- Former management board of ENDEX - European Energy derivatives Exchange (now ICE-Endex)
- We create markets and exchanges
- Clients: European Commission (EUA market), Utilities, Investors
- Building markets to work profitably, smooth and successful
- Create a gas exchange; mastering counterparty risk: we have done it!



ENDEX - European Energy Derivatives Exchange

- Liberalization of the Energy Markets in the European Union (1999)
- Founding of ENDEX (2002)
- € 10 million equity; international shareholders: E.ON, Endesa, Enron, RWE
- Exchange for trading power and gas (TTF)
- Exchange license: MiFID Regulated Market and Supervision
- More than 100 **Billion** Euro traded value up to date
- Sold to APX Group for € 25 Million (2008)
- Sold to Intercontinental Exchange (ICE) for € 125 Million approx. (2013)

Why having a gas exchange?

- Economic growth; need to attract private investors
- Create a long term price curve, to calculate ROI (return on investment)
- Trading of energy surplus and deficit among parties: economic optimization
- Risk management: manage your price risk, counterparty risk & liquidity risk
- Creating a market via a gas exchange:
 - Price transparency: the market always knows what the price is
 - Continuity: an exchange is always there whatever happens: 'liquidity'
 - Level playing field: equal access for all parties; big and small
 - Supervision: safeguards high professional standards and fair trading



How to build a successful Energy Exchange: 'shopping list' (1)

- ☑ Develop a business case: fee structure
- ☑ Market soundings: gain market support, convince traders
- ☑ Product specifications: exchange rules & regulations
- ☑ Obtain exchange license from supervisory authorities
- ☑ Consult with TSO on market/product design, physical flows, terms & conditions
- ☑ Create secure and reliable ICT trading infrastructure
- ☑ Create and train a team of excellent market operators

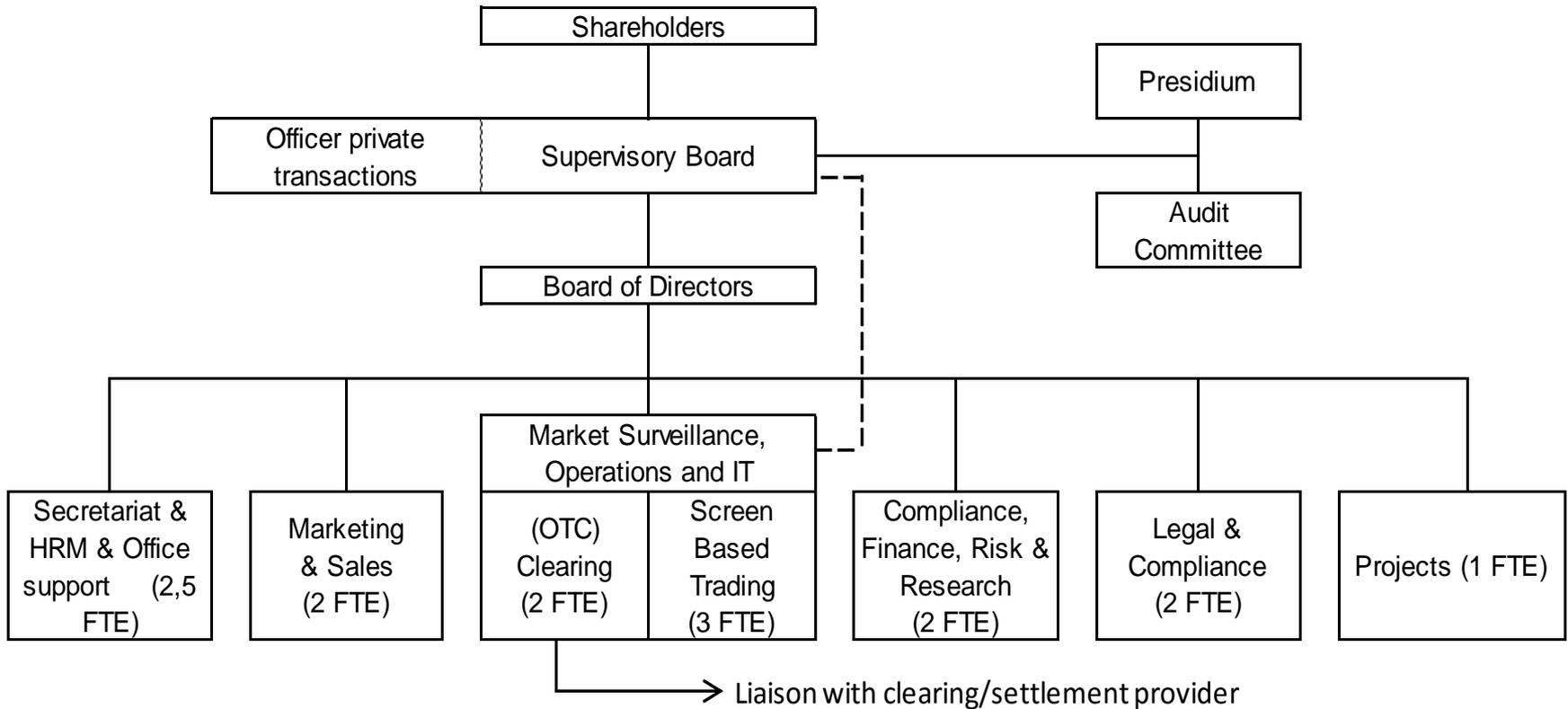


How to build a successful Energy Exchange: 'shopping list' (2)

- ☑ Arrange Market Makers to generate daily liquidity
- ☑ Clearing and Settlement function (CCP)
- ☑ Create market surveillance function for an orderly market
- ☑ Train and educate market participants
- ☑ Create press coverage, promotion and structural transparency
- ☑ Your price index.....that is what the world is looking for!

CONNECTING THE DOTS => LIQUIDITY, LIQUIDITY, LIQUIDITY!

Structure of a gas exchange and distribution of tasks (ENDEX)



What is a successful gas exchange?

- ENDEX TTF gas trading and clearing started in 2006
- NBP (UK) was the dominant gas trading hub in Europe
- Now:
 - The UK (NBP) and Dutch (TTF) virtual trading points dominate gas trade in Europe, covering 88% of hub traded volumes. (EU Commission Gas markets Q-3 2015 report)
 - Dutch TTF hub has overtaken UK's NBP as the European benchmark (Interfax jan 2016)



Thank you for your attention!
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