

**NOT FOR GENERAL PUBLICATION;
for members of the audience of ETCSEE2016 only**

Review of Electricity Trading Developments in CEE

Jozsef Balogh, 15 June 2016, Bucharest

Mottos

- ***“All human wisdom is contained in these two words: Wait and Hope”***
– Alexandre Dumas
- ***“For a very long time, the intellectual consensus had been that we can no longer ask Great Questions. Increasingly, it is looking like we have no other choice.”*** – David Graeber

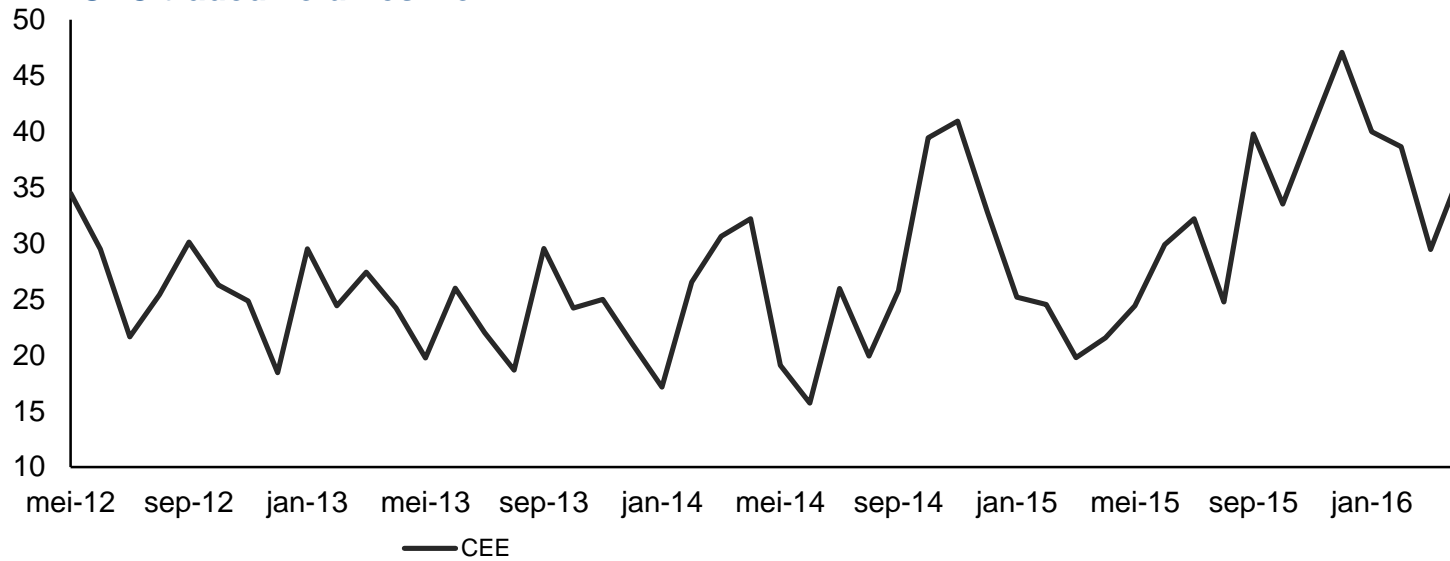
Housekeeping rules

- Private ideas
- No press coverage, please
- If something is not clear, please ask (as opposed to report)
- All charts from Argus, with special contribution from Jozsef Turai, TransEnergo (industry reporting name: *Jozef Tt*)

OTC traded volume up



OTC traded volumes from LEBA TWh

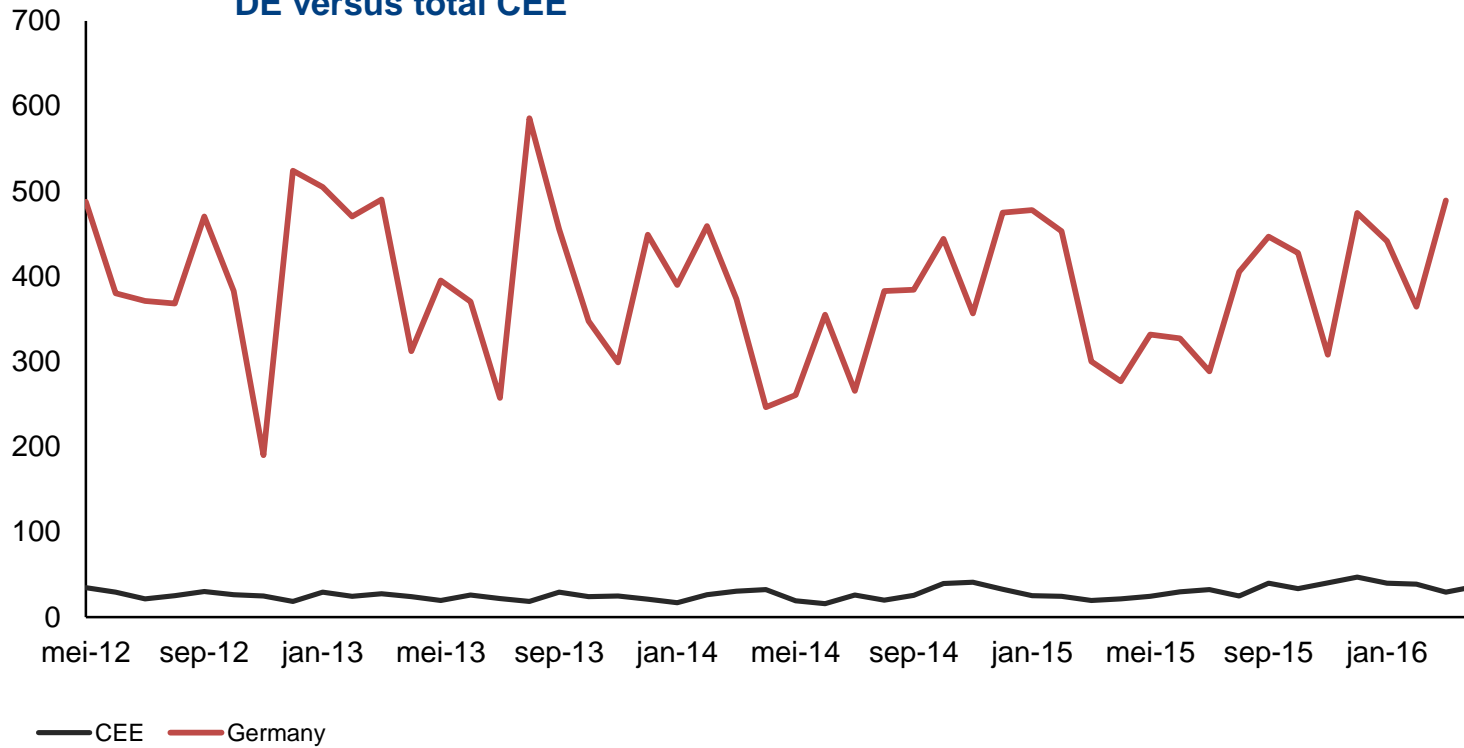


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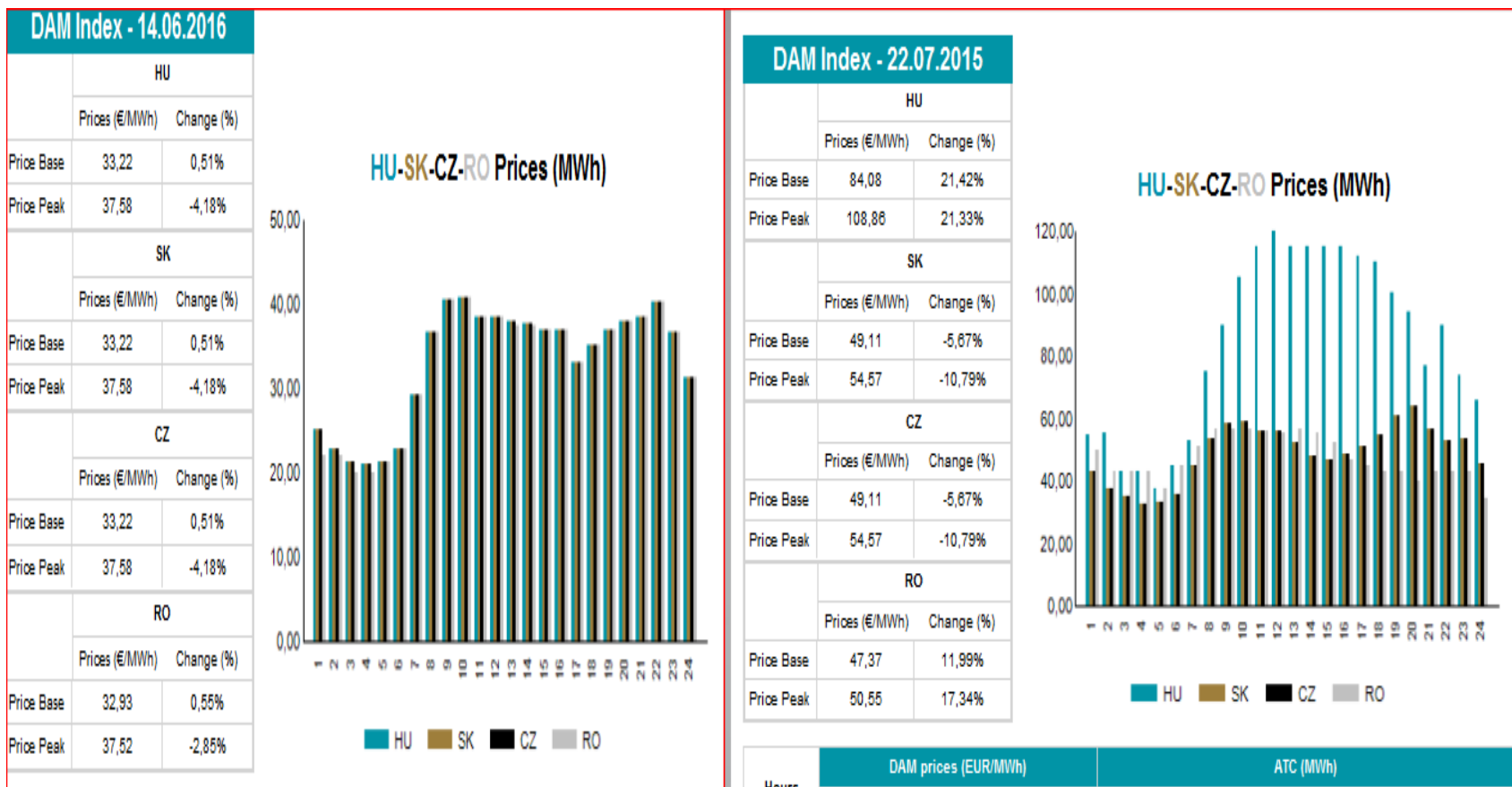
But we are still a micro-cosmos

OTC traded volumes TWh from LEBA
DE versus total CEE



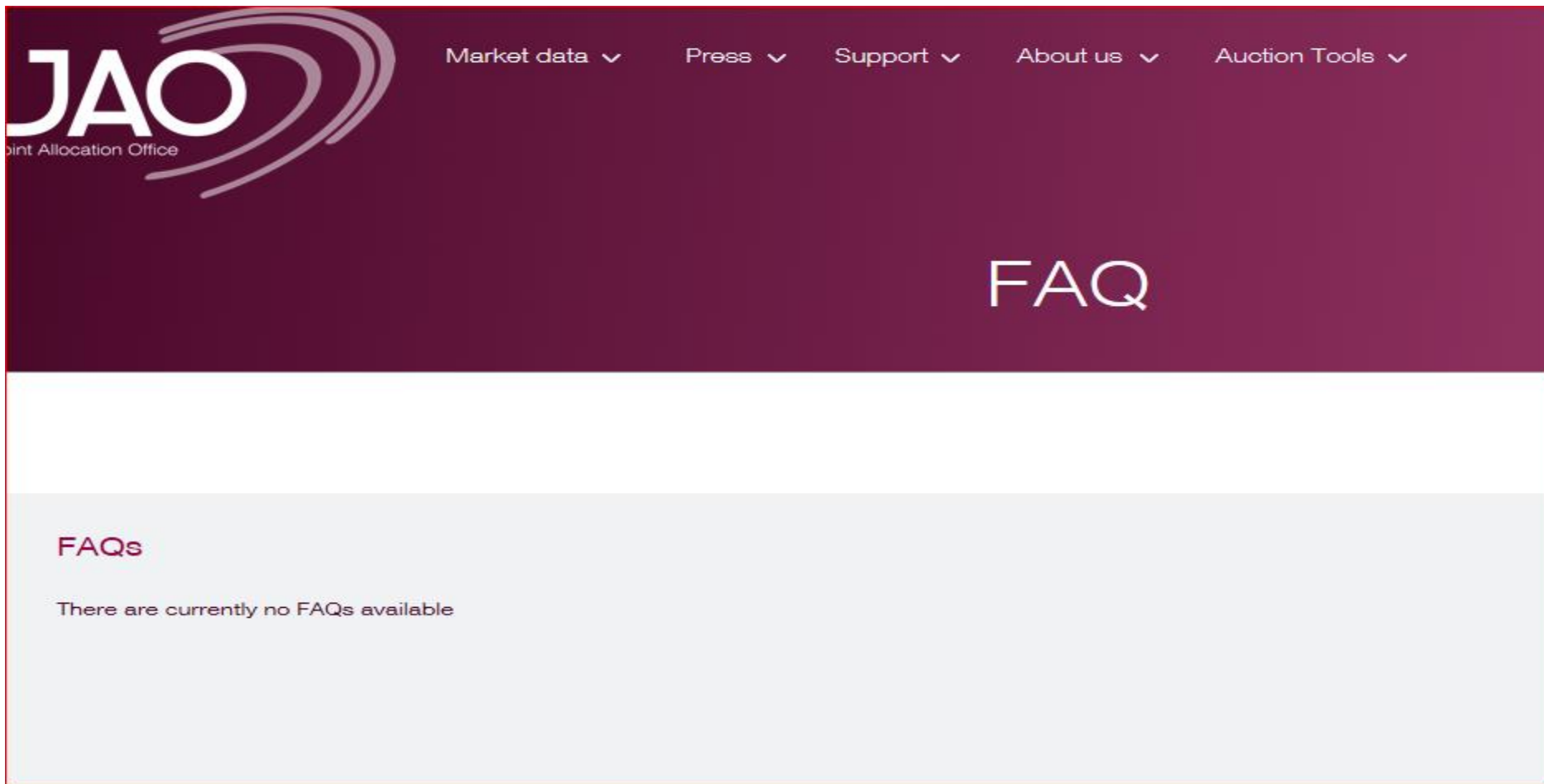
Market coupling working

... For the time (weather) being



Cross-border auctions improved

Co-ordinated auctions



The screenshot shows the JAO (Joint Allocation Office) website. The header is dark red with the JAO logo on the left and navigation links: Market data, Press, Support, About us, and Auction Tools. The main content area is white with a large 'FAQ' heading. Below this, there is a section titled 'FAQs' with the text 'There are currently no FAQs available'.

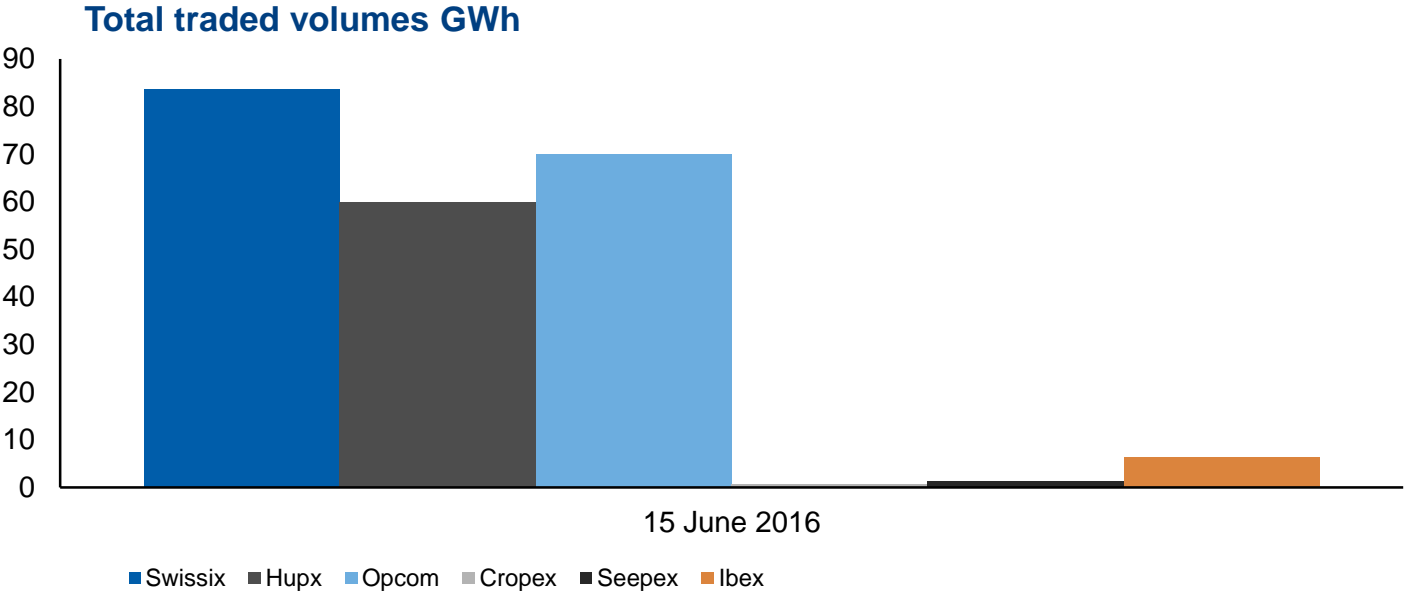
We are exchange long

Ibex Bulgaria
19 January
2016

Cropex
Croatia 10
February
2016

Serbia
Seepex 17
February
2016

But liquidity short

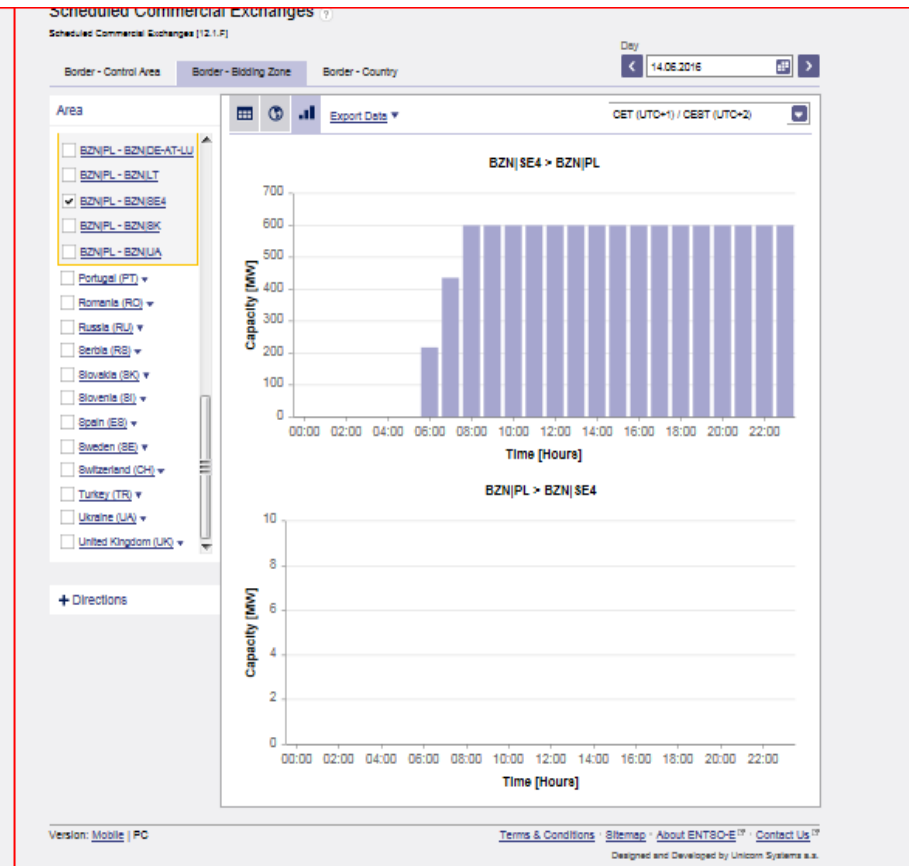
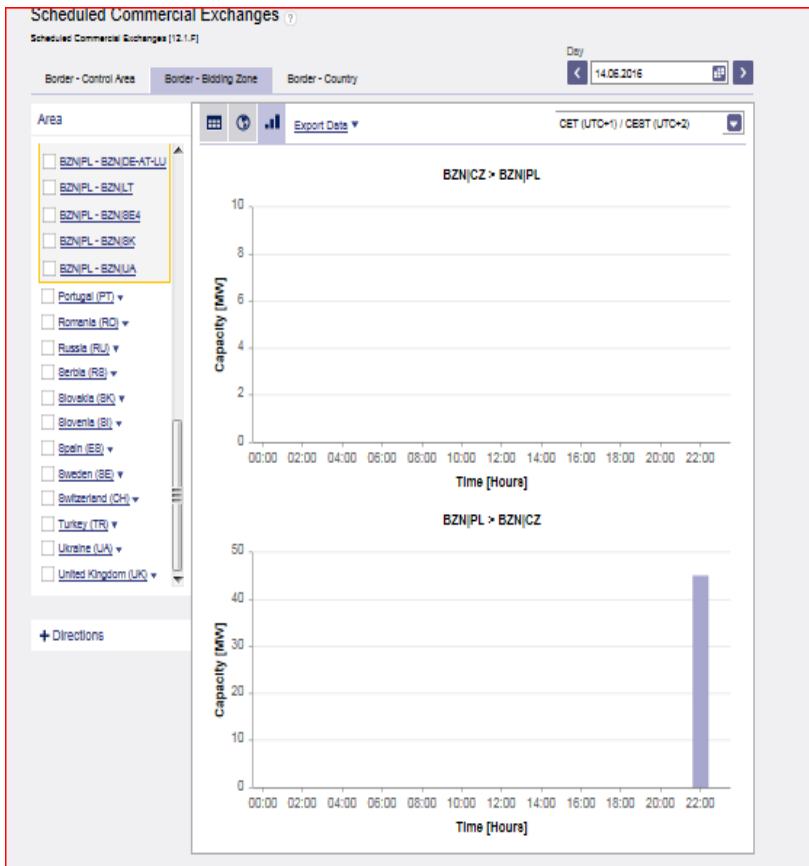


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Transparency improved

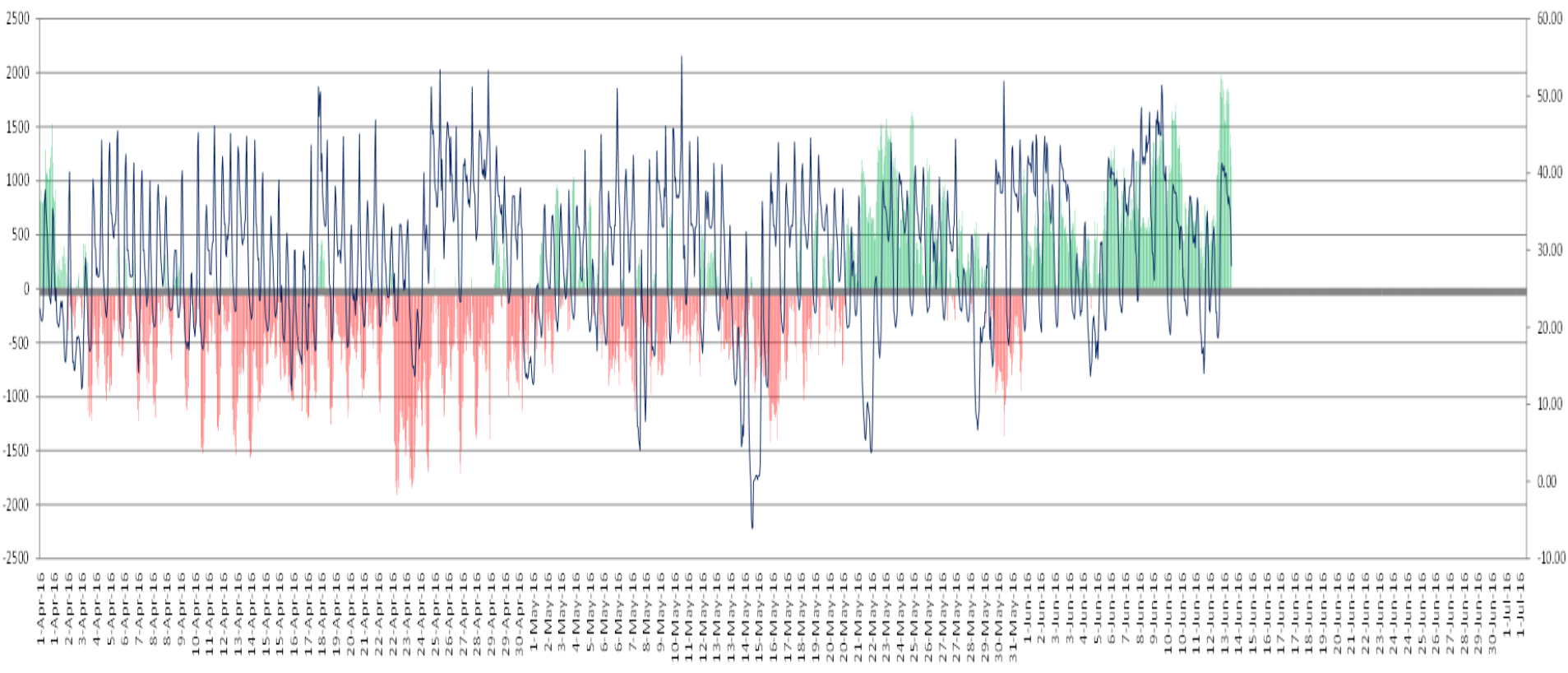
ENTSO-E website, Poland, 14 June 2016



Net result: fundamental analysis possible in CEE/SEE electricity

Courtesy of Jozef Tt (TransEnergo)

Net RSHU and HRHU commercial flow change 2016 to 2015 and HUPX



The Reserve Presentation

- **Normal presentation**
 - Experts speak, delegates listen and then (induced) questions
- **Reserve Presentation**
 - Speaker asks Great Questions;
 - Experts in audience reply;
 - No need for post-presentation (induced) questions

vcXD9QLCoSjG3xipeAbjSO0KFsstDOvuQwEjanMvII001

- **Banking regulation over-flowing to energy trading**
 - Mar, Mifid, Emir and (for sure) Mad
 - Extra barrier to entry for new traders
 - Regulatory/compliance costs up for existing traders
- **And here is the Great Question: why is it so?**

Investment banks exited energy trading



UK bank Barclays closes power trading division

25 Feb 14, 16:40 - Electricity

London, 25 February (Argus) – UK bank Barclays has closed its power trading division as part of a re-evaluation of its businesses.

The trading desks will no longer take on new business, and will close out existing positions and to minimise the effect on this business. Barclays said that its other businesses will remain unaffected, it said.



BofA Merrill Lynch exits European power, gas trade

07 Jan 14, 18:00 - Natural gas, LNG, Electricity

London, 7 January (Argus) – US bank BofA Merrill Lynch has decided to stop power and gas trading in Europe, it said today, blaming lower demand for hedging services and “recent regulatory changes”.

The bank said it would continue to trade the US gas and power markets. It also



JP Morgan scales back European power trading

24 Feb 11, 17:16 - Electricity

London, 24 February (Argus) – US bank JP Morgan is scaling back its power trading operations, including its central east European (CEE) power desk.

JP Morgan is expected to maintain a presence in the CEE region and to continue to trade the European gas and power trading business from Sempra Energy.

JP Morgan declined to comment.



Shell buys Morgan Stanley's gas, power book

10 Jul 15, 13:51 - Electricity, Natural gas, Corporate, Trading

London, 10 July (Argus) – Shell has acquired the European gas and power trading book of US bank Morgan Stanley for an undisclosed sum.

Morgan Stanley had been mulling an exit from its gas and power trading business for at least three years, in response to more stringent financial regulations imposed following the 2008 financial crisis, which require banks to hold minimum amounts of capital relative to their risk-weighted assets, including commodities. The higher capital requirements have effectively increased the cost of commodity trading for banks, leading many to scale back the amount of risk-weighted assets that they hold. Morgan Stanley has for several years been engaged in a programme to reduce the risk-weighted assets in its fixed income and commodities business.



Jo's brilliant summary of the banking crisis

Mervyn King: The End of Alchemy (2016)

- **Three numbers:**
 - Asset holding of top 10 UK banks: **450%** of GDP (2015);
 - Derivatives contracts: **55%** of the total assets of top 20 banks (2014);
 - Share of liquid assets held by banks in UK: below **2%** (2007).
- **The (painful) conclusion**
 - “*Socially useless*” (Turner Report);
 - “*Too many talented people had been sucked into trading which, with the benefit of hindsight, was little more, than a zero-sum activity generating little or no output.*” (Mervyn King: The End of Alchemy, 2016)

Great Questions, No 1.

- **Which points are relevant to CEE/SEE energy trading?**
 - Size?
 - Derivatives?
 - Liquid asset holding?
- **How could some politicians and regulators confuse CEE/SEE energy trading (primitive, non-financial) with ‘financial alchemy’?**

The second round of Big Questions

Split Personality Disorder – type examples

- **Poland**
 - Some borders open, others closed;
 - For the first time, PL prices higher, than HU;
 - 80% of all Polish generation is coal fired;
 - Yet, the dominant coal producer is going bankrupt
- **Serbia**
 - (Almost) perfectly normal cross-border electricity trading arrangement;
 - Gas cross-border trading: The Sleeping Beauty.
- **Hungary**
 - HUPX one of THE leading electricity (DA) exchanges in CEE/SEE
 - CeeGex: “Comfortably Numb” (Pink Floyd)

Big Questions, No 2

- **How did they do it?**
- **Who is doing what to treat the split personality disorder?**
- **Likely time-frame?**

Conclusions

- **“To begin to free ourselves, the first thing we need to do is to see ourselves again as historical actors, as people who can make a difference in the course of world events.” (David Graeber: Debt, the first 5,000 years, 2014)**
- **To make that difference, we should ask Great Questions, like**
 - How could a non-financial (primitive) business (CEE/SEE energy trading) be subject to financial regulation?
 - How the Western borders of Poland turned into an iron curtain?
 - How can Serbia run a modern electricity cross-border regime alongside an early 20th century gas access regime?
 - Is *Dévai Center, 1134, Budapest Dévai u. 26-28* a Black Hole?
- **Finally, no more questions now, lunchtime . . .**