



Session III: Link between Energy and Financial Markets

**CESR/ERGEG advice to DG TREN and DG MARKT  
in the context of the Third Energy Package**

Johannes Kindler, CEER Vice President

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## Background

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### **Energy trading has increased significantly in recent years within the European energy market**

- in particular as regards electricity trading (Continental Europe: +45 % trade at exchanges and OTC 2007-2003),
- but also trading of gas has evolved over time (“emerging market”)

**...and is of increasing importance as it raises predictability and stability of prices due to hedging opportunities (financial/physical).**

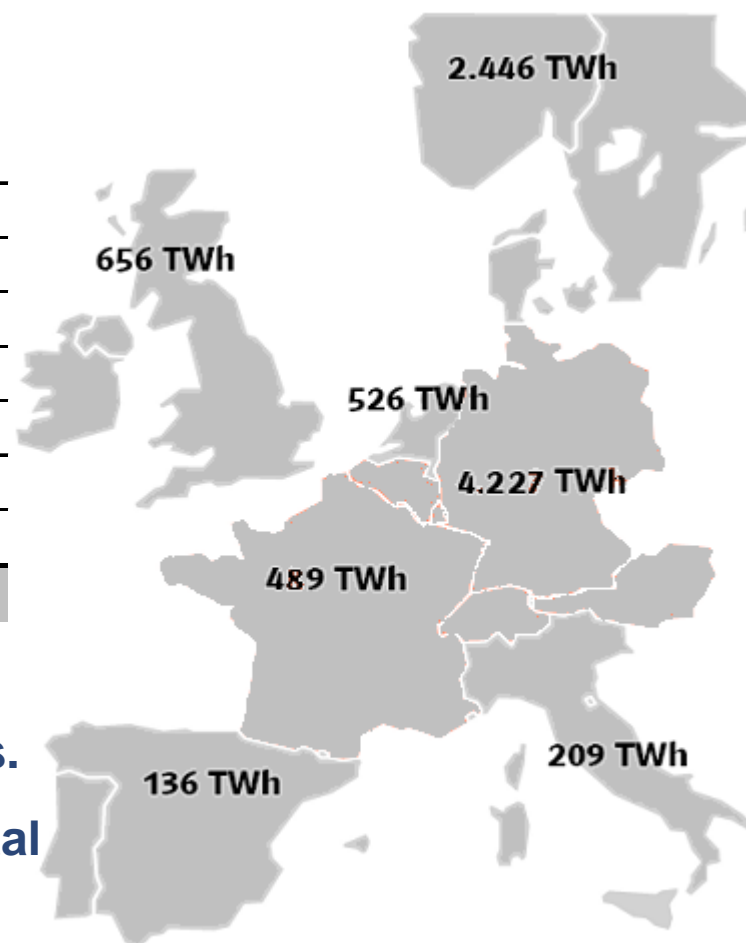
### **Even though only a moderate portion of electricity trading is executed over power exchanges**

- exchanges constitute economically important price signals to other segments of energy markets,
- and prices have strong impact on **OTC** and **energy derivatives** pricing;
- the situation is **similar to oil markets**.

**In order to facilitate fair and orderly trading and to enhance confidence in market integrity, adequate supervision and regulatory oversight is essential.**

# Traded Volumes in Europe 2006 – Electricity

	Trade* TWh	Change (%) 2005 - 2006	Trade/ Consumption
Germany	4.227	17%	7,5
Nordic	2.446	1%	6,3
UK	656	4%	1,8
Netherlands	526	1%	4,6
France	489	13%	1,0
Italy	209	0%	0,6
Spain	136	-47%	0,5
<b>Total</b>	<b>8.709</b>	<b>7%</b>	<b>3,5</b>

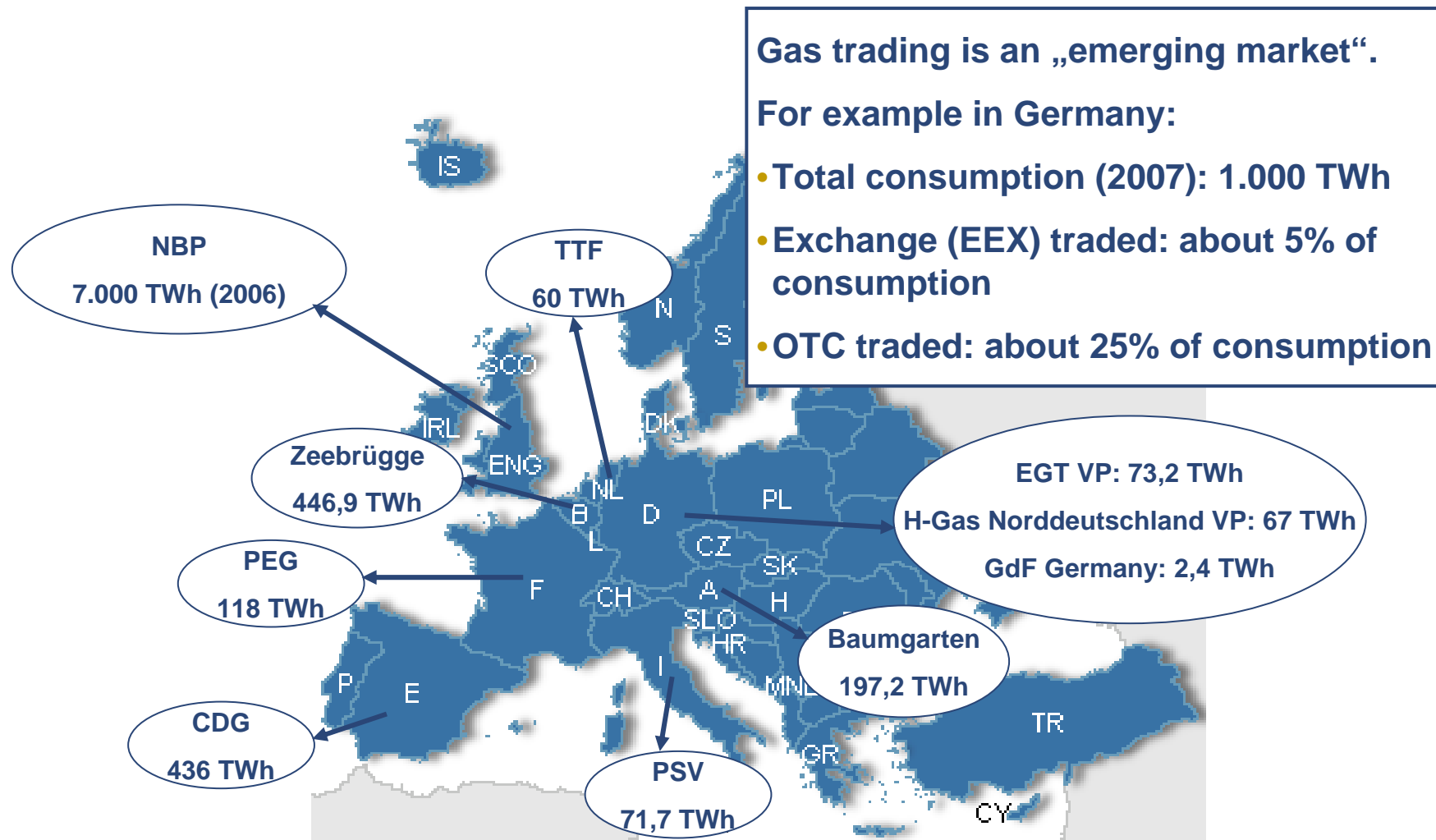


**Electricity trading volume in Europe increased significantly in absolute terms.**

**Trading represents about three times total electricity consumption in Europe.**

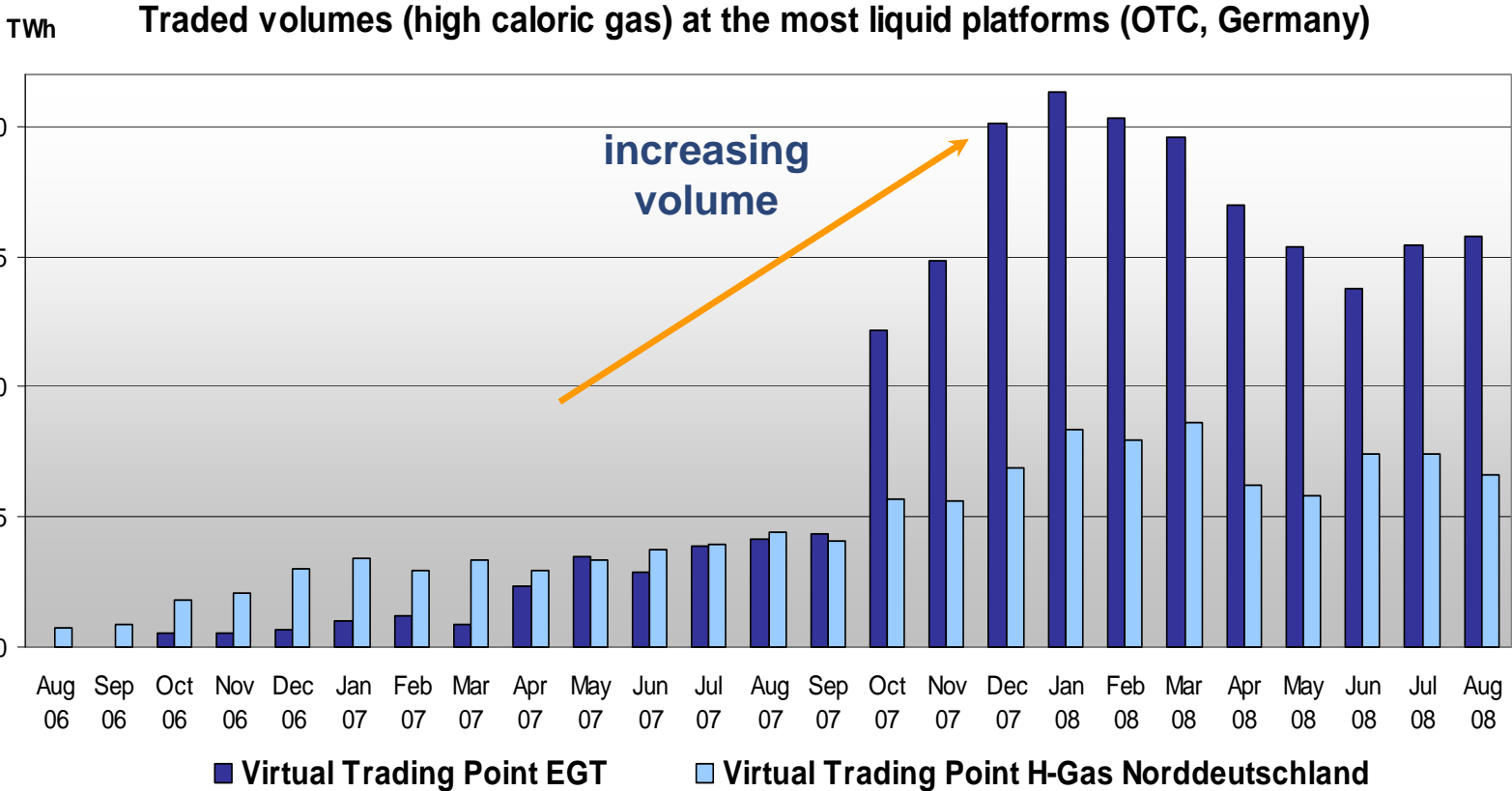
\* OTC trading and trading at exchanges.  
Source: E.ON Sales & Trading

# Traded Volumes in Europe 2007 – Gas (1)



Source: ENERGIE & MANAGEMENT, 15.2.2008; EEX;  
 Petroleum Economist, Fundamentals of the World Gas Industry, 2008

# Traded Volumes in Germany 08/06-08/08 – Gas (2)



Source: EEX; EGT; Gasunie Deutschland

# Background to joint mandate to CESR and ERGEG

## Joint mandate to CESR and ERGEG issued by the Commission on 21<sup>st</sup> December 2007

- Technical advice pursuant to Articles 22f and 24f respectively in the two proposals for Directives amending Directive 2003/54/EC and 2003/55/EC (Third Energy Package)
- **The Question: Are the requirements within financial regulations sufficient to address market integrity in electricity and gas markets properly?**

### Main issues

- Fact finding
  - Market abuse
  - Record keeping
  - Trade transparency
  - Exchange of information
- } advice delivered
- } consultation paper published  
(consultation until 24<sup>th</sup> November)

# Market Abuse

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## Recommendations of CESR/EREG

- **CESR and EREG propose a basic, tailor-made market abuse framework in the energy sector legislation for all electricity and gas products not covered by MAD (Market Abuse Directive).**
  - The current financial regulations are not sufficient to properly address market integrity in the energy markets.
  - Energy trading is only partly covered by MAD.
- **CESR and EREG propose disclosure obligations comparable to Article 6 MAD in the energy sector regulations.**
- **Other related markets (e.g. oil, coal and CO2 emissions) have to be considered as prices of these commodities directly and indirectly impact on the electricity and gas prices.**

# Record-Keeping

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## Main issues

- Record keeping requirements for supply undertakings in Art. 22f/24f respectively in the proposals for Directives amending Directive 2003/54/EC and 2003/55/EC
- **Clear distinction:** Record-keeping vs. transaction reporting
- **Provisional proposals of CESR/ERGEG**
  - **Requirements for all** persons which conduct physical trade (spot contracts and physically settled derivatives transactions), i.e.
    - **non-investment firms:** all supply contracts and derivatives
    - **investment firms:** only supply contracts not covered by MiFID
  - **Requirements similar to MiFID;** additional content where necessary
  - **Electronic format** (costs to be carefully inquired)



# Transparency (1)

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## Aggregate trading data

- Basis: para. 3 of Art. 22f/24f of the proposals for amending Directive 2003/54/EC and 2003/55/EC (Third Energy Package)
- ERGEG is in favour of a **European harmonized framework** for aggregate transparency of transactions and proposes that
  - each national regulatory authority (**NRA**) **assesses** whether the level of **transparency** is sufficient in its Member State, and
  - if the transparency level is considered **not sufficient**, the **NRA** should **publish missing data**.
- ERGEG favours publication **of data on all products** including those covered by MiFID => Backing by Art. 22f/24f open issue
- Market participants' **comments** on the different options regarding content/frequency of the publication **requested**

## Transparency (2)

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### Trade transparency

- CESR/ERGEG lack evidence of market distortion (due to unequal access to information on trading), but that is no proof it does not happen.
  - Trade **transparency** is an important tool **to detect market distortion**.
- Generally, high level of **transparency for exchange trading available**
- Substantial portion of energy **transactions** is traded on **not regulated markets** (OTC, MTF), i.e. trade transparency is **less easily accessible**.
- **Extent of pre- and post-trade transparency needed is still under discussion** by CESR/ERGEG.
  - CESR and ERGEG consider that confidence in the integrity of the markets is of great importance in this context.
  - It has to be examined to what extent additional pre- and post-trade transparency is necessary and at the same time sufficient to support market integrity.

# Exchange of Information

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## Main issues

- CESR/EREG propose to **start information exchange on a case-by-case basis** for fulfilling their legal tasks like monitoring the market.
  - Practical/legal **obstacles** for energy regulators to periodically access data of **MiFID firms** that are not supply undertakings.
- Additionally, CESR/EREG propose to have a **legal basis for this information exchange** given by **European legislation**.
- Pragmatic option: Establishment of **bi-/multilateral agreements** among energy and financial regulators for exchanging information.
- Periodic and automatic exchange of data through the Transaction Reporting Exchange Mechanism (**TREM**; used by securities regulators) is **not appropriate** at this stage.

**Thank you for your attention!**