

Market Coupling/ 7-Day-Trading

Leipzig, June 26, 2008

1 Market Coupling

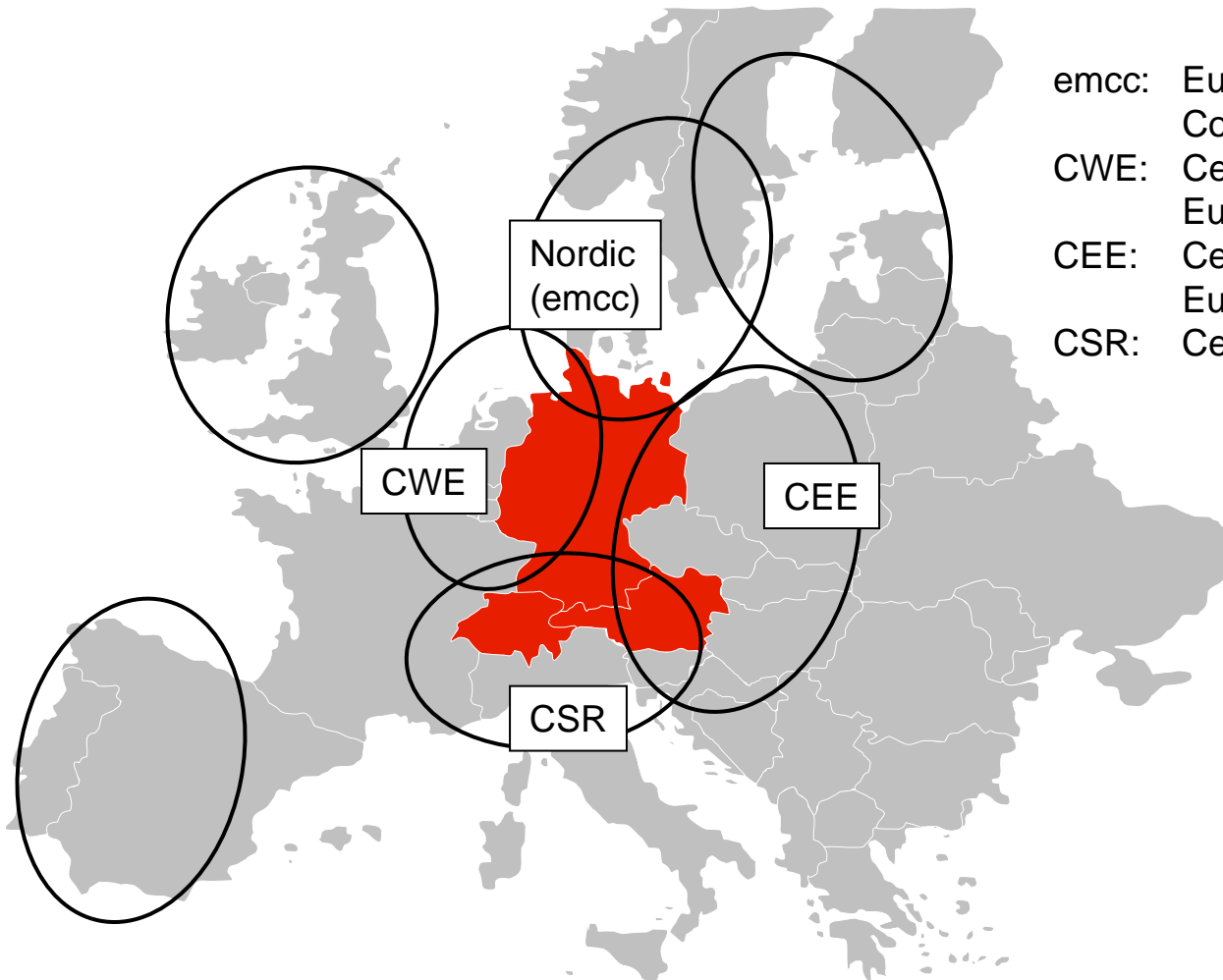
2 7-Day-Trading on the EEX Spot Market

3 Changes in Option Exercise

Market Coupling in Europe

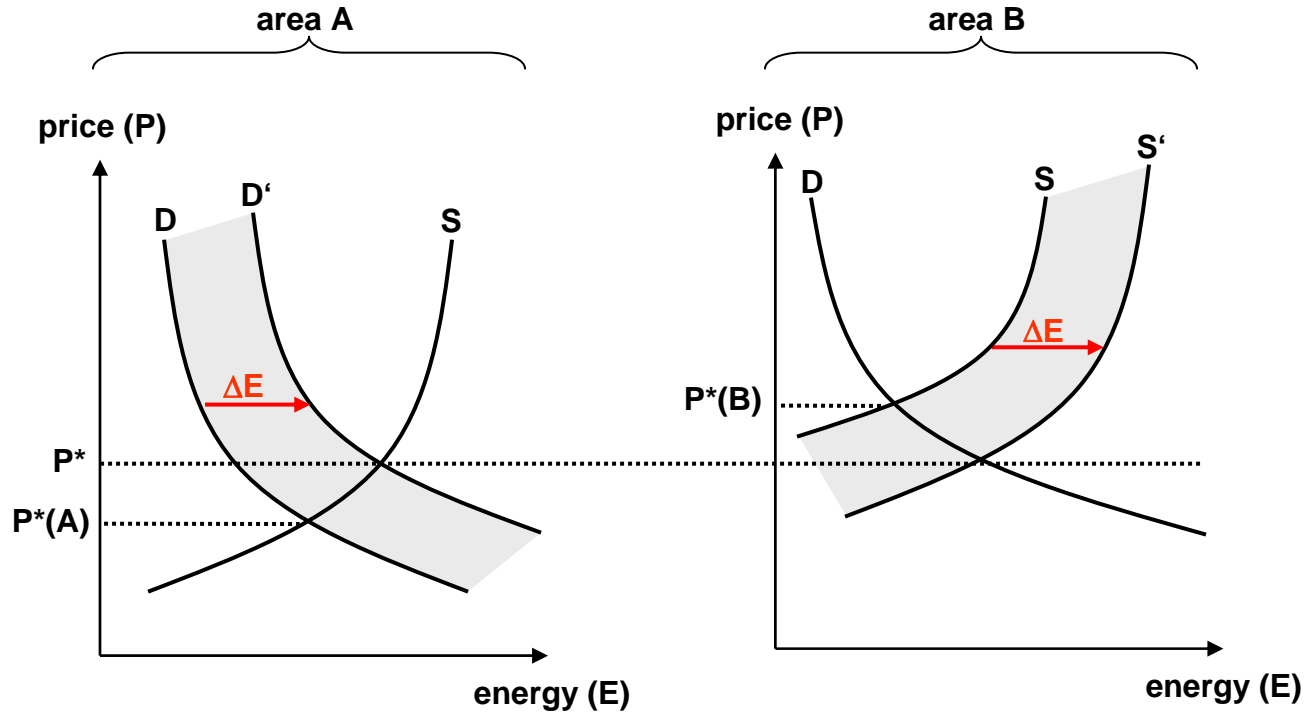
- The European power markets are growing together, the aim of the EU commission is a single European market.
- Market will remain separated due to congestions between exchange areas, which results in price differences between the respective markets.
- According to European legislation, TSOs are responsible for congestion management.
- Market coupling is a method for an efficient allocation of cross-border capacity. By way of implicit auctions, capacity allocation is calculated automatically in the course of the day-ahead market power auction.
- Across Europe, ministries, regulators, TSOs and power exchanges initiate market coupling initiatives (e.g. Nordic, CWE – Central Western Europe, CSR – Central South Region, CEE – Central Eastern Europe, inter-regional initiative of Europex/ETSO).

Seven Regional Initiatives in Europe



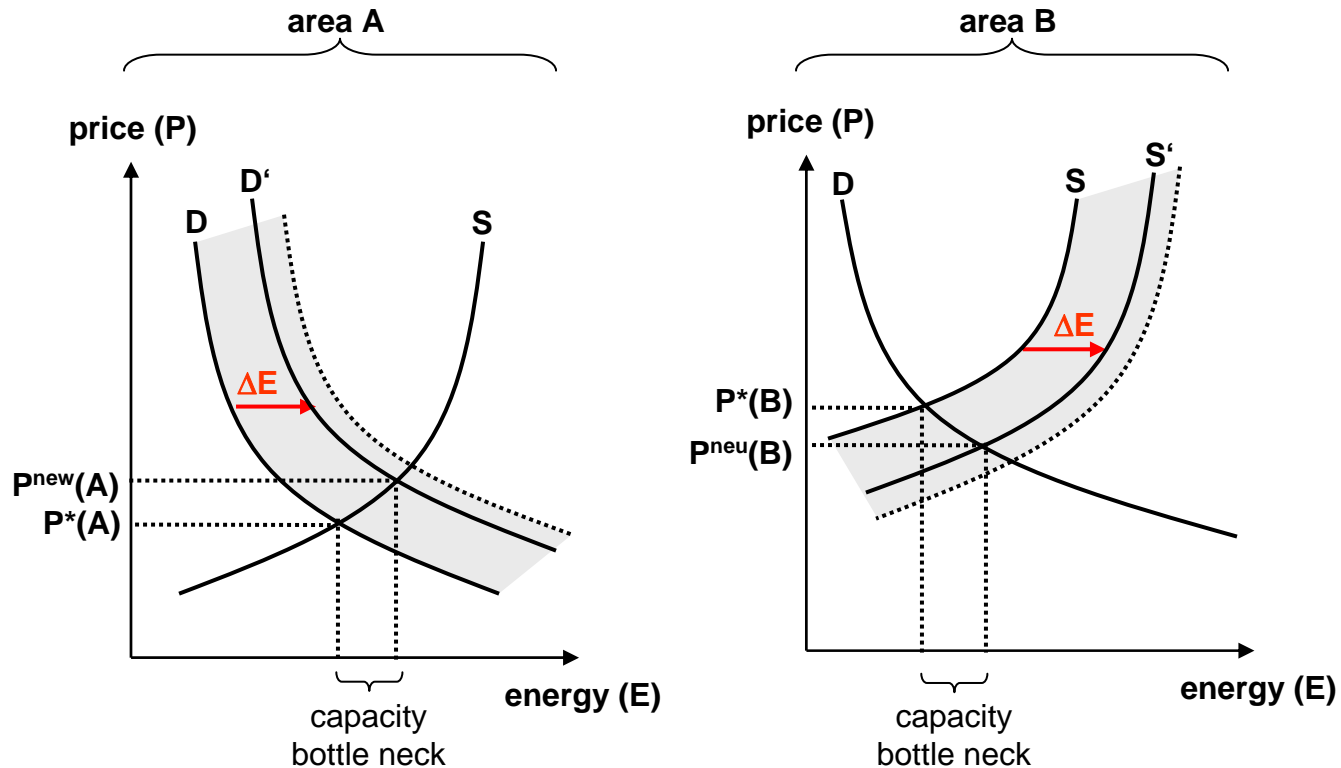
- emcc: European Market Coupling Company
- CWE: Central Western Europe
- CEE: Central Eastern Europe
- CSR: Central South Region

Efficient Price Adjustments Through Market Coupling



Without capacity bottle necks, the same price is established in both areas

Efficient Price Adjustments Through Market Coupling



If capacity bottle necks exist, prices adjust as much as possible

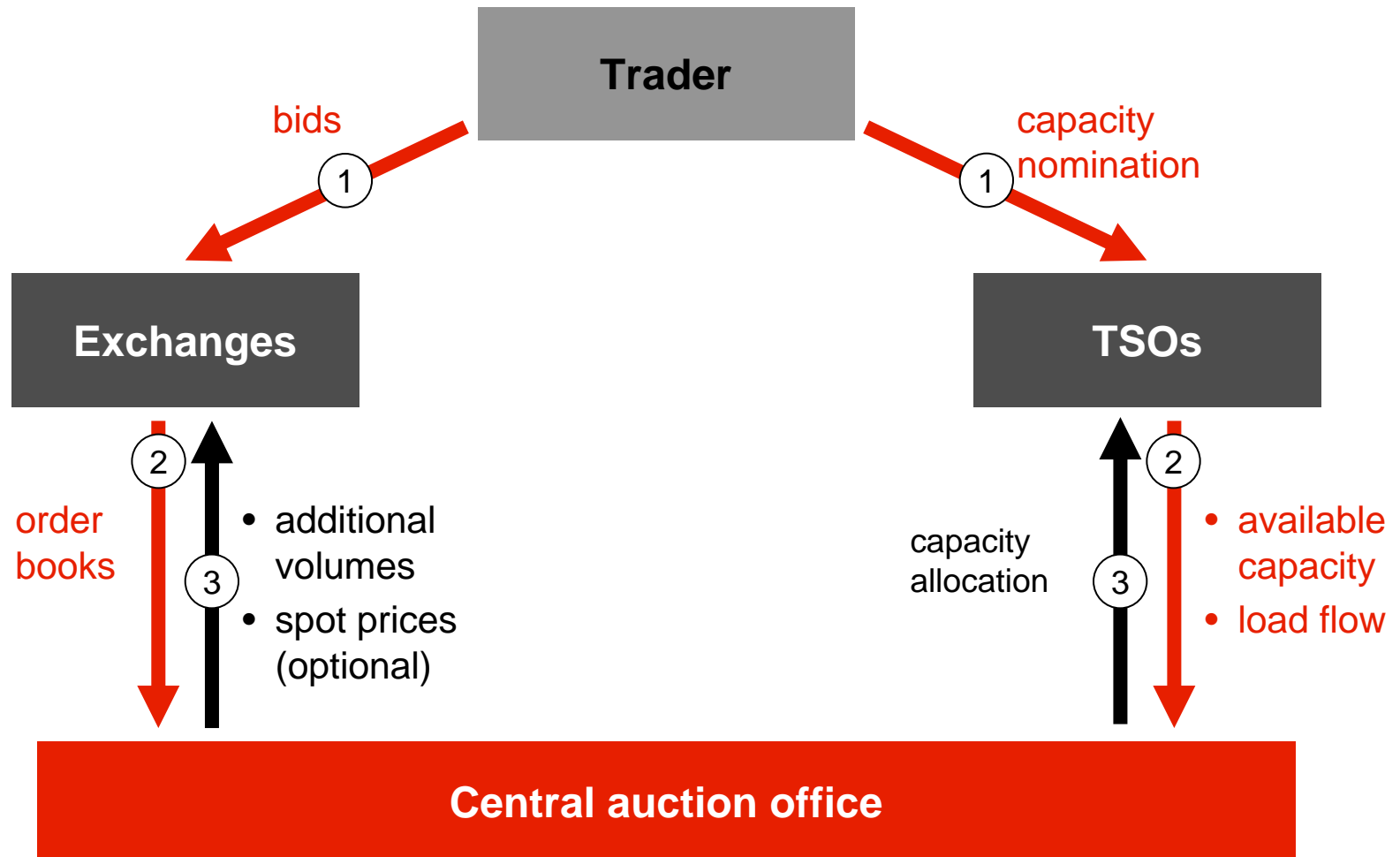
Market splitting

- When one power exchange manages the cross-border power flows in its own area
- Example: Nord Pool Spot in the Nordic countries

Market coupling

- When at least two power exchanges manage the cross-border power flow at a border between the exchange areas
- Cooperation of two or more power exchanges
- Example: Trilateral Market Coupling (TLC) France/Belgium/Netherlands
- Several projects are currently under way in Europe

Capacity Allocation As A Part Of Market Coupling

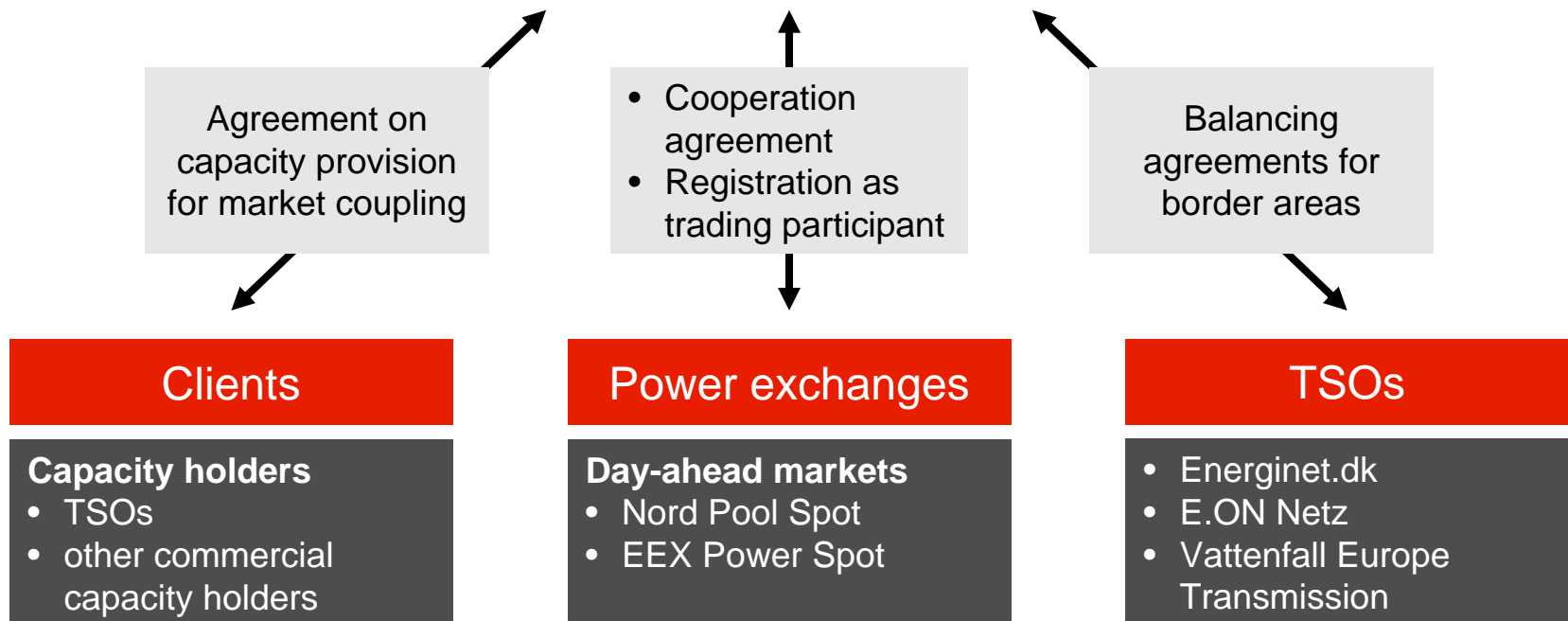


Project emcc: European Market Coupling Company



- emcc will perform volume coupling between Germany and Denmark
- emcc will be a regular company located in Hamburg
- emcc's clients will be TSOs and commercial capacity holders who provide their capacities for market coupling purposes
- emcc will be financed by a cost-based service fee
- emcc welcomes other capacity holders to use emcc services

Project emcc: Contractual Relationships

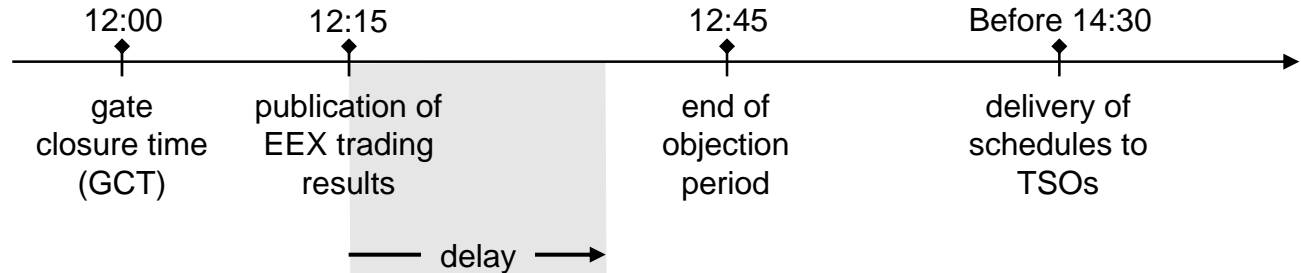


Project emcc: Current Status

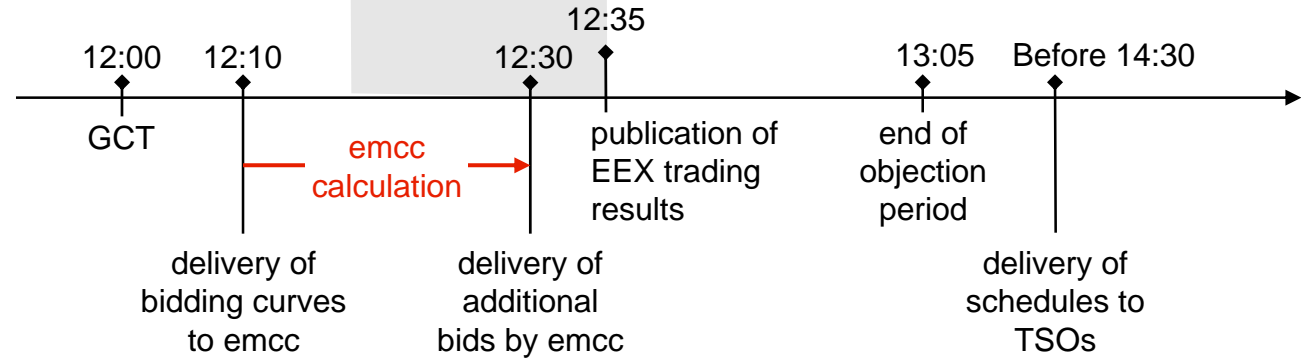
- Launch planned for September 29, 2008
- The 5 partners (EEX, Energinet.dk, E.ON Netz, Nord Pool Spot, Vattenfall Europe Transmission) will have equal shares of 20% in emcc.
- The preparations are almost finished (design of business model, design of business processes, negotiation of contracts, selection of managing director, selection of IT system).

Market Coupling Schedule

EEX schedule today



EEX schedule with emcc market coupling



Project CWE: Current Status

- Originally intended launch of CWE market coupling according to MoU in January 2009 (significant delay expected due to extreme complexity)
- Non-disclosure agreement signed between TSOs and power exchanges
- Cooperation agreement negotiated
- Two market coupling algorithms are currently investigated: MLC (APX development) und COSMOS (Belpex development)
- Separation of exchange and TSO functions agreed:
 - TSOs responsible for calculating load flow
 - Exchanges responsible for calculating prices, trading results and capacity allocation

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7-Day-Trading I

- Start of 7-Day-Trading scheduled for week 40
- Potential further delays of the market coupling emcc project have no impact on the start date
- With start of 7-Day-Trading, auctions take place on all days of the week, also on Saturday/ Sunday/ holidays
- Exception:
 - If the last delivery day of a month is a Sunday, Monday or holiday following a weekend it is not possible to determine a final settlement price according to the procedures stipulated since the hourly auction for power was not carried out for that specific day and Eurex is not open to enter the last price
 - In 2008, this concerns August and November
 - Interim solution will be to run the auctions on Friday on said days
- To avoid this problem in the future, the last trading day of the month future will be shifted to the first business day of the following month
- Technical modification to the Eurex system is required

7-Day-Trading II

- Spot Market members have to make sure a trader can be reached via phone by EEX market supervision also on weekends/ holidays
- However, bids may also be submitted on Friday for all delivery days (submission of bids possible for the next 14 delivery days)
- ComTrader requires installation of certificate on each pc which is used for trading – access also possible from notebook (backup solution)
- Procedures for second auction etc. remain unchanged
- 7-day-trading applies for hourly auction for power (Germany/ Austria and Switzerland) only

Agenda

- 1 Market Coupling
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- 3 Changes in Option Exercise

Current situation

- EEX European style options expire on their last trading day at 3 p.m.
- EEX options require manual exercise until 3 p.m.
- Not expired contracts can be traded until 4 p.m.
- Settlement price of underlying (Phelix Futures) will be calculated and published starting from 4 p.m.

Technical background

- Automatic exercise of options is linked to the phase change to POSTR
- Assignment and therefore pre-assignment message for exercise of options is linked to the phase change to POSTR
- Settlement price of underlying needs to be approved for the phase change to POSTR

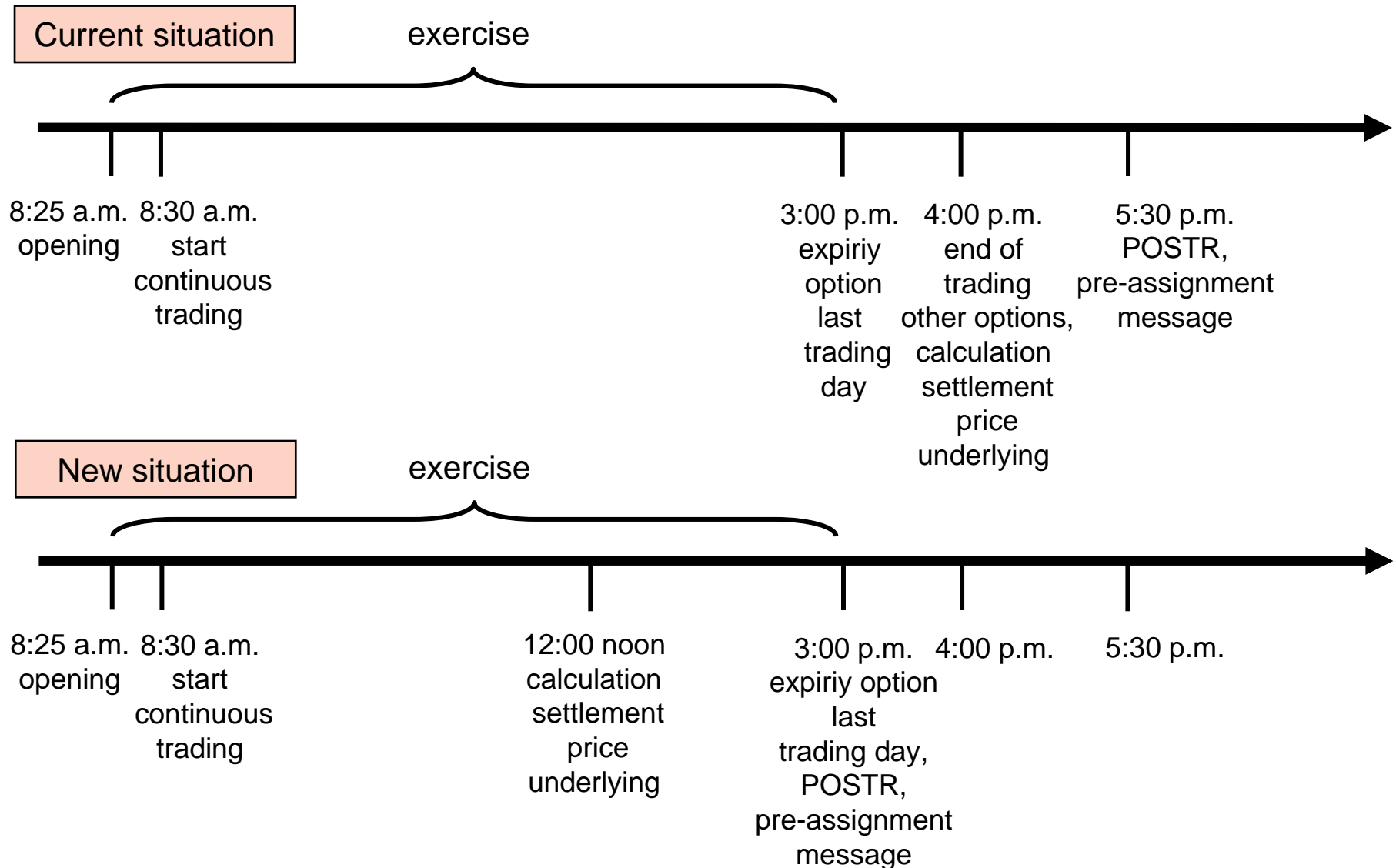
Suggestion

- Settlement price determination of underlying, publication and approval before 3 p.m. (only on expiry date of the option)
- Phase change for option product at 3 p.m. (no further trading possible on that day)

Advantages

- Trading schedule modification for options allows for automatic exercise
- Broadcast of the pre-assignment message will take place at 3 p.m. (option writer will be informed about assignment at 3 p.m.)

Exercise and Assignment of Phelix Options - III



Next steps

- Technical test of proposal to verify trouble-free set-up
- Discussion of proposal with EEX trading members
- Check and/or modification of EEX contract specification and EEX exchange rules & regulations
- Decision of EEX Exchange Council
- Launch