

## “Ansichtssache” – a comment piece of Peter Reitz, CEO of EEX AG

First published in Börsen-Zeitung on 12<sup>th</sup> June 2020, page 8

### Twenty Years of Energy Trading – “Lessons Learned” for the Future

On 15th June 2000, a Leipzig-based start-up launched exchange trading in electric power in Germany – an exotic trading product at the time. Twenty years later, this Leipzig-based power exchange has evolved into an international energy and commodity exchange, EEX. Today, energy trading is taken as a matter of course. Prices for power and natural gas are established on the wholesale market on the basis of supply and demand. Long-term supply contracts or prices based on other commodities, such as gas prices linked to the oil price, are now a thing of the past.

#### Markets as driving forces

The evolution of energy trading is very much based in Europe: Brussels provided the impulse to liberalise the energy markets. The idea behind this was straightforward: competition and border-crossing trading in an internal energy market. However, one problem persists: As in the past, the EU member states still individually choose their energy mix, which has an impact on all energy-policy decisions. The solution: gradual integration. After the first exchanges and independent network operators emerged in the first EU countries in central Europe, they began to couple their national power markets with regional markets 15 years ago. Today, market coupling connects more than twenty national power markets in Europe. The principle is simple: Market coupling simultaneously combines supply and demand with the available grid capacities. As a result, prices in the individual countries level out. If there is sufficient transmission capacity in the power grid, the power price is much the same throughout Europe. All in all, power consumers in Europe save several hundred million euros every year.

Moreover, the energy transition has also impacted energy trading. 2020 is not only the year of the twentieth anniversary of EEX – the Renewable Energies Act in Germany is also celebrating its twentieth birthday. Renewable energies have been exchange on the wholesale market for ten years. During that period, the share of renewables in the power consumed has tripled from 17% in 2010 to, most recently, 51% in the first quarter of 2020. In other words: renewables have become the “new conventional”. In this process, short-term trading in power has become tremendously important and constitutes the precondition for integrating these growing and, in part, seriously fluctuating energy volumes into the power market. Today, power is traded in fifteen-minute contracts and up to five minutes before feeding-in for consumption on the so-called intraday market. The price signal which the exchange provides is of significant importance in this. After all, the fluctuating feed-in of renewable energies can lead to very high but also to very low prices for individual fifteen-minute periods. These prices then form an incentive for flexibility – such as for storage facilities or flexible consumers, e.g. industrial companies – in order to balance out generation and consumption.

However, we will see a shift in the paradigm for renewable energies. At the end of 2020, the subsidy period for the first plants will expire after a twenty-year term. And for new plants, the question arises: How much funding is still needed? We are already seeing the first big plants, such as solar plants or off-shore wind turbines, that can be fully financed without subsidy on the market. As an exchange, it's our task to provide the market with the right tools to enable investors to hedge against market risks and to use opportunities to compete successfully in the market. For example, we will expand the terms on the power derivatives market until the end of the decade, thus facilitating long-term power price hedging.

### **Exporting successful models**

The market-based energy transition “made in Germany” is considered a role model worldwide, with Japan as the most recent example: After Fukushima, Japan took some time in choosing the right strategy for the future. Today, one thing is clear: Japan wants the energy transition and renewable energies along with it. As a first step, Japan has liberalised its energy market. There are no longer any monopolies. Instead, there is a market and there is competition. Now, there is even power trading on the exchange. Consequently, EEX launched a clearing product for the Japanese power derivatives market in May. The energy transition in Japan is still in its infancy and the experience gathered in this process in Germany and Europe can certainly help to make progress here, too.

Successful market models are exported – not only on the power market but also in emissions trading. Worldwide, we are seeing the development of trading systems which put a price on the emission of greenhouse gases harmful to the climate and, in particular, CO<sub>2</sub>, creating incentives for climate protection investments. In this field too, Europe is the role model. In 2005, EEX became one of the first exchanges offering trading for the European emissions trading system. CO<sub>2</sub> pricing is considered a decisive element for the attainment of the Paris climate targets. Therefore, we are making a global commitment – for example, at present, in the United States, China and New Zealand – in the creation and development of emissions trading systems.

Markets will continue to make a decisive contribution to the conversion of the energy system and in designing a future which is more decentralised, digital and lower in CO<sub>2</sub>. The European “Green Deal” accelerates and reinforces the trends observed in recent years and provides a huge opportunity. For now, we have to focus on overcoming the current crisis and on not losing track of the climate targets in rebuilding our economies. To do this, we have to consistently pursue these targets with the aim of a “Green Recovery”. What matters now is that we reduce our ecological footprint as far as possible – and our markets can help to do this in the most efficient way.

*In this section, Börsen-Zeitung publishes comments by leading representatives from business and finance, politics and science.*