

Interview of Peter Reitz with Stefan Sagmeister, Editor-in-chief of Energie & Management

First published in Energie & Management on 15th June 2020, pages 24-25

EEX is an unparalleled success story

Peter Reitz CEO of EEX, speaks in an interview with Energie & Management about the future, present and past of the exchange

Mr Reitz: 20 years of EEX – what is your personal conclusion?

First of all, EEX is an unparalleled success story. On 15th June 2000, the first trade was concluded at the Leipzig Power Exchange (LPX), our predecessor. At the time, two power exchanges had just been launched in Germany – LPX in Leipzig and EEX in Frankfurt. However, the market was simply not large enough for two German power exchanges. After the merger between LPX and EEX in 2002, this local power exchange grew by the addition of further products and participants. Strategic spin-offs and partnerships were the recipe for success which set EEX on track for success throughout Europe and beyond. Today, we are the number 1 in power trading worldwide – and in freight trading. Almost 700 employees work for us at 17 sites. This is a development which the pioneers could not even have dreamed of in 2000.

In 2019, EEX Group was able to improve its results for the third year in a row. What were the reasons for this?

Our success is based on wide-ranging growth, confirming our strategy of growth in three dimensions: These comprise growth in our core markets, the expansion of our geographic reach and the development of new business fields. This diversification has definitely paid off: In 2019, we continued to grow in our core markets of power and natural gas and, in addition, we also recorded growth in almost all our other commodities and regions. This in itself is a success story.

And how about business in Asia?

EEX Asia is our flagship in the region. In the past year, our volume has grown significantly – in particular in the freight segment, in which we have become the market leader. More than 50% of the open interest (editor's note: total of all open positions in a derivatives market) on the global freight market are now dealt with by EEX and our clearing house, ECC. The growth of EEX Group now includes all core markets and extends to the three large time zones in Asia, Europe and North America.

In your opinion, which market provides the biggest potential at the moment?

Europa continues to be our home market where we generate the highest sales revenue by far. But we are convinced that even here there is still room for further improvements. In Europe, 50% of power trading are settled through exchanges and clearing houses, with over-the-counter (OTC) transactions, bilateral trading of trading participants, accounting for the remaining 50%. When I started at EEX 9 years ago, exchange trading accounted for only about 10%. The growing share of the cleared business is a continuing trend.

What are the prospects for growth in the USA and Asia?

Our US-based exchange, Nodal Exchange, grew considerably in 2019. In terms of open positions, Nodal has recently become the biggest US power exchange. And also here we have “only” reached 50% of the market in terms of the open interest. Moreover, we are also moving into further markets, such as gas and emissions, in North America. Asia is large and it is certainly not a uniform market – we are seeing many markets that are still in their infancy there. Recently, we have launched clearing services for power derivatives in Japan. There is certainly a lot of potential there for the coming years.

EEX launched power trading 20 years ago. Today, the company also offers trading in freight rates, metals and agriculturals, such as potatoes, as part of its portfolio, in addition to energy commodities. Why did you opt for this multitude of offers?

Today, our customers are much broader based and want to trade different commodities on one platform. Just one example: If you operate a gas-fired power plant, you have to buy natural gas and also need CO₂ certificates. Or, if you operate a coal-fired power plant, you have to transport the coal to the power plant, which means you need freight rates. Then, you can generate and sell power. We offer all these markets as a one-stop-shop solution.

In Europe, EEX is present in 20 countries or energy markets, respectively – from Greece to Scandinavia, from the Iberian Peninsula to Bulgaria. Why is this presence in all of these – in part small – markets so important?

Our aim was to create an offering covering the entire map of Europe – and we are seeing that this offer is being accepted. Many of our participants also operate in the smaller markets. Our approach of offering many markets on our platform attracts many international customers also to these markets. For example: The Hungarian market has become the fourth biggest market on the EEX platform and is now at the same level as Spain. This development is due to the fact that we have succeeded in connecting the local community in Hungary with the international EEX network. The key to this? Simple access for everyone.

EEX, as we know it today, is the result of the merger of two national power exchanges, LPX and EEX: How important is the German market for the business today?

Very important! The German market is by far the biggest power market in Europe. It is bigger than all other European power markets combined. This is due, on the one hand, to the high power consumption and, on the other hand, to Germany's geographical location. Moreover, the German power market is the benchmark in Europe, just like the German government bonds are on the financial markets. In other words, German power products are widely used to hedge risks. This is also illustrated by the fact that we generate less than one third of our sales revenue in German power with customers based in Germany.

The EEX headquarters are in Leipzig, while many consider London, New York or Singapore as international exchange centres. For an international exchange operator, would it perhaps be a good idea to move your headquarters there?

We are present at all of these sites. We have around 20 employees in London, while a team of 15 works for us in Singapore. In addition to our headquarters, we have 16 sites around the world because we believe in establishing a local presence. On the other hand, our customers could not care less where our company's headquarters are. In Leipzig, we have developed an outstanding pool of know-how and expertise with our more than 300 employees – and there are no plans to change that.

Let us take a look at the future of exchange trading: Recently, energy companies have increasingly started to offer energy trading on their own digital platforms. Is that competition for EEX?

We tend to see this as a useful addition in the wholesale segment. There is a clear trend towards the development of decentralised markets. These platforms cover a given demand within a niche – and they are very good at this.

Algorithmic trading, in particular, in the short-term segment is growing at a higher rate than on the exchange. What do you think about this trend towards so-called algo-trading?

Algo-trading plays an important role on the short-term markets. This is due to the fact that, for many generators, the process chain has been fully digitalised. Today, wind turbines in the North and Baltic Seas are equipped with sensors ensuring that a sell order is triggered on the exchange without any human intervention. This enables, in particular, producers of renewable energies to participate in the power market at a very affordable rate, which, in turn, makes trading more efficient and increases liquidity.

What else do you expect from algo-trading?

There are companies that offer algo-trading as a business model. They try to take up price movements on the market and develop trading strategies using artificial intelligence. These companies are helpful for the wholesale market because they provide additional liquidity. However, algo-trading in long-term energy derivatives trading is still in its infancy – but it is bound to increase.

As regards the block chain: The direct exchange of power using a block chain does not require any broker, trading platform or intermediary. Does this make the block chain a threat for the exchange?

Years ago, there were dark rumours that the exchanges would disappear because the business would switch to a block chain. But, to the contrary: EEX is now stronger than it has ever been. At present, the block chain does not contribute much additional benefit to the wholesale market, while, on the other hand, the advantages of the wholesale market are as convincing as ever: high liquidity on a central market platform, transparency and equal treatment as well as safety through clearing.

In your opinion, where do we find possibilities for the block chain in trading?

In my opinion, the block chain is more of a tool which we can use to make our markets more efficient. And I am thinking less of the wholesale business in this respect than of decentralised markets on which, for example, solar power can be exchanged in so-called micro-grids involving local communities on site. This kind of thing can be done much more efficiently via the block chain than by connecting individual households to an exchange platform.

20 years of EEX. What kind of celebration are you planning?

Originally, we had planned a big party with many guests – but, in times of Corona, this is not feasible. Therefore, we have had to cancel the party. However, we will certainly find a way to celebrate and we hope that we can all toast our success in person next year.