

More energy on the Exchange

GRZEGORZ ONICHIMOWSKI, President of Polish Power Exchange (TGE) when talking with “Polish Market’s” Jerzy Bojanowicz, remarks: “It is electric energy consumers who should deal the cards and its producers who should compete for their favours.”



Q: What do you think about “freeing” the electric energy market in Poland and the part being played by TGE in the process?

A: You can hardly call taking one step forward and one and a half steps backwards a “market freeing” process.

There can be no talk about creating a power engineering market without privatisation and consolidation, that is processes related to that market’s structure. The vertical consolidation imposed two years ago effectively slowed down any rise in competition since there are fewer companies on the market. On the other hand, some animation can be observed in the activities of commercial companies, alongside greater movements on the wholesale market and also on the bilateral contracts where more transactions are being concluded; interest in various products is being aroused, both those offered by TGE and also by other Polish and international trading platforms.

Polish power engineering groups have emerged along the lines of the Czech Republic’s CEZ for which the greatest source of revenue, apart from energy generation, is trading, that is selling large amounts of energy. In Poland ENERGA is the only group attempting to perform the role of market creator.

I am a fervent supporter of privatisation in which strategic investors participate. It would be difficult to assume that a Treasury-owned company is a market firm in Polish conditions, though Sweden’s state-run Vattenfall and EdF – outside France – definitely are.

One can be only grateful that politicians have noticed the need for some market oversight. Doubts concerning the amount of public assistance granted certain producers must also be dissipated. It often happens that a producer sells its entire production within a conglomerate elaborated following consolidation, which could result in financial operations becoming less transparent. That was why the obligation to sell a part or the whole of produced energy through TGE has been established. But after one year of discussion, we are back at the starting point. The Ministry of Economy seems to be proposing office tenders staged by producers instead of exchanges –

a total confusion of concepts. A market’s essence is competition of parties offering specific goods in return for their customers’ favours. But here we are encountering something as if from times long past, with companies standing in disciplined queues for the goods they need and manufacturers gracefully distributing them.

It has not been a bad year for TGE, with the amount of sold energy being twice that in 2008. That is partly due to the opening of a market for contracts, concluded for a term longer than next day (weekly, monthly and yearly). Apart from the annual contracts market, that market is relatively liquid now and we are happy with the way it is growing. Even on the next day’s market, trading volume has risen by 50%, though I think that is still insufficient.

Q: To what extent are those increases reflected in the amount of energy sold via TGE?

A: In terms of consumption our contribution has risen from 3 to 6%, but I could not say what market contribution that amounts to, since 1 MW is sold here almost two times over (in Scandinavia – 4-5 times).

Q: Can TGE be compared with similar foreign institutions?

A: Of the new EU member states, energy exchanges exist only in Poland and the Czech Republic, where there are two such institutions with turnover comparable with ours.

But any comparison with leaders would be incorrect, especially since various incentives to use exchanges as market intermediaries are offered in “old” EU countries. And not only market incentives, though it is generally accepted that the least expensive customer can be found in that way and that transaction costs are the lowest, which is not yet appreciated in Poland.

The existence and work of exchanges is the rule in Italy and Spain, but not in Scandinavia, though 60-70% of all transactions are handled there by the Nordpool exchange. That is bound to become the rule in Poland, sooner or later, though a figure of 30% would suffice to begin with.

Q: When do you expect that to happen?

A: In 2011.

Q: TGE deals in energy and fuel, renewable energy certificates of origin and CO₂ emission rights. What part do such products play in TGE revenue?

A: So-called green and red markets predominate, that is trading in ownership rights to certificates of origin of renewable energy sources and energy produced in cogeneration accounted for 70% of revenue in 2008. That figure will be smaller this year since, as I mentioned, we are selling more electricity.

TGE offers the possibility of purchasing and selling CO₂ emission rights but there is no such market in Poland and it will still be absent for long.

Q: The information held on your website claims that "since its very beginning the Polish Power Exchange has pioneered the implementation of innovative solutions in electric energy trading." Can you pinpoint any such achievements substantiated recently, and what can be expected in the imminent future?

A: Where electric energy is concerned, the most recent achievement has been to create a long-term contracts market in which new instruments will be successively introduced, to mention peak traffic and minimum-quantity contracts etc. We shall soon be offering transactions concluded several hours prior to physical supply (sometimes known as current day market) which, in effect, means TGE will be operating around the clock. Current day market business is not large worldwide but is definitely needed particularly for wind-generated power, with energy from renewable sources to become available on that market.

Financial products are to appear as novelties, i.e. contracts settled not in terms of supply but in cash, which signifies TGE will be open to financial institutions. The volume of such contracts in Scandinavia is 10 times greater than that of physical contracts and 2 to 3 times greater in Germany. The Exchange board has already approved the specification of the first financial contract.

We also intend to introduce a financial product comprising "green" certificates and, in the area of CO₂ – joint quotations with Nordpool which would simplify establishing the identity of the other (purchasing and selling) party. Quotations will be made in euros.

We also propose establishing a market which we will call a "dark room" in which large operators will conclude transactions outside business sessions to avoid affecting exchange floor quotations. Auctions are to be introduced for companies planning purchases of large amounts of electric energy. The first customers have already appeared.

A biomass (pellets) market is to be commissioned in 2010. We are keeping a close eye on the coal market which, I must admit, is a great temptation. The virtual delivery points which interest us most will not only be the stockpiles of Silesian collieries but also transshipment ports and stations on Poland's eastern frontier. What we require is to set up an objective business coal market. To begin with, we shall try to create a reliable Polish price index. We intend to do the same for natural gas but the conditions are still unfavourable, with the PGNiG state monopoly, two gas prices (for domestic and foreign gas), the absence of a balancing market allowing trade in superfluous gas etc., being the greatest hindrances.

Polish Power Exchange

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