

**Market model for the establishment of Central East European Energy Exchange,
CEEPEX
Conducted by Nord Pool Consulting/Accenture-Hungary**

In 2008, the Austrian Energy Regulatory Authority Energie-Control GmbH, the Hungarian Energy Regulatory Authority HEO and the World Bank invited tenders on the above subject.

The winner consortium **Nord Pool Consulting/Accenture-Hungary** conducted a public consultation on its market model proposal in the framework of a workshop in the HEO's meeting room on 9 February 2009. The final proposal took into account the opinions made on the meeting.

Summary of the study on the proposed market model:

In the course of elaborating the electricity exchange model to be established by the CEE region, the consultant applied a combination of top-down and bottom-up approaches. CEEPEX model was made on the basis of the analysis of EU level and national legislations on the one hand, and on the opinion of Austrian and Hungarian market players – expressed through questionnaires – on the other hand. Key issues and findings observed for designing CEEPEX model:

1. An important prerequisite for the establishment of an efficient electricity exchange is transparency in the operation of markets and the support from all the key market players.
2. Based on the analysis of EU legislative procedures, it can be firmly stated that the establishment of a regional power exchange is welcome by EU considering the final aim of a single energy market.
3. When analysing trade among CEE countries, the consultant revealed the following key barriers, which, unless eliminated, would hinder the successful operation of a regional power exchange: high national energy market concentration and the lack of transparency with respect to energy market information.
4. Based on the aforementioned analyses and findings, consultants outlined the requirements for CEEPEX as follows: (i) the initial focus must be a day-ahead market with cross-border capacities allocated from the Central Allocation Office (CAO) in cooperation with national TSOs; (ii) CEEPEX will be able to offer medium- and long-term financial electricity contracts as soon as market participants have gained confidence in the CEEPEX day-ahead market price evolving on a sufficiently liquid CEEPEX.
5. Consultants analysed two models: (i) the greenfield approach includes the establishment of a totally new, centralised energy exchange with local branch office in member countries, (ii) regional exchange built on the already existing organised market infrastructure of the relevant countries. With the aid of a decision matrix, it was concluded that CEEPEX model using facility management services, built on national organised market infrastructures is the proposed alternative. The financial analysis of the study unambiguously underpins this solution.
6. Based on the consultants' previous experience, CEEPEX can be established within two years according to the proposed model if the stakeholders' support and the financial background are ensured.

7. It is recommended to draw the stakeholders' attention to found CEEPEX, which would be prepared by a project team. This project team would be constituted from the representatives of those committed market players who would also bear the costs of establishment.
8. Although CEEPEX primarily would be established with the participation of CEE countries, countries from other regions could also join CEEPEX for the interest of mutual benefits (liquidity, price effect).