



PER POST EN PER E-MAIL

DTe

Postbus 16326

2500 BH DEN HAAG

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Dear Sir, Madam,

Endex appreciates the opportunity to take part in the consultation process with regard to regional market integration. Endex is happy to contribute to the discussion on market integration to enhance liquidity.

Due to the specific role and position of Endex as a regulated futures exchange, Endex will reply in a more general sense to the issues raised instead of answering all the specific (technical) questions in detail.

Introduction

As a regulated futures exchange Endex is a supporter of creating homogeneity within energy markets as well as between the Netherlands market and the relevant neighbouring markets in order to increase liquidity. Efficient cross border trading is a key component of portfolio management and proprietary trading.

Allocation mechanisms

There is no doubt that a well-organised explicit auction is the most straightforward and fair method of allocating cross-border capacity. Via explicit auctions market participants can hedge their positions for cross-border trades and are at the same time free to use the trading distribution channel of their choice. Given the relevance of forward trading for risk management, the term of the allocated capacity should be well divided over the trading curve i.e. following a predefined ratio for the different time frames with an emphasis on longer term (months, quarters, years). Easy transfer of cross-border capacity rights in the secondary market is also an essential part of the use and allocation of cross-border capacity.

An implicit auction looks like an efficient method for day-ahead capacity allocation but the specific benefits still have to be established.

Further investigation is also needed with regard to the most efficient way of allocating intra-day capacity; an explicit auction methodology is probably the right starting point.



Market coupling

Delegating a part of the day-ahead congestion management to particular power exchanges is certainly something that should be investigated. Coupling with the German market should remain high on the priority list.

By nature the role of spot trading in risk management is limited. Spot trading is mainly used for the technical fine-tuning of trading portfolios and only with regard to individual trading hours. The amount of available short-term cross-border capacity (day-ahead) should therefore also be limited relative to the amount of cross-border capacity available for the longer term (months, quarters, years).

Endex is not in favour of allocating substantial amounts of cross-border capacity to market coupling mechanisms and to the spot market. The NorNed cable serves as an undesirable example in this respect whereby all capacity is planned to be assigned to market coupling and the spot market. Following the historic development pattern of energy markets, there has been an emphasis on spot trading, but since forward and futures markets have developed into the major instruments for portfolio management and risk management, (forced) stimulation of spot markets serves no purpose and should therefore be abolished.

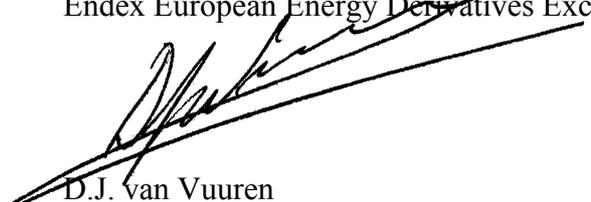
Market transparency

New and existing European directives with their origin in the financial markets will soon play a dominant role in determining the (minimum) level of transparency required in the energy markets. Looking at the historical development pattern of financial markets there is no doubt that regulated exchanges can and will play a role in providing transparency with regard to energy trading and/or capacity trading. In order to achieve a level playing field, focus must be on providing (anonymous) trade information with regard to all market segments: intra-day, day-ahead, forwards/futures and with regard to transactions performed both on exchanges and in the OTC market.

The developing Dutch model with regard to transparency might well serve as a model that can be applied to an integrated market.

I trust that this response has been helpful to you and I am available to meet with you at your request to discuss any questions or remarks you might have.

Yours faithfully,
Endex European Energy Derivatives Exchange N.V.



D.J. van Vuuren
Managing Director – COO