Preface

Over the 10 last years, the trading of infrastructure-bound gas and electricity has become a mainstream activity in Europe. Following the liberalization of these energy markets in the first years of the century, a whole plethora of activities has emerged for trading, as well as for portfolio and risk management.

On the one hand, these activities replace (and improve upon) the dispatch mechanisms being employed in the old monopolistic structure for the daily physical generation and flows. So the trading activity has a strong component in the daily determination of physical generation, transport and delivery. On the other hand, these trading and portfolio/risk-management activities have expanded into the financial realm.

Partly, these are new aspects to the world of energy and gas trading. Some of these new financial activities were not preceded by a visible equivalent in the old monopolistic world. One of the most striking examples is the trading of standardized futures contracts for delivery or cash-settled. Liquidity in such markets has grown over the years, on exchanges like power exchanges and gas exchanges, as well as on facilities trading “Over the counter” (OTC), thus in many ways resembling other traded markets like the markets in commodities or in stocks and bonds.

In addition, the newly liberalized energy markets have created a whole new practice in almost every aspect of financial discipline. Price determination, for instance, is done differently. Asset valuation is done from a different perspective. Efficiency is achieved in totally different ways. Financing of investments, either for regular electricity generation, for infrastructure activities or for renewable generation is done under totally different circumstances.

This book deals with many of these new practices and new realities, seen from the financial angle. The authors look into many financial aspects of the market structures, rules and practices that have grown over the last ten years. Those developments are still evolving as we speak, at the time of this introduction. So in a way, this book takes a snapshot of an ever-moving reality. At the same time, it is more than a snapshot. While the practices are still evolving, many of the underlying principles have already been set and will remain, at least to some extent,
in the future. So the picture taken will give you, as the reader, not only knowledge that is applicable today, but also a solid basis from which you can extend your knowledge, learning from the ongoing changes in the nearby future.

A recurring theme in many chapters is the dependency on the underlying market mechanisms for physical trade. As I have learned in my experience at APX-ENDEX, an energy exchange in both physical and financial products, a basic understanding of the physical arrangements and attached regulation is sometimes a prerequisite, but at least always very helpful for understanding the financial structures and consequences. Because of this, the world of energy markets may seem more complex initially than some other areas of expertise. Fortunately, this book gives you the backgrounds in order to unravel at least part of that complexity. Then, you will also find out that in the end, some of the outcomes are surprisingly familiar. You will also often acknowledge the importance of a European scope, at the same time leaving room for different local implementations.

Then, after reading this book, one might ask: is the current situation, after the liberalization and introduction of markets, really a better one than before, in the monopoly situation? The answer is, now, undoubtedly Yes: it is better now 10 years after the start, but it took some years before we achieved that situation. This view may seem strange from someone like me, being the CEO of an energy exchange. However, many have forgotten that the old world of monopolistic delivery had its own way of achieving efficiency, sub-optimal though as it was. The breakdown of these old structures did destroy some of these old efficiencies upfront, and it has taken time and experience and improvement for the new market-based mechanisms to first match the old efficiency levels, and then improve upon that. We are now safely in that latter, more optimal situation, and still developing in the right direction.

The European energy market is a mature market with electricity achieving an ever-better optimum in an ever-integrating market with a wider, more integrated European scope. This is due to a professional trade and financing structure around many financially oriented markets based on a sound underlying, internationally integrated, physical trade facilitated more and more by market coupling across the national borders in Europe. Recent experience shows that the gas market is following suit, catching up fast. This book will give you tour around this exciting field of expertise. I wish you energetic reading.

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