TRANSACTIONS REPORTING AND MONITORING

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ENERGYVIEWPOINTS

DEVELOPING ENERGY MARKETS

apx Group

MAKING MARKETS WORK

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Need More Emphasis on Physical Data Transparency

Editorial from APX

The sudden recent jump in gas and power prices and the growth in OTC trading in recent years prompted the EU Commission back in December to ask energy and securities regulators to examine costs and benefits of introducing more stringent disclosure of energy market transactions covering spot and forward trades.

However in our view the EU Commission and NRAs should put greater priority on requiring TSOs and generators to disclose more real time data relating to the physical supply and demand of both gas and power. Recent Energy Viewpoint surveys reveal that the market is virtually unanimous in its view that urgent action is needed on more transparency of stock and flow data, overseen with strong governance provisions. By comparison transactions transparency is a secondary issue at this stage in the evolution of EU wholesale markets.

Additionally, trading on exchanges is more transparent than is the case in the opaque OTC markets and the one of key issues being addressed by ERGEG is whether the rules that apply to exchanges should be extended into the OTC energy market.

In this Energy Viewpoints, we examine some of these issues. Our quarterly survey suggests that market participants are undecided on whether more stringent disclosure would increase liquidity or confidence in the market. But it is clear that a majority are sceptical that more disclosure would help regulators identify or prevent market abuse or excessive speculation and there is real concern that costs of compliance might outweigh the benefits. Peter Styles of EFET argues that too much regulation could be costly and harm liquidity. Steve Huhman of Morgan Stanley says that there are grounds for preserving commercial confidentiality but Walter Boltz of CEER says there is a case for taking an integrated approach to energy commodity and financial trading.

In all this, there is a danger that politicians overreact to the high level of energy prices by taking measures to control what they regard as speculative activity. This could harm the development of wholesale energy markets which are still relatively under-developed compared with world financial markets. Careful thought therefore needs to be given to setting up a system of regulation which does not destroy what progress has been made in both power and gas market trading.

If you have any comments, please mail us on apx@apxgroup.com

Best wishes

Bert den Ouden
CEO, APX Group

According to Moffatt Associates' latest quarterly survey, the majority of market participants are concerned about the costs of more stringent transactions reporting and are sceptical that such reporting would help regulators identify or prevent market abuse.

Transactions Reporting and Monitoring

In recent years, there has been a significant increase in market trading of gas and power with a large proportion of trades taking place in the opaque OTC market.

This fact combined with the sharp rise in gas and power prices in recent months has prompted the EU Commission to ask ERGEG[1] and CESR to investigate whether or not there is a case for more monitoring of pre and post-trade transactions.

To test market opinion on some of the issues, Moffatt Associates conducted a survey amongst 30 traders and policy-makers from across the EU.

The results reveal a lack of certainty about the likely impact of more transactions monitoring on liquidity but more participants do believe that it could have a positive rather than negative impact, particularly in the case of gas.

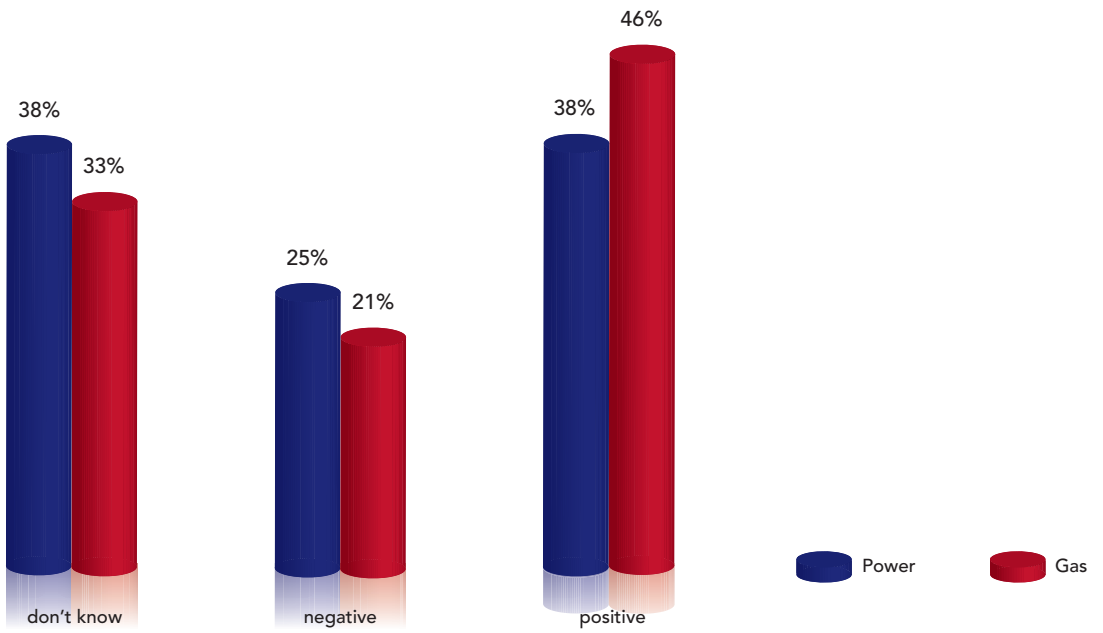
SOME SELECTED COMMENTS

"Yes, there would be an increase in both, because there is a concern that bigger parties are influencing the bidding, and whether this is true or not, you can't take away the concern."

"Yes, because it relates to the insider information issue. More transparency on transactions will allow less possibility to utilise insider trading."

"Yes, as better information to market participants makes prices more reliable."

Figure 1 Impact of Transactions Transparency on Market Liquidity



1 ERGEG is expected to report back its findings in Autumn 2008

"I don't know about gas, but with power, I don't think it will have any effect because a list of information is published anyway through industry publications such as Argus, so increasing the data won't significantly increase transparency."

"I don't think so, because market structure is the biggest problem: there are not enough players."

"Yes, slightly for power, gas more so. We don't need much more in power because it's liquid already, but in gas there are too many players who don't trust the market."

"I don't think so, because the market structure is the biggest problem: there are not enough players."

"Yes for gas, the markets are semi-liquid and price transparency would be helped. No for power, because price transparency is already well developed."

"I see only a marginal improvement to liquidity. Current reporting standards via exchanges, brokers or collectives of brokers are already very high. I don't believe that further risk capital would enter the market based on the decision to increase data reporting conditions."

"Yes, as long as regulators are responsible for the whole procedure, as well as for associated costs."

VIEWS ON SPECIFIC SCENARIOS

Having considered the above and its possible implications for the market, individuals were then asked to give judgement on 15 statements. The options provided were to agree, disagree or indicate that they did not know or wished to reserve judgement.

The survey results reveal that opinions are divided on such issues as whether more transactions transparency will improve market confidence or liquidity.

However, a majority of the market do agree that **(a)** transactions data should only be supplied to regulators on request and if there is a suspicion of wrong-doing, and **(b)** to reduce the cost burden any new data disclosure rules should be consistent with existing rules e.g. what is already required under MIFID.

Moffatt Associates July 2008

Scenario	agree	disagree	don't know
All market players should be required to submit to national energy regulators data on ALL physical (spot) and financial pre-trade (eg bids) and post-trade (eg volumes/prices) transactions	14%	71%	14%
Supplying data on all transactions will create confidence in the market	43%	46%	11%
Supplying transactions data will not enable regulators to identify or prevent market abuse (insider dealing or market manipulation)	54%	32%	14%
Greater regulator monitoring of transactions will put off new market entrants and reduce liquidity	36%	46%	18%
Greater monitoring of transactions will reduce liquidity by shifting trading to non-regulated markets or other commodities	36%	46%	18%
Transactions data supplied to energy regulators should not be published in the market because this would enhance the power of dominant market incumbents	21%	54%	25%
Transactions data should only be supplied to regulators on request and if there is a suspicion of wrong-doing	64%	29%	7%
To avoid unnecessary costs and duplication any new data disclosure rules should be consistent with (a) how traders already record transactions and (b) what is already required under MIFID	71%	7%	21%
A voluntary system of reporting transactions (as in the US) would be preferable to a rigid regulatory regime of data disclosure	50%	43%	7%

According to Peter Styles, board member of EFET, regular monitoring of wholesale energy markets is an important aspect of market liberalisation but too much regulation would be costly and could reduce market liquidity.

Limiting the Burden of Market Monitoring

INTRODUCTION

One of the main functions of the European Federation of Energy Traders (EFET) is to improve the conditions for conducting wholesale transactions in the European energy markets. This in turn means our members want to facilitate the efficient operation of those markets. In order to improve market efficiency, energy traders promote transparency regarding market volumes and prices, for example by means of passing their own data to exchanges, showing their bids and offers on broker screens and disclosing transaction information to trade publishers.

Beyond the release of data by these means, which allow exchanges, brokers and publishers to pass onto the whole market accurate aggregate statistics, some regulators have started to call for the reporting of individual transactions for the purpose of market monitoring. Indeed DG TREN and DG COMP apparently advocated such reporting as an integral obligation in early drafts of proposed amendments to the internal electricity and gas market directives. In the final versions of the European Commission's proposed amendments (published in September 2007) reporting obligations were replaced by obligations to keep records of transactions.

WHO NEEDS INFORMATION ABOUT TRANSACTIONS?

Currently power and gas traders in Europe make no claim to financial information or any other commercial details about other traders' individual transactions as such. If they do become concerned about another market participant's deals, their concern usually revolves around whether TSOs are allowing completely non-discriminatory market access or whether an incumbent producer (or wholesale importer in the case of gas) is giving enough information about its planned or actual output (imports). Abuses of this type are not intrinsic to the operation of the mainstream traded markets, rather they are linked to the surviving traditional structure of parts of the energy sector in Europe.

Of particular concern to traders in the electricity and gas sectors is the marked lack of cross border co-operation between transmission system operators (TSOs). Their failure to harmonise extends in electricity markets, for example, to their methods of congestion management, their assessment of available transmission capacity at borders and their isolated organization of national intra-day and balancing markets. These important aspects of market integration have not yet been resolved on a pan European scale, nor even within most regions. On the gas side, whilst policymakers and regulators increasingly emphasize the need for fully transparent, simple and cost-reflective third party access regimes, there remain formidable barriers to entry. The gas side impediments rest partly on foundations of artificial complexity and opacity in long term legacy contracts, the survival of which continues to deter new entrants.

THE EXPECTATIONS OF REGULATORS

We continue to face proposals for greater disclosure of details of individual wholesale energy transactions to regulators. The CRE in France has recently consulted on a plan to require national reporting. ERGEG and CESR

are conducting an investigation at the behest of the European Commission into how energy and financial regulators should monitor the operation of wholesale markets in power and gas as commodities and of markets in related derivative contracts. EFET does not believe that any of these bodies has yet carried out a thorough impact assessment and cost-benefit analysis in relation to extended transaction transparency and reporting requirements.

The imposition of compulsory disclosure to national regulators (or indeed compulsory publication) of details of market participants' OTC wholesale power and gas transactions would cause considerable surprise among the energy trading community across Europe. Banks and investment and commodity firms share the major concerns of physical traders about any precipitate 1:1 roll-out of reporting arrangements - as laid down in the Markets in Financial Instruments Directive (MiFID), in relation to just the power and gas sectors, without apparent regard for the comparable regulatory burdens affecting other commodity derivatives markets. EFET has outlined in consultative exercises a fear that the imposition of significant new obligations could lead to a reduction of the number of market participants, thereby in turn producing a negative effect on wholesale power and gas liquidity and competition.

WHAT IS OPTIMAL REGULATION?

EFET has asked Regulators to take account of the following factors, as they formulate plans as to how they may discharge their monitoring duties:

(1) Duplication of effort and non-harmonisation

The European Commission requested on 21/12/07 jointly from CESR and ERGEG advice regarding collection of data about power and gas wholesale transactions, in connection with its review of the content of Article 5 of EU Regulation 1228/2003 and the equivalent provision in the EU Gas Regulation. It would be unfortunate if in advance of the advice being finalised any national authority were to launch its own data gathering exercise. Indeed a national scheme would in a way pre-judge the outcome of the mandate given to CESR and ERGEG by the Commission.

(2) Undue administrative burden

Trading data requests from any one national authority may lead other national bodies to take their own initiatives, again without waiting for the advice that the Commission has sought. This would lead to administrative confusion for international suppliers, faced with multiple data requests in different formats. International suppliers are not convinced that all European countries and regulators apply sufficiently rigorous confidentiality standards to staff, who would see commercially sensitive transaction data. Furthermore, many companies fear that, after they have submitted raw data, they may face additional, time consuming questions from less sophisticated national regulators, some of whom might not be fully conversant with the operation of cross-border wholesale power and gas markets.

(3) Less liquidity

In addition to the potential barrier that would be erected to new entrants, existing traders may well vote with their feet and just trade less in a national market subject to stringent reporting requirements. Some market parties might even exit such a market. This could lead in turn to less liquidity, more price volatility and potentially higher wholesale prices due to higher risk. By analogy, a recent study performed by the British Financial Services Authority (FSA) contains very clear remarks concerning the potential negative impact of reporting requirements on the liquidity and depth of markets in financial instruments.

A BETTER WAY FORWARD?

Regulatory monitoring of wholesale markets is an important activity within the context of liberalization of the European electricity and gas sectors. But the first steps should not comprise a jump to burdensome transaction reporting. Rather they should practically involve sourcing basic information from the operators of transmission networks and of wholesale market platforms, such as exchanges and brokers, in the view of EFET. An ad hoc EFET working group is presently investigating what traders might do to facilitate access by Regulators or other surveillance agencies to the OTC market data visible to subscribers on broker screens. We are also exploring

whether EFET will be able to play a role in formatting or transferring data.

EFET promotes increased transparency on the physical side of the power and gas markets (use of the transmission and production infrastructure, demand/supply balance) as these factors determine the price formation to a large extent. Turning to the role of TSOs, careful tracking and analysis of the flows on high voltage networks and high pressure gas pipelines can, in our experience, yield very interesting indications of how the pan-European market is functioning. A corresponding careful review of the manner in which TSOs then calculate available transmission capacity and actually allocate capacity, especially across national borders, will potentially also tell Regulators a lot about competitive conditions. Analysis of the precise patterns of availability and utilisation of generating plant inside national markets will add to the completeness of the wholesale competitive picture, in the case of the power sector.

"We are also exploring whether EFET will be able to play a role in formatting or transferring data."

If a Regulator on top of this makes careful use of an analysis of all suppliers' or shippers' nominations received by TSOs and of transaction volumes and prices in the OTC market as published by the industry press, probably a much more efficient market review can be achieved, than by starting from raw transaction data gathered from scores of individual market actors.

If there are reasonable grounds to suspect abuse of a dominant position or collusion or market abuse, then EFET naturally recognises the responsible authorities (be they energy regulators, competition authorities or financial regulators) must be able to request individual transaction data from individual companies.

According to Steve Huhman, Vice President of Morgan Stanley, transparency is important but so too are legitimate claims to privacy.

Striking the Right Balance Between Transparency and Confidentiality

NOT QUITE A "PERFECT" MARKET

It is axiomatic that perfect markets exist only in the presence of perfect information. That is, all market participants have access to all data that influences the market. A corollary to this is that information has value. Individual market participants have a legitimate property right in any data that they might have generated. Furthermore, collection and release of data is not cost-free.

These facts create a regulatory "trade-off," i.e. how best to balance the push for "perfect" markets with the legitimate property rights of the participants, and costs to both participants and regulators? The answer usually lies in markets tolerating a moderate amount of market imperfection due to lack of perfect information, in return for the ability of regulators to monitor market behaviour in a manner that allows them to police abusive behaviour such as manipulation.

In other words, profiting from informational advantage is permitted, but profiting by using information or market position to manipulate prices or supplies, or impede competitors, is prohibited.

OPERATIONAL DATA

In discussions of transparency surrounding power and gas, there are two main categories. The first is operational information. The second is commercially sensitive information. Immediate transparency of operational information is crucial for competitive markets to function on a level playing field; in fact even to survive. Changes in system topology can have significant impacts on supplier costs, and even on the physical ability to fulfil contractual obligations. Key components that need to be communicated to all market participants as quickly as possible include changes in physical status of generating units, both outages and returns; changes in availability or capacity of transmissions paths; and changes in forecasts of various sorts, including for load, maintenance schedules, outage repairs, etc.

Access to the knowledge needed to react quickly to changing operational parameters is crucial for making the necessary adjustments to minimize costs. Superior access to such knowledge provides a huge competitive advantage. It is therefore important for operational information to be made available as soon as possible. Otherwise, it is inevitable that the information will spread informally but unevenly, providing an unfair competitive advantage to those who have better access. Markets in which the participants do not trust that they will receive regular, prompt and accurate information about operating parameters, are very vulnerable to volatile swings due to rumours. While the rumour factor can never be completely eliminated, it can be minimized, saving a great deal of wasted effort devoted to confirming rumours. Ultimately, this results in much smoother operation, both physically and commercially.

COMMERCIAL DATA

With regard to commercially sensitive information, and specifically transaction data, the availability of this information to the market in disaggregated form does not have the same degree of urgency. The more important use of such data is in assisting regulators in the fulfilment of their duties. Without it, the ability to protect consumers from market manipulation can be significantly compromised. Release of this same information to the market in general, however, is more problematic. Doing so can provide insights into competitors' positions and

strategies, which would be viewed by most as legitimate proprietary information. It is Morgan Stanley's view that current European electricity and gas markets are not yet deep and liquid enough to allow release of individualised commercial data without causing unacceptable harm to market participants. For the foreseeable future, any commercial transactional data should be released only in aggregated form, to the extent a case can be made that such data provides competition enhancing benefits that exceed compliance costs.

"The one exception, perhaps, is with respect to collusion, where individuals banding together could collectively create market power."

Decisions regarding commercial data transparency rules must also consider compliance costs relative to market benefits. Costs will accrue to both the market participants and to any regulatory body mandating and/or coordinating the data aggregation and release. For market participants that lack market power, the costs of the reporting exercise may not be justified. By definition, if they lack market power, then they are unlikely to be able to manipulate markets. The one exception, perhaps, is with respect to collusion, where individuals banding together could collectively create market power.

CONCLUSIONS

Any new data disclosure rules should take into account existing transaction recording and disclosure practices, in order to avoid potential duplication of efforts. In this context, it should be noted that MiFID currently waives reporting obligations of investment firms when the concerned transactions have been reported directly by a regulated market, an MTF or a trading system approved by the competent authority. Similarly, for physical power and gas markets, a large part of the transaction data can often be sourced directly from wholesale market entities, such as brokers and exchanges, even when the entities are unregulated. These options should be thoroughly investigated prior to imposing new reporting obligations directly on market participants.

Transparency is important, but legitimate claims to privacy exist as well. The preparation, collection and distribution of information are not without cost, and those costs should be factored into any decisions to add disclosure regulations. Only when the cost-benefit analysis clearly favours the contemplated regulation should it be implemented.

Efficient regulation of wholesale energy markets requires a comprehensive approach to physical commodity and financial trading says Walter Boltz, Managing Director of E-Control and Vice President of CEER.

Comprehensive Approach Needed for Market Regulation

SETTING THE SCENE

Commodity trading is a regulated business with the focus on the potentially adverse effect on efficient price formation of speculative trading. The arsenal of controls includes elements such as data transparency reporting and limitations on open position-trading.

The objectives are twofold: to increase the efficiency of trade (by making available pre- and post-trade information) and to try and ensure that market prices reflect fundamental demand and supply conditions (through record-keeping requirements and limits to speculation).

Concerns have been voiced that in EU gas and power markets fundamentals have been weakened by the increased involvement of financial traders in the derivatives markets.

In many respects, the US is far more advanced in the regulation of commodity futures, because it has been driven by the long history of agricultural price speculation. Still, the recent experience of the US-CFTC when trying to differentiate between "beneficial" risk management strategies and "adverse" speculation showed that a clear-cut distinction is hard to find. The role of speculation is therefore still unclear.

The European Parliament recently launched a debate on hedge funds. The first reactions from the industry but also from sector regulators mirrored the problem encountered in the US, namely that there is no clear distinction between good and bad investors and traders. Still, some limitation to speculative trading may be needed, as European power and gas markets may be too small to support high volumes of financial trading.

SOME NECESSARY CONTROLS

Record-keeping and reporting obligations as well as limits on financial trading are necessary to allow regulators to intervene in cases of alleged market abuse or to reduce the risk of such abuse.

This objective has to be distinguished from the aim of facilitating efficient price formation. In forward markets expectations and risk also enter the equation. The present legal framework establishes a required level of pre- and post-trade information, but this only covers trade subject to MiFID. In contrast to trading in shares, commodities are mainly traded via non regulated markets, i.e. OTC.

This has two main consequences:

First, trading information is dispersed over a multitude of places. Information has to be collected from broker screens, PXs, and through market reporters. These information providers hold different levels of information. On PXs traders have access to demand and supply curves, whereas for OTC markets only (more or less representative) information on individual trades is reported. In some cases the lack of liquidity even prevents the formation of reliable price indicators. There are solutions to this such as obligatory clearing of OTC contracts might contribute to increased coverage and accuracy of price information.

Second, the dominance of non-financial OTC trade implies that price formation is largely not subject to regulation, only to general competition law. Financial regulation instead provides a bundle of directives which include subjects such as insider information, market abuse or transparency requirements.

The unique features of power, and to some extent gas markets, indicate that underlying physical constraints have to be taken into account more directly than might be the case for other commodities. Future demand and supply strongly depend on external factors such as weather, hydrology, problems in infrastructure, etc. Non-existent or reduced storability contributes to high price risks in electricity and, to a lesser extent gas balancing markets.

Summing up, for electricity and gas trading comprehensive information on underlying demand and supply of the commodity has to be available to market participants. At the moment this is not the case. There are either no obligations at all on producers and suppliers to publish data or they are quite vague, so that format, location and time of publication are unclear.

A WAY FORWARD?

In principle two alternative solutions exist. First one could enlarge the scope of financial regulation to non-regulated markets and include transparency obligations for underlying markets.

However, this contaminates the financial market regulation with goals of commodity price formation, which is not its primary or even secondary objective. Financial market regulation is concerned with the stability of financial markets, the protection of investors and the prohibition of abusive behaviour.

Second, one adopts a comprehensive framework for the two commodities, where transparency requirements are established irrespectively of the exact character of the market participant. Transparency in this sense encompasses the underlying physical market as well as the financial market and also the fundamental data which govern demand and supply.

In order to develop an efficient system of regulatory oversight, co-operation between sector regulators (financial and energy) will be necessary, because what we are discussing here is the influence of the financial market on commodity prices and/or the influence of physical restrictions on derivatives. Only a comprehensive approach can affect market behaviour. At the moment, there is no such approach.

This edition of *Energy Viewpoints* includes the results of our latest quarterly survey which monitors trends in the European energy markets.

European Energy Market Trends Survey – Summer 2008

This survey is run in association with **EFET** (the European Federation of Energy Traders) and is conducted by **Moffatt Associates,** an independent market research and business strategy consultancy based in London.

The objectives of this research programme are to canvass views on trends in market prices and energy market developments and to monitor changes in market perceptions over time.

Results are based on the views of a representative panel of leading market participants and policy influencers. The survey itself takes the form of a detailed telephone questionnaire and is conducted on a strictly confidential and non-attributable basis. Respondents were interviewed in June 2008.

This quarter we received contributions from 30 senior market participants from 11 European countries (Austria, Belgium, France, Germany, Denmark, the Netherlands, Norway, Poland, Spain, Switzerland and the UK).

The key findings are as follows:

MARKET TRENDS

• Both for **power prices (83%)** and **gas prices (71%),** the prevailing view is that prices will increase over the next twelve months. This confirms that the majority of market participants believe that the upward cycle in energy prices will continue.

Figure 1 **Electricity – What will be the underlying trend for spot energy prices across Europe in the coming 12 months?**

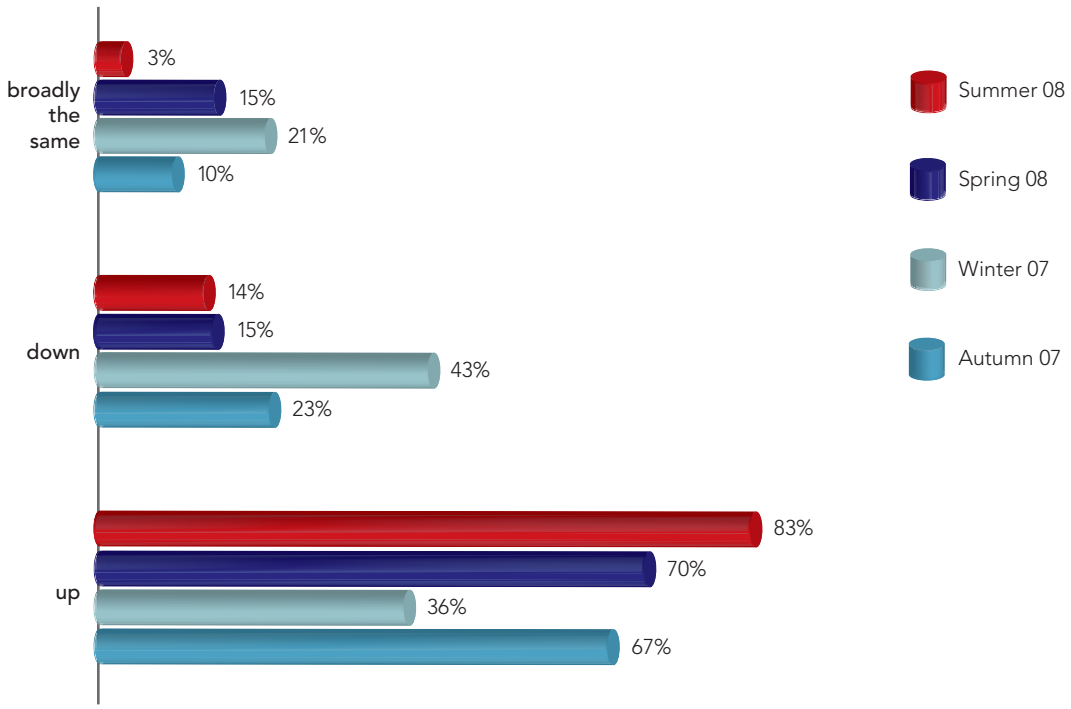
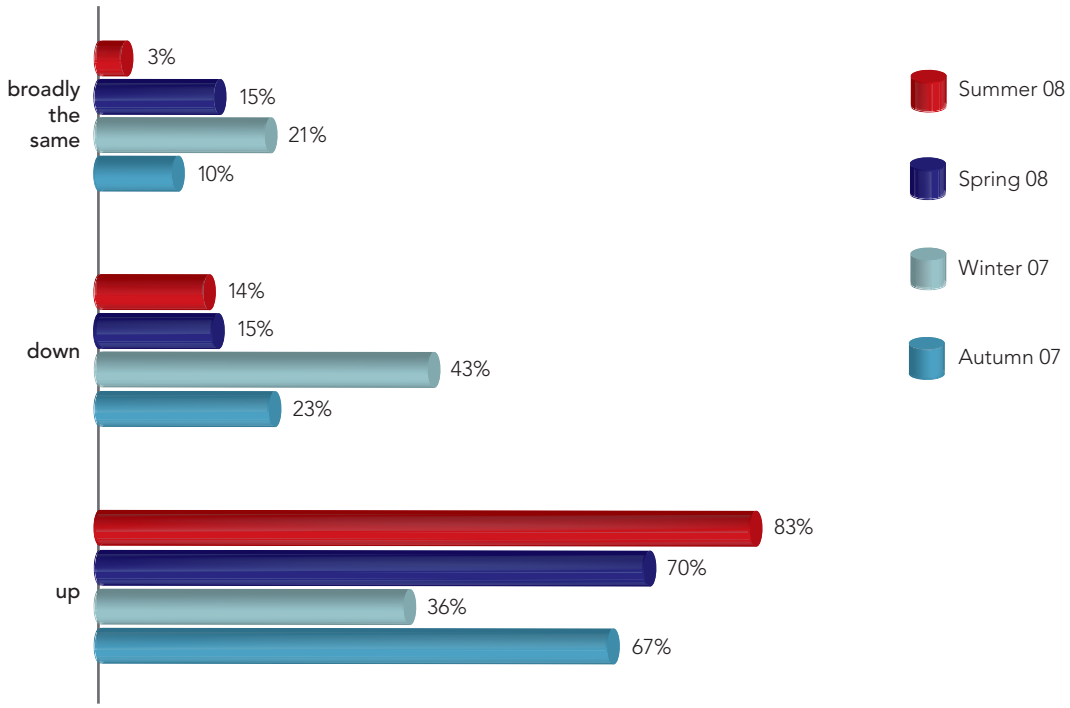


Figure 2 Gas – What will be the underlying trend for spot energy prices across Europe in the coming 12 months?

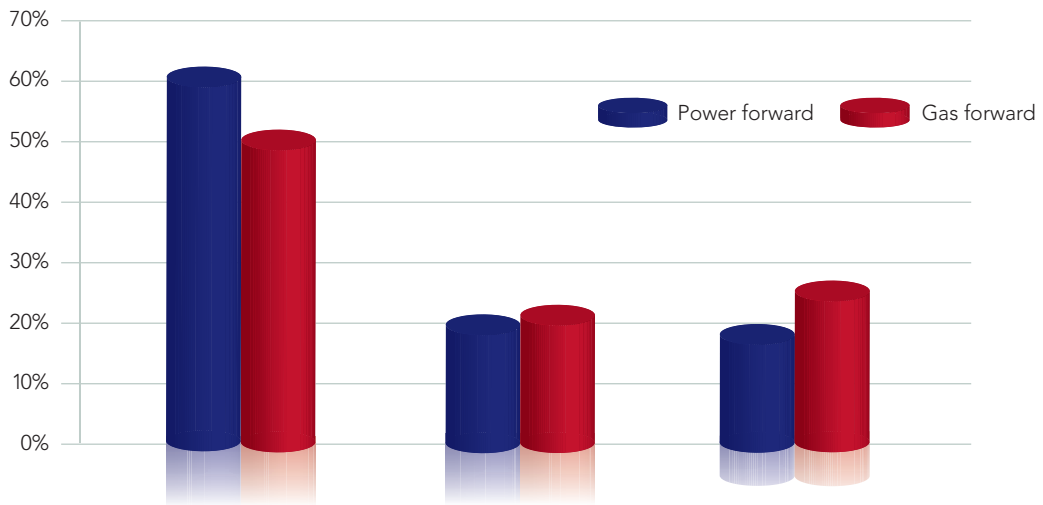


• **Spot power price** expectations have continued to rise, with a further 19% increase in the number of respondents believing that they will increase over the next twelve months. Currently 83% of respondents believe prices will rise.

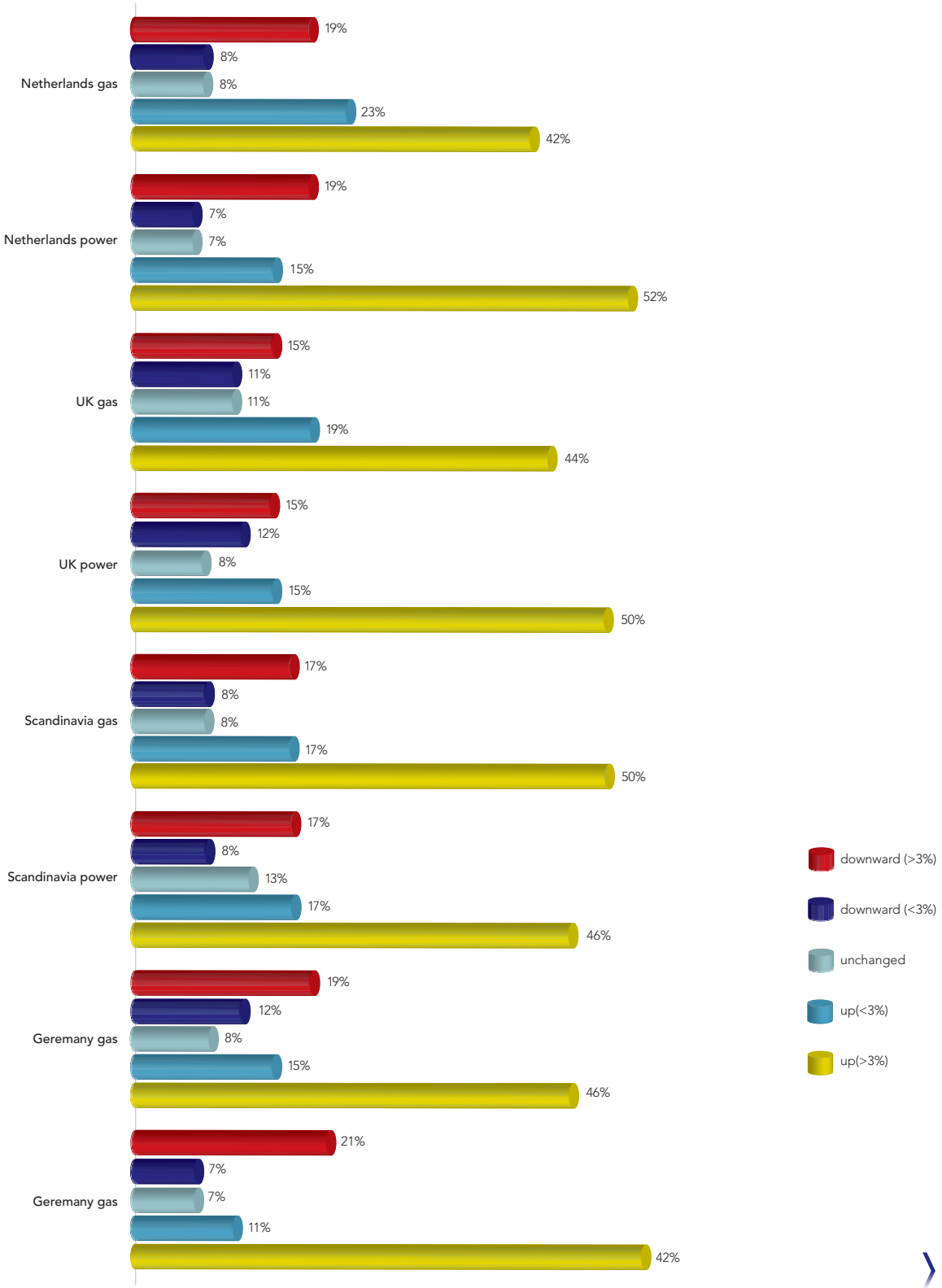
• In parallel the gas market also experienced a further rise in the number of respondents expecting European **spot gas prices** to increase over the next twelve months with 71% of respondents stating this would be the case, compared to 63% last quarter.

Forward energy price expectations for both gas and power are consistent with spot price expectations. However, this quarter the number of panel members predicting forward price increases fell which suggests that some market participants believe the power market could weaken, probably in the wake of a downward adjustment in oil and gas prices.

Figure 3 Forward energy price predictions



How do you expect the underlying trend in power and gas prices to move in the following markets over the coming 12 months?



The majority of our panel (64%) believe that prices are going to rise, this compares to 27% who believe prices will fall and 9% who believe prices will remain unchanged.

In all markets the prevailing view is that the **underlying trend** of **gas and power** prices is expected to rise by more than 3% over the next twelve months, with responses ranging from 54% (Germany power) to 42% (Netherlands gas).

In terms of the expected rate of price change, views varied significantly with 66% of respondents predicting a rise or fall of greater than 3%.

KEY FACTORS INFLUENCING ENERGY PRICES

Our Panel of experts was asked whether the following time issues would have an upward, downward or stable impact on energy prices in the next 12 months. Panel members were also asked to rate, on a scale of 1-5, how **significant issues** would be in **determining energy prices** over the next five years.

• It is interesting to also note that industry consolidation and market liberalisation are not seen as exerting significant impact on prices. Environmental pressures were also felt to have eased with its significance falling to 3.4 (Spring 2008 - 3.8)

• Other factors which were also mentioned by our panel included the impact of a global recession, which was expected to exert significant downward pressure upon prices.

• Respondents whose companies clear trades via exchanges said that, on average, 35% of their trading was **cleared** (up slightly from 33% in the previous quarter)

EU ENERGY MARKET TRADING ACTIVITY

• EU energy market trading activity (defined as volumes traded – exchanges and OTC) is expected to remain about the same over the coming 6 months

	Summer 2007		Summer 2008	
	Direction	Significance	Direction	Significance
Movements in fossil fuel prices	Upwards	3.9	Upwards	4.4
Environmental pressures	Upwards	3.9	Upwards	3.4
Infrastructure developments	Downwards	2.1	Downwards	2.2
Market liberalisation	Downwards	2.2	Downwards	1.9
Industry consolidation	Upwards	2.1	Upward	1.9

In the Spring 2008 survey, movements in fossil fuel prices were seen as the most significant factor, as was the case a year ago in the Summer 2007 survey. Once again the panel now feel that movements in the prices of fossil fuels (e.g. oil and coal) have the greatest influence upon energy prices, with its significance up slightly from its 4.3 rating in the Spring 2008 survey.

Figure 4 How do you see traded volumes moving in the next 6 months?

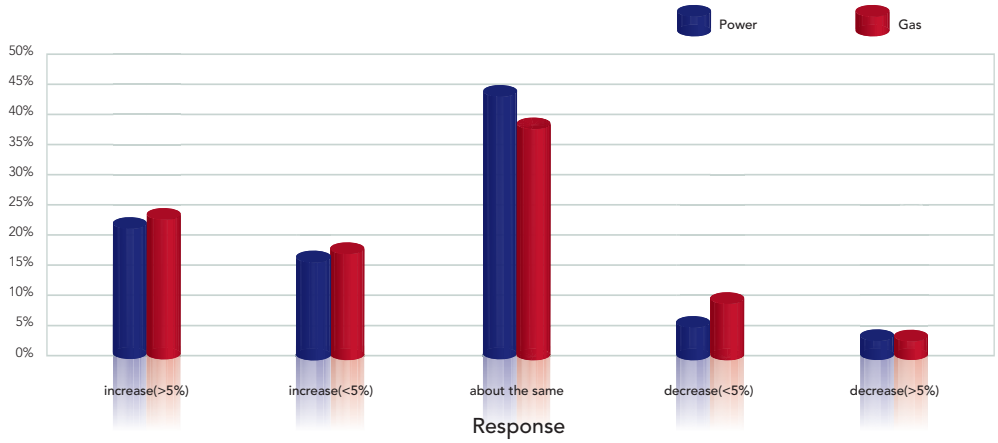
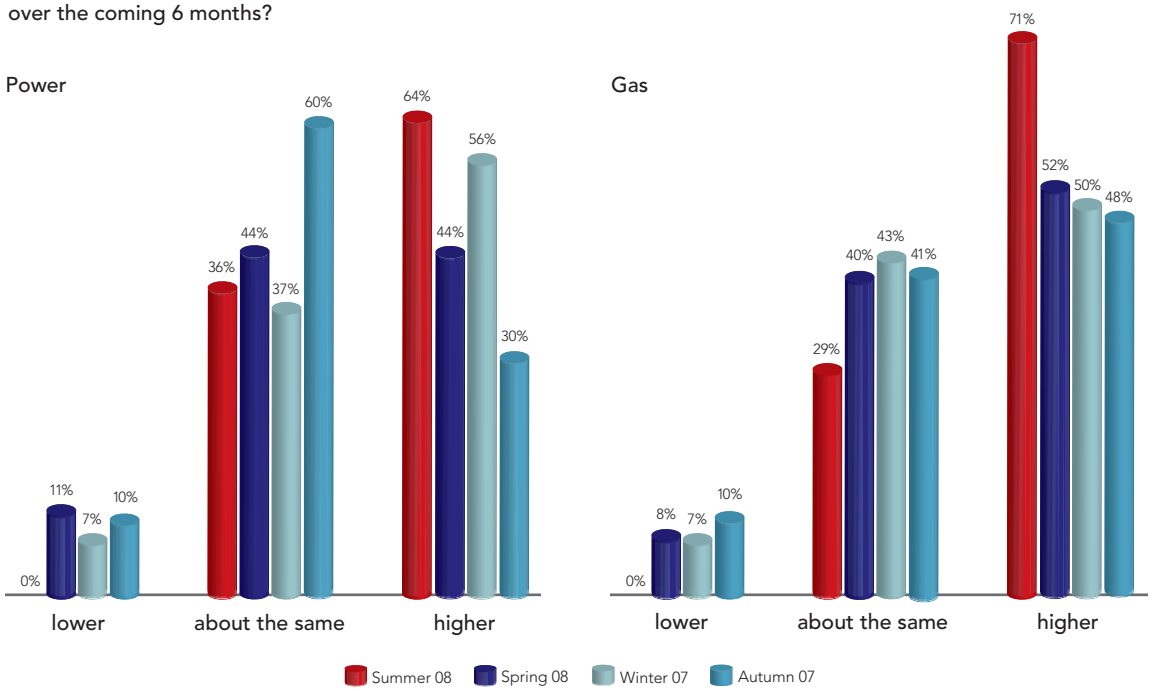


Figure 5 Do you see a higher or lower proportion of market activity going through exchanges over the coming 6 months?



• Regarding the proportion of power and gas **market trading** going through **exchanges** during the next 6 months, expect this either to remain about the same or increase. The gas market is likely to see the biggest rise in exchange activity with 71% of respondents believing activity would increase compared to 64% for power.

Finally Panel members were asked what (if any) significant developments they expected in the European energy markets in the next 6 -12 months

The main issues that respondents felt could be significant were **(a)** clarity on the outcome of the 3rd Energy Package, **(b)** volatility within markets increasing and possible knee jerk reactions from Member States in a bid to shelter consumers, and **(c)** further market consolidation, which it was felt would increase now that credit issues are tightening, especially with regards to investment in renewable and nuclear power generation.

APX Group News

EXCHANGE OF THE YEAR

Energy Risk Magazine has awarded APX Group the Energy Exchange of the Year Award 2008. APX was granted the award based on the Group's "impressive" handling of negative gas prices in the UK during the latter part of 2006. APX continues to show leadership in European market coupling, with the successful coupling of the Belgian, Dutch and French electricity markets. Market coupling has brought great benefits to the European markets by improving network efficiency and enabling a single price zone across three countries. Previous winners include ICE and in this year's nominations, APX was short listed with NYMEX and IMAREX.

NEW WEBSITE

In May after months of research, planning and development, APX re-launched the Group's website, improving navigation and further increasing the transparency of information available to its publics. The new website remains at: www.apxgroup.com

DUTCH POWER FEE RESTRUCTURED

Following a recommendation by the APX Member Product Board, APX reduced its Dutch Day-Ahead power trading fees as of 1 July 2008. This reduction follows the Volume Incentive Scheme introduced in April 2007 and the more recent fee reduction from 0.14 €/MWh to 0.105 €/MWh in January 2008. This further reduction sees transaction fees for the day-ahead auction reduced from 0.105 €/MWh to 0.08 €/MWh. Also as recommended by the Member Product Board, the Dutch day-ahead annual power fee was readjusted to €30,000 and a system fee of €5,000 was introduced.

NEW SERVICES

In May 2008, APX successfully launched its Capacity Usage Rights market, allowing for gas commodity and capacity to be traded on the same screen. The APX capacity usage rights market is developed within the framework of the ERGEG Gas Regional Initiative (GRI) North-West Europe. The GRI was launched in 2006 by the European Regulators' Group for Electricity and Gas (ERGEG), with the support of the European Commission and serves as a staging post towards a single European energy market. Besides offering its members a new service, the APX Capacity Usage Rights market will help solve the contractual congestion at the Bunde/Oude Statenzijl crossing. Removing part of the congestion will improve access to the market and therefore further the development of a regional North-West gas Regional Energy Market and the Dutch 'gas roundabout'.

In June, APX launched storage trading in addition to spot gas on the On-the-day Commodity Market (OCM), the largest spot gas exchange in Europe, becoming the first exchange to offer gas storage capacity trading. The APX Gas Storage Market is accessible to APX Gas UK members and offers an anonymous 24/7 marketplace for the trade and transfer of short term secondary storage products while facilitating transparent price formation.

Following the successful launch of the OTC Broker Give-Up Service for APX Power UK in February 2008, APX has launched the OTC Broker Give-Up Service for UK Gas. This service enables members to clear OTC gas trades via APX, matched by energy broker Tullett-Prebon.

MEMBERSHIPS

The APX Group welcomed 2 new members over the past quarter. In May, Power4All Limited, a subsidiary of Wal-Mart, joined the UK power market in an innovative move in energy procurement to supply the company's ASDA stores. In June, Energi Danmark A/S, a Danish energy trading company joined the Dutch power market. In July, Teesside Power Limited, owner of the Teesside Power Station and several gas processing facilities and pipeline systems joined APX Gas UK. The five APX markets now have a total of 219 memberships.

APX Indices

APX POWER NL DAY AHEAD AVERAGE PRICES

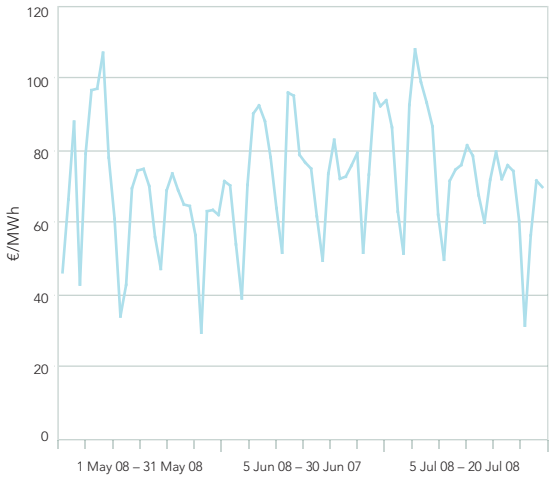
The APX published average prices are comprised of base load, off peak and peak load (07.00 – 23.00) prices based on the average price (in Euro/MWh) of Dutch power traded every day on APX for delivery the next day. Weekend prices are only comprised of base load prices and volumes.

APX GAS NL TTF DAY AHEAD INDEX

The Index is a volume weighted average price (VWAP) of all day-ahead trades executed and matched on APX at the TTF gas hub between 06.00 and 18.00 CET (05.00 and 17.00 UK time) for delivery the next day.

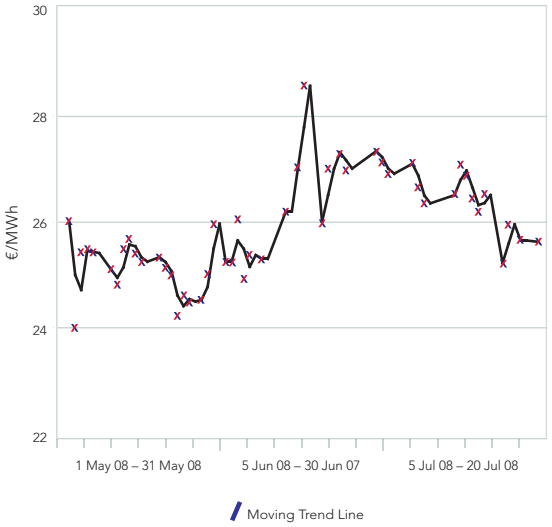
APX Power NL Day Ahead Index

Source: APX NL Historic data © APX NL



APX Gas NL – TTFDay Ahead Index

Source: APX NL Historic data © APX NL



APX POWER UK SPOT INDICES

The APX Power UK Spot Indices are based on the APX Power UK Reference Price Data (RPD) which is a half hourly price derived from the volume weighted average price of all Half Hour, Two Hour and Four Hour Block contracts traded within seven calendar days of market closure on APX Power UK.

Spot Price Index (base load) – The average of the RPD prices for all 48 half hour settlement periods.

Peak Load Index – The average of the RPD prices for half hour settlement periods between 07.00 -19.00.

Extended Peak Load Index – The average of the RPD prices for half hour settlement periods between 07.00 – 23.00.

Off Peak Index – The average of the RPD prices for the Off Peak half hour settlement periods, between 23.00 – 07.00 and 19.00 – 23.00 in the same EFA day.

APX GAS UK INDICES

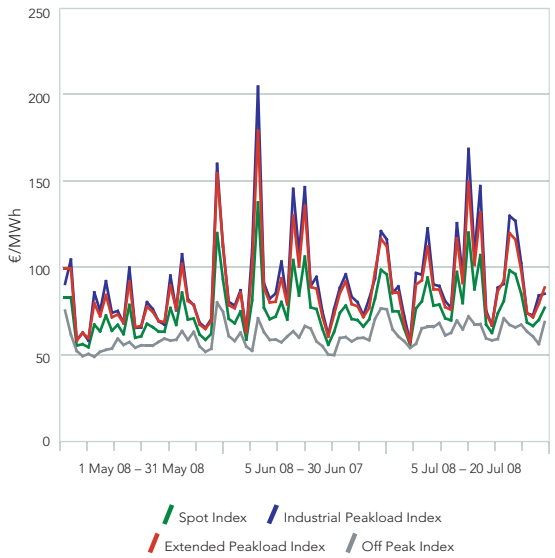
SMP buy is the highest price that gas was traded (buy or sell) by Transco in its Network Code balancing role for delivery that gas day. In the event of noTransco action, the SMP buy is calculated by a default setting of 0.0287p/kWh (0.8411p/therm) from the prevailing SAP.

SAP is the volume weighted average price of all trades on the OCM platform.

SMPsell is the lowest price that gas was traded (buy or sell) byTranscoin its Network Code balancing role for delivery that gas day. In the event of no Transco action, the SMPsell is calculated by a default setting of – 0.0324p/kWh (– 0.9496p/therm) from the prevailing SAP.

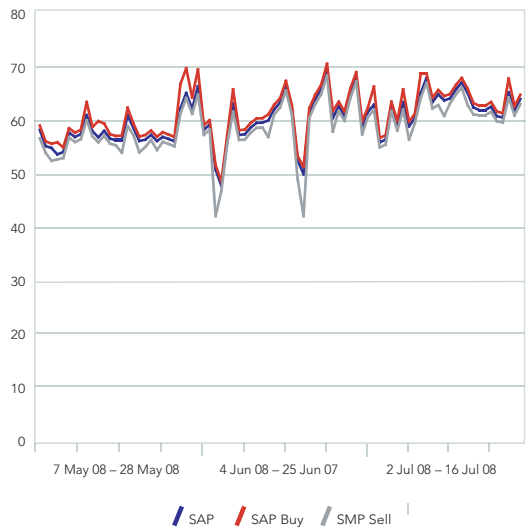
APX Power UK Spot Indices

Source: APX Power UK RPD Indices © APX Power UK



APX Gas UK Indices

Source: APX Gas Historic data © APX Gas



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