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# The Role and Practice of the Financial Market Regulator in the Electricity Market

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# The electricity derivatives market

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# Infrastructure financial instruments Norway

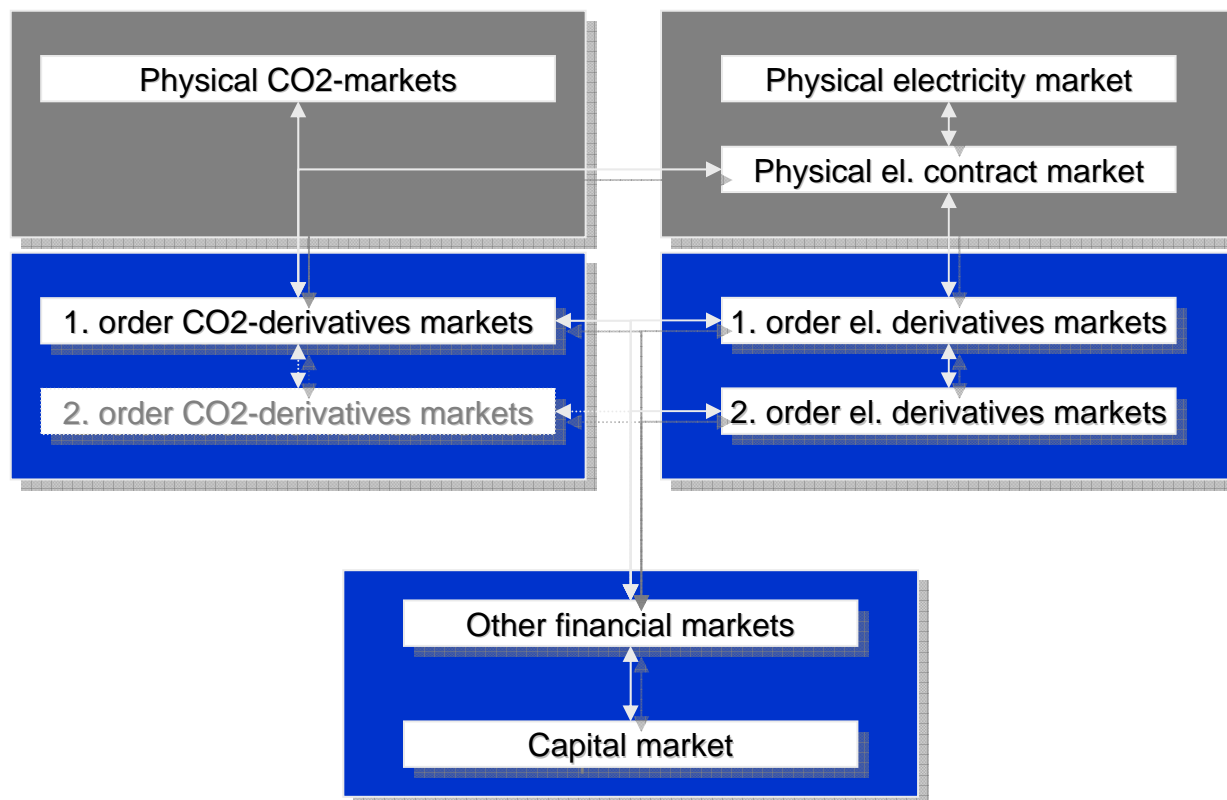
- Regulated market/exchange/MTF
  - Nord Pool ASA (Exchange)
  - Oslo Børs ASA (incl. Exchange Traded Commodities)
  - Oslo Axess (Regulated market)
  - Imarex ASA (Regulated market)
  - Fish Pool ASA (Regulated market)
  - ICAP Energy AS (MTF)
- Clearinghouse
  - Nord Pool Clearing ASA
  - NOS Clearing ASA
  - Oslo Clearing ASA
- Others for non-electricity products
  - VPS ASA (Central Securities Depository)
- Physical market place
  - Nord Pool Spot AS (A market place regulated by The Authority of the Physical Electricity Market in Norway)

## Europe - different market structure

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- Physical or financial delivery
- Settlement period between financial and physical delivery
- Degree of trading on exchange and settlement through clearinghouse
- Different production costs
- Daily peak off – peak load
- Grid constraints
- Netting or not
- Market concentration

# The actual markets



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# Supervision of the institutions

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# Market monitoring

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- The Norwegian FSA supervises the exchange and the clearinghouses and
- the exchange monitors the trading on the exchange
  - Nord Pool has its own department for market surveillance
  - Member trading rules

# The exchange Nord Pool

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- Member trading rules
- Systems in place to
  - ensure effectiveness, neutrality and equal treatment of all market participants
  - perform price quotation - a price reflecting the traded instruments market value
  - ensure transparency
  - provide market information
  - conduct market surveillance
- Capital requirements, risk based
- Internal control systems

# Clearing – settlement and credit risk

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- The clearinghouse shall have
  - Appropriate own funds to the operations conducted
  - sufficient security to guarantee fulfilment of the contracts the clearing house enters into as a counterparty
  - calculation and require security on a continuous basis
  - professional secrecy for staff, company representative and others with determinative influence
  - Assessed in accordance with ESCB-CESR self assessment for Central Counterparties

# Liquidity

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- Transparency
- Enough market players
  - Supply side (producers)
  - Demand side (retailers)
  - Capital market
- Dominant market players
  - Asymmetric information
  - Market power, manipulation
- Strong and reliable market infrastructure

# Some references

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- CESR-ERGEG Working group papers
  - Market abuse: <http://www.cesr-eu.org/popup2.php?id=5071>
  - Record keeping, transparency, exchange of information: <http://www.cesr.eu/popup2.php?id=5478>
- IOSCO Task Force on Commodity Futures Markets:  
<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD285.pdf>
- Energiehandel in Europa, 2nd ed: <http://www.beck-shop.de/productview.aspx?product=25953&catalog=1>
- The Financial Supervisory Authority of Norway:
  - [www.kredittilsynet.no/en/](http://www.kredittilsynet.no/en/)
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