

What has

happened?

Liberalisation = market price risks/reward

Decarbonisation of generation = Transition to renewables driven by weather measures resulting in short term price volatility

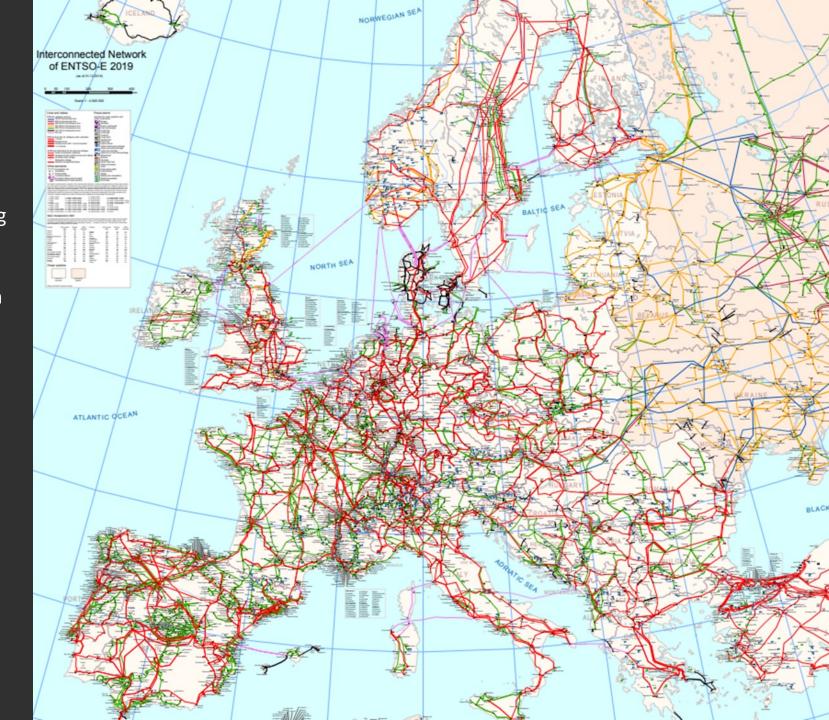
Decentralisation and distribution = complexity in energy mix and balancing (market/ancillary)

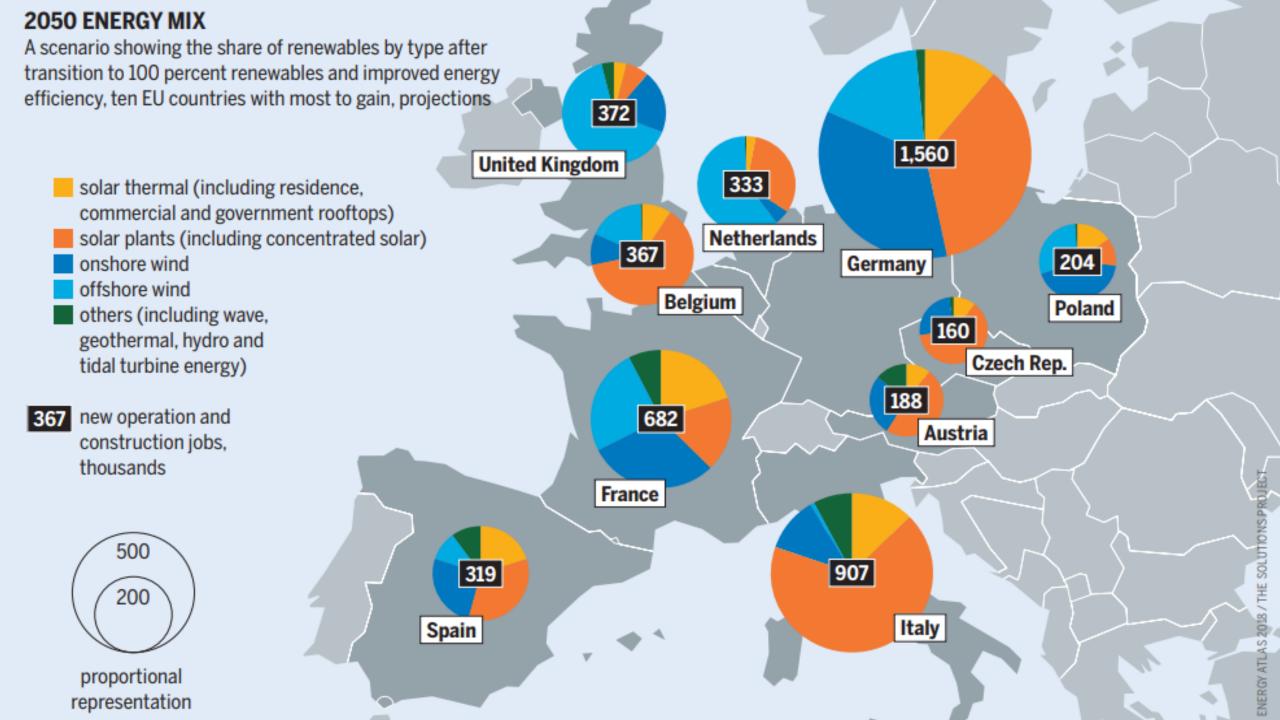
Electrification and flex/storage = price triggered consumption (market/ancillary)

New breed of investors = focus on return rates and scale of economics

Shift in market liquidity and volatility = a new school of trading centered around short term (real-time) trading

War in Ukraine = acceleration of renewables and hydrogen economy to relief dependence on Russian gas supply





The Power Market

Derivative market

Day-Ahead Market

Intraday Market

Balancing market

Long and mid term (years/months)

Anticipated covering of needs of supply, optimization of production means

- Lower trading/liquidity
- PPAs (bilateral) replacing long term market hedging to provide stable cash flow for investment/project financing
- Fundamental trading models outdated

Short term (Day+1)

Very short term (hours)

Balance between production and consumption

- Increasing trading/liquidity
- Weather and other physical measures drive volatility and price formation
- Physical/quantitative model trading
- Algorithmic and automated execution
- Countless of daily transaction on market spreads (area/time) with low VaR
- Structuring of capacities and options to support flex in trading

Real time (minutes)

Security of the system

- Increase TSO regulated ancillary services markets
- BRPs with TSO license provide route-tomarket and participation in ancillary service markets
- Interface, response time and algorithmic bidding strategies are key to success

The Silicon Valley of Energy Trading

On the back of pioneering energy trading companies Danske Commodities and Centrica Energy Trading a school of start-up companies have been growing and expanding fast.



Trading is Utilization of Market Dynamics

Key Backdrop:

The implementation of a liberal energy market designs (in EU, US and some APAC markets) dissolving monopolies and making trading a critical resource in ensuring market efficiency and balancing of the system.

Main triggers for trading performance in dynamic markets:

- Quantitative modeling of physical energy data and forecasting (in realtime). Effectively they are hybrid trading/software companies
- Operation in multiple markets to leverage flexibility across markets
- Business model centered on the physical ST market (smaller spreads and low VaR) as opposed to conventional power and gas companies
- Algorithmic execution of trades 1000s of transactions daily
- Business model centered on risk/reward and high tolerance for structured risk in books
- Highly agile and performance/incentive driven businesses with less corporate control, hierarchy, strict governance

Commercial Risk/Reward

You need to ask yourself...

- What is your risk/reward appetite and mandates?
- How will your risk/reward profile impact your investment/project financing/operations?
- Which commercial risks are acceptable long/short term price, volume, profile, capture rates, imbalance, curtailment etc.
- What is the premium you are willing to pay to offset any given risks?

Have a chat with the risk takers!

















