

MINUTES FROM THE PRODUCT GROUP FOR THE PHYSICAL MARKET

Date: 11th of May 2005

Place: Elkraft System's office in Copenhagen, Denmark

Present:

Karl-Henrik Nordblad	Fortum
Jonas Melin	Markedskraft
Siri Revelsby	Hydro Oil & Energy, Markets
Lasse Damsø Pedersen	Elsam
Timo Kaukonen	Fingrid
Michael Bonde	E-ON Trading
Mikael Jednell	Plusenergi
Anders Renvall	Kymppivoima
Urban Hammarstedt	Nord Pool Spot (Chairman)
Rickard Nilsson	Nord Pool Spot
Åsmund Drivenes	Nord Pool Spot (Secretary)

10/05 Comments to the agenda

There were no comments to the agenda.

11/05 Minutes from the previous meeting the 3rd of February 2005

There were no contextual comments from the group regarding the previous minutes. However, group members requested that minutes in the future are distributed to the group within about one week. NPS was regretful for the delay and promised to speed up the routine. NPS also said that the group then would get one week to provide comments before the minutes are published on the homepage.

12/05 Product group structure and routines

The Chairman welcomed the new members in the group, namely Mr Damsø Pedersen, Mr Jednell and Mr Renvall and then all members briefly introduced themselves.

After that the Chairman presented the purpose and structure of the group. The group expressed support for the presented group structure, which from now on consists of 7 participants, normally 1 Nordel representative and 3 representatives from NPS.

It was again stressed that members of the product group have a personal obligation to follow up issues discussed in the product group and to bring issues from other participants forward to the product group. For that purpose the group agreed to add telephone numbers and e-mail addresses to the product group list on the homepage.

13/05 Status, trade, market and product development

Statistics

There were no objections to the presented statistical material. However, the group briefly discussed the development of frequency with common System and Area prices and it was agreed that NPS ahead of next meeting should try to develop a modified picture where a "filter" for hours when the price differences are "marginal" is included.

Market coupling

Nord Pool Spot is continuing the process with the objective of establishing Market Coupling procedures on the Kontek cable between Zealand and Germany. The aim is to establish the procedures on a daily basis as a separate bidding area linked to the Balance Area of Vattenfall Europe Transmission. This procedure would replace the current daily explicit capacity auction operated by the TSOs. More information about the planned procedures will be given to the market before summer.

Nord Pool Spot web page

NPS project to develop a revised web page is well under way and the objective is to further develop the NPS part of the web page within the frame of the Nord Pool design. Group members wished that it could be easier to download data directly from the homepage and to have vital information more easily accessible. NPS urged members to as soon as possible give more feedback about ideas to improve the homepage.

The Swedish west coast corridor

A new model for capacity handling procedures for the west coast corridor connected to Elspot has been developed. The plan this summer is to complete testing of the possibly revised procedures. If tests turn out positive the market will in due time be informed about the revised procedures and when they would be implemented.

The group expressed support for the action, but also stressed the importance that NPS in due time inform the market if and how a revised procedure is to be implemented.

UMM

TSO Guidelines on how to write UMMs has been implemented in the application. Similar participant reporting guidelines will be implemented during June 2005. Furthermore, a new User Manual will be added in the application this summer. In addition, the routines where UMM messages refer to capacities on cables between "A and B" will be changed and replaced with the bidding areas affected. Users of the application will in advance be informed about that and other technical and layout improvements that are to be implemented during this summer.

Finally, NPS and the TSOs are looking at how to publish day-ahead capacity information on external (outside Elspot) cables linked to the Nordic region on the homepage.

14/05 EU-issues (continuation of item 04/05)

Labelling – EU Directive 2003-54-EC

NPS objective is to contribute to an agreement about a common solution in the Nordic region. Furthermore, to implement a solution that does not cause negative effects on the electricity market. The objective is to establish a Nordic solution according to these ideas:

- Step 1: short term solution based on Nordel's Nordic production statistics/mix
- Step 2: long term solution based on certificates for labelling (quality) that is separated from trading of electricity (quantity)

The product group supported NPS' view that the solutions for labelling should not cause negative effects on price formation or competition in the market that trades electricity.

15/05 Financial contracts with physical delivery?

It was concluded that also bodies linked to the financial market need to consider the issues of financial contracts with physical delivery. Several group members expressed doubts about the practicability for changing financial contracts in to contracts with physical delivery, partly because it is questionable if it provides help regarding the IAS related issues and furthermore because of concerns about loss of liquidity in the market if such a change was to be made.

Therefore, the product group suggested that the Nord Pool Group should initiate an investigation with the objective to publish a qualified opinion on how to interpret IAS and what it implies for various types of customers and contracts. NPS would discuss these ideas within the Nord Pool Group and return with status at the next meeting.

16/05 Monthly invoicing and netting of collateral

NPS has started the process of looking at possible effects of monthly invoicing as an alternative to daily settlement. NPS is of the opinion that this must be a bank product since NPS would require additional security if it is done directly by NPS. The group agreed that this is a administrative issue which NPS customers could handle themselves, but were appreciative if NPS could help establishing a smooth routine and documentation towards the banks which would help customers in their discussions with their banks.

Netting of collateral and a single account system between Nord Pool Clearing and Nord Pool Spot would require that SECURE and SETS are linked together. This was a solution the Nord Pool Group did not prefer when these systems were developed. NPS has had initial talks with two settlement banks to discuss if they are interested in finding an alternative solution to this issue.

Several group members expressed that this issue is very high on their wish list for improvements by the Nord Pool Group, especially considering the strain companies end up in during periods with volatile and high prices, when netting between financial and physical positions are not directly handled by Nord Pool Group systems. The product group asked NPS to explore the question further before a final conclusion is made.

17/05 Bidding in the spot market in situations with major grid disturbances

After the major grid disturbance in Sweden and Zealand in September 2003 NPS started a discussion with Nordel on how players should act if a similar situation would occur when they are preparing spot bids for the next day. NPS proposed that participants should act as if the grid is intact, consumption is normal, and production resources are intact. This should be the general rule, but participants can deviate from this rule in situations when the TSO guarantee that given consequences are permanent until further notice. This would give prices and a calculated balance for the coming day as if the disturbance has been taken care of and the grid is back in normal operation. It would minimise the risks for the speculative price and balance effects that could occur if players instead have to guess how quickly the grid system would be rebuilt. It is assumed that TSOs would take care of imbalance costs caused by the grid disturbance during the period when the grid is in the rebuilding phase.

The product group agreed to the idea that market players should act as if there were no grid disturbance.

18/05 EUR as conversion currency and DK1 and DK2 included in the system price calculation starting 1 January 2006

NPS decided in 2002 to start using EUR as conversion currency on the Elspot market beginning on 1 January 2006, which coincides with the first delivery date when financial contracts traded and cleared by Nord Pool are quoted in EUR/MWh. It will still be possible to bid in NOK, SEK and DKK in the Elspot market.

It has also been decided to include DK1 and DK2 in the System Price calculation from the beginning of 2006, which the market was informed about already in Exchange information 49/2002 in November 2002.

The product group recommended that NPS publish a reminder concerning these issues.

19/05 Any other business

Spot price publishing

It was suggested that NPS set an earliest time for spot price publishing. In situations when NPS concludes that the spot price will be published later than that earliest publishing time the group recommended NPS to publish a message stating when the spot price will be published or when new status information will be published.

NPS was generally supportive of the idea with an earliest time for publishing and would bring the idea forward for discussions within the Nord Pool Group and return to the product group with a proposal for a revised publishing routine before of the next meeting.

Publishing of EEX prices

Members in the group said that EEX publish spot prices on their financial system much earlier than they are published publicly on the homepage. The group therefore asked if NPS could initiate a dialogue with EEX about how to improve that practise and possibly establish a solution with links between the two homepages to get simultaneous access to prices. NPS would consider how to handle the idea and return with status at the next meeting.

Illogical bidding in Elspot

In order to achieve a balanced portfolio companies at times must show the combination of production, consumption and contracts in their hourly spot bids in what may seem like an "illogical" way in the sense that in intervals with increasing prices sales volumes are decreasing or purchase volumes are increasing.

The group was asked of their view on this practise, i.e. if it should be disallowed or if special new products could give an alternative way of representing such portfolios. The group was firmly against disallowing "illogical bids" since there are many justifiable reasons for such bidding. However, the group was positive to the idea with a product that could support such portfolio segments, but no one had a clear idea on how to devise the product. Therefore, the group was asked to figure out if there are products that can cope with the issue and return with suggestions to NPS before of next meeting.

Pro-rata reduction of blocks in cases with imbalance at technical price limits

A few years back a solution was developed in the SAPRI system that enable shortening of block volumes in single hours in line with the procedure of pro-rata cutting of hourly bids in case there is an imbalance at the technical price limit (min/max). At that time the product group heavily opposed such a change on the basis of the importance of always maintaining the "all or nothing condition" for block bids and therefore the feature was not implemented. However, NPS now wished to again ask for the product group's opinion and in general the group this time appeared more positive to the idea. Nevertheless, it was agreed that group members want to consider the implications of

such a change within their companies and with other members before recommending NPS on this issue. The matter will therefore be discussed again at the next meeting.

Elbas

It was agreed to have the Elbas Market as an item for discussion at the next meeting.

20/05 Next meeting

Date: 15th of September 2005

Time: 10.00 – 15.00

Place: Helsinki, Finland