Market Monitor

by the Market Surveillance of EEX

Q1&Q2/2010

1. Report by the Market Surveillance

The eighth issue of the EEX Market Monitor is published this month. It constitutes the report by the Market Surveillance (HÜSt) of the European Energy Exchange (EEX) for the first and second quarter of the year 2010.

The Market Monitor focuses on subjects of regulation and monitoring of the energy market in general and on EEX in particular. Furthermore, it is intended to provide a report on the development of the markets during the respective past quarter in a neutral and objective manner.

This issue contains the report on our activities during the first half of the year 2010.

After this, we will summarise the events on the market over the past three months on EEX as in the previous issues; moreover, we will once again supplement this information with the French Power Futures in this issue.

As during the last issues our glossary will be expanded with further terms which come from the field of gas in this case.

The EEX Market Monitor is not only intended for the EEX trading participants and their compliance departments but also and in particular for the interested public. We hope to reach associations, authorities as well as all those persons interested in the liberalised energy market and in EEX with this publication.

We provide the EEX Market Monitor on the EEX internet site but are also pleased to send it out via e-mail. To that end, we provide the possibility of subscription. After that, you will automatically receive the respective current EEX Market Monitor upon its publication. Please send a short e-mail to *surveillance@eex.com* to that end.

We hope that you will enjoy reading the EEX Market Monitor.

We are very grateful for recommendations and suggestions.

Your EEX Market Surveillance Office

2. Report on the Activities of HÜSt. for the first Half of the Year 2010

At this point, the Market Surveillance Office would like to provide a report on its activities during the first six months of the year 2010.

In the context of the auctions regarding emission allowances, which have been carried out on EEX on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety since 5th/6th January, HÜSt has assumed further examination and reporting tasks. For example, on the day following the auction a document is prepared which enables the public to access various parameters of the auctions through the EEX web site, intensive evaluations are made in the context of weekly analyses by the Federal Environment Office (UBA), and through the quarterly reports to BMU and UBA.

During the past quarters, HÜSt also continued its activities for monitoring the markets of EEX: On the one hand, the trading data was analysed on a daily basis to identify possible violations. In direct contact with the respective trading participants these suspected cases of violations were fully cleared up. As a supplement to daily monitoring, HÜSt also prepared examinations of a larger scale based on its own initiative and on behalf of the Saxon Ministry for Economic Affairs, Labour and Transport (SMWA).

Furthermore, HÜSt. not only reports to the Exchange Supervisory Authority at regular intervals but also to the competent foreign institutions on account of the participation of international trading participants in trading on EEX (Finma, CTFC, AFM).

A comprehensive inquiry by the Federal Network Agency in the framework of the 2009 Monitoring Survey was answered by HÜSt. in the second quarter of 2010.

During the last six months the contact with foreign institutions was intensified through numerous workshops, e.g. with representatives of the Vienna Chamber of Commerce or employees of the Japanese Ministry of Economy, Trade and Industry. Moreover, there was an intensive exchange of experience with employees of the Federal Central Tax Office and the Berlin tax investigation department in order to avoid sales tax fraud and money laundering.

The co-operation with the Market Surveillance Office of EPEX Spot continued to be positive as well as constructive. Philippe Vassilopoulos, who temporarily carried out the surveillance tasks as the deputy of Florence Vary, visited HÜSt. in April and was integrated into the ongoing co-operation. A joint and harmonised admission process between EPEX and EEX, which focuses on the prevention of money laundering and sales tax fraud, was designed and implemented under the leadership of the Market Surveillance Office.

The monitoring tool of HÜST - the Market Surveillance Monitoring System (MSMS) – was improved with two releases and adjusted to new products tradable on EEX, such as the Within-Day gas contracts.

3. The new German Gas Grid Access Ordinance

On 18 August 2010, the German federal government adopted the new German Gas Grid Access Ordinance (GasNZV). It took effect on 9 September 2010.1 This revision sets the track for further legislative projects, such as e.g. the amendment of the German Law on the Fuel and Electricity Industries (EnWG), which is scheduled for 2011. Following the enactment of GasNZV in 2005, the draft bill for the amendment of EnWG was revised once again in the mediation committee at short notice since the committee considered the regulation regarding grid access with the help of the so-called “two-contract“ model preferable and enforced this regulation. As a result of this, the “point-to-point model“, which had largely been used in Germany until then and under which transport was effected on a predetermined transport route on the basis of a “power wheeling contract“, was replaced by the new “entry-exit” model. The need for adjustments to GasNZV was triggered by this fact as well as the further development of the practice regarding grid access by the decisions of the Federal Network Agency (BNetzA) regarding GABi Gas (Basic Principles of Balancing Services and Balancing Rules in the German Gas Sector) and GeLi Gas (Business Procedures for a Change of Suppliers in the Gas Sector). The most important new regulations will be presented briefly below.

3.1. The most important Regulations

3.1.1. The “Two-Contract Model“

The two-contract model describes access to the gas supply networks on the basis of an entry contract between the pipeline network operator and the trader and an exit contract between the trader and the distribution system operator. When this model was implemented in Art. 20 Paragraph 1b) EnWG with effect of 1 August 2006, it already constituted the binding practice and had been implemented in a co-operation agreement between BNetzA, the transmission system operators and user associations of 31 January 2006 (KoV I).

Initially, this model under which all network operators have to offer their transport customers entry and exit capacities even if they are only final distribution network operators was extremely controversial. On the one hand, its admissibility under European legislation was doubted and, on the other hand, its practicability was questioned. In 2006 the gas network system in Germany was still divided into in total 19 market areas, which made the task of ensuring access to all supply networks an organisational challenge. Moreover, the controversial system of separate entries, which was later abolished by BNetzA, created major problems for the network operators since the possibility of receiving network access on the basis of a single entry has negative effects on the provision of capacity, balancing energy and system services. In the meantime, the third version of this

[1] The Ordinance regarding Access to the Gas Supply Networks (Gas Grid Access Ordinance – GasNZV) is introduced by Art. 1 of the Ordinance on the Revision and Amendment of Provisions in the Field of Energy Industry Legislation as well as of the Mining Law of 3 September 2010, German Federal Gazette I 2010, p. 1261 ff.

co-operation agreement (KoV III), which establishes the details of gas nomination, was concluded.2

While Art. 20 Paragraph 1b) EnWG only refers to entry and exit contracts, the new GasNZV also contains more detailed provisions regarding balance area agreements. Balance area agreements are concluded between the market participants and the party in charge of the market area and provide for the establishment of balance areas as well as recording, balancing and settlement of deviations between allocated gas quantities, cf. Art. 2 Paragraph 2 Sentence 2 GasNZV. Entry, exit and balance area agreements have to be concluded in a standardised form. The terms of business have to be developed by the network operators and satisfy the minimum requirements as per Art. 4 GasNZV. And, as a matter of fact, KoV III contains such standardised grid access conditions in Annex 3. These conditions now have to be adjusted to the requirements of the new GasNZV by 01 June 2011. The debate regarding KoV IV has already begun. It is to apply from the gas business year 2011 and replaced with a so-called “Grid Code“ in the long run.

3.1.2. Reduction in the number of gas market areas

The currently valid KoV III specifies eight market areas.3 In fact, there are currently in total six market areas. However, a further merger of the market areas is aimed at. For this reason, Art. 21 GasNZV specifies that the market areas for L-gas have to be reduced to at a maximum one market area and that the market areas for H-gas have to be reduced to at a maximum two market areas by 1 April 2011. The aim is to continue this reduction down to in total two market areas by 1 August 2013. The participants hope that the integration of the market areas will help to boost the gas market. Moreover, supply offers throughout Germany will become commercially more attractive for new suppliers.

3.1.3. Easier access to scarce transport capacities

Since transport capacities are still allocated on the basis of the “first-come-first-serve“ principle at the moment, there have been repeated cases of injustice in allocation in the past. Long-term capacity commitments make it difficult for new trading participants to enter the market. In order to counter this problem, GasNZV obliges the pipeline network operators (PO) to establish a primary capacity platform (PCP) on which transport capacities can be allocated on a transparent and non-discriminatory basis. Auctioning will take place in an auction with a preceding “open subscription phase“. The first auction is scheduled to take place on 1 October 2011. The costs for the establishment of the PCP have to be assumed by the POs on a proportionate basis. Capacities purchased by auction can be sold freely and can be provided to third parties for use on a temporary basis. So far, the so-called “use-it-or-lose-it“ principle applies in case an owner does not need rights to capacities. This has meant that unused capacities could be withdrawn from the user at short notice on the day preceding delivery. In the revised GasNZV this principles is replaced by the so-called “use-it-or-sell-it“ procedure, cf. Art.16 GasNZV. According to this, transport customers are

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2 The co-operation agreement (KoV III) of 7 August 2007 is available at www.gaspool.de/fileadmin/download/ allgemein/KOV_III_080729.pdf.

3 Cf. Annex 1 KoV III, p. 48.

obliged to sell capacities which they will probably not use on a secondary trading platform, such as Trac X, two days before delivery.

Likewise, GasNZV provides for restrictions of the terms of contract of capacity agreements in order to safeguard lasting market access for new market participants. Under these provisions, 20 % of the annual technical capacities on the borders to other countries or market areas have to be reserved for products for which a term of contract of at a maximum 2 years is agreed and 65 % are reserved for contracts with terms of up to 4 years.

3.1.4. Possibilities to reserve capacities for operators of gas-fired power plants

Subject to the examination in the framework of the technical capacity of the network operators of storage, LNG and production facilities and of gas-fired power plants can reserve exit capacities for up to three years. The reservation fee is EUR 0.50 per kWh and year. If operators of gas-fired power plants are not served because of a lack of capacities, they are even entitled to an expansion of capacities if the required capacity was reserved from the pipeline operator on a binding and long-term basis at the latest 18 months before the date specified in the realisation schedule. The rules and regulations are based on the model of the German Ordinance Governing Gird Connection of Electricity Generating Installations (KraftNAV).

3.1.5. Stipulation of the current regulatory practice of the Federal Network Agency (BNetzA)

Furthermore, GasNZV contains the specification of two important decisions by BNetzA. On the one hand, this contains the specification regarding the basic model of the Balancing Services and Balancing Rules in the German Gas Sector (”GABi Gas“).4 GABi Gas is a registered trademark of EEX AG, which it keeps in trust for BNetzA. This model, which is based on a decision by BNetzA from the year 2008, contains rules for balancing of quantities of gas, for the settlement of balancing energy of the balance area network operator towards the shipper as well as for the procurement of control energy. To that end, the balance area network operator balances the differences between the gas quantity injected and withdrawn with balancing energy for every gas business day. The shipper is in charge of the procurement of the control energy required for this. The reference prices at the Dutch Title Transfer Facility (TTF), at the National Balancing Point (NBC), at the Zeebrugge Hub (Zeebrugge) and at the E.ON Gastransport Virtual Trading Hub (EGT VP) form the basis for the balancing energy prices. This inclusion of the GABi Gas model in GasNZV corresponds to an abolition of the basic balance equalisation, which was bindingly laid down in GasNZV up to now.5 Since BNetzA did not have the competence to specify a binding standard in its decision regarding GaBi Gas in 2008, this specification was later on made by the associations in the revision of KoV III.

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4 Decision by the Federal Network Agency of 28 May 2008, file no. BK7-08-002 (“GABi Gas“).

5 Cf. *Schleicher* ZNER 2009, 25, according to whom the abolition of the basic balance equalisation mechanism was unlawful.

Furthermore, the GeLi Gas model was included in Art. 41 f. GasNZV. It is also a resolution annex to a decision by BNetzA.6 This abbreviation stands for “Business Procedures for a Change of Suppliers in the Gas Sector“. The model aims at standardising the processes upon a change of suppliers and making it practicable for mass use. To that end, the scope and the format of the data to be exchanged are specified. Moreover, the so-called “rucksack principle“ is laid down, cf. Art. 42 GasNZV. According to this, the new supplier can demand the transfer of entry and exit capacities upon a change of the supplier in as far as this is required for supplying the customer.

3.2. Background and Perspective regarding European legislation

In order to create a European internal market for gas the European Union adopted the so-called European Gas Directive as early as in 2003.7 In this directive, it obliges the European pipeline and distribution network operators to grant non-discriminatory access to their networks. The possibilities for new providers to enter the market and for consumers to freely select their gas suppliers, which were pursued with this liberalisation, aimed at intensifying the competition and improving the quality of service by increasing the interconnection and strengthening the security of supply. The degree of implementation of the specifications under European legislation as well as their concrete effects were evaluated by the European Commission on an annual basis in so-called ”sectoral benchmarking reports“. Finally, the evaluation of these reports prompted the European Commission to propose a so-called third legislative package in order to counter the grievances found in the annual examinations and evaluations.8 It contains five concrete legislative proposals for an amendment of the Electricity Directive 2003/54/EC, the Gas Directive 2003/55/EC, the Electricity Ordinance 1228/ 2003/EC, the Gas Ordinance 1775/2004/EC and for the establishment of an Agency for the Cooperation of the European Energy Regulators (ACER). In addition to the expansion of the competences of the national regulatory authorities, the package also pursues the main aim of separating the production and supply functions from the operation of the transmission systems by means of so-called “ownership unbundling“. The markets hope that such unbundling will provide a significant boost to both trading and competition.

6 Decision by the Federal Network Agency of 20 August 2007, file no. BK7-07-067 (“GeLi Gas“).

7 Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules of the internal market in natural gas and repealing Directive 98/30/EC, Official Journal of the EU of 15 July 2003, L 176/57.

8 Communication from the Commission to the Council and the European Parliament – Report on Progress in the Implementation of the Internal Market in Natural Gas and Electricity, KOM(2009), 115 final

4. Developments on the Market in Q1

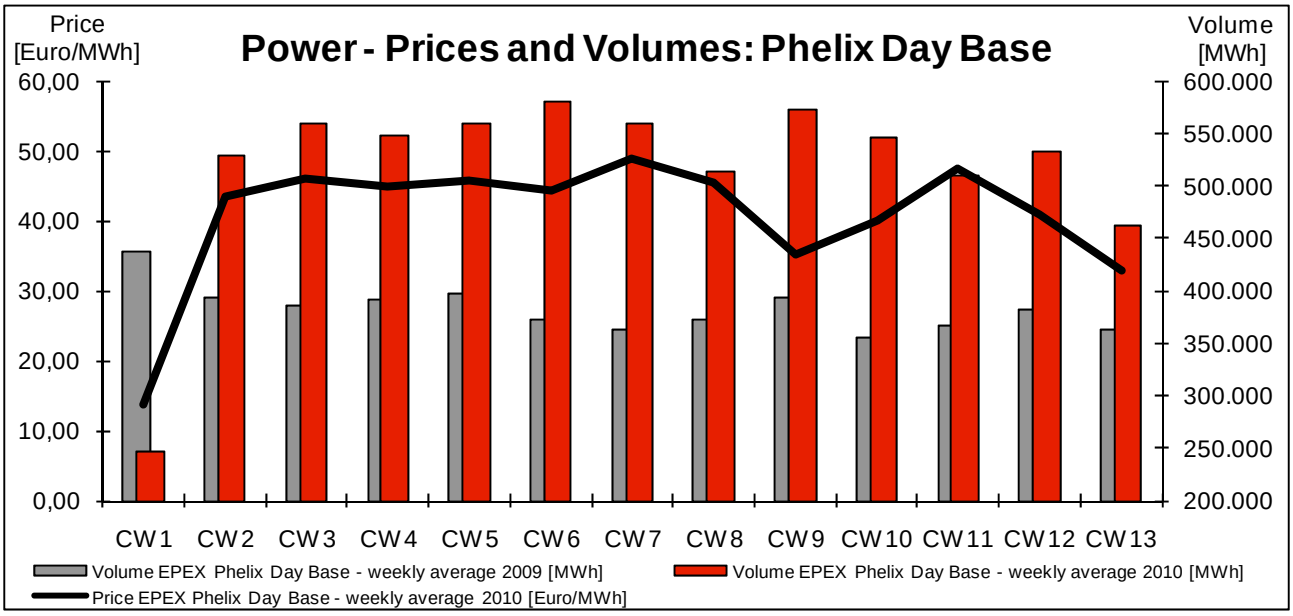
The overview below contains a summary of the development on the markets during the past period under review. This report is only intended as general information regarding the events on the markets of EEX for the trading participants and the interested public. The Market Surveillance Office does not engage in analysts' activities. Neither it nor EEX itself comment or evaluate the development of prices on the different markets. Market Surveillance does not prepare any forecast under any circumstances since this is diametrically opposed to its task.

4.1. Power

4.1.1. Development of prices and volumes on EEX – Power Spot Market

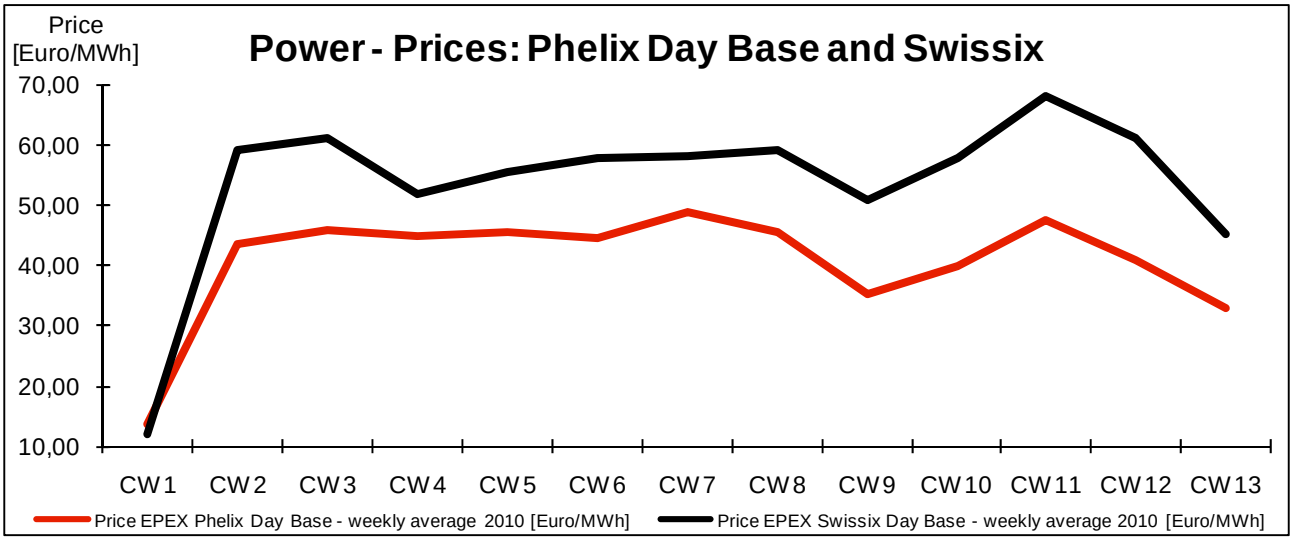
EPEX Spot SE provides a platform for continuous spot market trading in the market areas Germany/Austria and France and for auction trading in the market areas German/Austria, Switzerland and France. On the basis of the results of the daily auctions on the Spot Market EPEX establishes the Phelix Day Base, which forms the reference for the development of the power prices in Germany and Austria.

The chart above shows the development of prices during the first quarter of 2010. In this respect, volumes fluctuate between approx. 450 GWh and 580 GWh on a weekly average. During the first quarter of 2010 approx. 540 GWh were traded per week on average. Compared with the previous year this corresponded to a considerable increase by approx. 150 GWh per week.



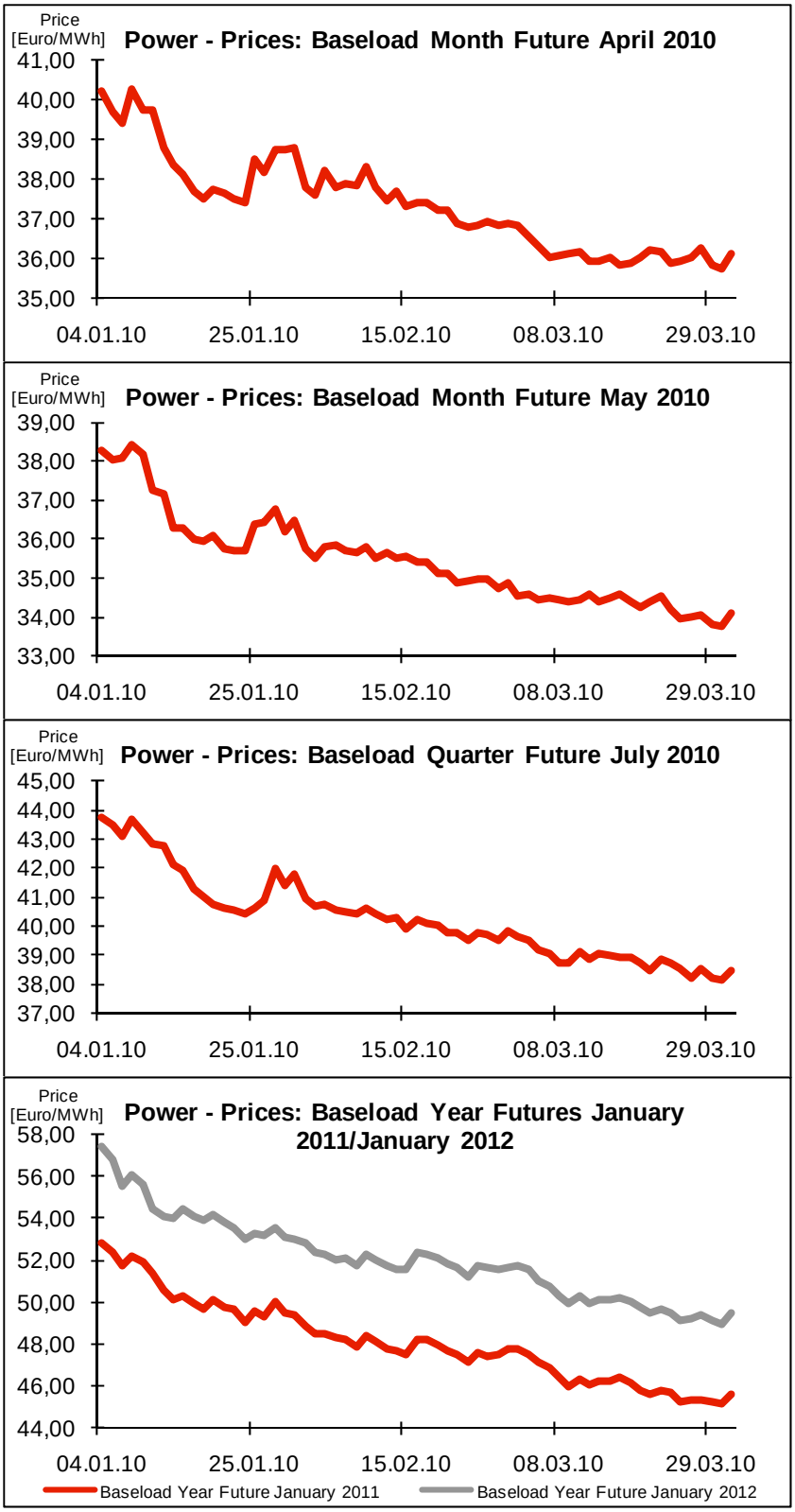
During the first quarter of 2010 the volumes traded increased initially and reached their maximum in calendar week 6. During the following weeks the volume declined slightly and ranged around a value of approx. 520 GWh per week until the end of the reporting period. The first calendar week was a short week because of the holiday at the beginning of the year.

The lower chart shows the Phelix Day Base as against the index for Switzerland (Swissix).



During the period under review the weekly average of the Phelix Day Base fluctuated within a corridor between EUR 20 and EUR 50 per MWh. At the beginning of the first quarter 2010 the lower price of less than EUR 20 per MWh at the turn of year increased to the maximum for the quarter of almost EUR 50 per MWh in calendar week 7. After that, the price fell to approx. EUR 35 per MWh until calendar week 9 and reached a local minimum. A subsequent recovery of prices until calendar week 11 later on changed into a decline in prices down to a minimum of approx. EUR 32 per calendar week in calendar week 13. During the first weeks of the year the Swissix reached prices of approx. EUR 60 per MWh. In calendar week 4 a decline down to a price level of approx. EUR 7 per MWh above the Phelix marked the beginning of a parallel development in the two indices. In this context, the Swissix was more expensive than the Phelix by between approx. EUR 7 and 20 per MWh.

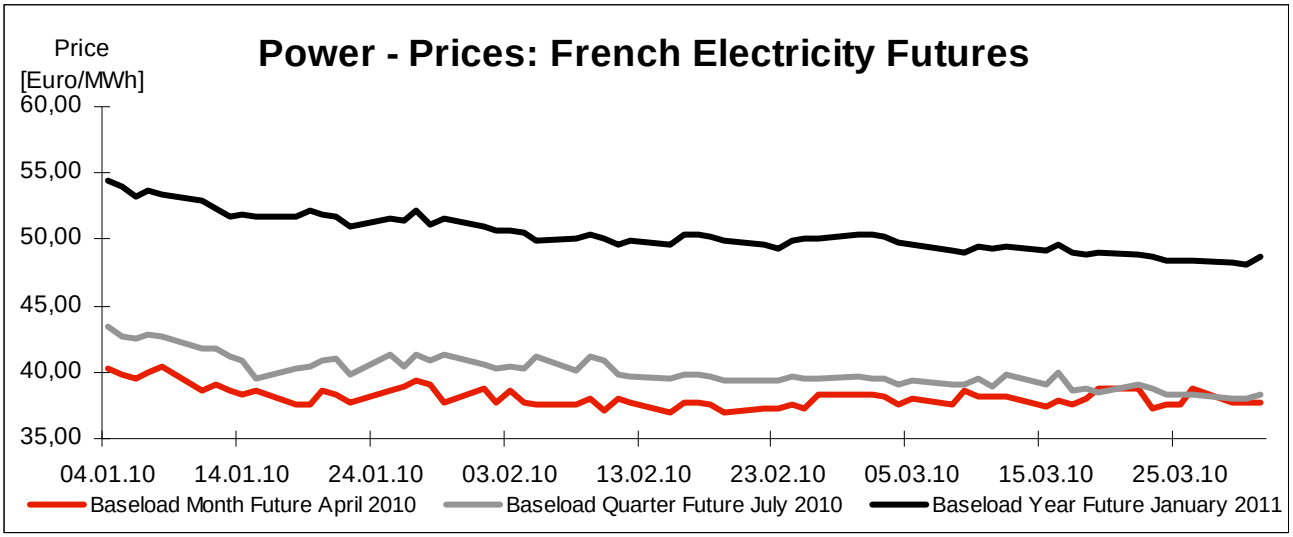
4.1.2. Development of prices on EEX – Power Derivatives Market –



On the Derivatives Market futures on power are traded in addition to options. Futures comprise the right and the obligation to buy a certain quantity of power at a price established upon the conclusion of the contract at a certain point of time and/or during a certain period of time in the future.

During the first quarter of 2010 the base load futures for the months of April and May displayed a development of prices similar to the quarter and year contracts shown: In January prices declined initially; this trend was followed by a recovery at the end of the month. However, the recovery referred to above was only an interruption in the downward trend, which continued from the beginning of February. The absolute differences in the prices of the futures between the beginning of January and the end of March amounted to approx. EUR 5 per MWh for the month and quarter futures shown and to approx. EUR 8 per MWh for the two year futures. In the first quarter of 2010 the price level of the year contract with the later maturity (2012) was higher than the one with maturity in 2011 at all times and, moreover, both of these contracts were more expensive than those for the third quarter of 2010. Both month contracts had a lower price than the quarter contract; overall, the May 2010 contract had the lowest price.

On EEX Power Derivatives GmbH (EPD) French Power Futures with various maturities can e.g. also be traded in addition to Phelix Futures. Physical settlement of the Base Load and Peak Load Futures is provided by means of the delivery of power into the RTE balancing zone.

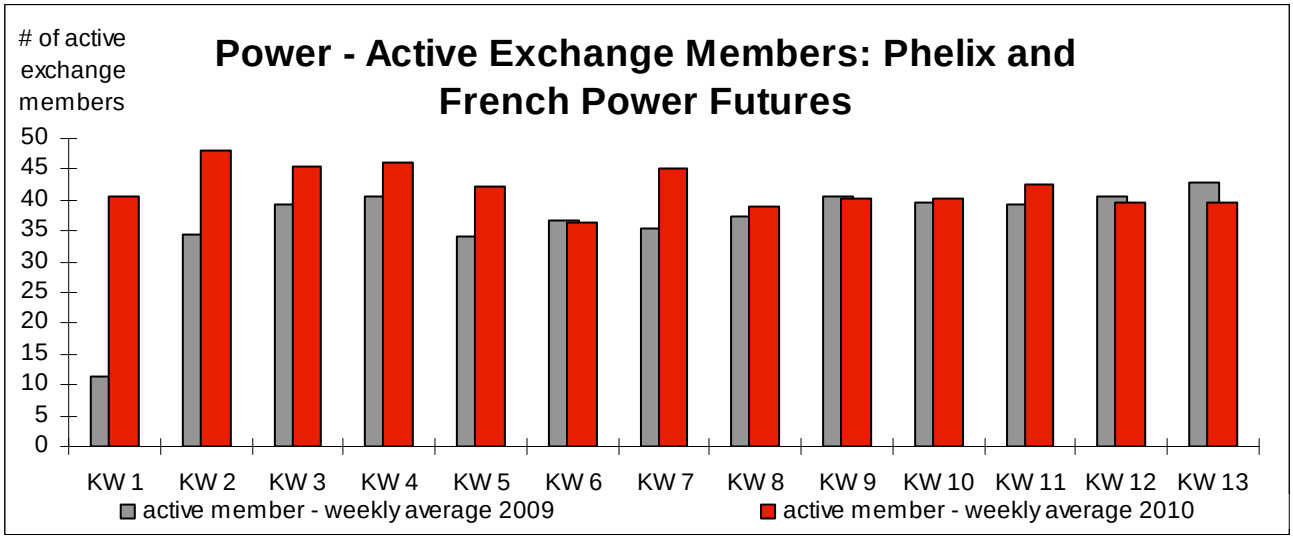


The chart above shows the development of prices for selected French Power Baseload Futures with maturities in the field of month, quarter and year contracts.

Overall, the development of prices during the first third of the first quarter of 2010 was characterised by a downward trend. Following a noticeable decline in the first half of the period under review, prices on the market primarily displayed a sideward trend during the second half. In absolute terms, the decline in prices during the quarter was by far highest for the year contract at approx. EUR 7 per MWh and it was lowest for the month contract at roughly EUR 3 per MWh. As regards the fluctuations, however, the situation was the opposite: In this respect, the year contract had the highest stability compared with the other contracts.

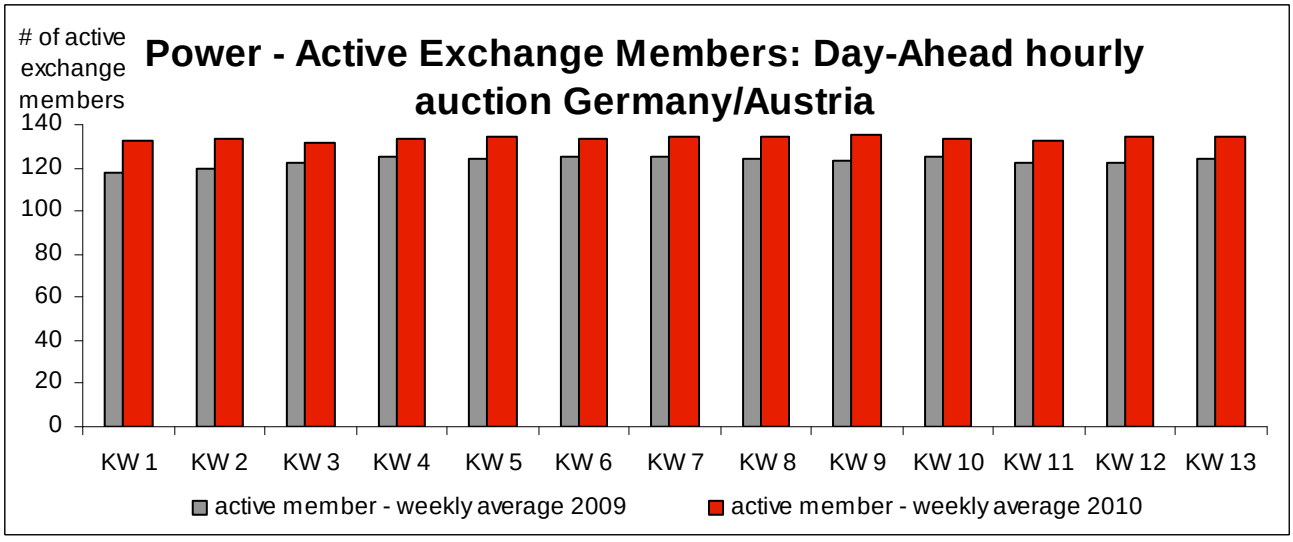
The development of the prices for the French Power Futures was similar to the corresponding Phelix Futures. Both the level of the prices and the range of variation were higher on the French market than on the German market, however.

4.1.3. Number of active trading participants on the Power Market



The chart below shows the number of active trading participants in the daily Power Spot Market auction for the German/Austrian market area.

During the first quarter of 2010 there were slight fluctuations in the number of active trading participants, which ranged between 132 and 136 trading participants. Compared with the previous year, a considerable increase throughout the entire period can be observed. At 136 trading participants the maximum was reached in calendar week 9. On average, 134 trading participants per day were active during the first quarter.



During the first weeks of the first quarter of 2010 the number of active trading participants on the Power Derivatives Market increased as against the previous year. At 48 active trading participants the maximum was reached in calendar week 2. Because of the E-World in calendar week 6 the number of active trading participants was lower for this week. During the second half of the first quarter the number of active trading participants reached the level attained in 2009 and was lower than this level in the last two weeks. During the entire period under review 42 trading participants per day were active on average.

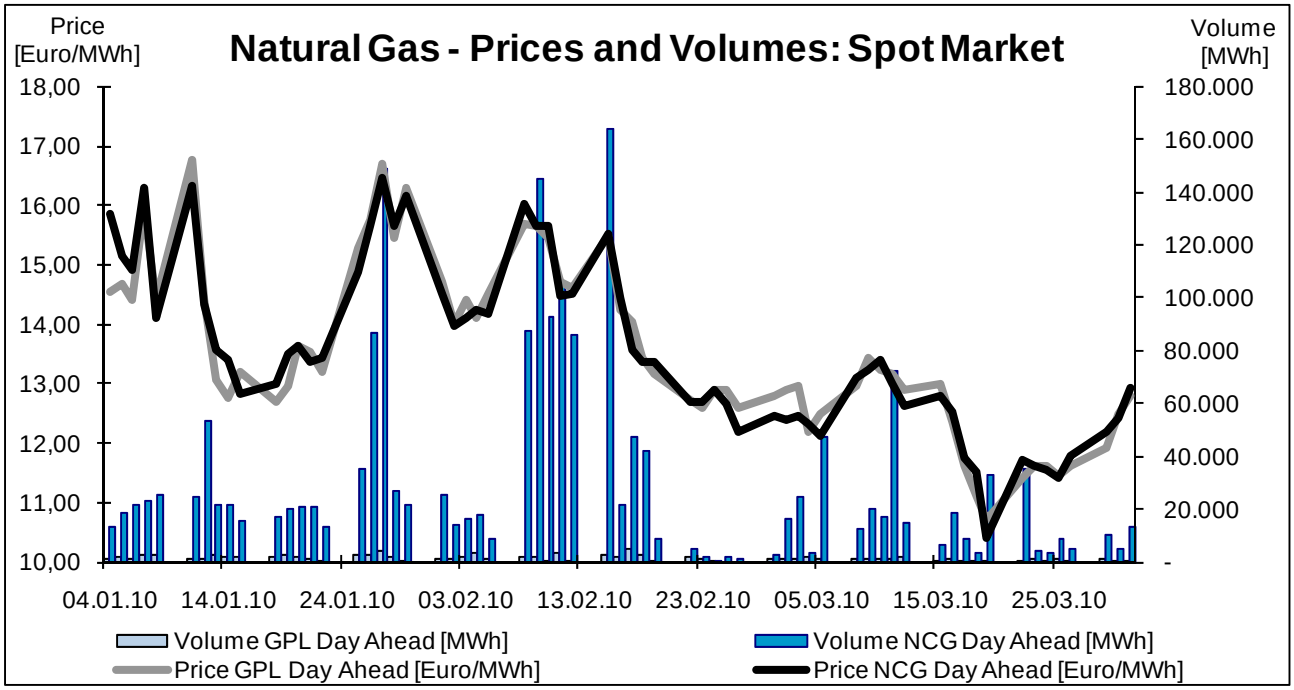
4.2. Natural Gas

On EEX natural gas is traded on the Spot and on the Derivatives Market. On the Spot Market natural gas is traded for the next and next-but-one day as well as for the weekend. The Spot Market for natural gas is used for the short-term optimisation of gas procurement and sales, for trading external balancing energy as well as for arbitrage transactions between market areas.

On the Derivatives Market, natural gas is traded for the current month, the next six months, seven quarters and six calendar years. The Derivatives Market is used for the medium- to long-term optimisation of gas procurement and sales.

4.2.1. Development of prices and volumes on EEX – Gas Spot Market –

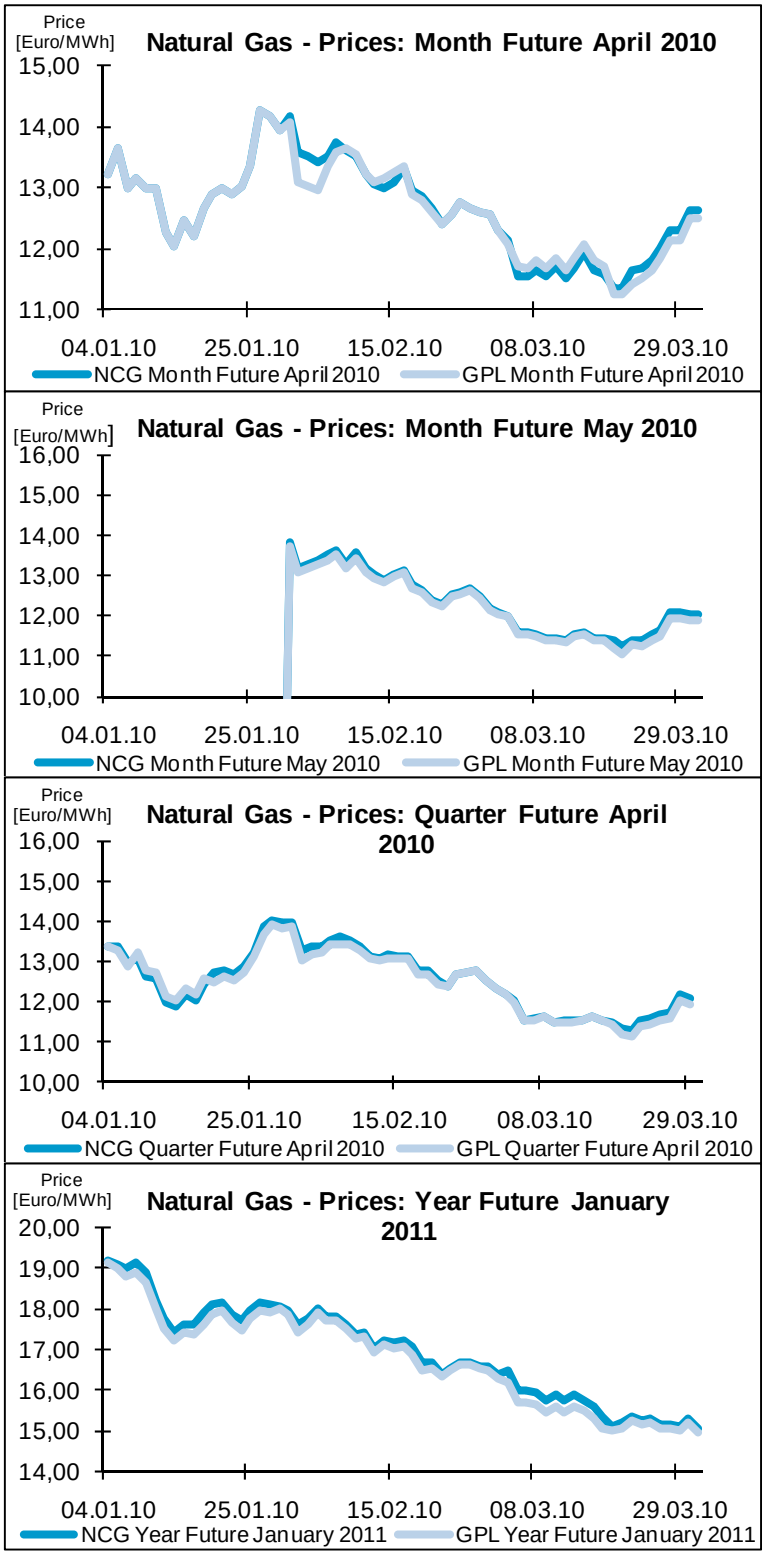
At in total 2,330,105 MWh the volume traded in the NCG market areas was bigger than the total trading volume in the GASPOOL market area of 123,469 MWh in the first quarter of 2010. The highest day-ahead volume of any given trading day was reached in the NCG market area on 15 February and amounted to 163,992 MWh. Overall, there were significant fluctuations in the daily volumes traded.



Except for minor deviations, the developments in the prices of both market areas were comparable during the first quarter of 2010. Prices ranged in a corridor of between approx. EUR 10 and 17 per MWh. At the beginning, prices increased to approx. EUR 17 per MWh (the highest price level during the period under review); afterwards, they declined to approx. EUR 13 per MWh until mid-January. Subsequent to that, prices rallied again. On account of this development the maximum values reached at the beginning of the month were almost reached again (except for a difference of a few cents). After that, prices moved downwards with a pronounced volatility and reached the

lowest level during the period under review at EUR 11 per MWh in mid-March. From the middle of March an upward trend was once again observed.

4.2.2. Development of prices on EEX - Gas Derivatives Market –



The delivery or purchase of natural gas in H-gas quality in accordance with DVGW [German Technical and Scientific Association for Gas and Water] guideline 260 with a constant output of 1 MW during the time from 06:00am on any given delivery day of the delivery month until 06:00am of the following calendar day at the virtual trading point within the market areas of NetConnect Germany GmbH & Co KG 3 (NCG Natural Gas Futures) or Gasunie Deutschland GmbH & Co. KG 4 (GUD Natural Gas Futures) constitutes the subject of the contract of the physical gas futures on the EEX Derivatives Market. All calendar days of the delivery month are delivery days.

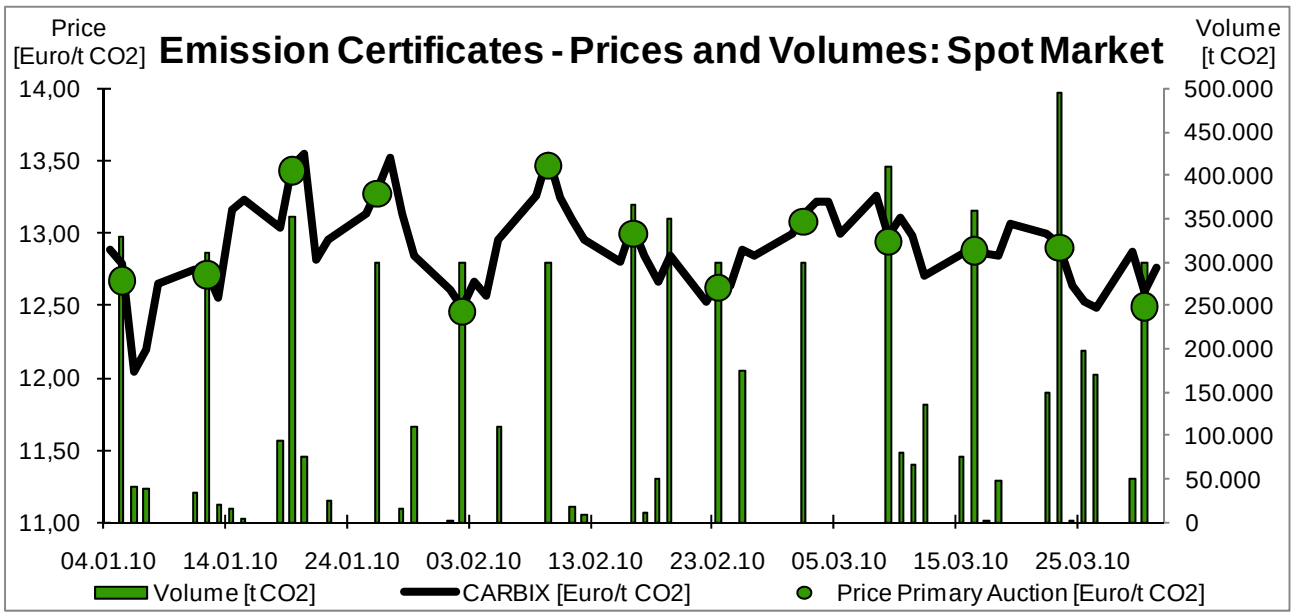
The prices of all gas futures shown here displayed a comparable development: In the first two weeks of January price losses of EUR 1 to 2 per MWh occurred, which were significantly compensated by the short-term contracts afterwards, whereas the year future only achieved a slight compensation of these losses. After that, prices fell by approx. EUR 3 per MWh for each contract until mid-March. The upward trend observed in the last days of March is the more pronounced the more the contract approaches its maturity. The downward trend continued for the year future.

The prices for the two market areas developed very uniformly on the Derivatives Market; there were hardly any deviations. In a direct comparison the prices for the NCG market area were mostly higher than those for the GPL market area.

4.3. Emission Rights

4.3.1. EEX Carbix and Trade Volumes

The EEX Carbix is a price index for EU emission allowances (EUA), which is established in an intraday auction on the EEX Spot Market on every exchange trading day. One EUA confers the right to emit one tonne of CO_2 equivalent (t CO_2).



In the first quarter of 2010, there were considerable fluctuations in daily sales; in March sales increased. At almost 500,000 EUA the highest sales were recorded for 23 March. The chart contains the volumes from the primary market auction. On 5 January 2010, these auctions were carried out for the first time on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety; afterwards, these auctions were held every Tuesday. In each of these auctions 300,000 EUA were auctioned off.

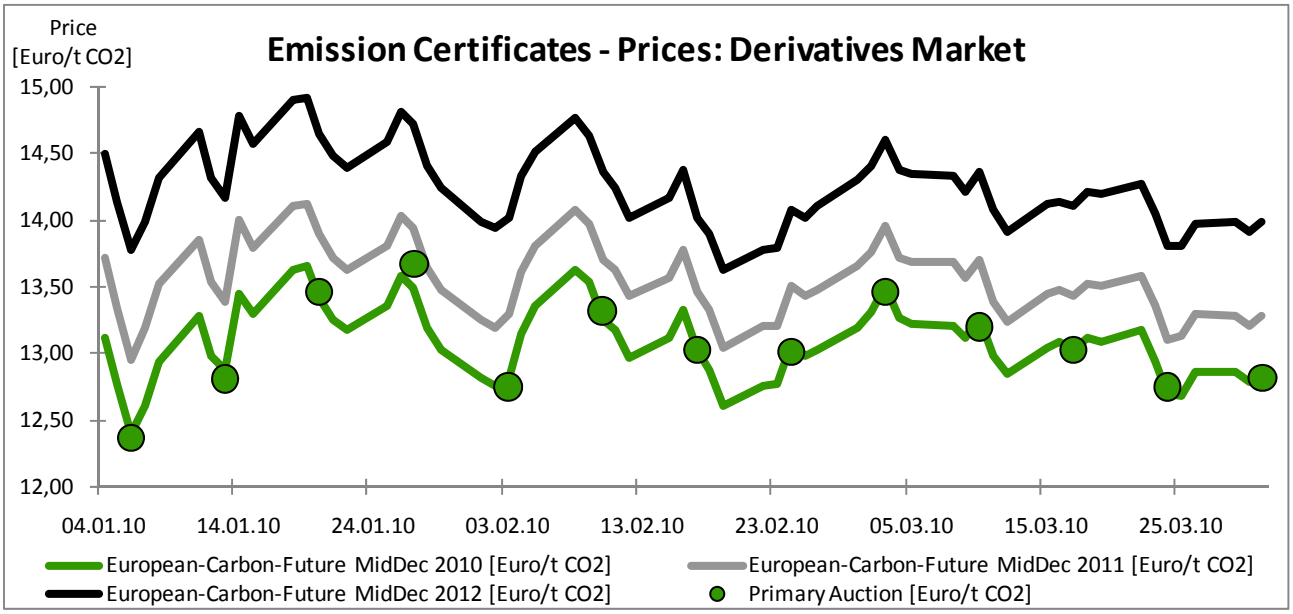
During the first quarter of 2010 the Carbix fluctuated between EUR 12.00 and 13.50 per t CO_2. Starting from an initial value of roughly EUR 13.00 per t CO_2, the Carbix first fell to EUR 12.04 per t CO_2 - the lowest value for the quarter. This was followed by a period of recovery lasting approx. two weeks. The rest of the quarter was characterised by a sideward trend with a declining volatility. The selling prices established in the primary market auction reflect the course of the Carbix for the secondary market.

4.3.2. Development of prices on EEX – Derivatives Market for EU Emission Allowances (EUA) -

The second commitment period for EUA began on 01 January 2008. At the moment, futures contracts with maturity from December 2010 to December 2012 can be traded in the second commitment period.

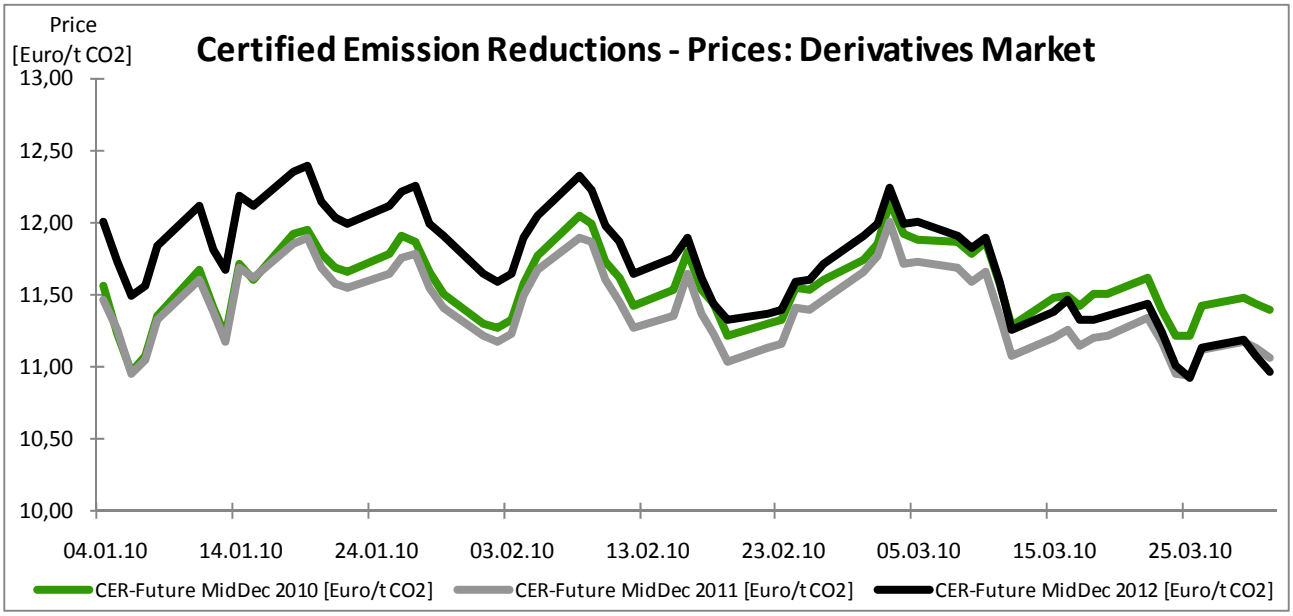
The prices of the EUA Futures for the maturities December 2010 to December 2012 displayed a development which was almost identical; however, price levels increased with the time of the maturity of the respective contract. In this case too, a development of the futures price which is comparable with the Spot Market can be observed. However, the range of variation of the different maturities is somewhat lower than that of the Carbix and absolute prices on the Derivatives Market are higher than on the Spot Market.

The sales prices established in the primary market auctions on the Derivatives Market, which are carried out in line with the Spot Market auctions on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety on a weekly basis every Wednesday and comprise 570,000 EUA every week, are also shown in the chart above. On the Derivatives Market the prices established in the primary market auction are also in line with those of the corresponding secondary market contract.



4.3.3. Development of prices on EEX – Derivatives Market for Certified Emission Reductions (CER) -

Certified Emission Reductions Futures (CER Futures) are emission credits which are generated through emission reduction projects in developing countries and can be used towards the fulfilment of obligations under the Kyoto Protocol. On EEX, they can be traded for the maturities from 2010 until 2012.



The prices of the CER futures developed similarly to the EUA Futures and are characterised by a high volatility in a price range between just under EUR 11.00 and 12.50 per t CO_2. In this case, the contracts with maturity in 2010 and 2011 are on the same level, whereas the 2012 contract was quoted at approx. EUR 0.50 per CO_2 above this level. During the quarter and, in particular, in March the price for the 2012 contract fell to the level of the contract with maturity one year earlier and was even lower than this price on three days. In parallel with this, the difference between the prices for the contracts with maturity in 2010 and 2011 increased since the contract which reaches maturity this year becomes more expensive relative to the 2011 contract. At the end of March the price of the contract with maturity in 2010 was approx. EUR 0.30 per t CO_2 higher than the two contracts with the later maturity.

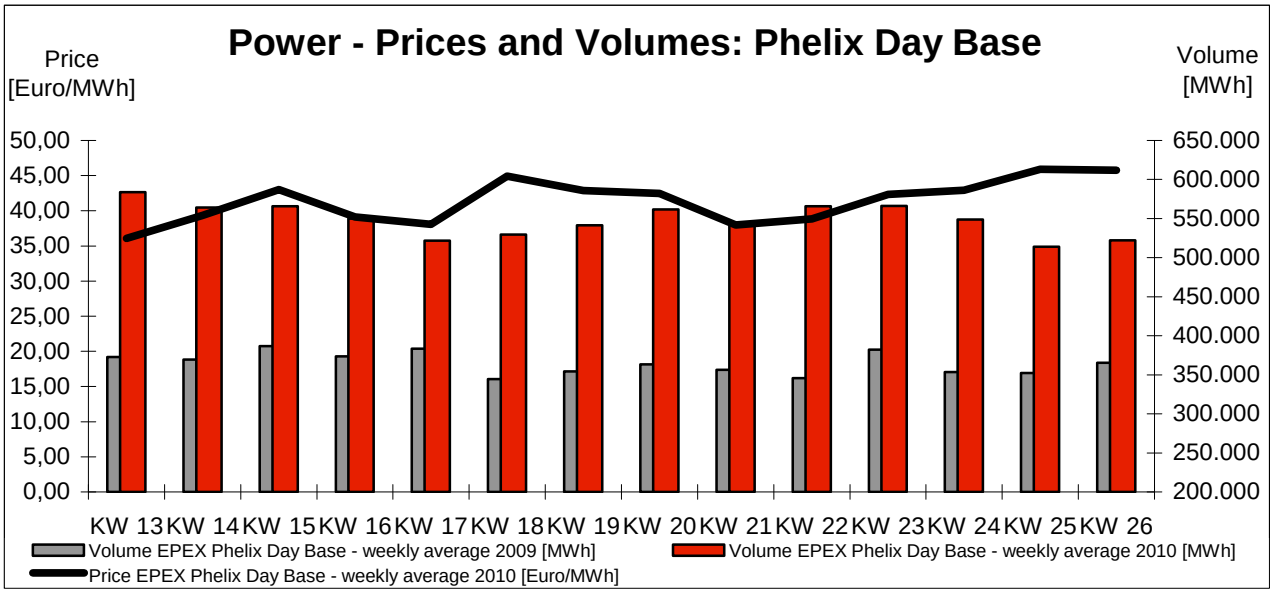
5. Developments on the Market in Q2

The overview below contains a summary of the development on the markets during the past period under review. The report is only intended as general information regarding the events on the markets of EEX for the trading participants and the interested public. The Market Surveillance Office does not engage in analysts' activities. Neither it nor EEX itself comment or evaluate the development of prices on the different markets. Market Surveillance does not prepare any forecast under any circumstances since this is diametrically opposed to its task.

5.1. Power

5.1.1. Development of prices and volumes on EEX – Power Spot Market –

EPEX Spot SE provides a platform for continuous spot market trading in the market areas Germany/Austria and France and for auction trading in the market areas German/Austria, Switzerland and France. On the basis of the results of the daily auctions on the Spot Market EPEX establishes the Phelix Day Base, which forms the reference for the development of the power prices in Germany and Austria.

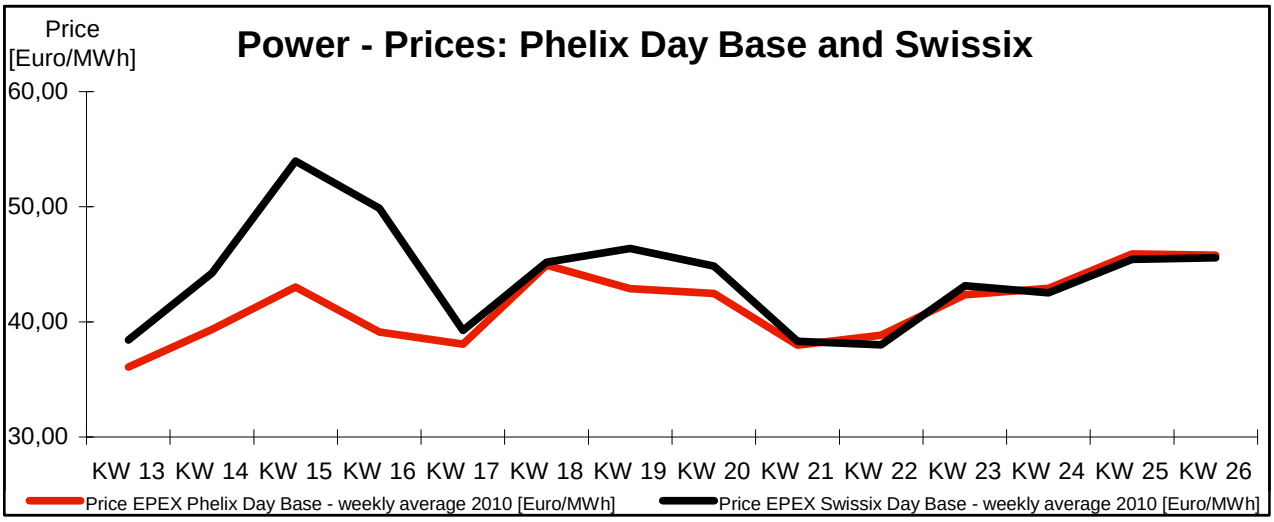


The chart above shows the development of prices during the second quarter of 2010. In this respect, volumes fluctuated between approx. 520 GWh and 580 GWh on a weekly average. On average, approx. 540 GWh per week were traded on average. Compared with the previous year this translates into a significant increase by approx. 150 GWh per week.

In the second quarter of 2010 the volumes traded fell initially and then reached a local maximum in calendar week 17. In the subsequent weeks volumes increased slightly, reached a local maximum

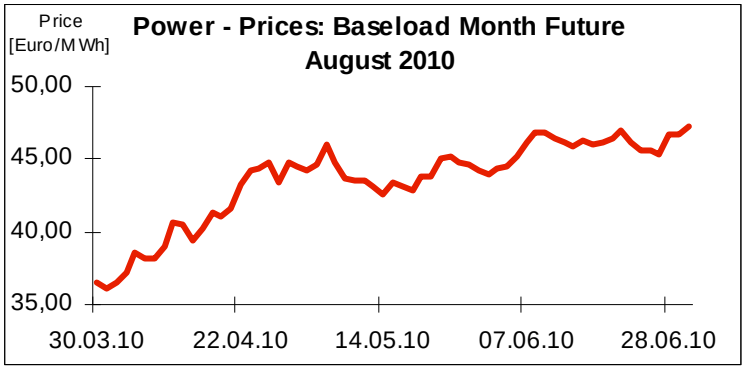
in calendar week 22 and then fell to a value of approx. 520 GWh per week until the end of the reporting period.

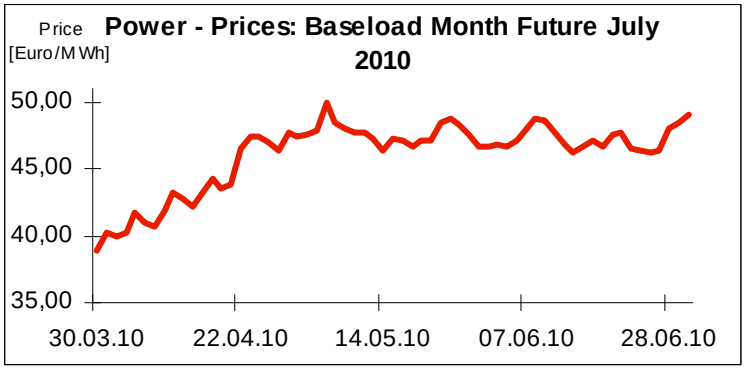
The chart below shows the Phelix Day Base compared with the index for Switzerland (Swissix).

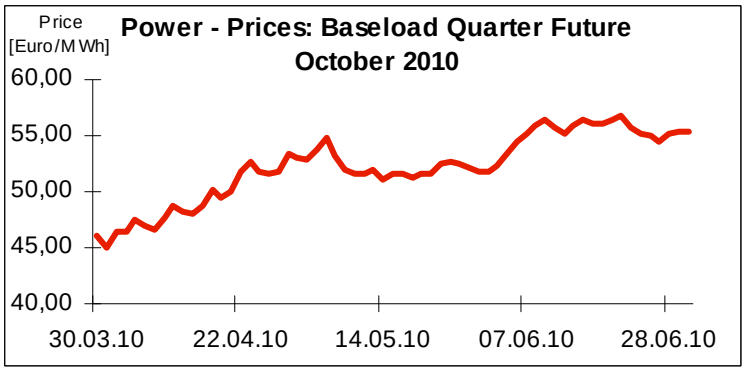


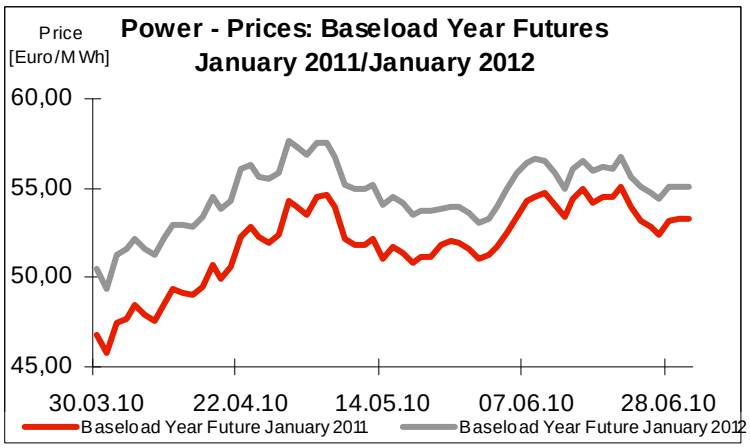
During the period under review the weekly average of the Phelix Day Base fluctuated in a corridor between EUR 30 and EUR 50 per MWh. At the beginning of the second quarter 2010 the price increased to almost EUR 45 per MWh from the end of Q1 to calendar week 15. Afterwards, the price fell to EUR 35 per MWh until calendar week 17. A subsequent recovery of the price until calendar week 18/19 was followed by a decline in the price until another minimum value of approx. EUR 40 per MWh was reached in calendar week 21. This was followed by an increase in the price to a level of approx. EUR 50 per MWh until the end of the period under review and, hence, the price closed considerably above the price quoted at the beginning of the reporting period. In the first weeks of Q2 the Swissix reached prices of approx. EUR 40 per MWh and, afterwards, it increased again to approx. EUR 60 per MWh in calendar week 15. Because of a decline in the price in calendar week 16/17 the Swissix reached the level of the Phelix at approx. EUR 40 per MWh and developed almost identically to the Phelix from this time to the end of the reporting period.

5.1.2. Development of prices on EEX – Power Derivatives Market –









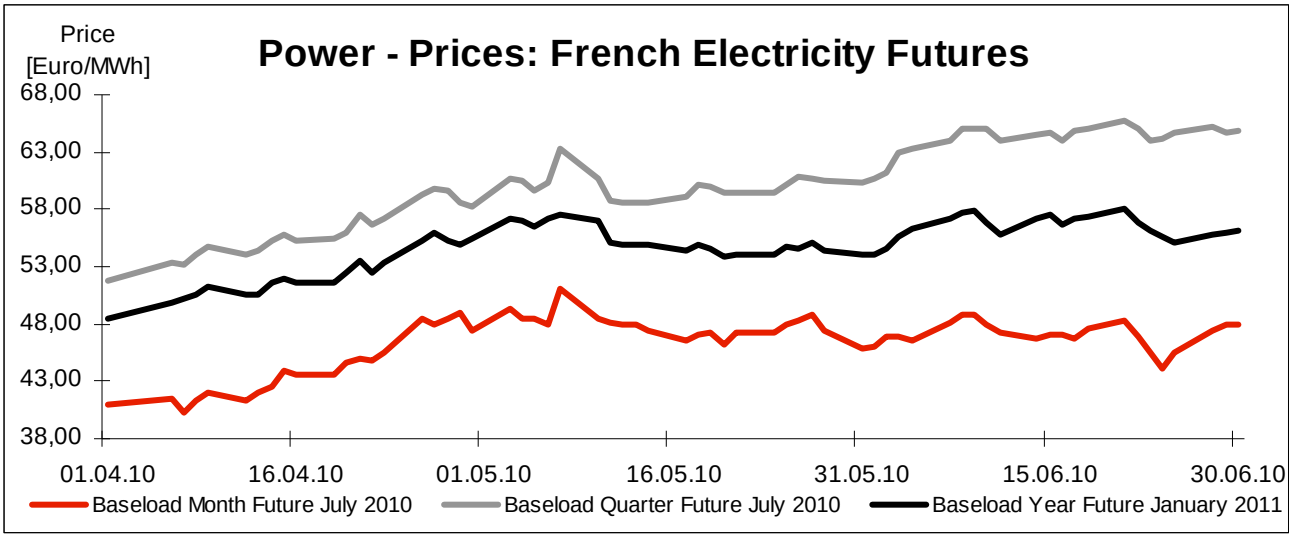
On the Derivatives Market futures on power are traded in addition to options. Futures comprise the right and the obligation to buy a certain quantity of power at a price established upon the conclusion of the contract at a certain point of time and/or during a certain period of time in the future.

During the second quarter of 2010 the base load futures for the months of July and August displayed a development of prices similar to those for the quarter and year contracts shown: A tangible increase until the beginning of May was followed by a decline in prices until the middle of the month. This was followed by another increase in the price which lasted until the end of the reporting period. The absolute differences in the prices of the futures between the beginning of April and the end of June amounted to approx. EUR 10 per MWh for the month and quarter futures shown and to approx. EUR 12 per MWh for the two year futures. During the second quarter of 2010, the price level of the year contract with the later maturity (2012) was always higher than the one with maturity in 2011 and both of these contracts were more expensive than those for the third quarter of 2010. The prices of both month contracts were below the price level of the quarter contract.

On EEX Power Derivatives GmbH (EPD) French Power Futures with various maturities can e.g. also be traded in addition to Phelix Futures. Physical settlement of the Base Load and Peak Load Futures is provided by means of the delivery of power into the RTE balancing zone.

The chart above shows the development of prices for selected French Power Baseload Futures with maturities in the month, quarter and year segment.

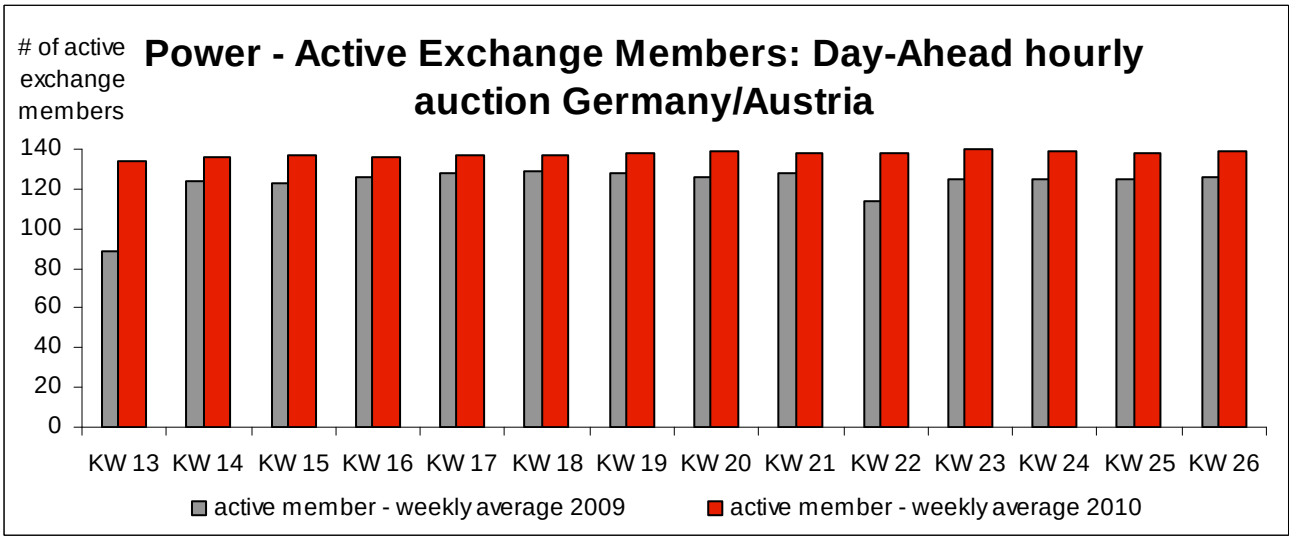
Overall, the development of prices was characterised by a positive trend during the first third of the second quarter of 2010. Afterwards, the market calmed down during the second half of the quarter and consolidated. In the last third, prices (except for the one for the month future) increased again. During the quarter the price increases were highest for the quarter contract at approx. EUR 13 per MWh in absolute terms and at roughly EUR 5 per MWh they were lowest for the year contract. As regards the fluctuations the month contract displayed the highest volatility, whereas the year contract displayed the highest stability in comparison with the other contracts.



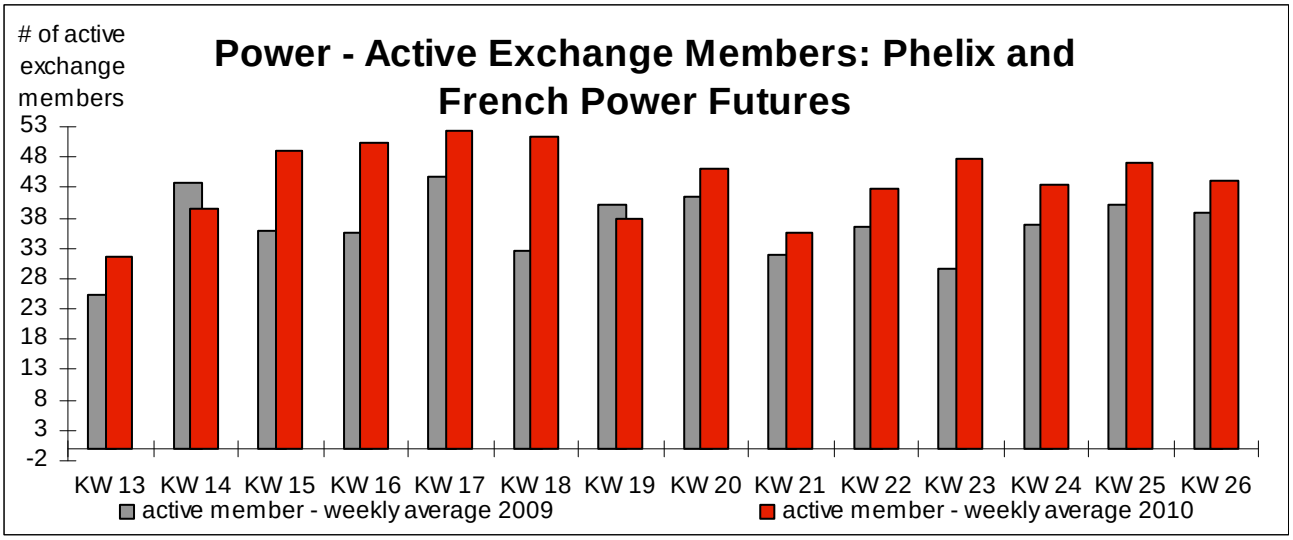
The development of the prices for the French Power Futures was similar to the corresponding Phelix Futures. Both the level of the prices and the range of variation were higher on the French market than on the German market, however.

5.1.3. Number of active trading participants on the Power Market

The chart below shows the number of active trading participants in the daily Power Spot Market auction for the German/Austrian market area.



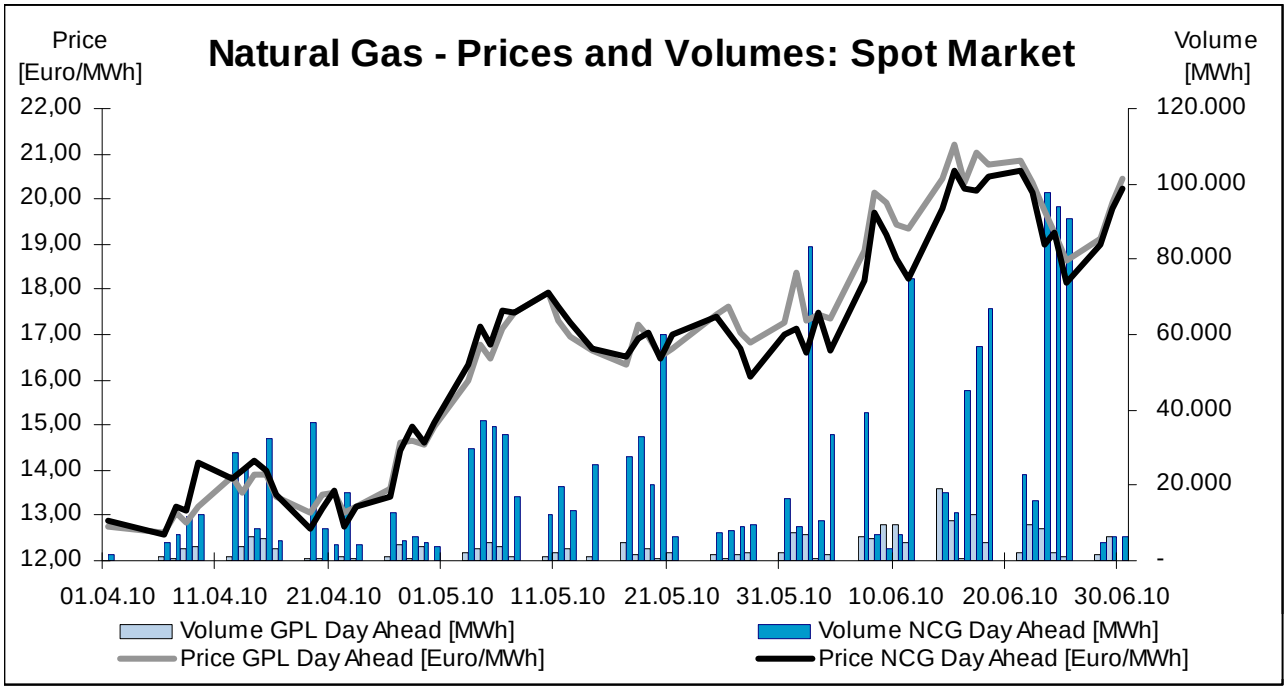
In the second quarter of 2010 the number of active trading participants fluctuated slightly between 135 and 140 trading participants. Compared with the previous year a considerable increase throughout the entire period can be observed. The maximum was achieved at 140 trading participants in calendar week 23. On average 138 trading participants per day were active in the second quarter.



In the first weeks of the second quarter of 2010 the number of active trading participants on the Power Derivatives Market increased as against the previous year. At 52 trading participants the maximum was reached in calendar week 17. As in the previous year, the number of active trading participants declined slightly in the second half of the second quarter. Throughout the entire period under review on average 45 trading participants were active per day.

5.2. Natural Gas

On EEX natural gas is traded on the Spot and on the Derivatives Market. On the Spot Market natural gas is traded for the next and next-but-one day as well as for the weekend. The Spot Market for natural gas is used for the short-term optimisation of gas procurement and sales, for trading external balancing energy as well as for arbitrage transactions between market areas.



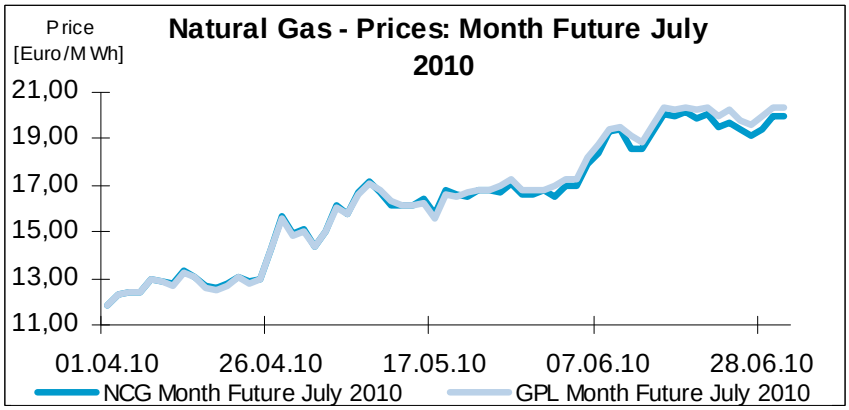
On the Derivatives Market, natural gas is traded for the current month, the next six months, seven quarters and six calendar years. The Derivatives Market is used for the medium- to long-term optimisation of gas procurement and sales.

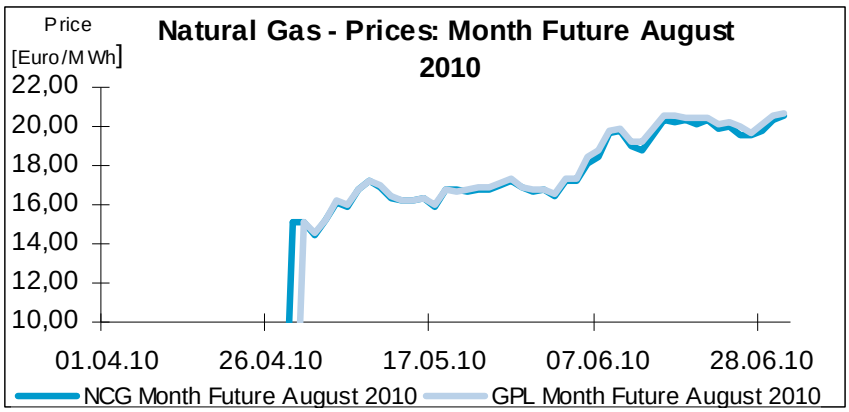
5.2.1. Development of prices and volumes on EEX – Gas Spot Market –

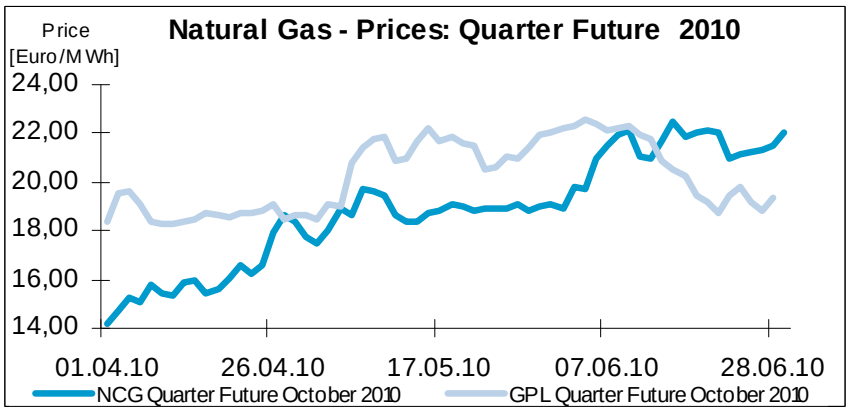
With a total of 1,467,984 MWh the volume traded in the NCG market area was bigger than the total trading volume in the GASPOOL market area of 215,834 MWh in the second quarter of 2010. The highest day-ahead volume on any given trading day was reached on 24 June in the NCG area and amounted to 97,872 MWh. Overall, the daily volumes traded displayed strong fluctuations.

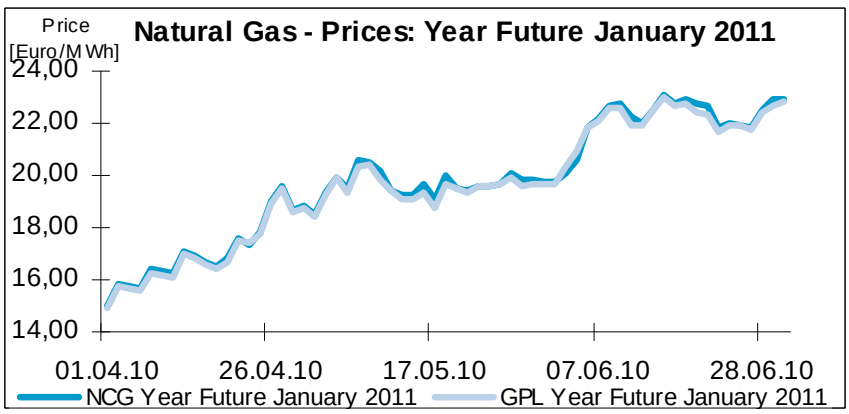
Except for minor deviations, the developments of the prices in both market areas were comparable during the second quarter of 2010. Prices ranged within a corridor of between approx. EUR 12 and EUR 21 per MWh. Following minor price fluctuations until the middle of April, prices increased until the beginning of May. Following a consolidation phase over the rest of the month, prices rallied again during the following month of June.

5.2.2. Development of prices on EEX – Gas Derivatives Market –









The delivery or purchase of natural gas in H-gas quality in accordance with DVGW [German Technical and Scientific Association for Gas and Water] guideline 260 with a constant output of 1 MW during the time from 06:00am on any given delivery day of the delivery month until 06:00am of the following calendar day at the virtual trading point within the market areas of NetConnect Germany GmbH & Co KG 3 (NCG Natural Gas Futures) or Gasunie Deutschland GmbH & Co. KG 4 (GUD Natural Gas Futures) constitutes the subject of the contract of the physical gas futures on the EEX Derivatives Market. All calendar days of the delivery month are delivery days.

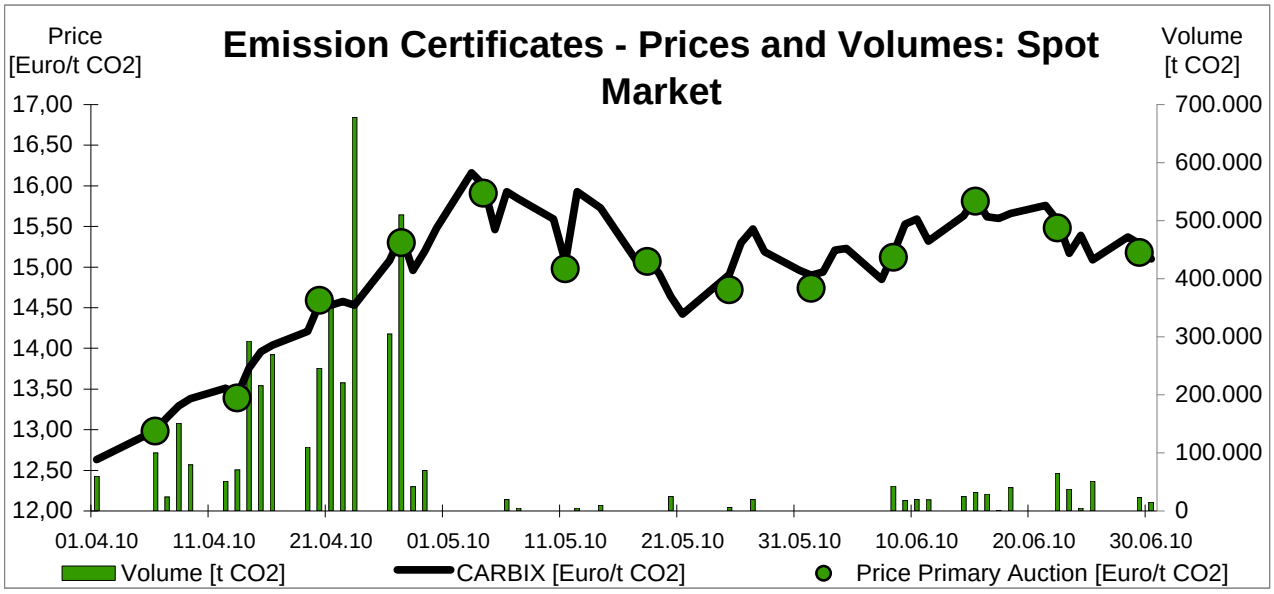
The prices of the gas futures shown here displayed a development which was comparable to the Spot Market: In the first four weeks of the reporting period prices increased moderately and, later on, they increased significantly until mid-May. Afterwards, the price rally was interrupted until the end of May, but prices recovered again at the beginning of July. Overall, the futures contracts gained up to on average EUR 8.00 per MWh during the reporting period. The prices for the two market areas developed very uniformly on the Derivatives Market – a deviation was only found in the quarter

futures. In a direct comparison, the price in the NCG market area was usually higher than the one in the GPL area.

5.3. Emission Rights

5.3.1. EEX Carbix and trade volumes

The EEX Carbix is a price index for EU emission allowances (EUA), which is established in an intraday auction on the EEX Spot Market on every exchange trading day. One EUA confers the right to emit one tonne of CO_2 equivalent (t CO_2).



In the second quarter of 2010 the daily turnover fluctuated considerably – it initially increased until the end of April and slumped afterwards. From mid-June, the volume can be referred to as growing again. At just under 700,000 EUA the highest sales were recorded for 23 April. The chart does not contain the volumes from the primary market auction. On 5 January 2010, these auctions were carried out for the first time on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety; afterwards, these auctions were held every Tuesday. In each of these auctions 300,000 EUA were auctioned off.

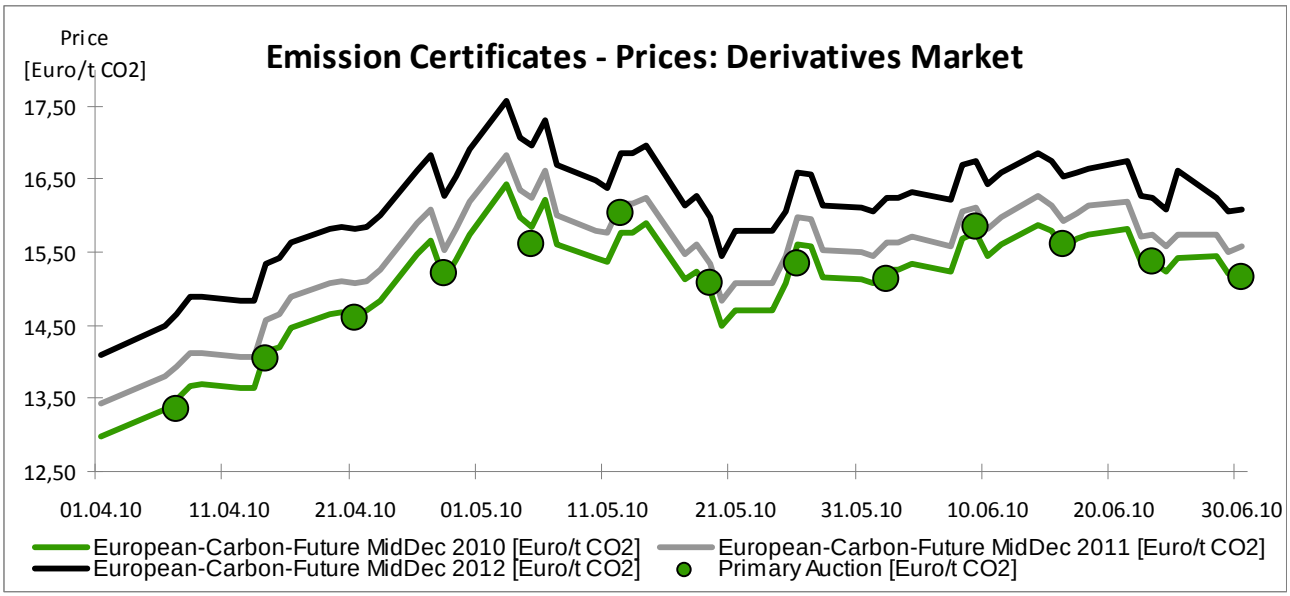
During the second quarter of 2010 the Carbix fluctuated between EUR 12.50 and EUR 16.50 per t CO_2. Starting from roughly EUR 12.50 per t CO_2 the Carbix initially increased to the highest value for the quarter at EUR 16.05 t CO_2. This was followed by a downward movement lasting approx. three weeks until a local minimum was reached at approx. EUR 14.50 per t CO2. The rest of the quarter was characterised by a further slightly positive trend with a decreasing volatility. The sales prices established in the primary market auctions reflect the development of the Carbix for the secondary market. Overall, the Carbix gained EUR 3.00 per tCO2 during the period under review.

5.3.2. Development of prices on EEX – Derivatives Market for EU Emission Allowances (EUA) -

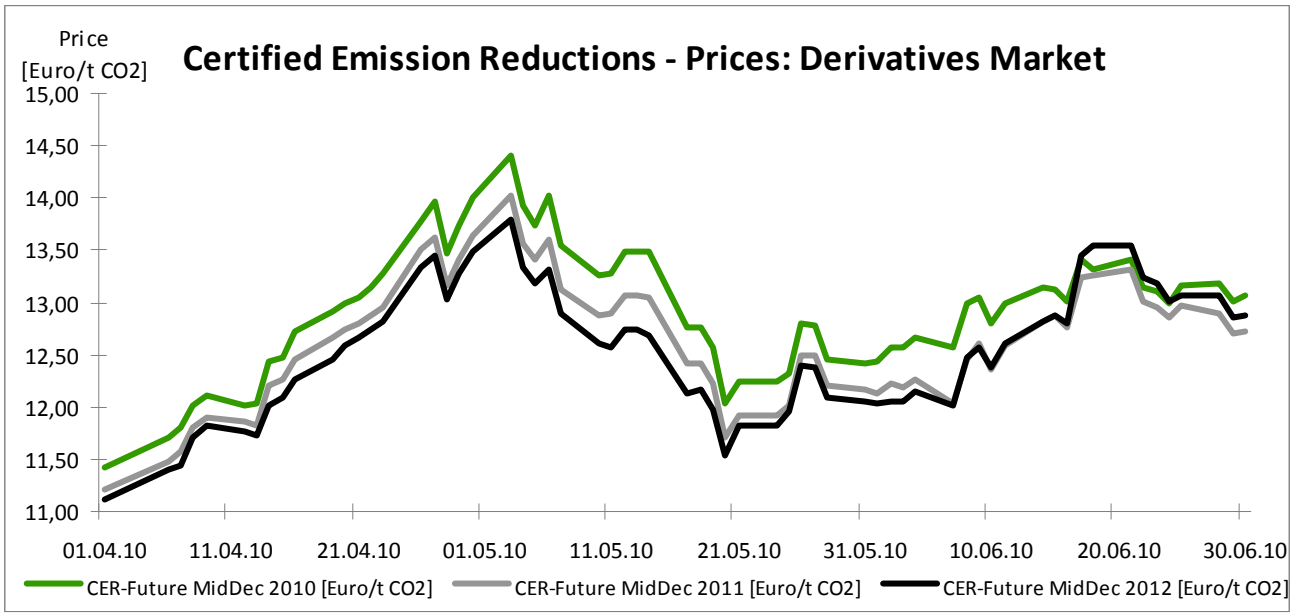
The second commitment period for EUA began on 01 January 2008. At the moment, futures contracts with maturity from December 2010 to December 2012 can be traded in the second commitment period.

The prices of the EUA Futures for the maturities December 2010 to December 2012 displayed a development which was almost identical; however, price levels increased with the time of the maturity of the respective contract. In this case, too, a development of the futures price which is comparable with the Spot Market can be observed. However, the range of variation of the different maturities is somewhat lower than that of the Carbix and absolute prices on the Derivatives Market are higher than on the Spot Market.

The sales prices established in the primary market auctions on the Derivatives Market, which are carried out in line with the Spot Market auctions on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety on a weekly basis every Wednesday and comprise 570,000 EUA every week, are also shown in the chart above. On the Derivatives Market the prices established in the primary market auction are also in line with those of the corresponding secondary market contract.



5.3.3. Development of prices on EEX – Derivatives Market for Certified Emission Reductions (CER) -



Certified Emission Reductions Futures (CER Futures) are emission credits which are generated through emission reduction projects in developing countries and can be used towards the fulfilment of obligations under the Kyoto Protocol. On EEX, they can be traded for the maturities from 2010 until 2012.

The prices of the CER futures developed similarly to the EUA Futures and are characterised by a high volatility in a price range between just under EUR 11.00 and 14.50 per t CO_2. In this case, the contracts with maturity in 2011 and 2012 were on the same level initially, whereas the 2010 contract was quoted approx. EUR 0.50 per tCO_2 above this level. During the quarter and, in particular, in June the price for the 2010 contract fell to the level of the contract with maturity one year earlier and was even lower than this price on several days. In parallel with this, the difference between the prices for the contracts with maturity in 2011 and 2012 increased, since the contract which reaches maturity in 2012 became more expensive relative to the 2011 contract. At the end of June the contract with maturity in 2010 was more expensive than the two contracts with the later maturity by approx. EUR 0.30 per t CO_2.

6. Glossary of Exchange Terms

At this point, we would like to present a short glossary of terms for exchange trading and the energy and energy-related markets, which we will continuously develop further. In this issue, we will expand the glossary with several terms from the field of trading in gas.

Natural gas

Natural gas is a mixture of methane, other alkanes, nitrogen and carbon dioxide. Depending on the exact composition of these components natural gas is classified as H-gas and L-gas.

H-gas

H-gas (high calorific gas) is a type of natural gas which has a higher methane content (approx. 87-99%) and, hence, also a higher energy content and calorific value.

L-gas

L-gas (low-calorific gas) is a type of natural gas which has a lower methane content (approx. 80-87%) and a lower energy content and calorific value.

Network operator

Entry network operators, exit network operators and market area operators are called network operators. Network operators are e.g. obliged to take off the quantities of gas nominated for the respective entry points and to forward the quantities of gas nominated for the exit points at the same time and with the same energy content.

Market area

A connected network area transcending individual networks is referred to as a “market area“.

Virtual trading hub

In every market area the fictitious point for which the feed-in and withdrawal within the market area concerned can be traded is referred to as the virtual trading hub. Gas can be traded through the virtual trading hub without requiring capacity reservations of certain pipelines, entry or exit points.

Control energy

The energy, which is required for the stability of a network on account of short-term fluctuations in supply and demand, is referred to as control energy.

Market area operator

The network operator of a balance area is referred to as the market area operator. The market area operator is responsible for the operative process of the gas transport in its balance areas as scheduled and for the execution of this process. This e.g. also includes the procurement of the required control energy, nomination management at the virtual trading hub and the settlement of the balance areas.

Balance area

A quantity of at least one entry and exit point for which balancing of all entries and exits is effected is referred to as the balance area. There may be only one balance area per market area.

Transport customer

A company which can commission the transport of gas from the corresponding network operator for a fee is referred to as a transport customer. The terms of this transport are defined in a supplier framework contract. A transport company can become a shipper by means of the conclusion of a balance area agreement.

Shipper

The party commercially responsible for a balance area is referred to as the shipper. The shipper is responsible for making sure that the total of the feed-ins corresponds to the total of the withdrawals in its balance area and for submitting the required nominations to the entry and exit network operators concerned.

Two-contract model/entry-exit model

The system providing for the access of transport customers to the gas network of a market area is referred to as a two-contract model. According to this, it is sufficient for the transport customers to book the capacities they require from the entry and exit network operators concerned. The exact transport route of the gas is determined by the network operators. Instead of having to conclude a contract with every network operator through whose networks the gas is routed, the transport customer only has to conclude contracts with the respective entry and exit network operators under the two-contract model.

7. EEX in the Press

7.1.1. EEX primary market auction of EU emission allowances on the Spot Market launched successfully

05 January 2010 Primary market auctioning of European emission allowances (EUA), which EEX runs on behalf of the Federal Environment Ministry, was launched on the Spot Market of European Energy Exchange AG (EEX) today. The first auction on the Spot Market of the exchange was held at 11:00 am.

The envisaged volume of 300,000 EUA was sold as planned. The total bidding amount exceeded, with roughly two million EUA, the specified auction volume considerably – participants bid more than 6-fold the auction volume. In the auction, the price was established at EUR 12.67 per EUA.

The first auction on the Derivatives Market will be carried out tomorrow afternoon at 15:00.

EEX will run the auctioning of the allowances which are not allocated free of charge on a regular basis: From January to October 2010 and 2011 300,000 EUA will be auctioned off on the Spot Market on a weekly basis and 570,000 EUA will be auctioned off in the Mid-December contract for the current year on the Derivatives Market. The remaining quantities will be auctioned off on the Spot Market in November and December. In total, the volume amounts to 41 million EUA for the year 2010. This corresponds to 10% of the total volume of EUA issued in Germany.

All trading participants licensed to trade in emission allowances on EEX can take part in the auctions without any further admission requirements. For the auction on the Derivatives Market this also includes all Eurex participants admitted to trading in the framework of the CO_2 product cooperation. Clearing and settlement of the EUA is ensured through the established processes of European Commodity Clearing AG (ECC).

7.1.2. EEX: Within-Day Gas trading launched successfully

02 March 2010 On 1 March 2010 European Energy Exchange AG (EEX) launched trading of the Within-Day product on the Natural Gas Spot Market as scheduled. On the first day of trading the EEX participants showed a wide interest in intraday trading. The Within Day trading volume amounted to 40,068 MWh (GASPOOL and NCG market areas) comprising a total of 49 concluded trades. 13 member companies actively participated in trading including advanced energy trading, Danske Commodities, EconGas, Energiehandelsgesellschaft West, Enovos Deutschland, E.ON Energy Trading, NetConnect Germany, optimization engineers, PCC Energie, Syneco Trading, Technische Werke Ludwigshafen and VNG – Verbundnetz Gas.

The launch of the Within-Day contract expands the EEX Spot Market for natural gas and constitutes a further step towards the integration of control energy trading on the exchange. The product enables the trading participants to trade natural gas for the current gas delivery day for the GASPOOL and NCG market areas in the course of the day. The delivery period comprises the remaining hours of the respective current natural gas delivery day minus a lead time of three hours until the respective next full hour.

Currently, 80 participants are admitted to trading in natural gas on EEX (71 participants are licensed on the Spot Market and 59 participants are licensed on the Derivatives Market).

7.1.3. EEX: Launch of Phelix Week Futures as scheduled

30 March 2010 EEX Power Derivatives launched trading in Phelix Week Futures on 29 March 2010 as scheduled. On the first day a volume of 9,900 MWh was traded in the new product. The cash settled futures on a weekly basis complement the Phelix Month, Quarter and Year Futures and enable the participants to conclude exchange transactions as well as the registration of OTC trades on the short end of the Derivatives Market curve.

The Phelix Week Future with the load ranges base load and peak load is available for trading for the current week and the next four weeks and can, like the existing Phelix Futures products, also be traded and cleared by the Eurex participants through their existing infrastructure in the framework of the cooperation between EEX and Eurex.

7.1.4. EEX demands extension of Reverse Charge Procedure to trading in Power and Natural Gas

2010/05/11As in the case of CO_2 trading, possible sales tax fraud in trading in power and natural gas would also cause considerable tax losses. For this reason, trading in power and natural gas also needs to be protected against sales tax fraud. Iris Weidinger, CFO of European Energy Exchange AG (EEX), emphasises: “An extension of the reverse charge procedure to national power and natural gas trading transactions can effectively prevent sales tax fraud. For this reason, EEX demands the introduction of the reverse charge procedure also for the spot market for power and natural gas throughout Europe.“ EEX is contacting marketing participants and associations in order to jointly look into possibilities for a detailed design.

Under the requested reverse charge procedure the sales tax liability is transferred from the seller to the buyer and the payment of sales tax is shifted to the end of the tax chain. The buyer does not pay the sales tax to the seller but retains it and the sales tax liability and input tax are netted out. As a result of this, fraud by a “sales tax carousel”, in which German companies buy the product abroad and then sell it within Germany without paying sales tax, will no longer be possible.

However, in order to prevent definition difficulties the reverse charge procedure should only be applied on the wholesale market for power and gas deliveries.

The European Union has recently adopted the amending directive for the extension of the reverse charge procedure to national trading in CO_2 emission allowances in order to prevent carousel transactions in national trading in CO_2 emission allowances. On account of the planned adjustment of the German sales tax law as of 1 July 2010 sales tax fraud in emissions trading in Germany will be excluded in the future.

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