



Electricity Trading Essentials

A 2 day Training Course Example

Course Outline

The European electricity markets are very dynamic but there is also a lot of uncertainty about issues such as security of supply, the impact of carbon and new technologies coming to the market. This course will give the opportunity to get a good overview and understanding of the complexities and risks of the electricity trading markets in Europe and will equip delegates with a practical insight into those issues.

The primary course objectives are to create a better understanding of:

- The developments and major issues in power and fuel markets in Europe
- The European electricity market platforms
- The drivers and dynamics of power prices
- The different instruments that are being traded
- Trading and hedging strategies of electricity derivatives and assets

The trainer, Kasper Walet has the necessary international expertise to successfully perform the training sessions. The program is structured in such a way that a good balance between theory and practice will be achieved. From experience we know that we will get the best results when the participants are actively involved. All the topics will be explained in-depth with the use of practical examples and graphics. The theory will be put in practice with the use of several real-life case studies. A thorough training of your key employees will allow your company to become active in trading on the markets for electricity and the fuels to generate electricity in any phase of development.



Your Trainer: Kasper Walet



Kasper Walet has more than 20 years of experience and extensive knowledge on a theoretical and practical level about all the aspects related to trading, derivatives and risk management in the (energy) commodity industry practical level about all the aspects related to trading, derivatives and risk management in the (energy) commodity industry.

Kasper received a Masters degree in Law from the University of Utrecht in 1987. He started his career at the NLKKAS, the Clearing House of the Commodity Futures Exchange in Amsterdam. After working for the NLKKAS for five years, Kasper was appointed as Member of the Management Board of the Agricultural Futures Exchange (ATA) in Amsterdam at the age of 31. While working for the Clearing House and exchange, Kasper became an expert in all the aspects of trading and risk management of commodities.

In 1997 he founded his own specialist-consulting firm that provides strategic advice about (energy) commodity trading and risk management.

Kasper has advised government agencies such as the European Commission, investment banks, major utilities and commodity trading companies and various exchanges in Europe, CEE countries, North America and Asia. Some of the issues he has advised on are the development and implementation of a Risk Management Framework, investment strategies, trading and hedging strategies, initiation of Power Exchanges (APX) and other trading platforms, the set-up of (OTC) Clearing facilities, and feasibility and market studies like for the LNG Market.

Kasper has given numerous seminars, workshops and (in-house) training sessions about both the physical and financial trading of commodity products. The courses have been given to companies all over the world, in countries like Japan, Singapore, Thailand, United Kingdom, Germany, Poland, Slovenia, Czech Republic, Malaysia, China, India, Belgium and the Netherlands.

Kasper has published several articles in specialist magazines such as *Commodities Now* and *Energy Risk* and he is the co-author of a book called *A Guide to Emissions Trading: Risk Management and Business Implications* published by Risk Books in 2004



Tailor made Training

This is just an example of a possible training. However, it will be my pleasure to discuss with you your requirements. This will allow us to make a tailor made training course that will exactly meet your demand.

Contact

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Your Commodity Markets and Risk Management Partner



The Program

Day 1

Introduction to European electricity markets

- Latest developments
- Organisation of the European electricity markets,
- Role of Interconnections and cross border trading
- Players in the trading markets: banks, brokers, traders, end users, producers:
 - What is their role?
 - Why do they trade?
 - How do they make money?

Structure Electricity Industry

- The electricity value chain
- Generation, technologies, players, cost structure, current issues
- Transmission, players, regulation, current issues
- Distribution, players, regulation, distributed and embedded generation
- Suppliers, key players, consolidation, current issues

Electricity Markets: Physical and Financial Trading

- Spot and forward trading of electricity
- Understanding the generation stack
- Operating decisions of a power plant
- Efficiency curves and heat rates
- Impact of renewable targets on market structure

European Electricity Exchanges

- Nordpool
- APX/ Endex
- Powernext
- EEX
- Others
- Consolidation process and future outlook



Understanding electricity prices

- Non-storability
- Seasonality
- Volatility, spikes
- Mean reversion
- Price Drivers; supply and demand, weather and others
- The role of forward curves and how to construct these

Spot trading

- Spot Market Models
- How to develop a bidding strategy for the Power Pool
- How the portfolio can be managed
- Practical examples from the perspective of a Supply company and from that of a Generator

Day 2

Trading

- The role of trading: profit opportunities and risk sharing
- The different strategies;
 - Hedging,
 - Arbitrage
 - Speculation
- Trading gas, oil and other commodities to improve performance
- Trading electricity contracts: margin requirements, clearing, liquidity, information advantages

Features Derivatives

- What are derivatives
- History
- Case Studies; Enron, Societe General and Amaranth
- Derivatives good or bad?

Forwards, Futures and Swaps; the basics

- Forwards and Futures
- Swaps
- Definitions
- Hedging with Futures and Forwards
- Hedging with Swaps



Options Basics

- Calls and Puts
- Difference between buying and selling options
- Terminology
 - Moneyness
 - Expiration
 - Intrinsic Value
 - Premium
 - Strike Price
 - Time value
- Cap, Floor and Collar
- Hedging applications

Managing Risk in Electricity Markets

- Why is risk management so critical in electricity?
- The main sources of risk in an electricity market
- Price, credit and operational risk
- Lesson from Credit Crisis to be learned for Risk management organization
- Understanding power contracts and associated risks
 - Decomposing contracts: price and volume
 - Types of contracts and the primary sources of risk
 - Hedging strategy and type of risk
- How to hedge the power formula
- Understanding contract components
 - Managing the load curve and selling contracts
 - Timing the purchasing decisions

Hedging and trading from a utilities perspective

- How to manage risk and trade along the value chain
- Customers expect increasingly flexibility
- Trading at utilities level
- Relationship Trading-Retail- Marketing
- Trading products

Final Case

Delegates will be divided in groups of 4-5 people and all groups will be given a business scenario of a utility. They will be asked to identify the risks, the cash flows and the possible hedging strategy for that utility.