

The N2EX logo is displayed in a bold, green, sans-serif font. The background of the top section of the page features a blue gradient with abstract white and light blue lines, circles, and arrows, suggesting a digital or financial theme.

The new UK power market

About N2EX:

N2EX is a joint venture between Nord Pool Spot (NPS) and NASDAQ OMX Commodities (NOMXC) created to provide a complete solution for the trading and clearing of UK power contracts. The first phase of this solution will consist of a day-ahead auction and a prompt physical market. A 48 hours rolling spot market and financially-settled derivatives will follow in due course.

N2EX is founded upon a great depth of experience in electricity trading dating back over 15 years. NPS has been a pioneer in the field operating the physical Nordic power market since 1993 and remains the leading spot power exchange in Europe. Meanwhile, NOMXC is the market leader within international power derivatives and clearing services running the most liquid electricity derivatives exchange in the world. N2EX intends to harness this combination of physical and derivative expertise to build a consolidated solution for all UK power trading.

The concept:

The UK power market suffers from a lack of transparency and liquidity. Volumes have failed to increase in spite of the general surge in other commodities trading and new entrants have tended to avoid the market. N2EX's intention is to emulate the success the parties have already achieved in lowering Nordic entry barriers and attracting new players, both financial and physical, within the UK power market.

The first phase of the project, now approaching, will see the launch of a day-ahead auction market (DAM) as well as a trading and clearing platform for the existing prompt market. The DAM will close for entries at 09.30 a.m. on weekdays to cover the deliveries for the coming EFA day. The redesigned prompt market will provide an exchange-based trading platform as well as an automated clearing service for OTC trades. This will cover EFA block contracts for delivery over a 9 day period.

During 2010, N2EX will launch a spot market covering the closest 48 hours delivery period. This will be available on a continuous basis and will complete the roster of physical markets. A third delivery phase will then see the launch of financially-settled futures for UK power once a robust reference price has been established from the underlying N2EX physical markets.

A full product specification for the coming launch is available at the N2EX website (www.n2ex.com) as well as information on how to sign up for membership and take part in the coming market trials. After the launch, all market information will be available on the web site to provide increased transparency for the market participants and all interested parties.

Important features

Complete service offering	NOMXC/NPS offers trading, clearing and notification services for the prompt and auction markets. In 2010, a spot market will be launched and NOMXC will also deliver a financial futures market with trading, clearing and OTC give-up facilities.
Facilitating physical delivery	NOMXC, as the CCP in all trades, will act as notification agent. Notification will take place using the CONDICO platform in compliance with the BSC.
Prompt/intra-day market	NPS and NOMXC will provide trading, clearing (including OTC trade registration), notification, settlement and delivery of all 1/2-hour physical contracts with a uniform interface using the CONDICO system.
Trade reporting/give-ups	The CONDICO system for the prompt market is web-based and allows for flexible trade capture through the system or XML-based API. This includes the capture of OTC trade registrations. The auction market offers flexible web-based reporting from the SAPRI system.
Real-time clearing	All physical trades and the forthcoming futures contracts will be notated in real time.
Market experience	NPS and NOMXC have been running and developing power markets since 1993. Both are market leaders in their fields. NOMX supplies exchange technology to over 60 financial marketplaces in over 50 countries.
Ability to run a 24/7 market	NOMXC/NPS will run a 24/7 spot market with real-time clearing and associated notification services. A 24 hours helpdesk will act as a single point of contact to ensure that members view the solution as a seamless service.
Ease of integration into existing systems	CONDICO provides a web-based API to simplify integration with existing market or proprietary systems. A translator for Trayport GlobalVision is provided.
Seamless technology platforms	The CONDICO platform offers a unified trading and clearing solution running trade capture, OTC trade registration, clearing and reporting through a web-based interface or the open API. For the auction market the web-based SAPRI system provides all services from bid entry to reporting.
Margin efficiencies	NOMXC's "risk neutral position" methodology is a VaR-based system which allows for complete netting across contracts with the same delivery periods in correlated products. This provides maximum collateral efficiency. Margin reporting and calculation is provided in CONDICO.
Adaptable solution to facilitate further development	NOMXC/NPS have broad experience in a wide variety of products and markets. Their platforms can be easily adapted for future market developments. NPS operates today a gas market in Denmark.
Use of existing trade capture screens	CONDICO's open web service API allows users to integrate broker systems and other 3rd party systems. A translator for Trayport Global Vision is provided. This will permit broker matched trades to be registered electronically into CONDICO.
Flexible membership structure	Participants may choose between general clearing membership, direct membership and view-only membership.