

ROLLING BACK THE FRONTIERS

Dr Igor Koprivnikar, member of energy trading and supply group **GEN-I**'s management board responsible for trading, talks exclusively to *Energy Risk*

Headquartered in Slovenia since 2004, GEN-I is consistently ranked among the top Central and Eastern European power traders in the *Energy Risk* Commodity Rankings. Operating in 19 countries, with subsidiaries in 13 more and a staff of 240, the company is confident in its capabilities and strong relationships with clients.

Energy Risk: What is the most significant factor behind GEN-I's strategy for success?

Igor Koprivnikar: Success in the dynamic and complex energy trading business is not possible without professionals from a wide variety of disciplines. From the outset, we have strived to employ teams of people with expert knowledge and the right mind-set for success. The key is to maintain the precise balance between global trading and local supply activities, which provide flexibility and allows us to respond to market changes that are common in the energy markets, including in South-eastern Europe, where GEN-I is recognised as one of the leading players.

What are the biggest challenges when operating in a part of Europe that trades cross-border between EU and non-EU member states?

Non-EU member states in Central Europe are developing towards European standards, however, local regulatory changes are occurring more slowly, behind developments in the western markets. The market environment here is changing continuously, which is a challenge. We have a team of origination managers who are specialists in local market rules and market set-up, and are working closely with local trading associations and national institutions. Ambiguous information and ad hoc, unclear regulatory changes represent major risks that we are mitigating effectively through our strong local involvement.

How do you manage credit risk with non-EU counterparties in illiquid, non-transparent markets?

With regard to our risk management policies and procedures, there are not many differences in managing credit risk with counterparties in liquid western markets and the less liquid markets of Central and Eastern Europe. In general, the same standards are applied. Our credit risk department is core to our risk management function. It is responsible for the management of all aspects of the credit risk life cycle, including researching and analysing counterparts to determine appropriate levels of exposure, negotiating and structuring credit support arrangements, monitoring and reporting credit exposure to ensure counterparties are in compliance with group credit policies and setting credit limits. A high-standard know-your-client procedure is implemented through which each is checked, regardless of geographic location.

How successful have your natural gas retail activities been?

Three years ago, in Slovenia, we achieved the highest customer-switching rate ever seen in the EU at that time. We started acting as the first independent gas supplier; prior to that, the gas market had been completely closed. Based on gas deliveries from Italy and Austria, we succeeded in offering gas prices that were also up to 20% lower than existing prices.

What can regulators do to help improve liquidity and transparency?

In CEE, the harmonisation of regulation along the guidelines of European regulation and the Third Energy Package, which requires the fragmented SEE region to develop common rules and policies, is in progress, but not at the same pace in all countries. There are still big challenges in progressing towards an integrated regional market, which is significantly affecting and limiting market liquidity. National



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interests and lack of political will continue to hinder rapid development, as national incumbents are often still able to abuse their dominant positions. At the wholesale level, common power exchanges as a necessity for transparent pricing and a competitive market, market coupling and intense co-operation on a broader level between regulators, TSOs and other institutions are a must.

Are GEN-I IT systems and the compliance function Remit-ready? What remains to be done?

Regulatory compliance for us has become more important than ever before. Getting ready for the implementation of all the new regulations in a timely fashion and ensuring full compliance throughout the entire organisation has become standard practice for us. We have invested a significant amount of resources into compliance with Emir and MiFID, which has forced us to adapt our systems for reporting physical and derivative business towards national and international regulators. This was done with Remit already in mind. The data-gathering and reporting challenges were immense, however, with these IT adaptations we have succeeded in preparing a system for Remit reporting as well.

What is next for GEN-I?

European wholesale electricity markets have changed in recent years, with increasing generation from renewables and multi-year low electricity prices on the exchanges. Long-term trading is currently more dependent on political and regulatory decisions, in contrast to the fundamental short-term range, with its increasingly volatile pattern, which is getting more and more important. We are extensively developing 24/7 cross-border intraday trading, and we see its huge potential also with regard to our tailor-made, value-added solutions and market services for clients, producers and industrial end-customers.