



Open Market Committee
 Hotel Princesa, Madrid: 20th September 2018
 – Phil Moody, AIB Secretary General

Cybersecurity and preventing market fraud



Cybersecurity – the need

A while ago, several AIB members received clever and specific attempts to install a Remote Access Trojan in their computer. Nobody knows what they were planning. However, some of these had access to physical energy systems ...

There was successful phishing of EU-ETS market parties – the bad guys ran away with €27 million – they could convert allowances to money in a couple of hours

Certificates don't have such market. Yet. But the price is rising ...

We keep the bad guys out of the system by passwords etc., we carefully vet accountholders, we encrypt communications, and we watch what accountholders do So what is the problem?

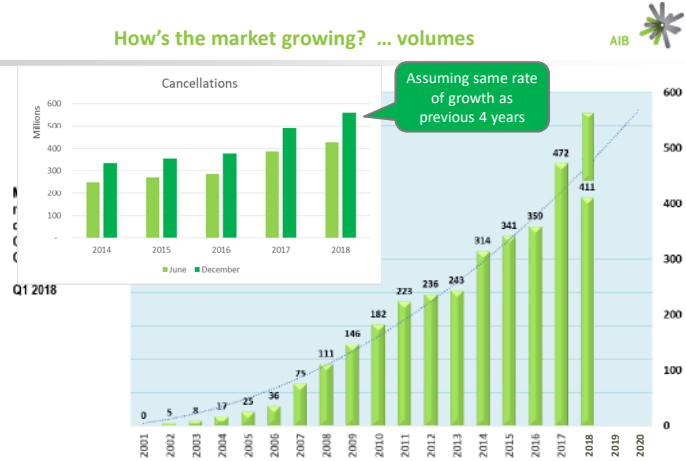
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Market change

- Demand**
 - Consumer awareness
 - Corporate social reporting
 - Electric mobility
 - Server farms
- Production**
 - Mass production of renewable generation equipment leading to ...
 - ... Grid parity for renewables
 - Hotter summers = more PV, but perhaps less hydro, less nuclear
 - = Shorter market for RES GOs, and increased prices

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How's the market growing? ... volumes



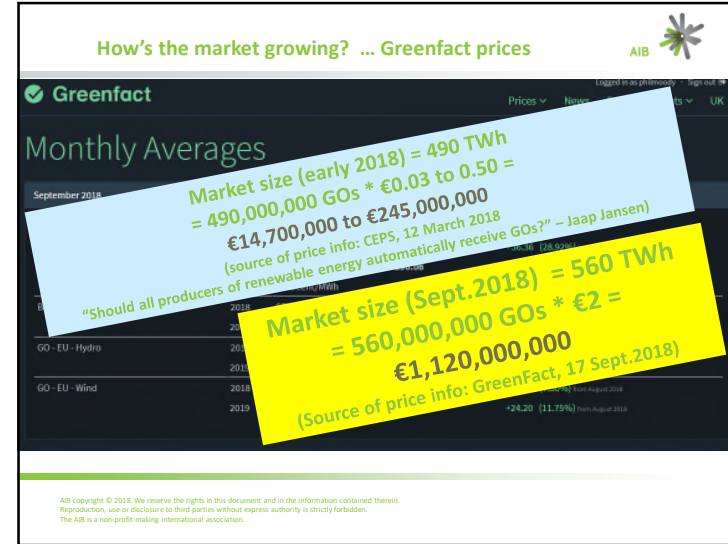
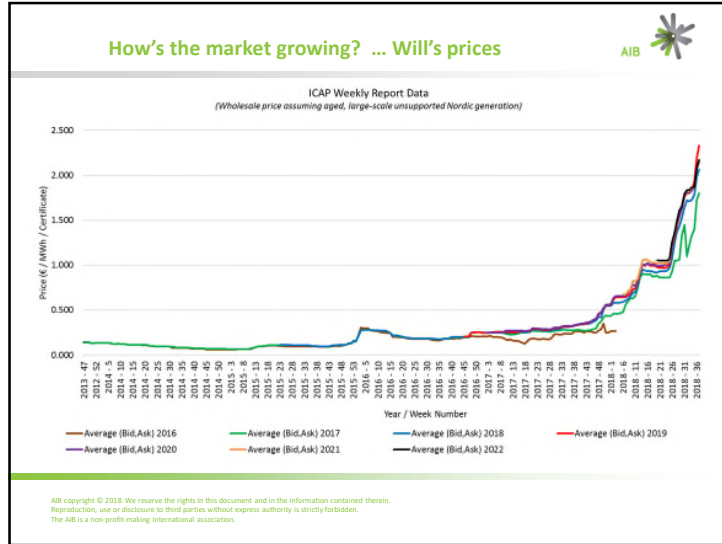
Cancellations

Year	June (Millions)	December (Millions)
2014	250	320
2015	280	350
2016	300	380
2017	350	450
2018	400	550

Q1 2018

Year	Volume (TWh)
2001	0
2002	5
2003	8
2004	17
2005	25
2006	36
2007	75
2008	111
2009	146
2010	182
2011	223
2012	236
2013	243
2014	314
2015	341
2016	359
2017	472
2018	411
2019	472
2020	550

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What happens when you get unpredictable markets?

Trader blows €100m hole in Nasdaq's Nordic power market

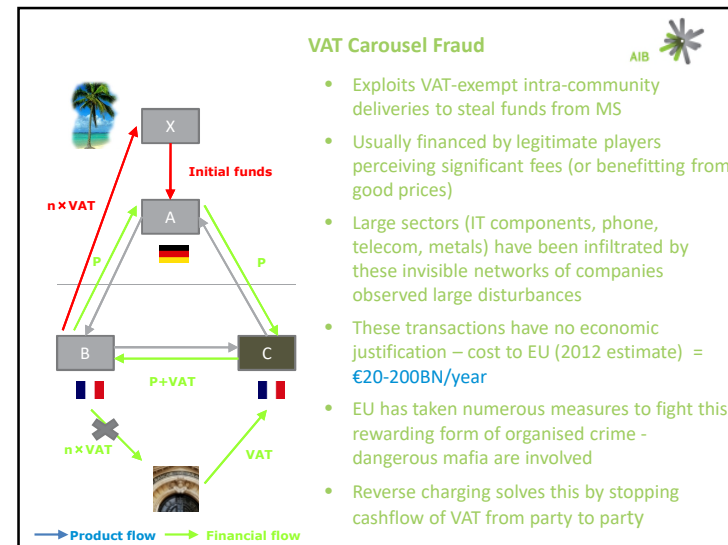
Private Norwegian trader among country's highest earners in recent years

Thu, Sep 13, 2018, 16:33




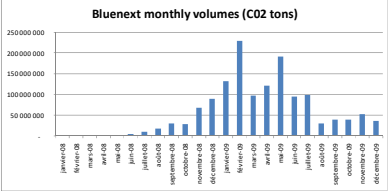
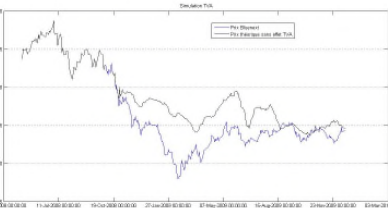
The catalyst for the trading loss was a series of backfiring bets on the price difference between German and Nordic power markets. Photograph: iStock

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VAT Carousel on CO2




- Bluenext volumes * 40 in 7 months
- EuroPol estimated loss to end-2009 = €5BN – now twice as much
- Fraud stopped June 09 by reverse charge or zero-rating on CO2 VAT: EU Directive voted in March 2010
- Economics researcher estimated -30% off CO2 prices
- Many shell companies and fake intermediaries created and abused legitimate actors to finance VAT
- VAT carousel initially on services and commodities. Fraudsters now looking for similar assets



EuroPol/law enforcement agencies say gas & power at top of their list

Why do we need reverse-charging for power, gas and GOs?



- Without strong European-wide measures :
 - Damage for Member States could be far bigger than CO2
 - Wholesale market reputation could be ruined
 - Wholesale prices could lose their meaning
 - Retail gas and power markets can be jeopardized (new competitors)
 - If the energy sector is penetrated, criminals can use infrastructure for large scale money laundering

RCM Coverage for emission allowances



Legend:

- Green: Reverse charge or similar procedure implemented
- Red: No national reverse charge nor a similar procedure implemented

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RCM Coverage for Gas & Electricity

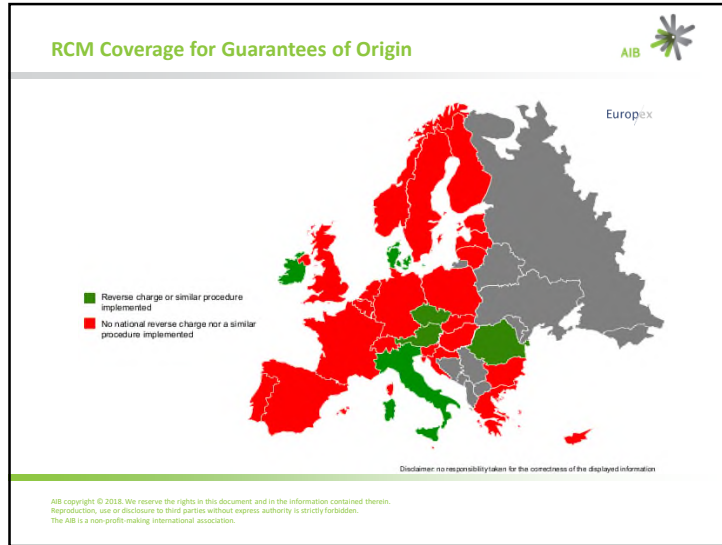



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Current action

- AIB
 - promotes “Know Your Customer” forms for account applications
 - AIB monitors all trades going via the Hub
- 5 years ago, EU energy sector successfully lobbied for a domestic reverse charge mechanism (DRCM) on electricity and gas transactions
- “Sunset clause” runs out end 2018 and leaves markets unprotected
- Commission published legislative proposal on 25 May for Council vote
- We urge EU Council to extend to 31 Dec 2023, in addition to gas, electricity and emissions, explicitly extend it to GOs, and call on MS to implement it
- Supported by 18 organisations



Thanks for listening

..... Any questions?



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