

European Gas Storage
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Budapest

Gas Storage - Traders' Perspectives

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European Federation of Energy Traders



GAS STORAGE – TRADERS' PERSPECTIVES

Structure of presentation



Contents:

- About EFET
- Non-discriminatory access
- Information provision
- Optimising storage
- Conclusions

ABOUT EFET:

The voice of energy traders in Europe



**The European Federation
of Energy Traders (EFET)**



- Represents over 80 trading companies operating in about 20 countries
- Promotes pan-European energy trading in open, transparent and liquid wholesale markets.
- Main activities include:
 - Advocacy for liberalised markets
 - Promotion of energy trading in Europe
 - Standardisation of contracts

ABOUT EFET:

Improve conditions for energy trading in Europe



“... fostering the development of an open, liquid and transparent European wholesale energy market”.

Achieving our mission through better,...

- Information transparency
- Data exchange
- Products and procedures
- Laws
- Regulation
- Taxation
- European Contracts
- Organised market



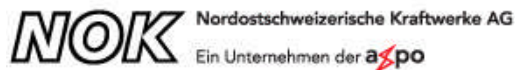
HYDRO

IBERDROLA





JPMorgan  LEHMAN BROTHERS



Statkraft



Trafigura Ltd



TOTAL



Trianel Energie



VATTENFALL



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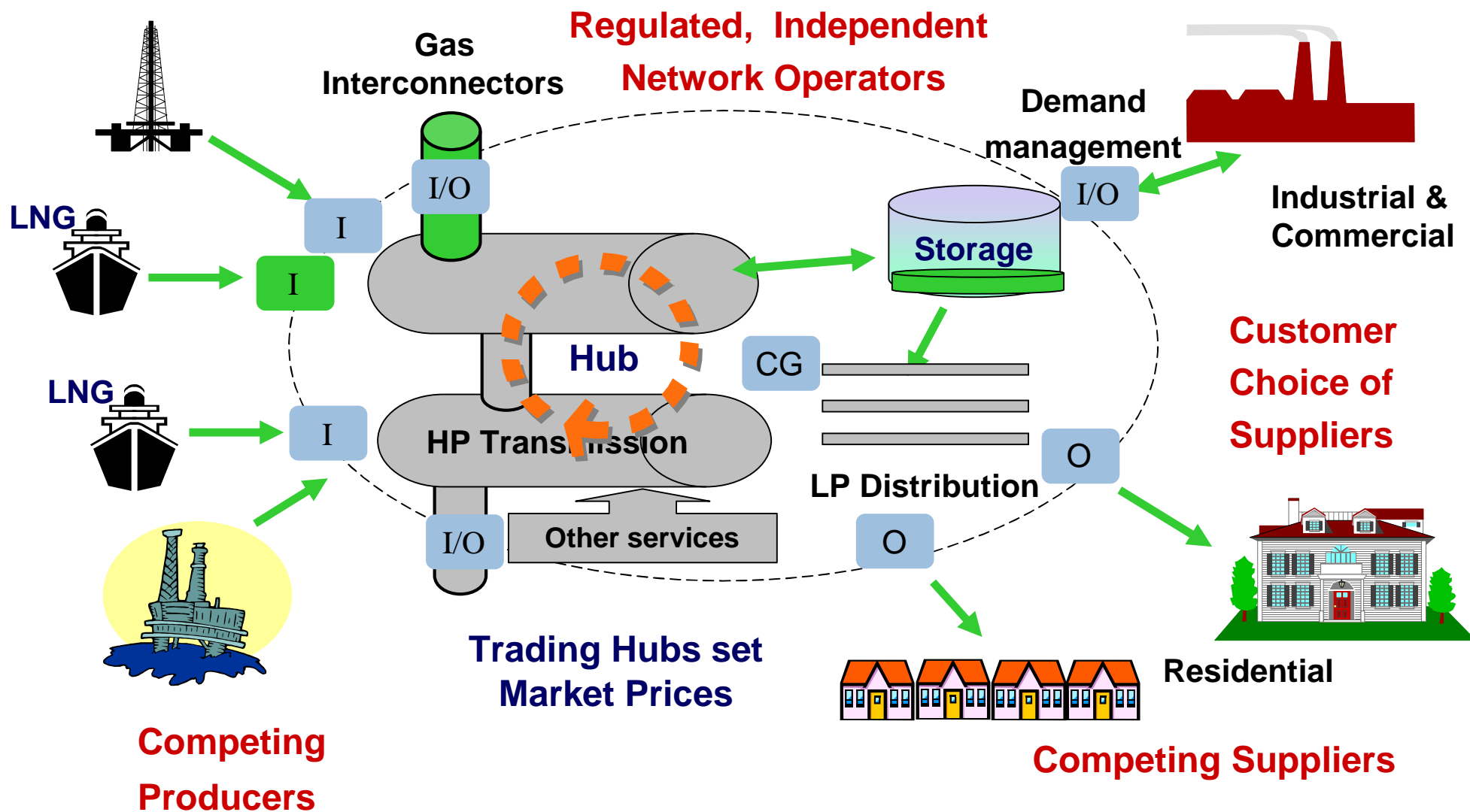


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NON-DISCRIMINATORY ACCESS TO STORAGE

2003/55/EC sets out the EU Gas market structure



NON-DISCRIMINATORY ACCESS TO STORAGE

2003/54/EC gives regulators responsibility

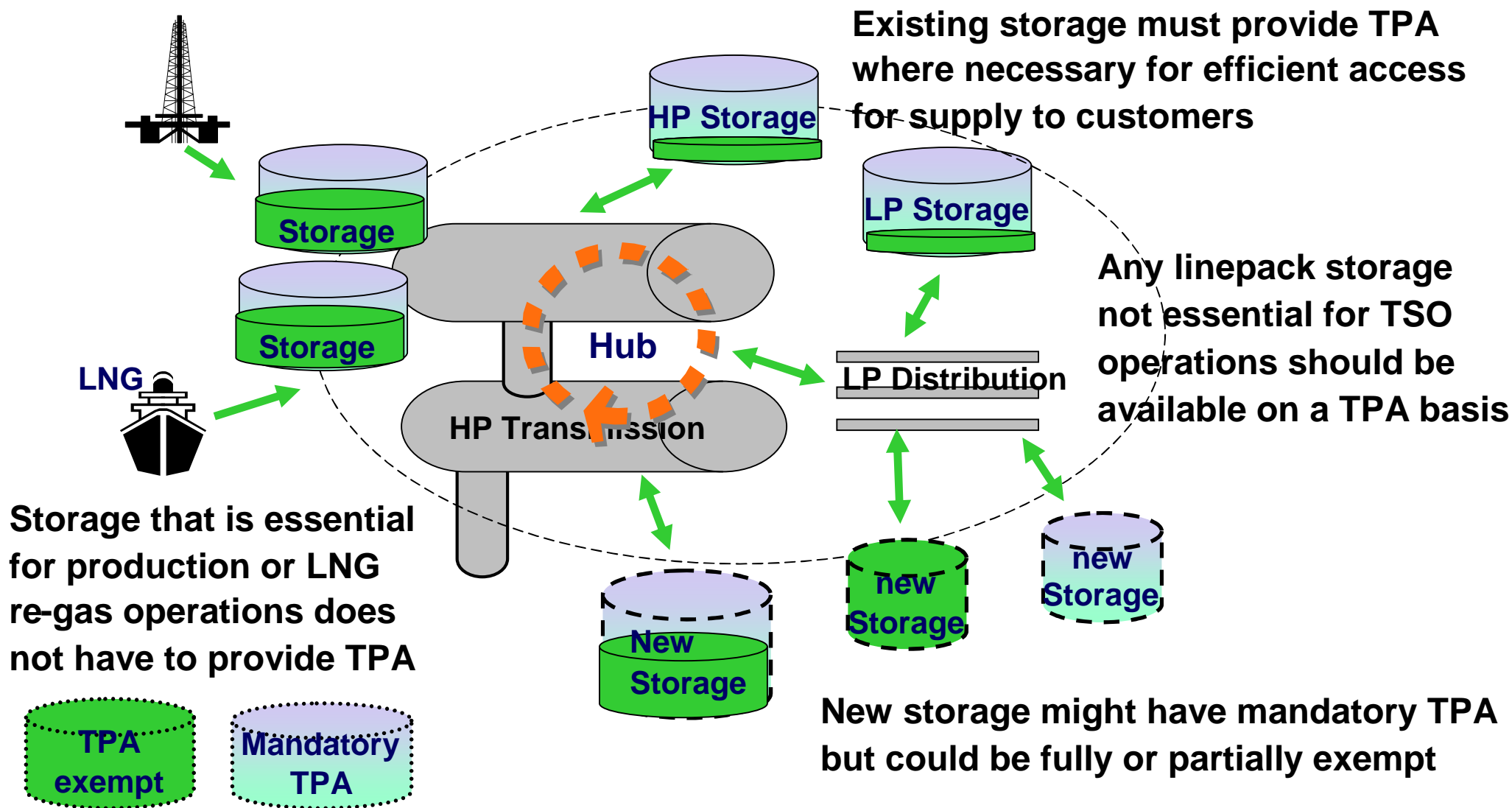


➡ Article 25 of the Gas Directive differentiates between regulatory powers over storage and other infrastructure

➡ But it does require (article 1 & clause f) that:

**“the regulatory authority ... shall at least be responsible for
non-discrimination ... in ... the access conditions to storage ...
as provided for in article 19”**

NON-DISCRIMINATORY ACCESS TO STORAGE 2003/54/EC is the starting point for defining TPA



NON-DISCRIMINATORY ACCESS TO STORAGE

The EFET view can be summarised as follows



- ➡ Third party access to storage is an essential feature of gas market opening.
- ➡ Storage providers that have, or share, dominant positions must be regulated during the transition to fully competitive conditions.
- ➡ The Gas Market Directive 2003/55/EC requires regulators to ensure that there is fair and non-discriminatory access, both for regulated and negotiated storage access regimes.
- ➡ Guidelines are needed for all Storage Operators to ensure sufficient information transparency and their non-discriminatory commercial behaviour.
- ➡ All market participants must be allowed access to storage that is required by the Gas Market Directive to offer TPA services

NON-DISCRIMINATORY ACCESS TO STORAGE

Where is EU energy policy leading to?



**A Gas Storage
Regulation ?**

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GAS STORAGE INFORMATION PROVISION

EFET general information requirements Aug 07



- ➡ accessible on a non-discriminatory basis and at no additional cost
- ➡ available from the internet in a raw data format that can be analysed
- ➡ published in both the national language and English
- ➡ detailed, without compromising individual market participants.
- ➡ available as close to real time as possible.
- ➡ harmonised across Europe, ultimately on one coordinated website
- ➡ include historic data
- ➡ validated and audited by regulatory authorities.

GAS STORAGE INFORMATION PROVISION

There are already specific EU requirements:



- ➔ The **Gas Directive 2003/55/EC Article 8.1 (d)** requires storage operators to provide the information needed for efficient access to storage facilities
- ➔ Additionally, the **Guidelines for Good Practice for System Storage Operators** (GGPSSO) provide guidance on which information should be published in which format.
- ➔ **ERGEG** monitoring report (Dec 2006) shows that Implementation of these non-binding guidelines is incomplete and needs to be improved
- ➔ **EFET** stresses non-discriminatory information provision

GAS STORAGE INFORMATION PROVISION

EFET specific information requests:



- ➞ Transparency in TSO and Storage Operator rights and processes

- ➞ Storage system operators make, among other requirements, the following information available to market participants:
 - the amount of available and sold storage capacity
 - aggregate levels of gas in storage
 - current daily aggregated in- and outflow plus historic utilisation rates
 - information on any reduction in storage capacity
 - the commercial conditions and charges for the offered service

- ➞ The nature of storage facilities vary throughout Europe, the optimum aggregation of information may also vary. But the aim should be to publish in as much detail as possible.

GAS STORAGE INFORMATION PROVISION

Information consistency with TSO obligations



Internet printout at 14.15 hrs on 2 Feb 2007 for flows over last 24 hrs from the UK Rough Storage facility

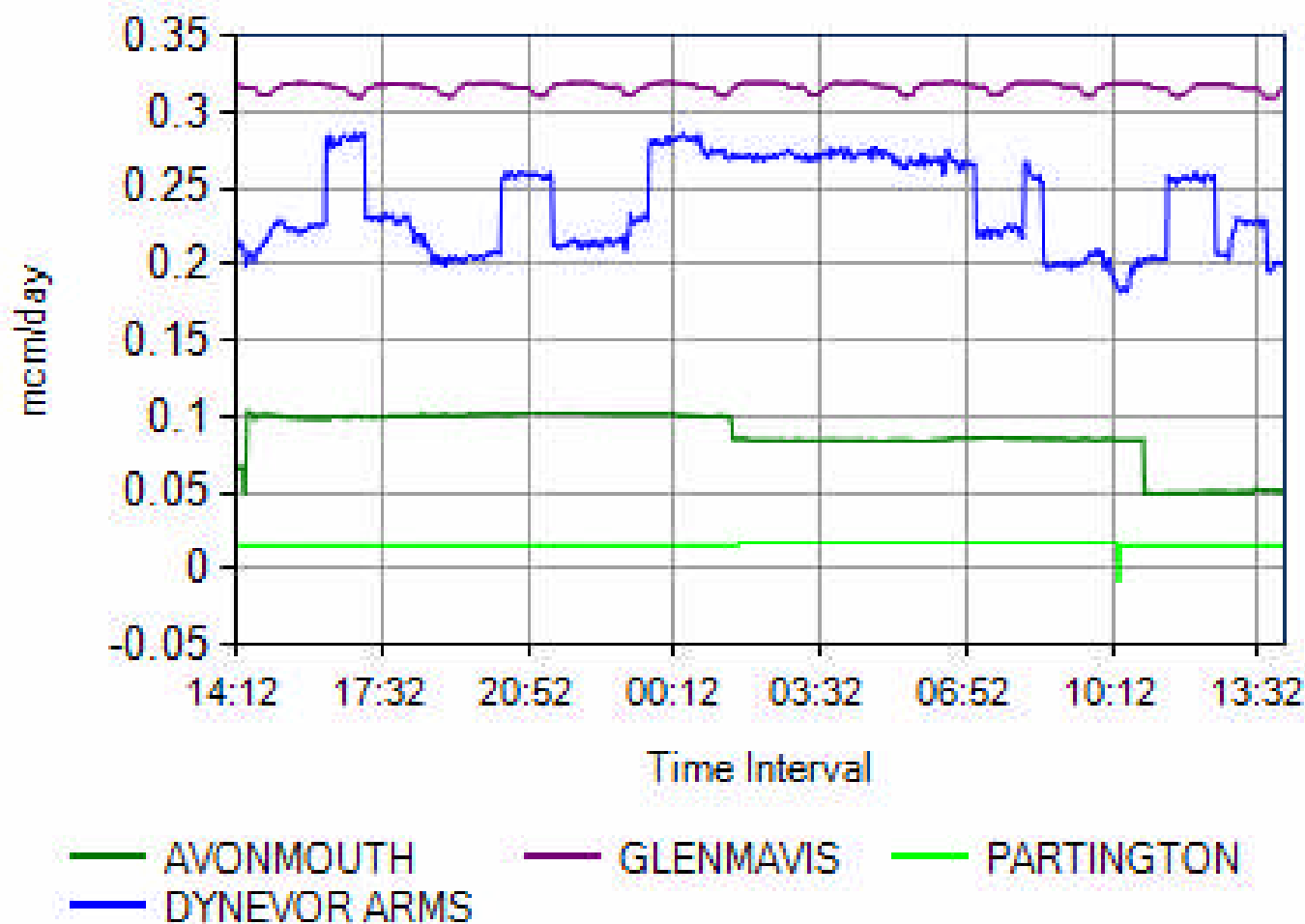


GAS STORAGE INFORMATION PROVISION

Near realtime UK storage flows are available



Internet printout at 14.15 hrs on 2 Feb 2007 for flows over last 24 hrs from the UK LNG Storage facilities



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OPTIMISING STORAGE

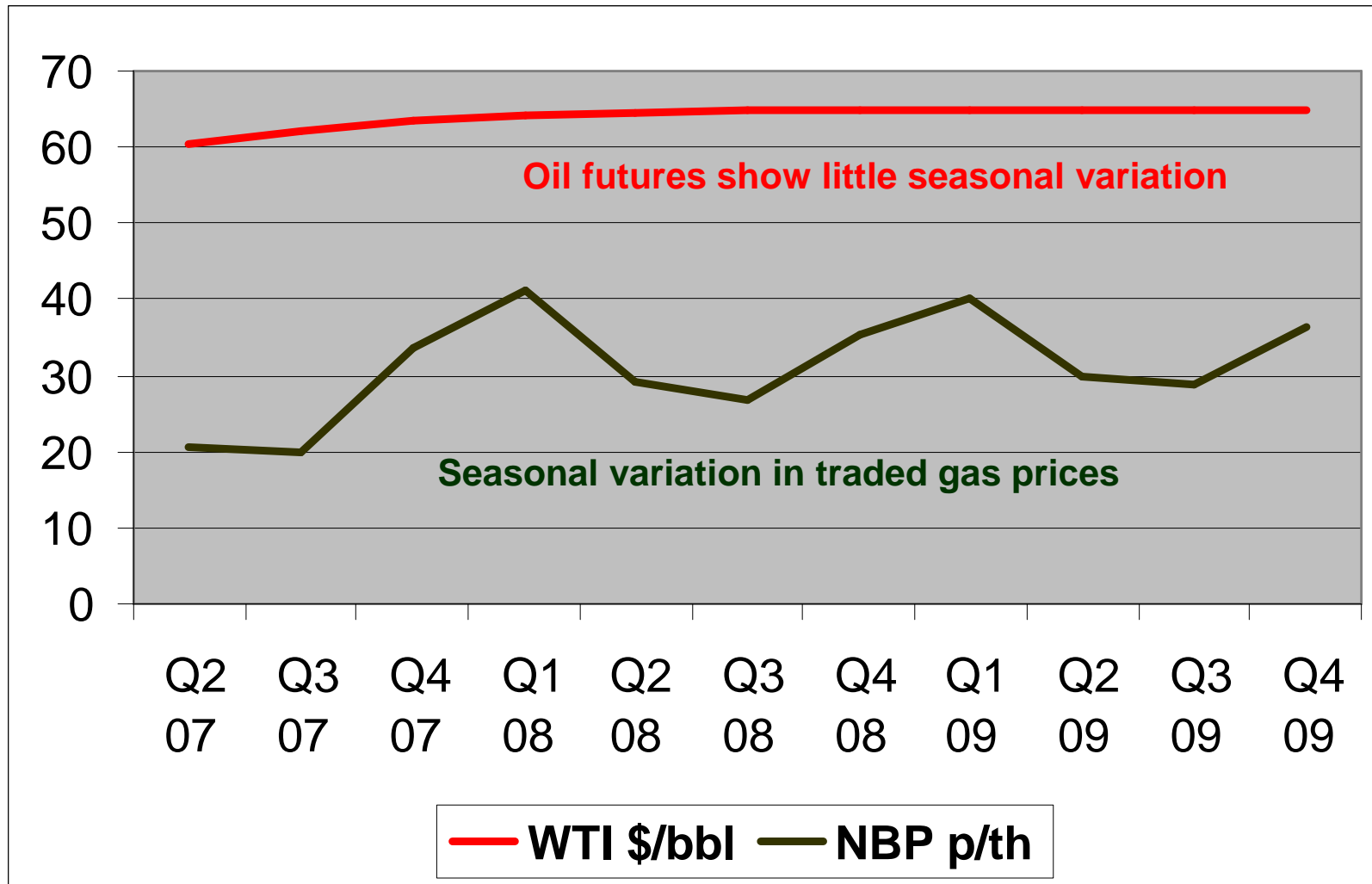
Transparency is the key enabler of optimal use



- ➡ Markets are the most efficient way to allocate resources
- ➡ But markets need information if there is to be confidence to put capital at risk and establish meaningful prices
- ➡ Markets can then provide price signals for optimum use (and development) of storage facilities

OPTIMISING STORAGE

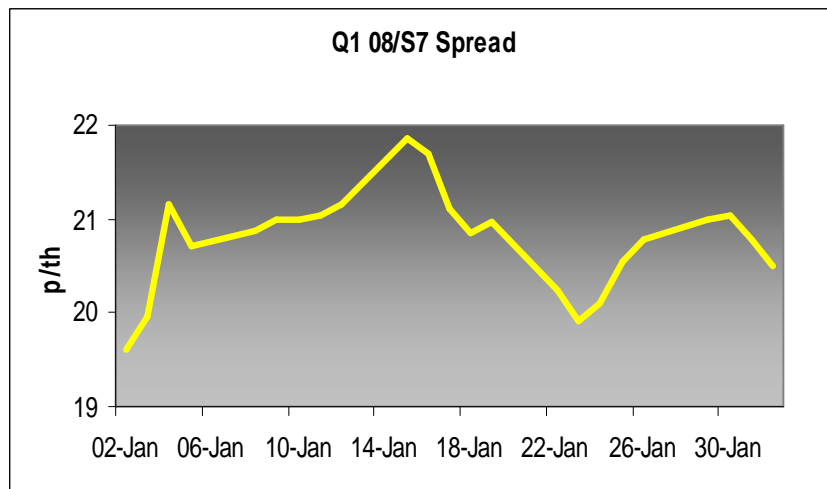
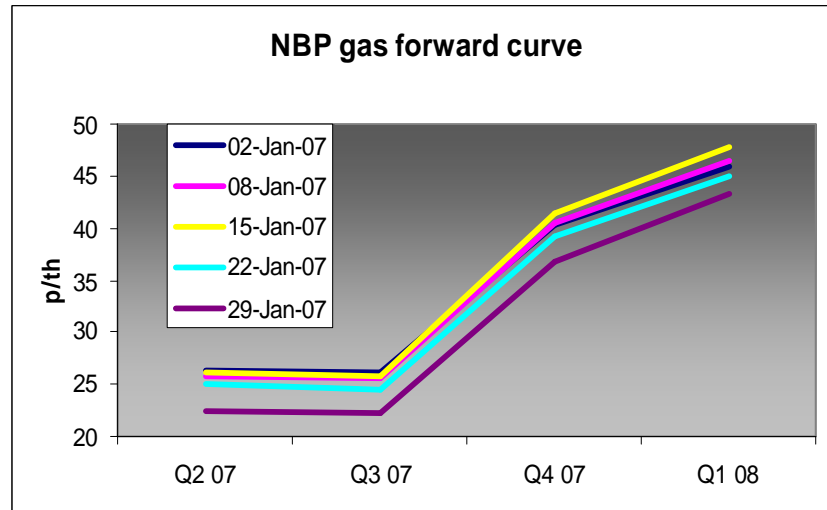
Gas prices need to respond to supply&demand



Sources: ICE & Heren 2 Feb 2007

OPTIMISING STORAGE

Forward price can help value seasonal storage

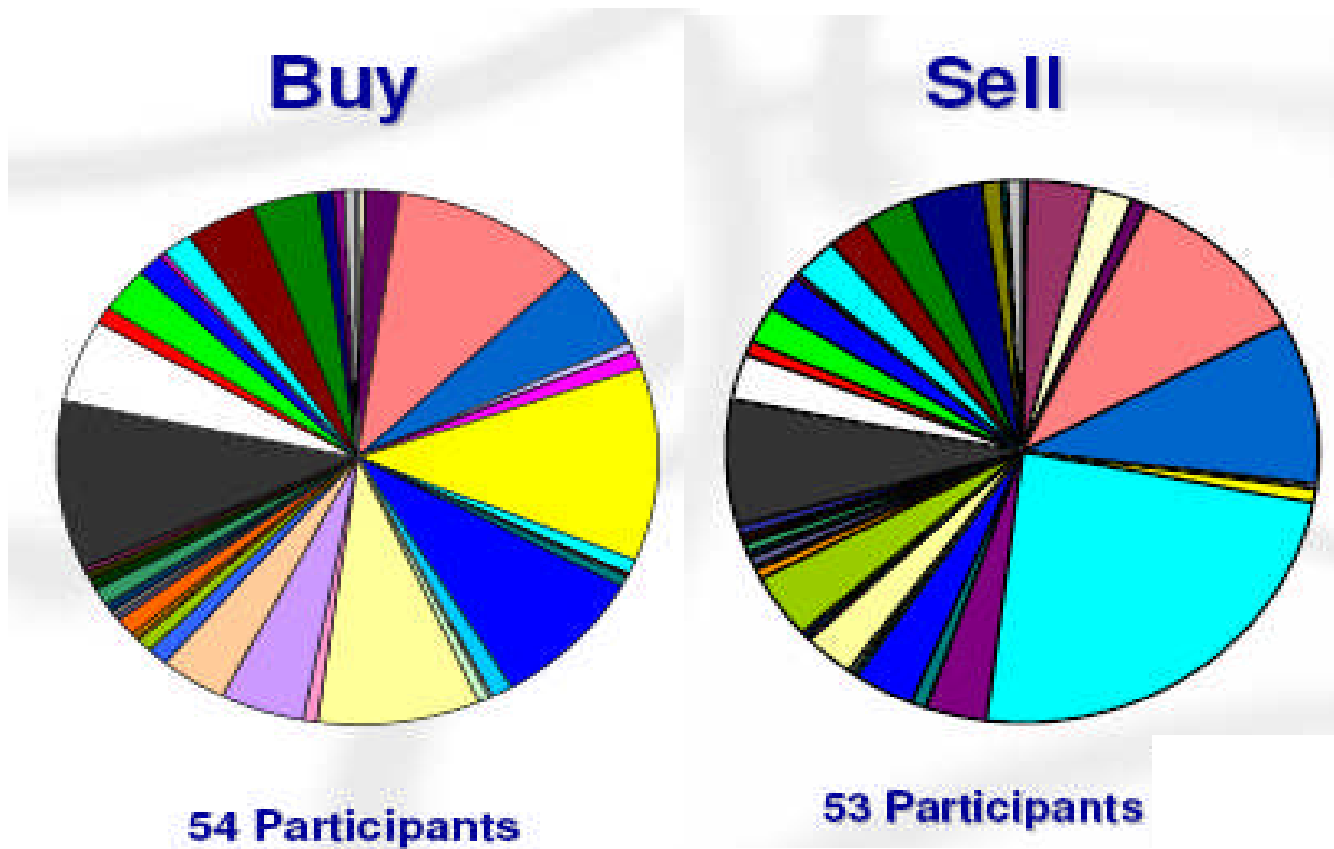


- The difference between the market price for summer and winter allows an initial valuation seasonal storage
- But the forward curve changes from day to day
- The summer 2007 to Q1 2008 price difference has been 19-22 p/th in January

Source: Platts

OPTIMISING STORAGE

Robust traded markets need many participants



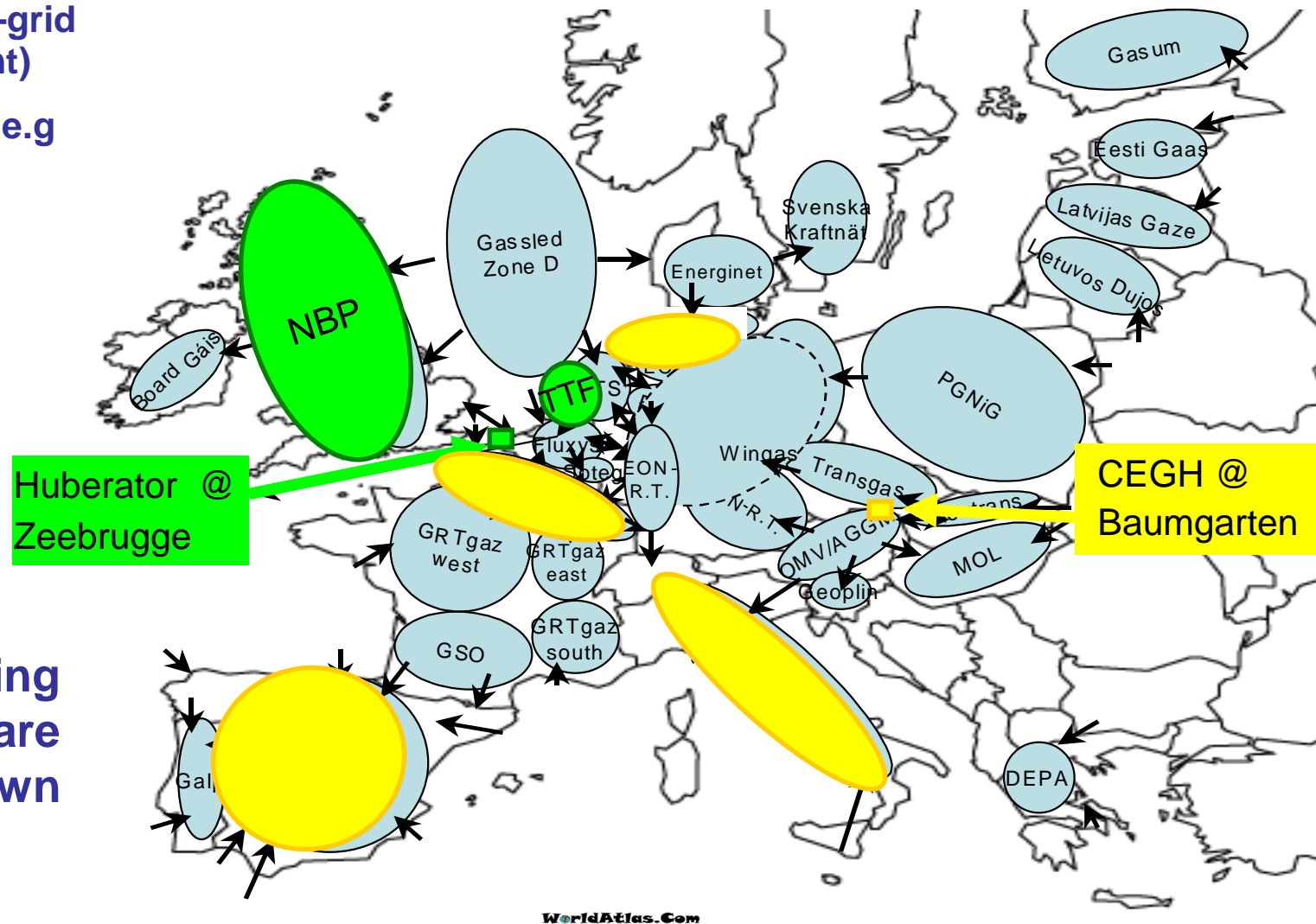
Source: APX Group
Autumn 2006 UK NBP

OPTIMISING STORAGE

Traded markets aid market pricing for storage



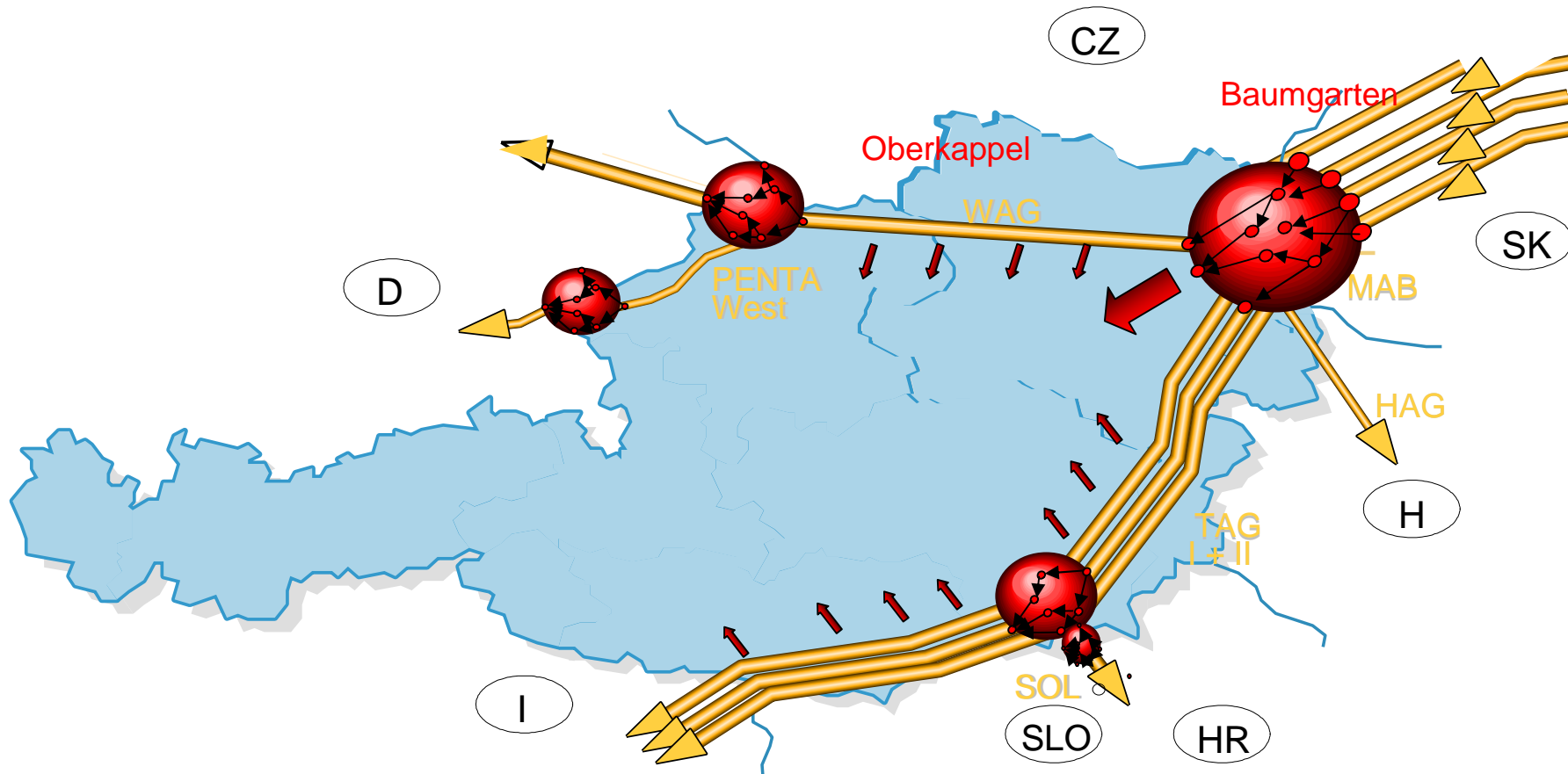
- Virtual hub (in-grid balancing point)
- Physical hub (e.g. border point)
- Less liquid gas trading locations
-



WorldAtlas.Com

OPTIMISING STORAGE

E.g. Price signals might develop at CEGH ...



Source: **gashub**at

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CONCLUSIONS:

Trading benefits storage operators and users

Market pricing for storage has wide benefits

- 'Regulated' storage can use market prices (within an overall RoR if necessary)
- Operators of 'exempt' storage know the market value
- Users (upstream & downstream) access capacity at market prices
- Better economic signals for investment
- Better optimisation of assets
- More efficient market resulting in lower costs for consumers

CONCLUSIONS

Three final thoughts – regulation or competition?



- ➡ EFET prefers competition in the provision of storage services: but competitive markets need competitors!
- ➡ Most of Europe needs stronger regulatory involvement in storage to achieve non-discriminatory access.
- ➡ Information transparency is paramount, and will enable traded markets to evolve and storage to be optimised

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