

Gas Coordination Group
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Brussels



European Federation of Energy Traders

**Traded markets
increase
Gas Supply Security**

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www.EFET.org



Completion of the single European market is strengthening gas supply security



- Harmonised regulatory framework for the whole EU/regions
- National legislation allowing the market to respond
- Physical and contractual flows must be possible, and known.
- Transparency (price, capacity,...) is needed for liquid traded markets and is the basis for sound investment decisions
- Regional TSO integration is key for using existing capacities efficiently

Where there were physical connections, markets tended to cope better with this supply disruption



- In NW Europe gas flows increased towards the SE. Markets remained calm
- In SSE region the Austria the balancing market operated successfully
- However, price response was opaque and not as expected in a fully liberalized market. CEGH was shut down, leaving many market participants with commercial and physical challenges to fulfill their obligations.
- No information on short term prices was easily available in SSE. This prevented many actors from helping out.
- Entry/Exit systems and virtual embedded Hubs have proven to be more resilient.

Multi TSO integration is necessary



- Despite the lessons from 2006, TSO coordination has not improved sufficiently.
- Several user associations have called for stronger system integration
- EFET and GEODE issued a joint letter, supported by other associations during the Madrid Forum, including a time table and a phased approach.

Regional Network Integration (RNI) – Why?



➤Physical capacity from source to consumer?
Fewer systems, more clarity and predictability

➤Transport cost/availability known at point of supplier's decision on where to source gas?
Flows are netted automatically with RNI.

➤Historically, investments by international (multi-cross-border) consortia / cooperation.
Gas already flows over borders, we need a transparent supranational coordinated approach.

➤Aim that some different supply sources must potentially arrive in each area – security of supply needs physical interconnection and (at least) regional system management



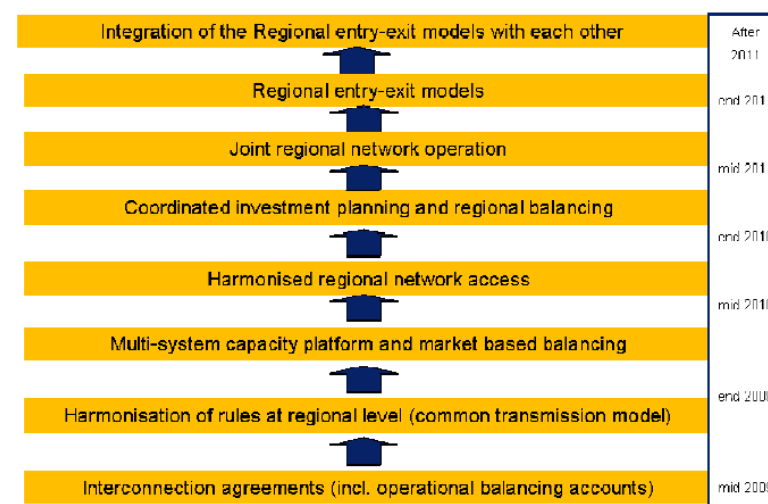
Gas Committee

Madrid, 22.05.2008

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A potential timetable could be the following:

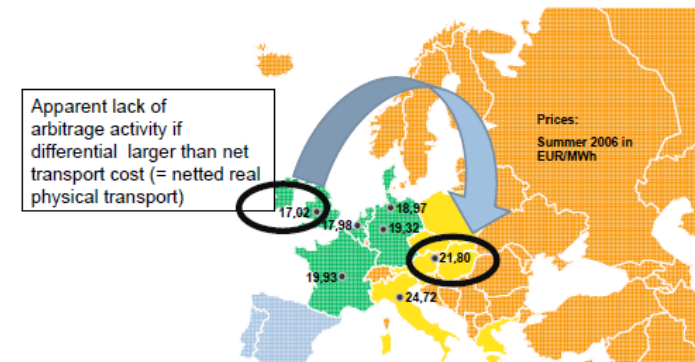


Transparent liberalised market increases SoS

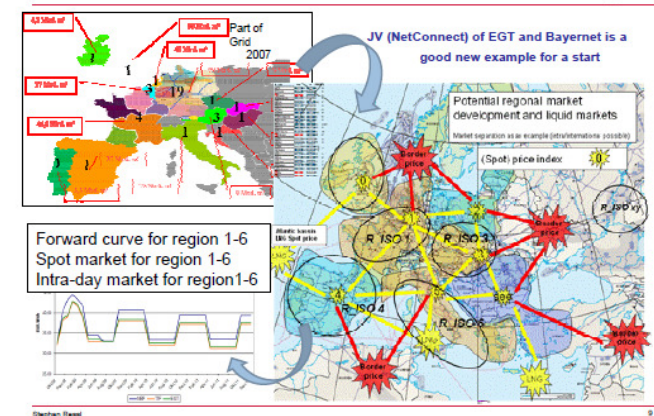


- Transparent markets (prices, capacities, system status) automatically help security of supply as higher short term prices attract different gas providers as well as freeing up existing flexibilities within contracts.
- The European market offers sufficient flexibilities from other sources including LNG to at least reduce significantly the supply risk exposure.
- This is possible to the extent of physical connection and interoperability. SSE markets are mostly small markets, so volumes are not so large compared to the rest of European market.

Market pricing in EU - arbitrage 2

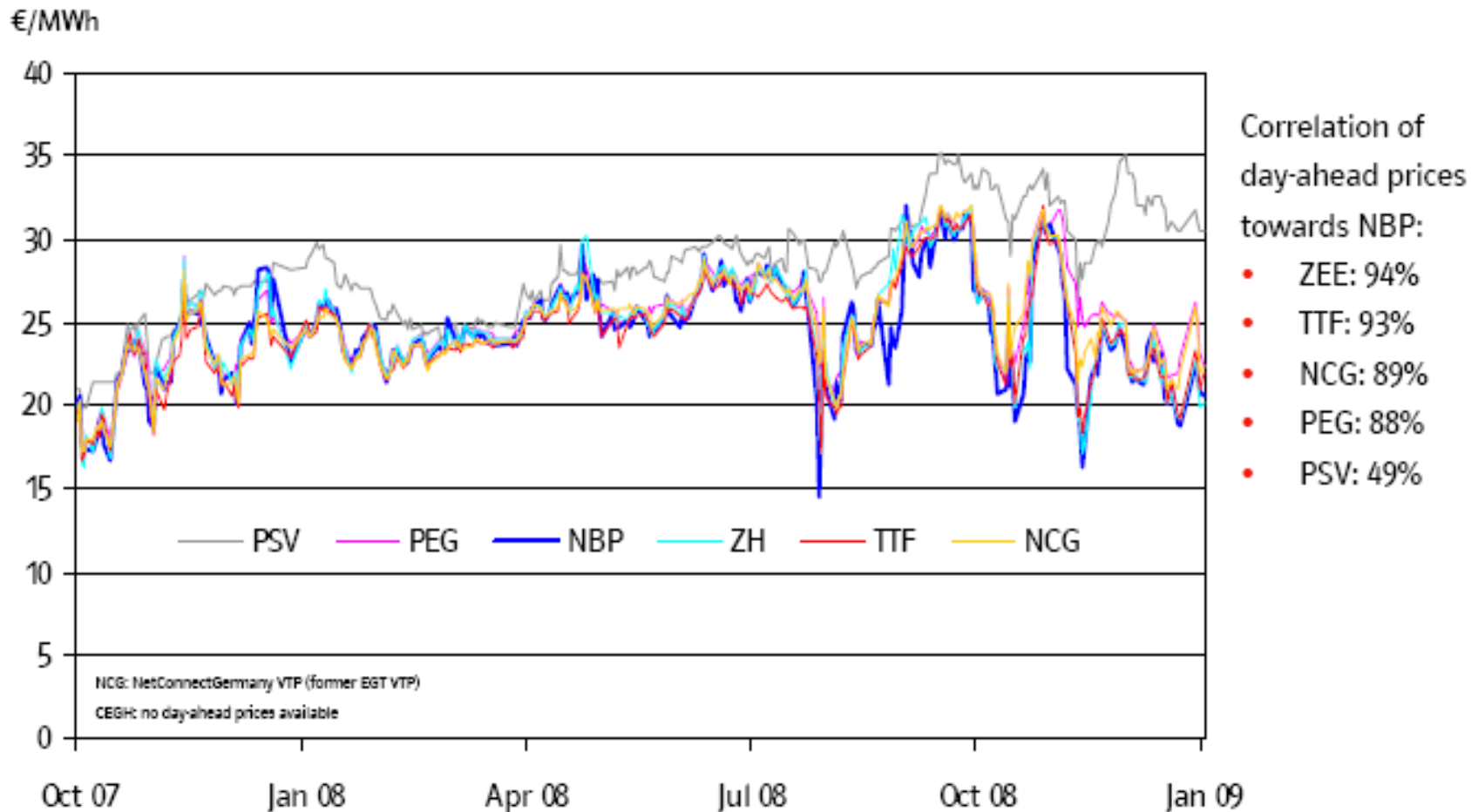


Multi - TSO integration potential 1



Improving liquidity and gas supply security.

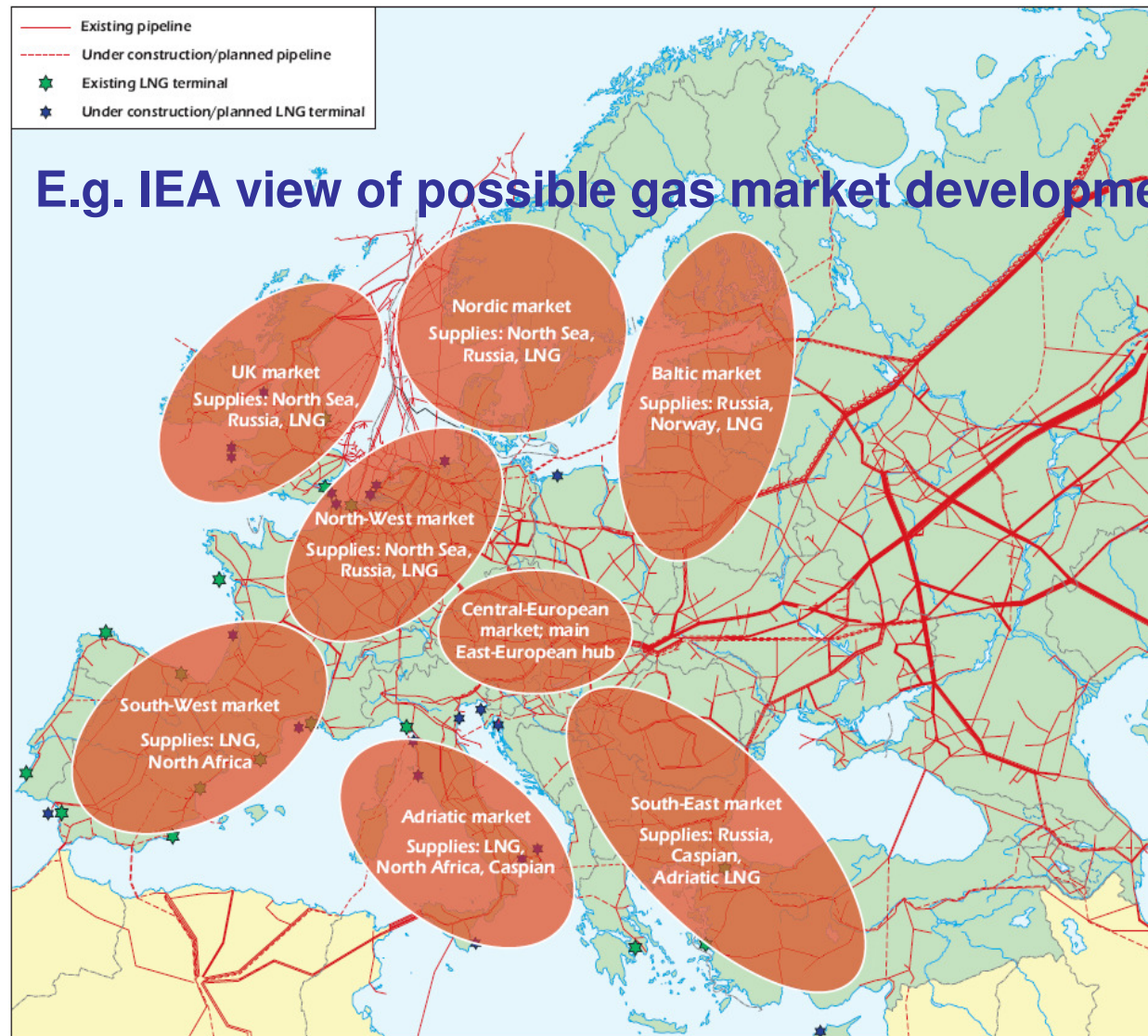
In NW Europe, hub prices are well correlated



Source: Eon Energy Trading

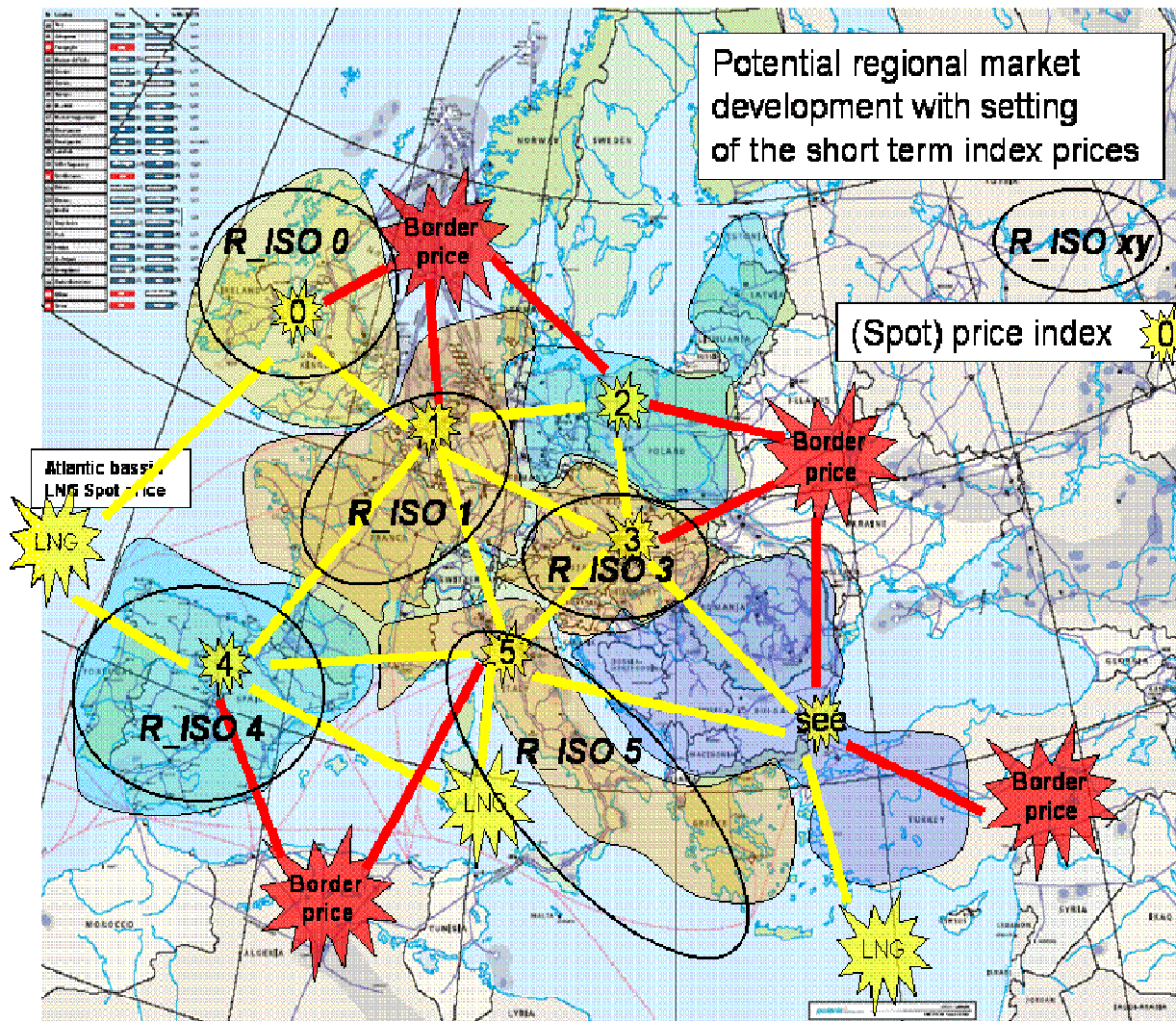
Improving liquidity and gas supply security.

Gas trading may well retain a regional element



- Large (virtual or physical) trading hubs are needed for sufficient liquidity.
- Gas takes far longer to travel than electricity
- High economic cost of full interconnection across whole of EU.
- EU gas market will be a series of 'pools' rather than a 'copper plate'
- LNG links some pools, as well as pipelines

Improving liquidity and gas supply security. Different EU gas prices within regional grids?



- Transparent price differential brings incentives to ship gas
- Regional System Operators know the available capacities
- Investments can be made with a regional/European overview and dimension
- More effective than static and national measures
- Access to flexibility from other sources , incl. LNG, even for SSE



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Thank you very much
for your attention

EFET