

Madrid Forum 2008  
6-7 November



European Federation of Energy Traders

Progress and challenges with  
respect to regional/European  
market integration

EFET Gas Committee  
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Vice Chairman



## Joint letter of industry associations to support amendments for facilitating multi-system operation by TSOs

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- EFET , Eurelectric, GEODE and Eurogas issue a joint letter supporting respective amendments of parliament's first reading to foster regional market integration
- Requires IA, harmonisation of network access rules at regional level, multi system capacity platforms, marked based balancing, regional balancing and coordinated regional investment planning.
- Could lead to regional entry/exit models within (4-5 years) and a joint regional network operation in appropriate areas
- Understanding that this will work only effectively with improved regulations and stricter oversight and enforcement
- European single market model goal, timetable as concluded by Madrid Forum
- Letter print out available, will be sent out with documents

# What market players need

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## ➤ Predictability of regulatory framework:

- 3<sup>rd</sup> package most important and clear harmonised guidance on implementation
- Integration towards a single European gas market clear goal?!
- System investments (capacity optimisation) necessary with a European view
- Regional approach necessary for pragmatic and technical reasons
- EC to ensure consistency and progress over/within all regional initiatives

## ➤ Transparency

- Access to the system (capacity existing and new, tariffs, market rules, licensing)
- Published market based prices (balancing, spot, forwards) per area
- Data for the past, the present and the future as available

## ➤ Access to the system

- Capacity available where necessary
- No cross border incompatibility
- No intransparent balance rules but market based and market should reflect system stress
- System should be as large as possible (several TSOs) and not one pipeline only
  - Current legislation does not prevent the emergence of 1 pipeline TSOs
  - Current system enhancement process de facto a mess as often 1 pipe only – no consistent guarantee of access even for paying shippers, de facto establishment of point-to-point tariffs

## Then market players could

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➤ **Have confidence in stable and positive development and hence derive business cases**

➤ Investments into energy business activities have long lead time (trading floor, affiliates, or even power plants, pipelines and LNG terminals,..)

➤ **With confidence more market players will arrive on the scene**

➤ E.g. Horizontal diversification (oil, gas, electricity) and/or vertical (going downstream or e.g. large customers getting more upstream)

➤ **Establish liquid traded markets with a sufficiently large physical market underneath the Hub/exchange:**

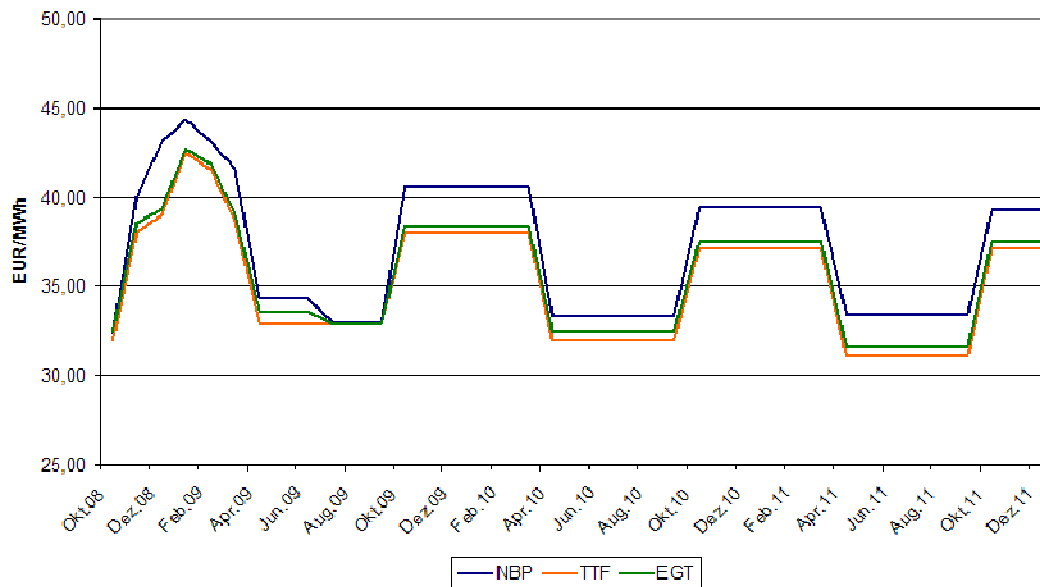
➤ NBP, a North West Continental one (PEG or Zeebrugge, TTF) or EEX (EGT+Bayernet), Italian gas exchange (PSV new, maybe market operator), CEGH if regional, Iberian,..????

# Market pricing in EU



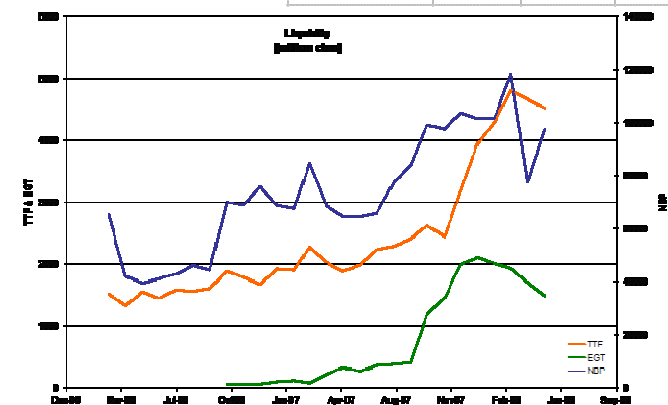
- It could all be so easy!

Forward Curve for NBP, TTF and EGT

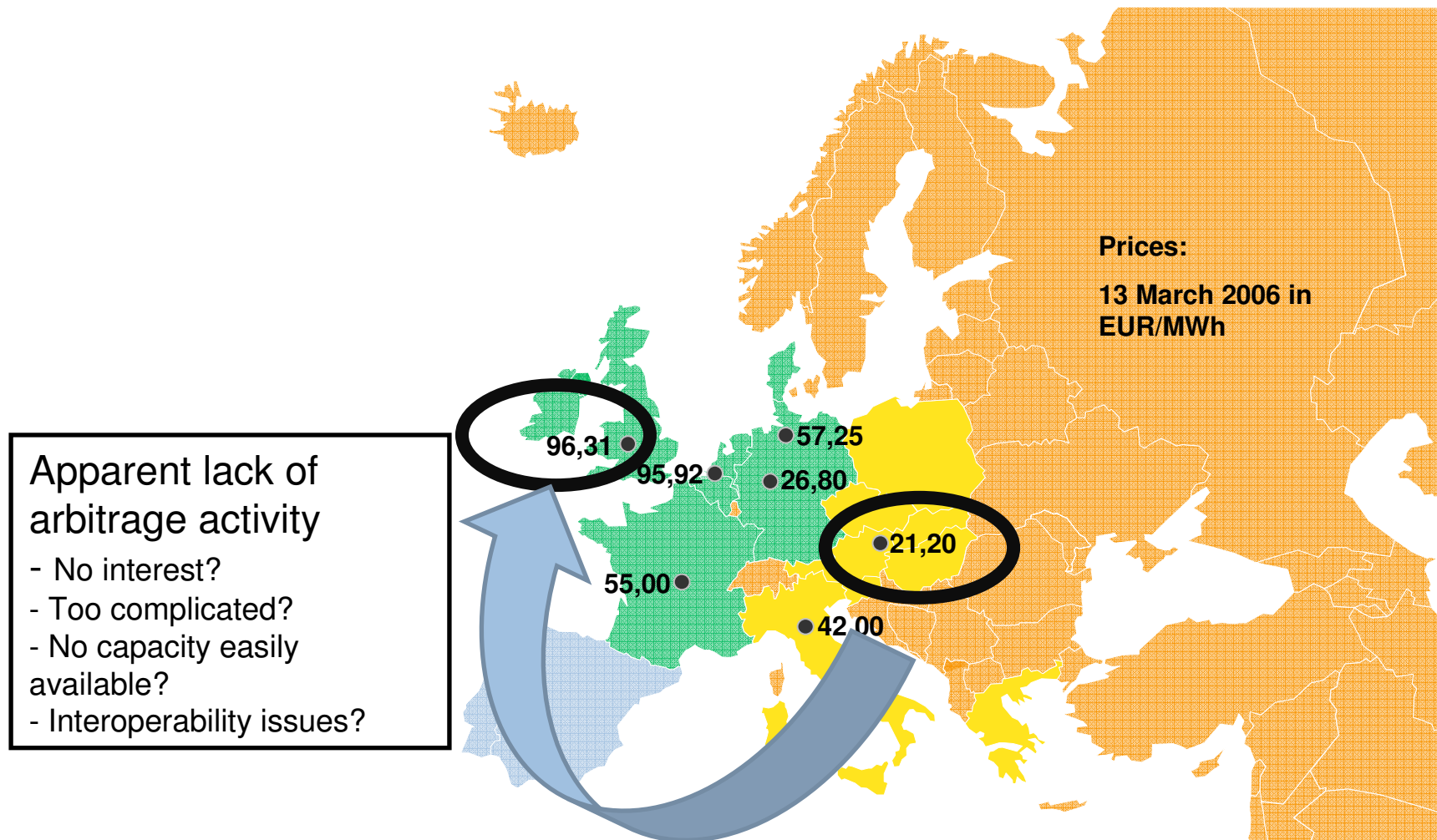


- However:
  - The question of liquidity is still dominant

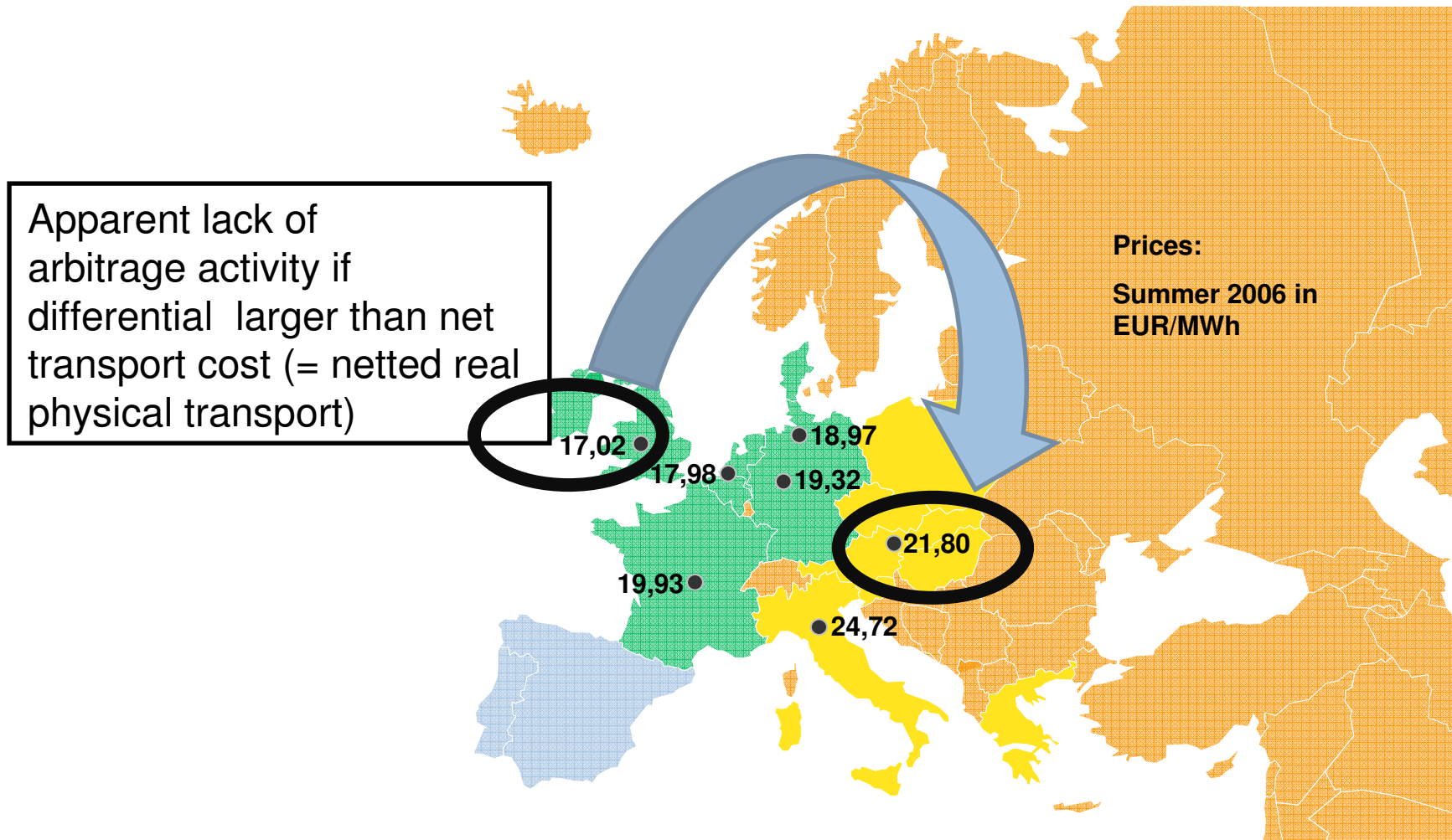
	NBP	TTF	EGT
Counterparts (OTC/Exchange)	90	55	45
Churn Rate	13-15	3,5	not given



# Market pricing in EU – arbitrage 1



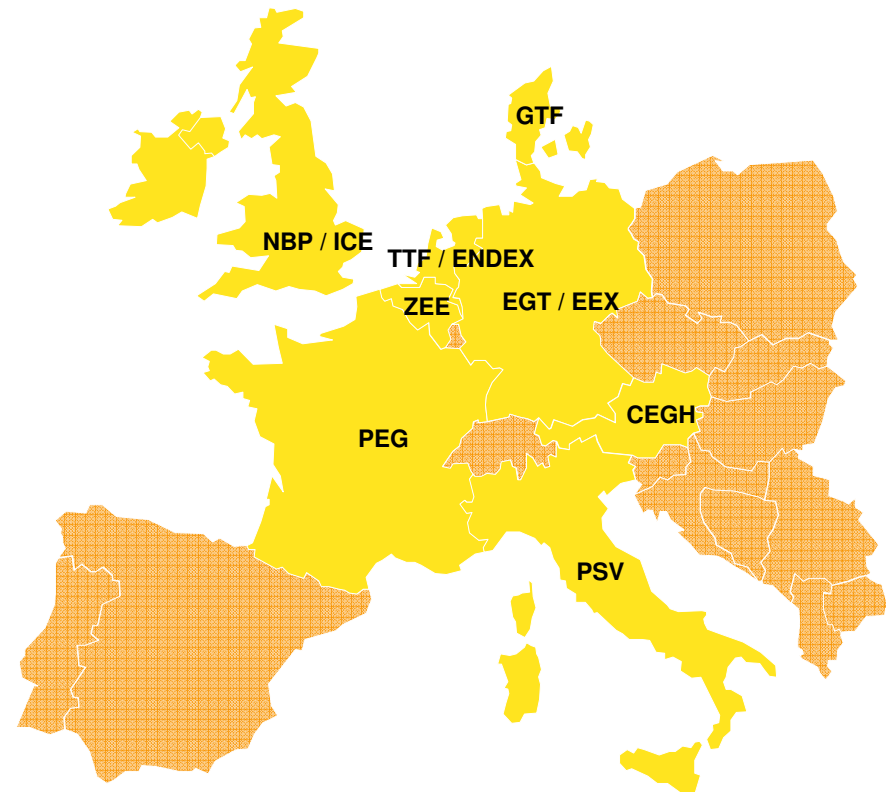
# Market pricing in EU - arbitrage 2



# Market pricing in EU

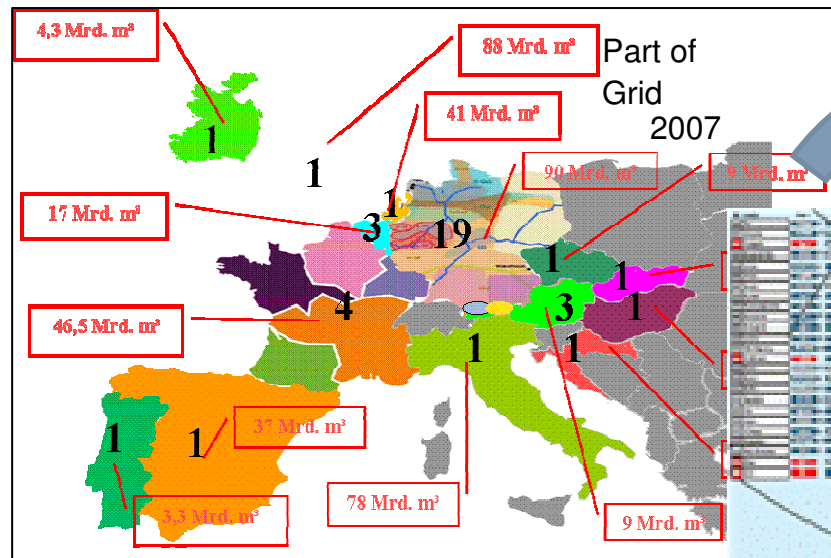
- Current Hubs/Exchanges in the EU

- In some parts many
  - In other parts none
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- CEE is rather illiquid for the time being



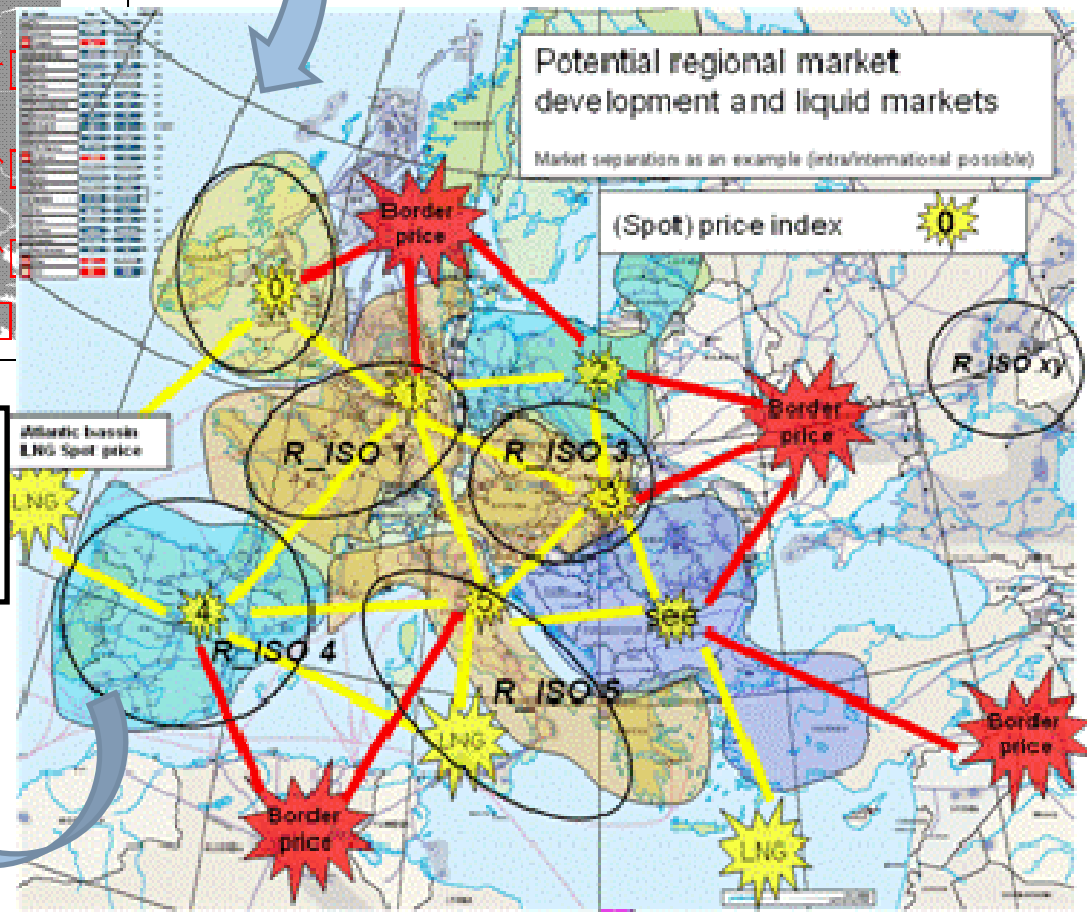
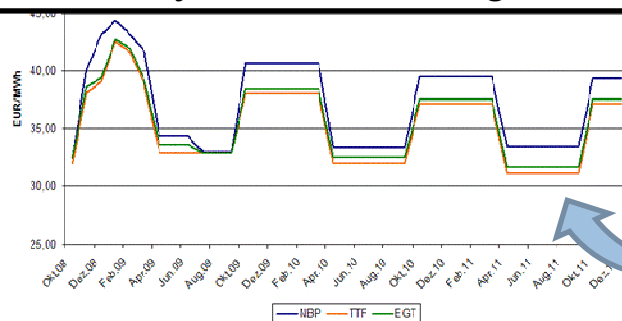


# Multi - TSO integration potential 1



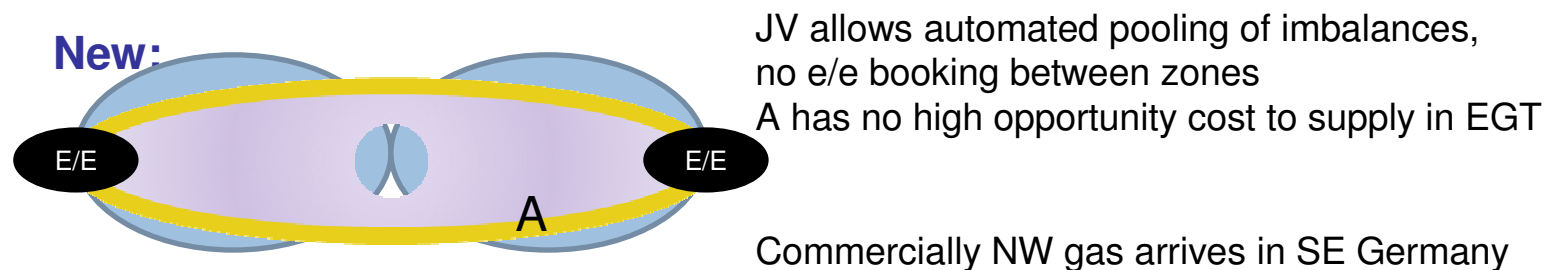
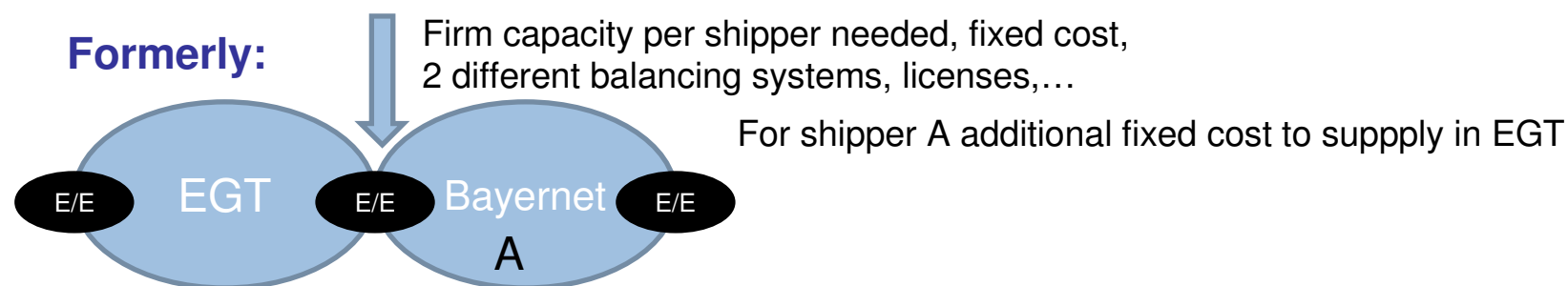
JV (NetConnect) of EGT and Bayernet is a good new example for a start

Forward curve for region 1-6  
Spot market for region 1-6  
Intra-day market for region 1-6



## Multi - TSO integration potential 2

JV of EGT and Bayernet [NAME] is a good new example for a start



# IEA Information paper of March 2008

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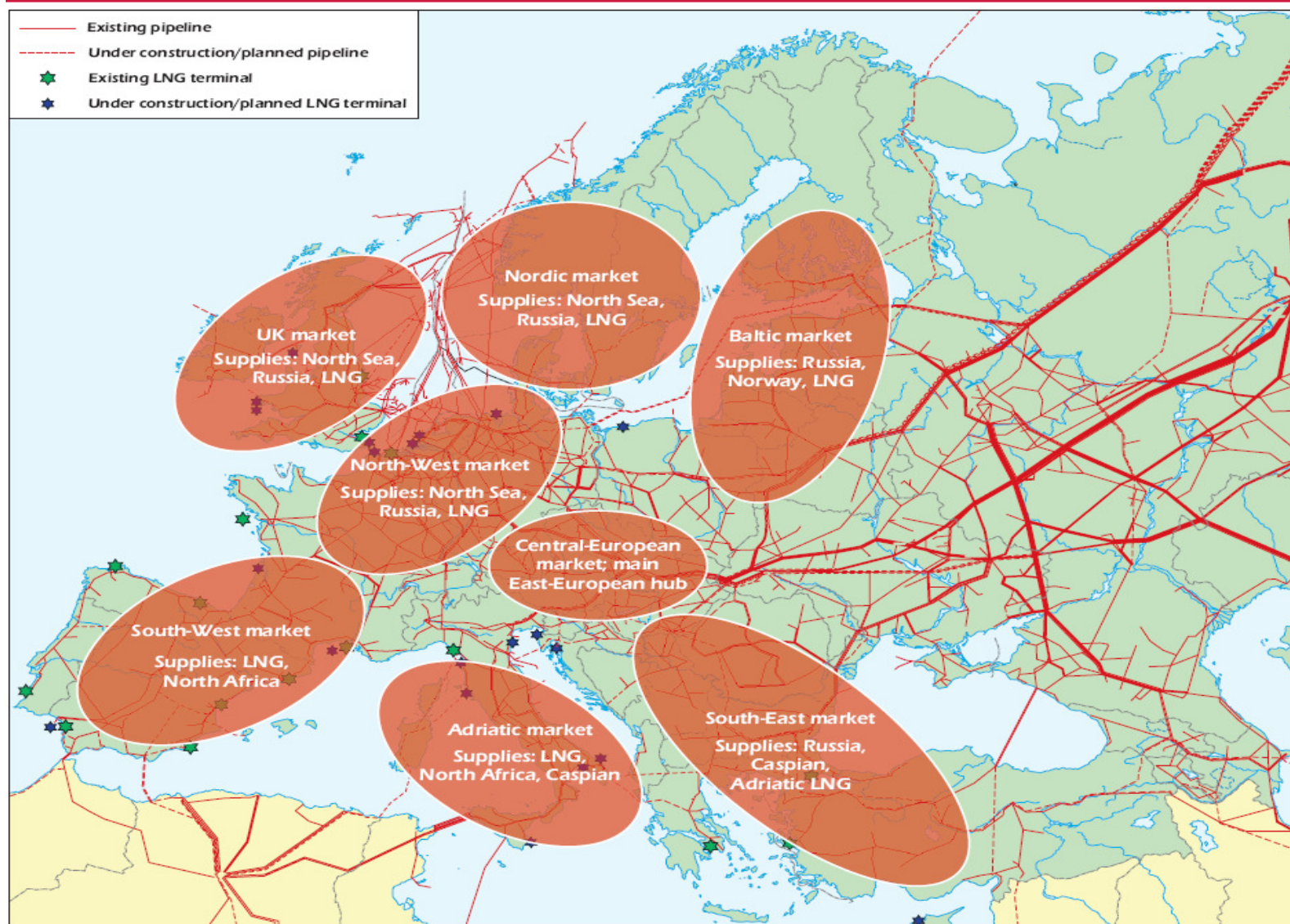


## DEVELOPMENT OF COMPETITIVE GAS TRADING IN CONTINENTAL EUROPE

*How to achieve workable competition  
in European gas markets?*

IEA INFORMATION PAPER

# Multi - TSO integration potential – IEA view



# Market players' needs – an independent study

## Moffatt wholesale study, July 2008

Responses of stakeholders on the top 7 measures rated highest in terms of their positive impact on increasing liquidity in wholesale gas trading (10 highest priority – 1 lowest priority)

**Chart 50: Factors Impacting upon Future Liquidity – Gas**

(total responses 2552)



# Market pricing in CEE – PWC study in GRI SSE



## Highlights

- Congestion at almost all borders and acquired transit capacities are often not used (86%)
- Intransparent market in the entire region (prices, storage access etc).
- traders welcome an entity to coordinate transportation capacities
- traders are in favour for an international independent coordination office for balancing energy in the region
- Hubs have to improve their liquidity and information management
- Balancing energy should be organised via hubs
- Lack of standardisation concerning procedures, information, licensing standards and IT systems.

Trader Survey Gas 2008 • First Results

2



# Concrete multi - TSO integration potential?

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- JV (NetConnect) of EGT and Bayernet is a good new example for a start – others in Germany to follow (there are still far too many systems!!)
- Former JUGEL, also US might give some lessons to be assessed
- New potential internationally:
  - CZ and Slovak system have been designed, built and operated jointly originally - only separated with split of country!!
  - What are the technical problems for re-integration??
  - GTS – BEB: same owner, would boost liquidity of TTF
  - GRTgaz – Fluxys: opportunity missed with Suez GdF merger?!
- Energy community:
  - World Bank study on gasification asks for regional approach
  - Energy Community Secretariat asks for the creation of the Balkan ring to boost SoS
- ENI proposal of EU-TSO

# Conclusion

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- Overwhelming support from many market participants fostering stronger multi- system integration and respective 3<sup>rd</sup> package amendments adopted by EP
- Some few positive signs on the ground (Germany!), much is still to be achieved, ENI proposal, MOL proposal
- Recent wave of company mergers, take-overs and co-operations create a complex multinational structure which can only be handled on a regional and best European level
- national possibilities limited – see credit crunch
- EC oversight and lead necessary for legislative consistency
- Even IEA suggests the creation of regional market for pragmatic and technical reasons