



European Federation of Energy Traders

LNG TRADING PERSPECTIVES

Colin Lyle,
EFET Board Member and
Gas Committee Chairman

LNG2009
23/24 March, London



Contents:

- **Introducing EFET**
- Influences on LNG in Europe
- An EU LNG policy?
- The fungibility challenge

INTRODUCING EFET

Our members' interests in the LNG supply chain



Involvement along (nearly all) the supply chain

Purchasing cargoes for supply portfolio and sales

Trading cargoes

Merchant regas & sale to market

Purchasing LNG and wholesale/trade at hub

(And others)

INTRODUCING EFET

The voice of energy traders in Europe



The European Federation
of Energy Traders (EFET)



- Represents over 90 trading companies operating in more than 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

⇒ Trade enables flexibility

- allows market participants to adjust positions within and across borders
- provides choice about when and where to buy or sell

⇒ Traders make markets more efficient and more competitive

⇒ Trading allocates risks efficiently among market participants

⇒ Trade increases economic welfare and results in more accurate and efficient prices

INTRODUCING EFET

Our Mission:



“The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market”

Through better:

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

INTRODUCING EFET

Our Vision



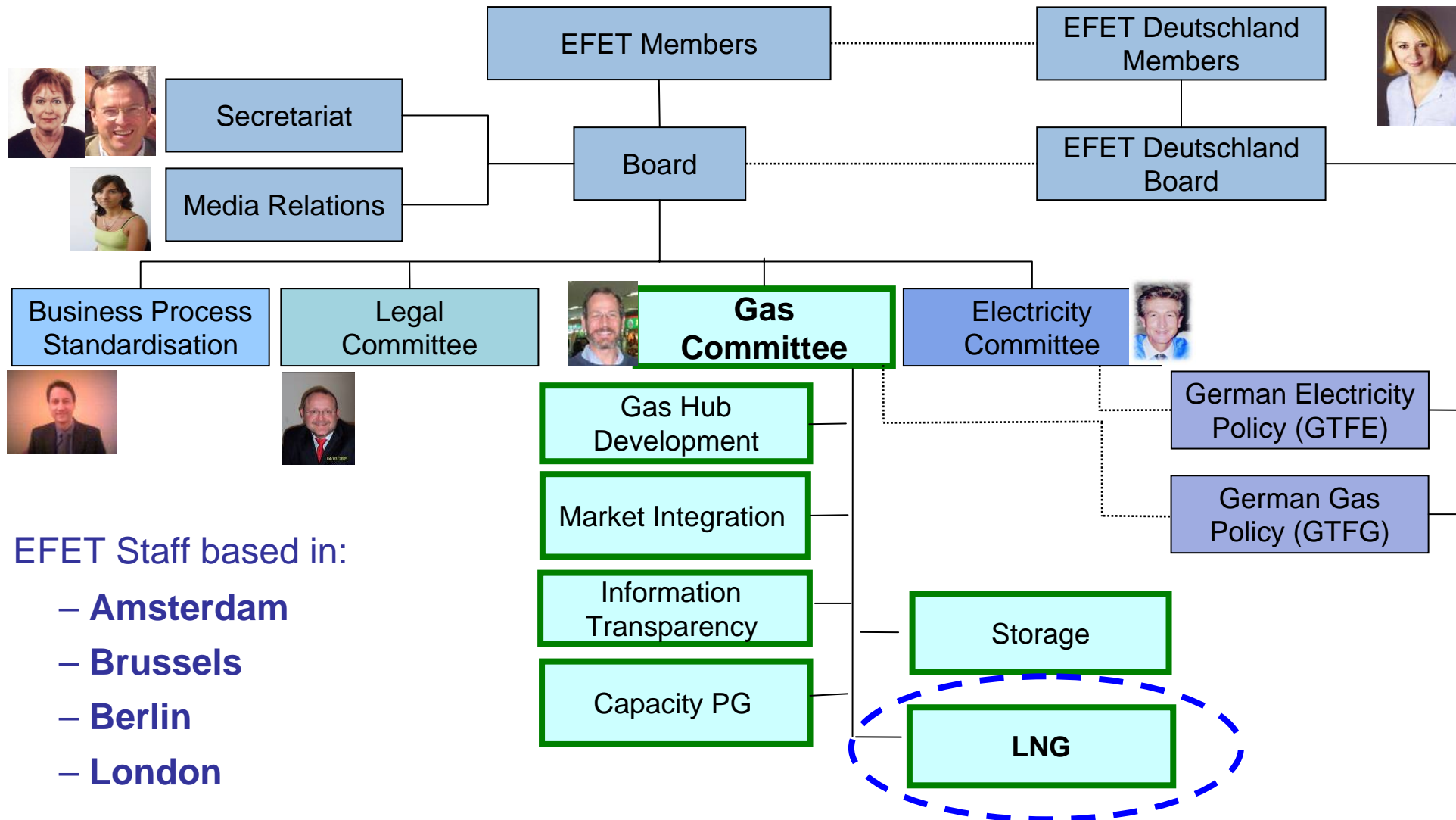
- ➔ We foresee energy markets throughout Europe, in which traders efficiently intermediate in the value chain, on the basis of clear wholesale price signals,



thereby optimising supply and demand and enhancing security of supply, to the overall long term benefit of the economy and of society.

INTRODUCING EFET

A wide range of interests – Gas is a core area



- EFET Staff based in:
 - Amsterdam
 - Brussels
 - Berlin
 - London

advanced
energy
trading



ALPIQ



British Energy



Dresdner Kleinwort



BKW[®]
BKW FMB Energy Ltd.



BNP PARIBAS

BG International



centrica
energy

Cargill

Citigroup



ConocoPhillips

DONG
energy

ECONGAS

BARCLAYS



eft
ideas with energy



GDF SUEZ



EDF
FOUNDATION

EDISON

endesa

edp

Deutsche Bank



ELECTROMAGNETICA



EnBW

Enel
Trade



ENERGY
HOLDING

ENECO

ENERGY
PARTNERS

Fortum

e-on

ruhrigas

enercity[®]
positive energie



e-on | Trading

essent
ENERGIE

en-i

GAZPROM
MARKETING & TRADING

GASELYS
GAZ DE FRANCE & SOCIÉTÉ GÉNÉRALE

gasNatural

GasTerra

RheinEnergie

Goldman
Sachs

GREEN ENERGY

Getec

hse
Holding Slovenske elektrarne d.o.o.



HYDRO



IBERDROLA

JPMorganChase

kelag

100M-STROM AG

HRVATSKA ELEKTROPRIVREDA

LUMIUS



Merrill Lynch

Macquarie

mark 


MERCURIA
ENERGY TRADING S.A.

Morgan Stanley





THE SOURCE OF POWER

 MVV Energie

Nexen Energy
Marketing

 NIDERA®

NOK Nordostschweizerische Kraftwerke AG
Ein Unternehmen der  axpo

NUON


PGE


PLURIGAS

 RBS Sempra
Commodities

 RUDNAP
group

RWE
The energy to lead


OST
ELEKTRA

raonordic

 SLOVENSKÉ
ELEKTRARNE

spe

RE
RÄTTA ENERGI



SJB energy
trading

SWM
Stadtwerke München

Stadtwerke Leipzig
Alles ganz einfach.



Statkraft

 STATOIL

SYNECO

tiroler
wasser
kraft



TOTAL

Trafigura Ltd

 Verbund
Austrian Power Trading


Trianel Energie

VATTENFALL



 Vitol

 VIVID POWER AD
THE ENERGY IS LIFE

 UBS

 UNION FENOSA


WINGAS




EFET

Contents:

- Introducing EFET
- Influences on LNG in Europe
- An EU LNG policy?
- The fungibility challenge

INFLUENCES ON LNG IN EUROPE

EU political, regulatory and commercial influences



- Governments' national concerns
- Regulators' responsibilities for market oversight
- Shareholders' expectations for growth

Future LNG trading challenges in Europe

- Attracting cargoes in a global market
- Access from ship to trading hub
- Convergence of regulatory and exempt regimes through development of market mechanisms
- Fungibility of LNG with pipeline gas.

➡ LNG encouraged as a source of diversification of supply (e.g. Poland)

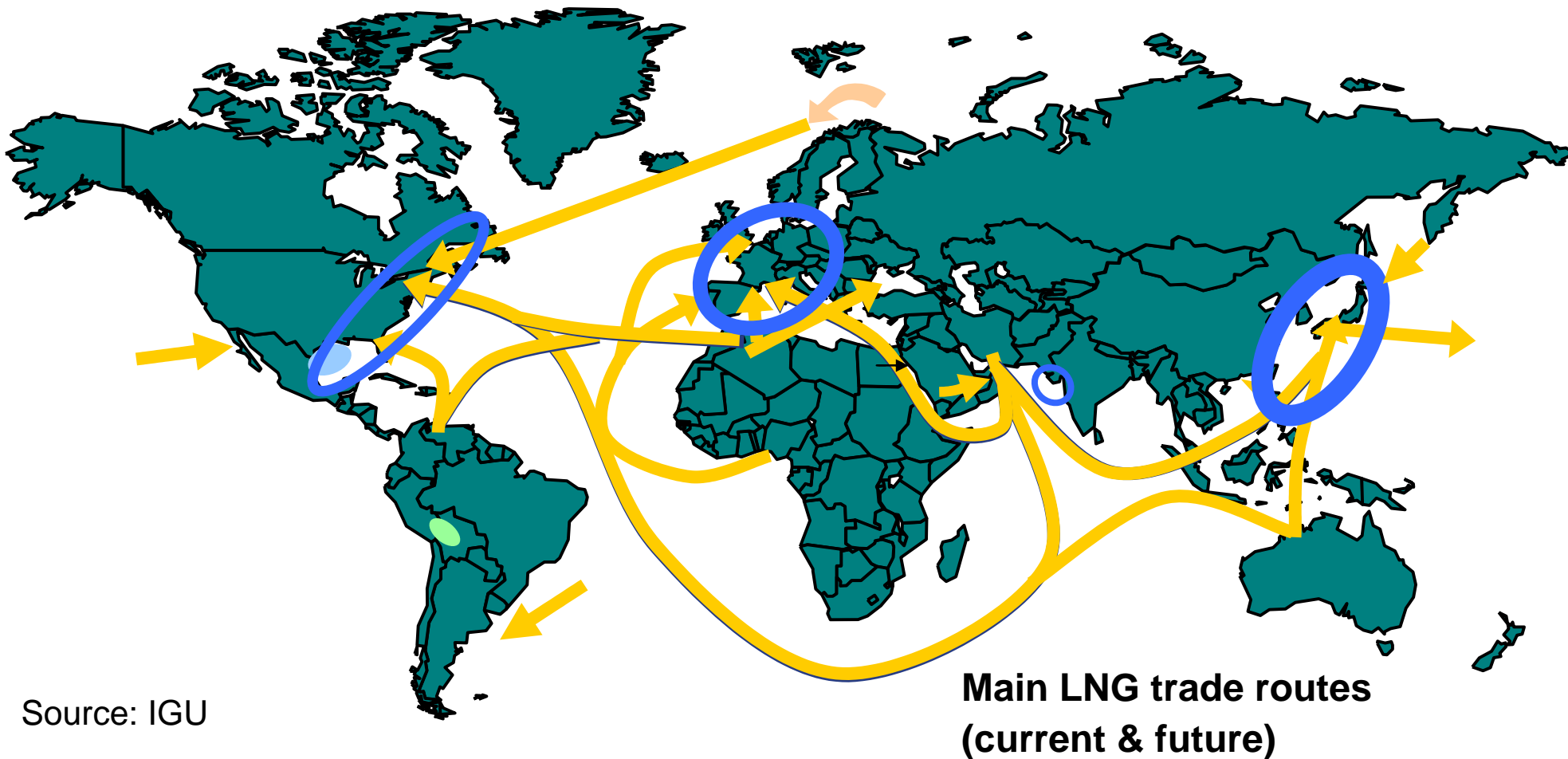
➡ Increasing influence of National Regulatory Authorities

➡ LNG expansion provides new trading opportunities, but still mainly for large companies

➡ Global changes, time for innovation in Europe ?

INFLUENCES ON LNG IN EUROPE

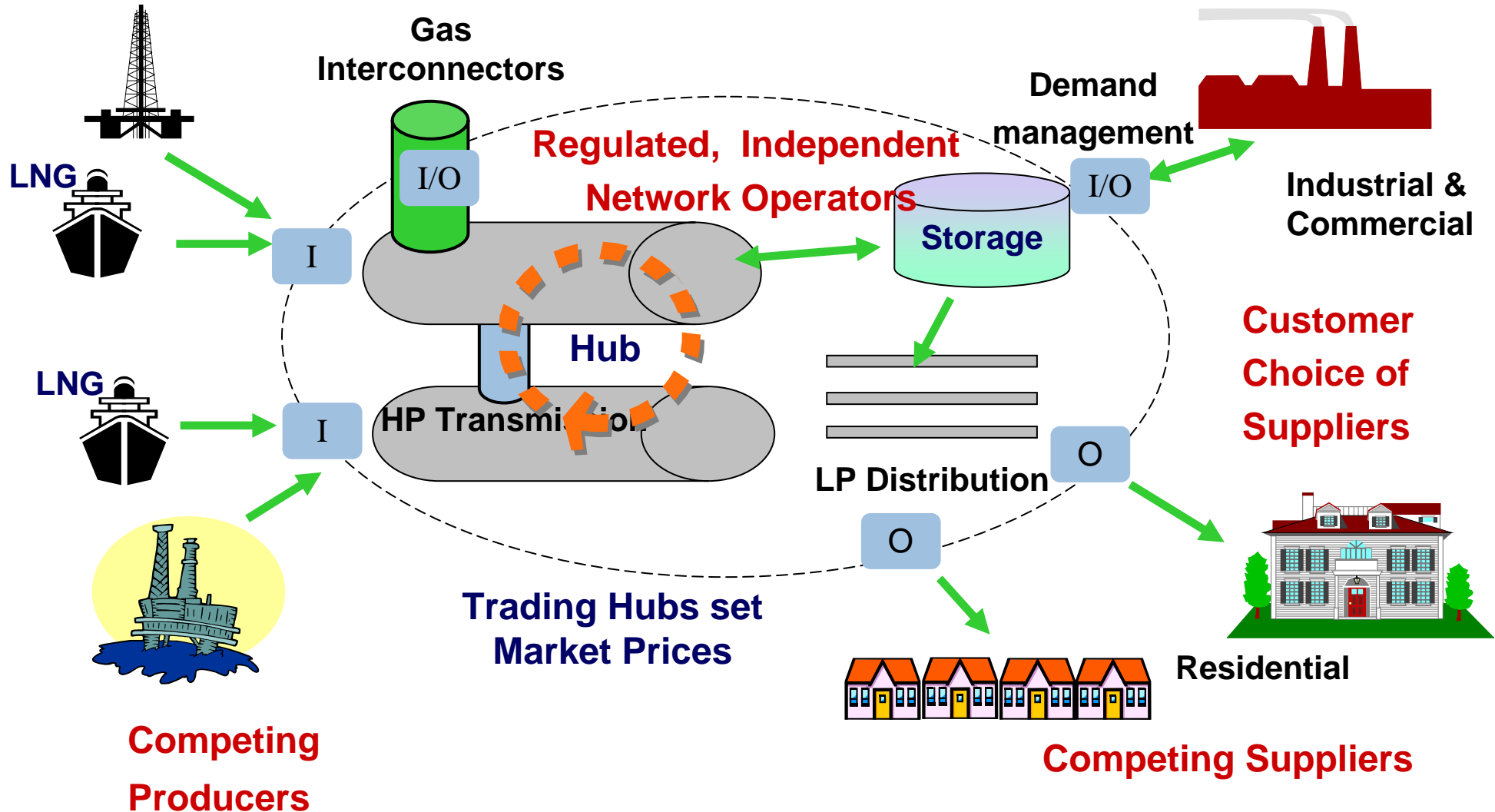
Europe is part of an expanding global LNG market



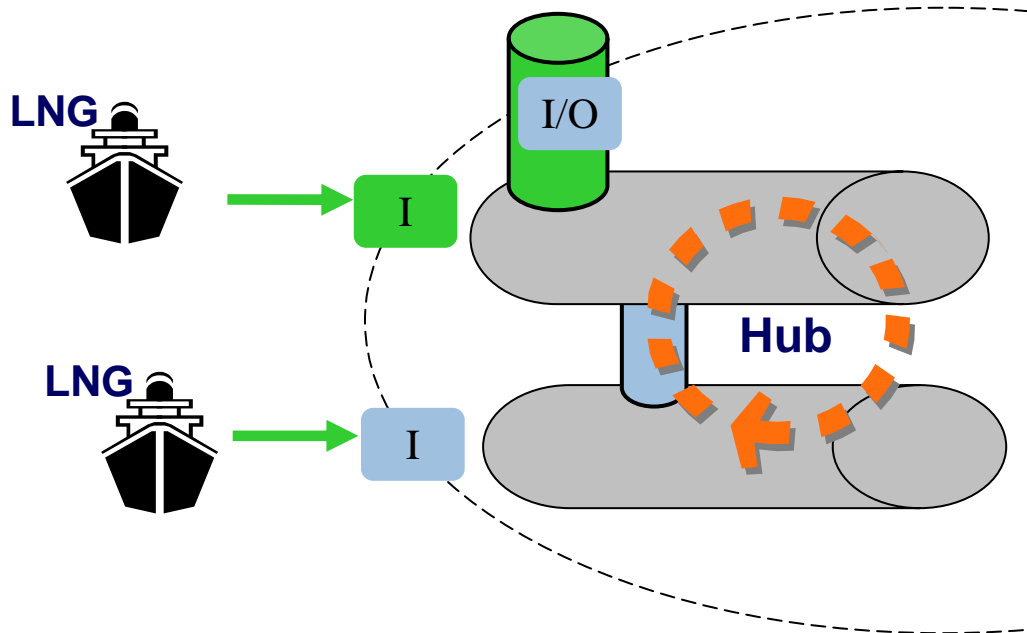
Source: IGU

INFLUENCES ON LNG IN EUROPE

Illustration of the Developing EU Gas Market



Old terminals regulated, most new terminals exempt



- Exemption from (regulated) access
- Regulated third party access



What will be the future regulatory treatment of LNG terminals – how will the 3rd package affect convergence?

Contents:

- Introducing EFET
- Influences on LNG in Europe
- An EU LNG policy?
- The fungibility challenge

AN EU LNG POLICY?

European Commission at 15th Madrid Gas Forum



Context for Commission draft

- ➔ 14th Madrid Forum conclusions
- ➔ GGPLNG (ERGEG)
- ➔ Findings of EC study on LNG
- ➔ SER/external energy dimension

- ➔ 17 regas terminals in 7 EU countries; capacity c.96 bcm/y
- ➔ More intermediate/short-duration contracts
- ➔ Share of short-term trading in global LNG sales:
 - 16 % in 2006
 - 20 % in 2007
 - 40% of new supplies coming to market in 2008/9 flexible
- ➔ 'Policy' is to monitor the ERGEG guidelines & tackle actions:
 - Tariffs & services
 - Congestion management
 - Information transparency

AN EU LNG POLICY?

EFET views sent to ERGEG & EU Commission



23 January 2008

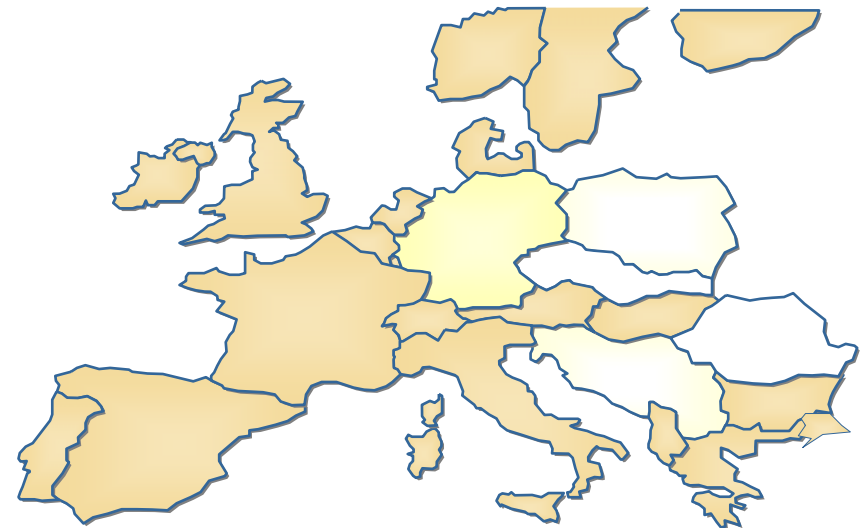
Comments on ERGEG
Guidelines for LNG SOs
(GGPLNG)



31 January 2009

Response to EC LNG policy
paper presented at 15th Madrid
Forum

Available at: www.efet.org



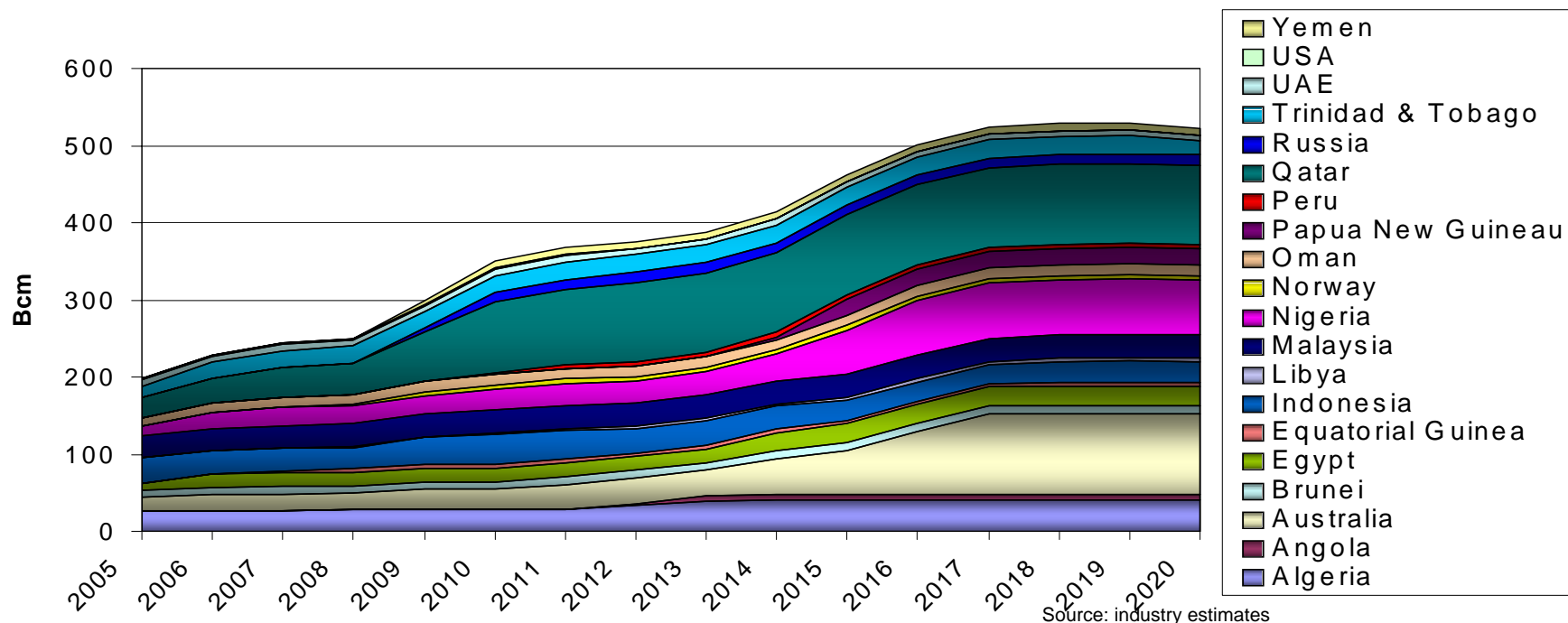
AN EU LNG POLICY?

Basic considerations on LNG for Europe



- EU and global LNG market is still evolving
- Regulating particular parts of the supply chain based on perceived supply and demand imbalances would be unwise. Better to let the market work
- Liquidity will grow, if trading conditions are further improved
- Both short term LNG trading and secondary capacity markets should be encouraged as complementary to long term contractual arrangements

Forecast Global Liquefaction Capacity



AN EU LNG POLICY?

Commercial & technical rules; Comparing tariffs

- ➡ Detailed technical access rules should not be part of a regulation
- ➡ Commercial incentives should ensure that appropriate technical rules are applied
- ➡ An overly prescriptive regulatory approach could block innovation
- ➡ Although it is difficult to draw meaningful conclusions from comparing tariffs, this should be attempted to enhance understanding and improve choice.



AN EU LNG POLICY?

Third Party Access (TPA) services



- ➡ A balance between interests in primary and secondary capacity
- ➡ Stimulating continuous delivery of additional primary capacity is an effective way to create associated secondary capacity trading opportunities
- ➡ Incentives to stimulate secondary capacity should consider the effect on incentives for investment in primary capacity – not to do so might discourage further capacity investment



AN EU LNG POLICY?

Standardisation of contracts



➔ **Rights purchased under a contract for LNG terminal capacity, should be assignable** (free to sell on to third parties not just back to the terminal operator).

- stimulates secondary trading

➔ **Product offerings to different potential capacity purchasers should be non discriminatory**

➔ **Not always a standard contract** - some purchasers may require different combinations of services offered by an LSO

➔ **Standard terminology reduces transaction costs**, fewer contract management issues, lower legal risks / fees

➔ **Some Harmonisation of trading arrangements** at all LNG import facilities to stimulate development of trading on secondary markets

AN EU LNG POLICY?

Bundled and unbundled services



- ➔diversity and choice in products.
- ➔consideration of both bundled and unbundled products
- ➔Unbundled products must not frustrate the offering of bundled product by displacing opportunities for sale of bundled product
- ➔LSOs should consult with shippers about possible new services
- ➔GGPLNG should avoid being overly prescriptive in respect of how bundled and unbundled services should be offered so that no barriers are created to innovation and product differentiation in the market.



AN EU LNG POLICY?

Transparency (Information provision)

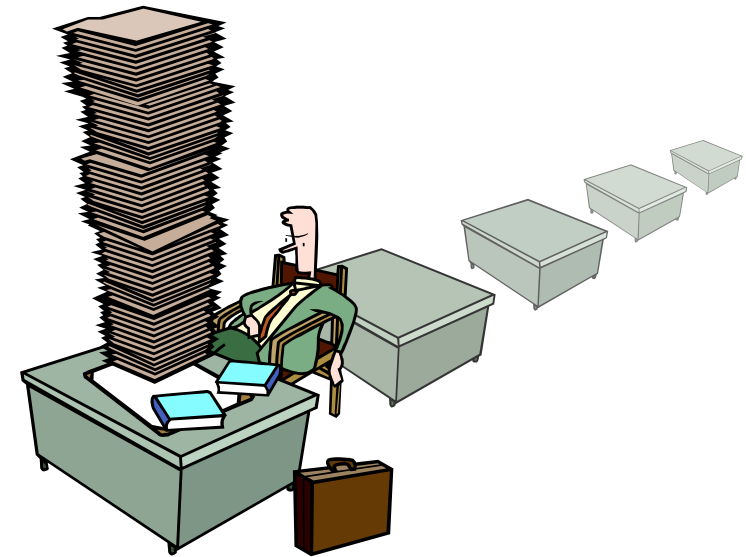


- ➡ Provision of information is an essential foundation of energy trading
- ➡ A lack of information can stop markets from developing
- ➡ Improved information provision increases confidence and reduces inequalities, this promoting liquidity.
- ➡ Need to define 'prospective transparency' in relation to terminal availability.
- ➡ Information release needs to be consistent and in a user-friendly format.
- ➡ LSO's should consider what aggregate information they could provide regularly

AN EU LNG POLICY?

Anti – hoarding measures

- maintain a clear distinction between anti- hoarding measures and secondary capacity arrangements
- **Anti –hoarding is a backstop measure** (needs to accommodate specific terminal circumstances)
- **Notification period** for making available unused terminal slots is a key factor in ensuring effectiveness
- Full transparency and a good secondary market should make anti-hoarding redundant.



AN EU LNG POLICY?

Secondary capacity trading



- ➔ Focus should be on stimulating secondary trading in a way which is **acceptable to both primary and secondary users**
- ➔ There should be **freedom to deliver innovative products** to meet demand rather than imposition of prescriptive solutions.
- ➔ To facilitate a traded market **some product standardisation is essential**
- ➔ **It is crucial that LSOs do not create barriers to the development of secondary markets.** They must put in place the necessary arrangements to facilitate the market once there is a recognised need.
- ➔ **Cross subsidies should be avoided**





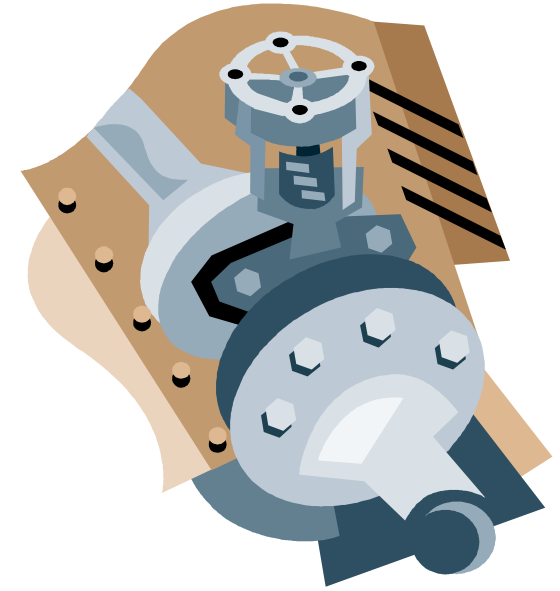
- ➡ No clear net benefit from establishing a minimum gas quality requirement at the entry to EU LNG terminals
- ➡ Some argue that a minimum gas quality requirement might be detrimental to security of supply
- ➡ Who would pay the bill for quality treatment pre-terminal entry?
- ➡ Would it be better to standardise gas quality requirements at LNG regasification terminal exits to TSO networks?
- ➡ But gas quality must not become a barrier to trading between LNG and gas in pipeline systems

AN EU LNG POLICY?

Harmonisation with downstream transmission system



- ➡ The prevailing **entry capacity regime** is a key issue for each relevant market
- ➡ **Access to downstream networks** can be a barrier to being able to use LNG terminal capacity



“If delivering LNG to Europe is to have some competitive advantage over other parts of the world then we need to make it easy for whoever brings in the cargo to monetise it. For traders this means getting the gas from the ship into a local trading hub at a known price for known costs and identifiable risks.”

AN EU LNG POLICY?

Summary of EFET view on EC proposals



- ➡ **LNG trading & arrangements for access** to LNG terminals must be non-discriminatory & facilitate participation of large/small established/new players
- ➡ **Diversity & choice** in bundled / unbundled capacity should be encouraged
- ➡ Potential for **new LNG trading products & improved contract harmonisation** at LNG terminals, but overly prescriptive could frustrate
- ➡ LNG terminal **capacity rights should be assignable** & free to sell to third parties
- ➡ **Improved transparency** should provide a stimulus for increased trading, discussion with terminal operators is recommended
- ➡ **The notification period** for making available unused slots is a key factor, but anti hoarding measures should be recognised as just an extreme backstop
- ➡ The priority should be effective arrangements for trade in **secondary capacity**

Contents:


- Introducing EFET
- Influences on LNG in Europe
- An EU LNG policy?
- The fungibility challenge

THE FUNGIBILITY CHALLENGE

Traders primary concern about LNG



is to ensure there is fungibility with pipeline gas

“It should be possible to buy and sell LNG interchangeably with pipeline gas without any undue physical, commercial or legal barriers.” 

THE FUNGIBILITY CHALLENGE

Imperative to avoid bottlenecks downstream



Upstream driver: be sure we can monetise our gas volumes



Production



Liquefaction



Shipping

85-90%
of costs



Regasification



*Marketing &
Trading*

10-15%
of costs

Downstream driver: get gas at the right price for our markets

THE FUNGIBILITY CHALLENGE

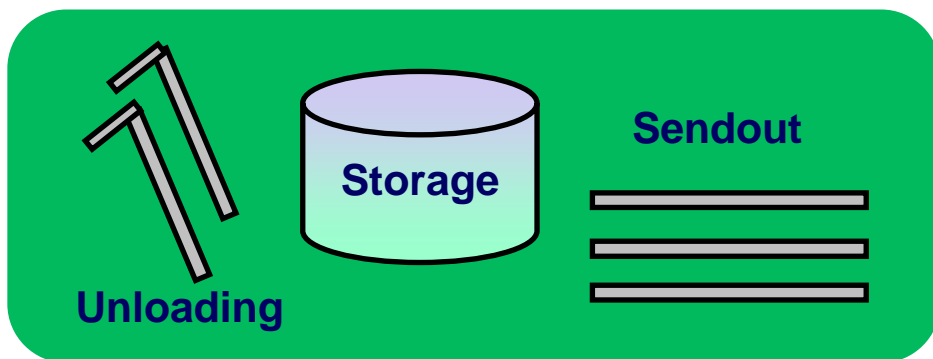
Some key questions for value extraction



What price do I get at the gas hub?



What LNG costs/alternatives do I have?



What are the costs and arrangements for using the regas terminal and getting gas to the hub?

What other costs/risks are there?

Flexibility creates opportunities, but also can increase risk

THE FUNGIBILITY CHALLENGE

Some European gas hubs provide clear price signals



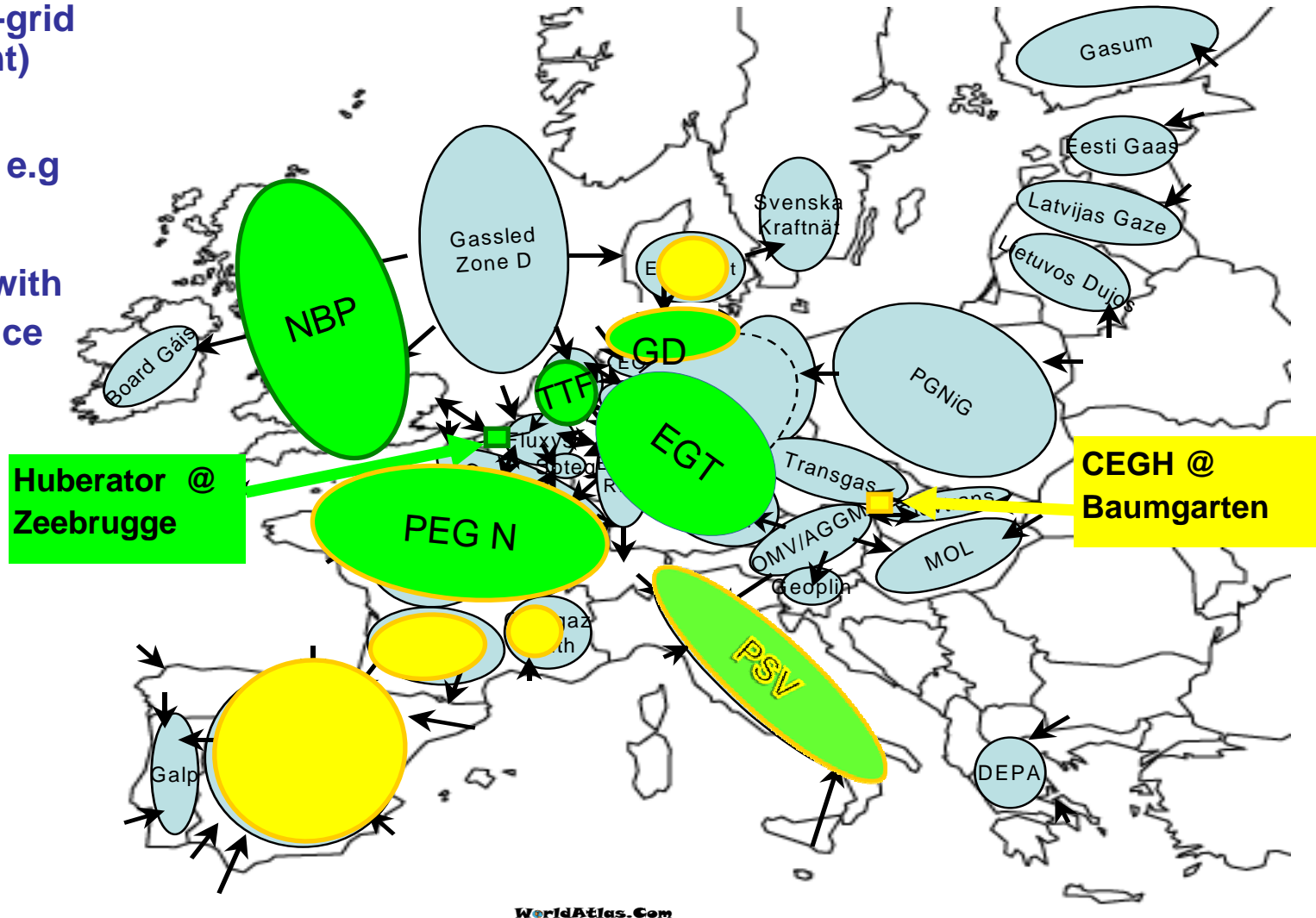
Virtual hub (in-grid balancing point)



Physical hub (e.g. border point)



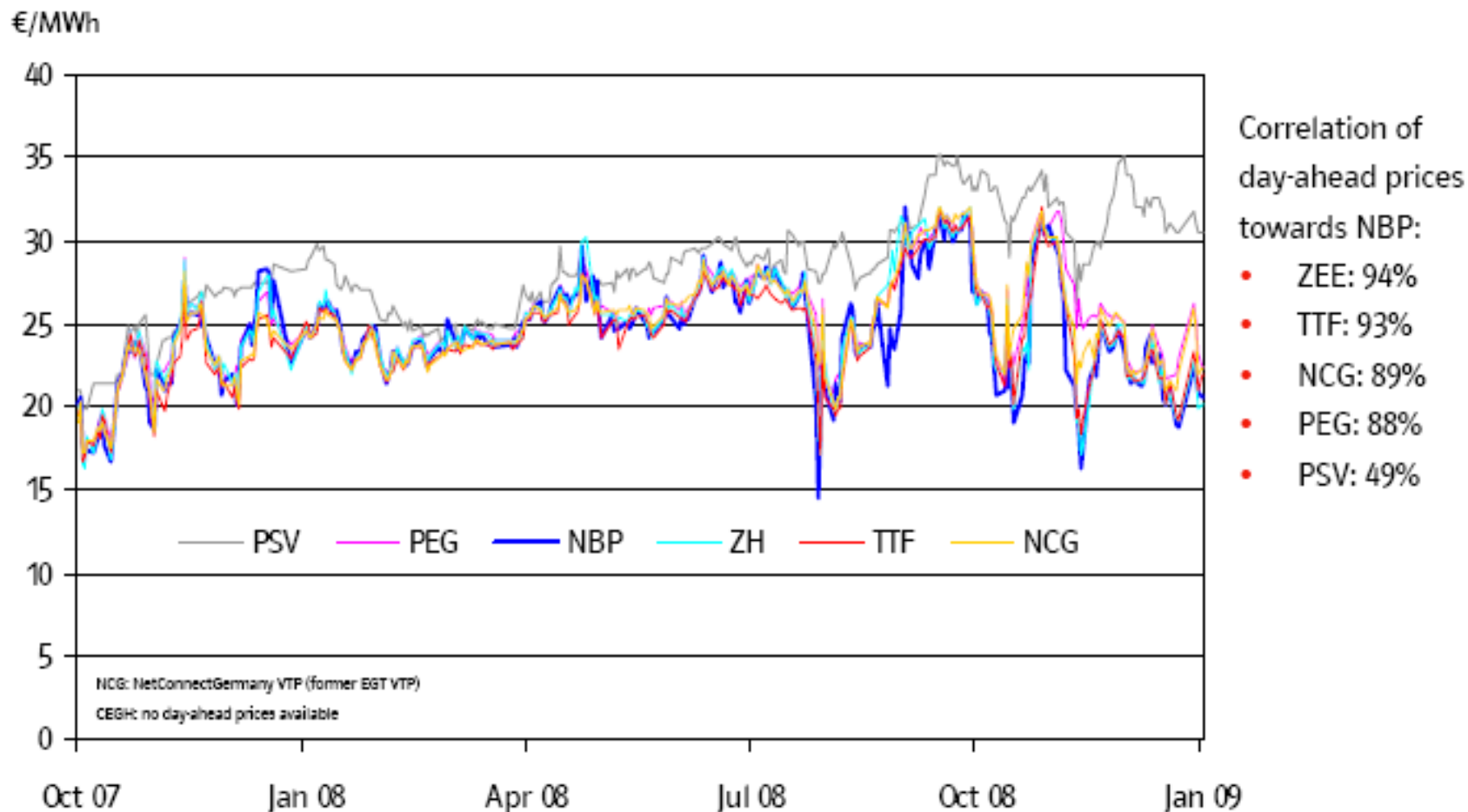
Trading hub with little or no price transparency



NB. Not all trading locations are shown

THE FUNGIBILITY CHALLENGE

NW European gas hubs are well correlated



Source: Eon Energy Trading

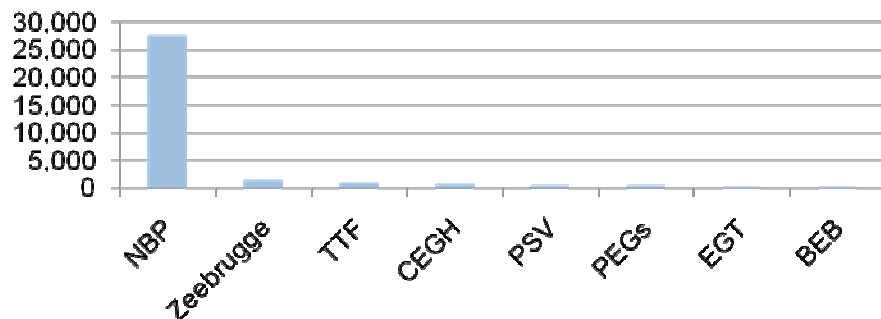
THE FUNGIBILITY CHALLENGE

Trading at NBP dominates, other hubs emerging



2007 traded volumes

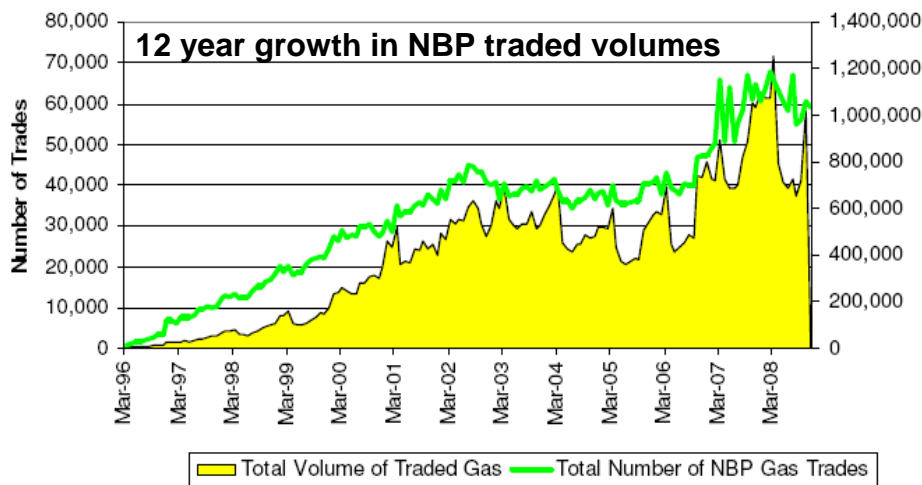
average daily in GWh
(Source: Hub operators)



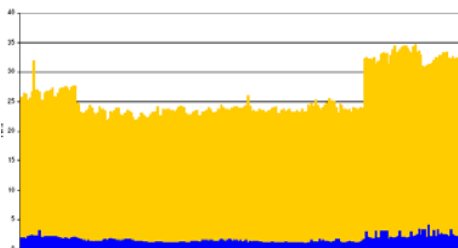
ICIS Heren - Gas Hub Liquidity (max=20)

	Q3 2007	Q3 2008
NBP	19	19
TTF	15	12
Zee	12	12
EGT	9	12
PEG N	7	8
BEB/GD	4	5
PSV	0	2
CEGH	0	0

12 year growth in NBP traded volumes



GWh



NBP traded volumes

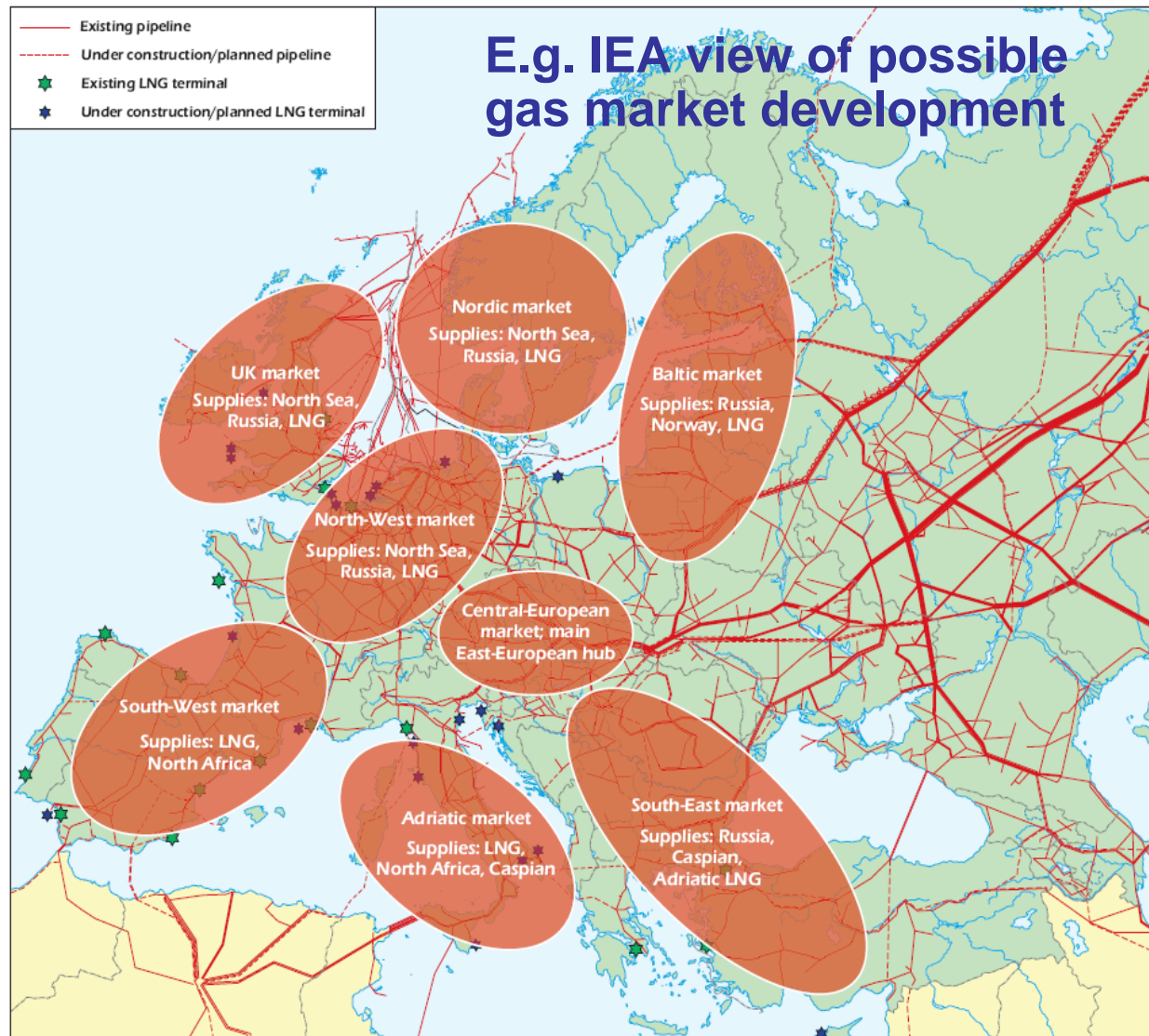
Physical NBP gas demand

Apr 2008

Nov 2008

THE FUNGIBILITY CHALLENGE

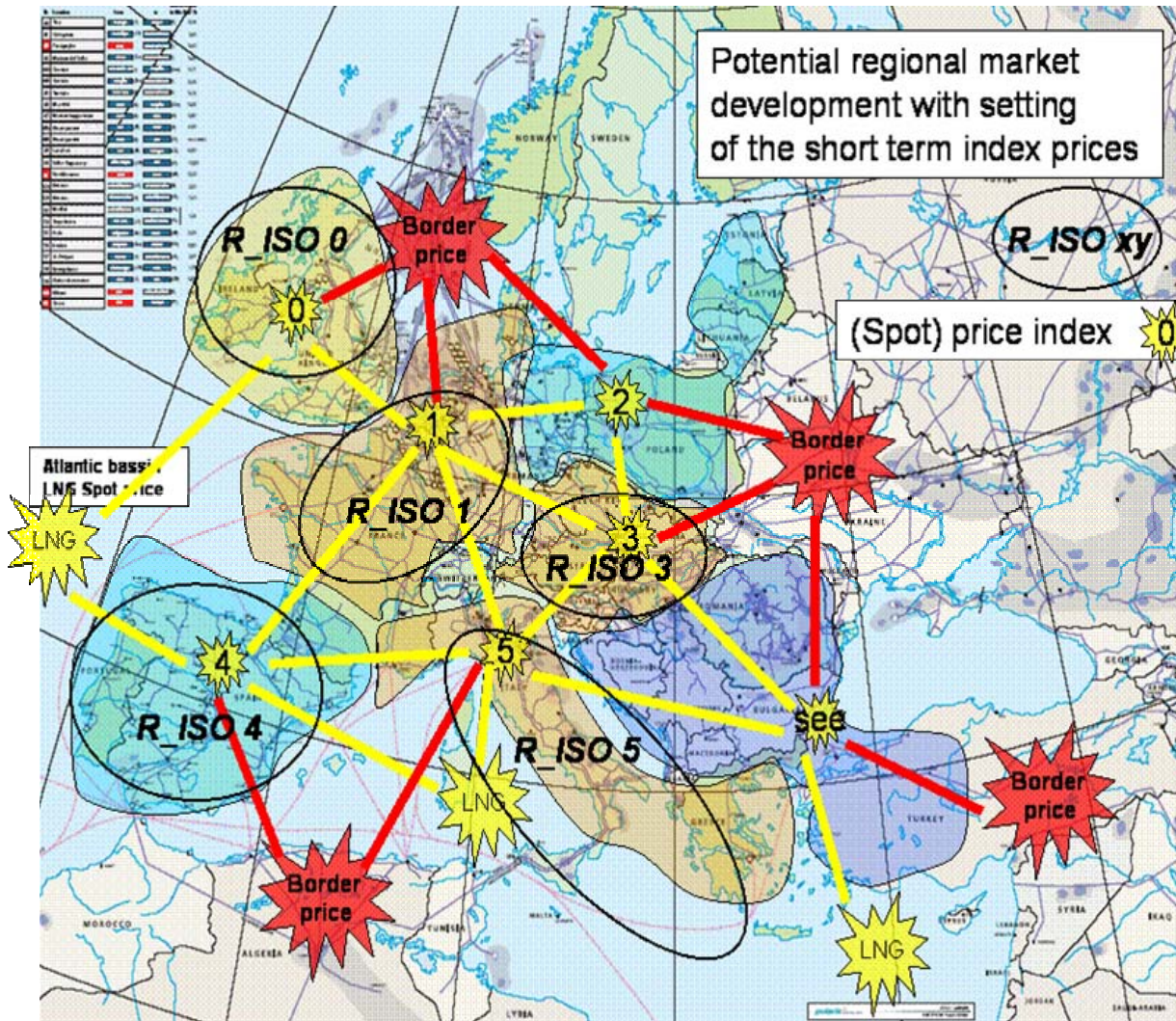
Gas trading may well retain a regional element



- 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**

THE FUNGIBILITY CHALLENGE

Gas prices in regional grids, LNG provides flexibility

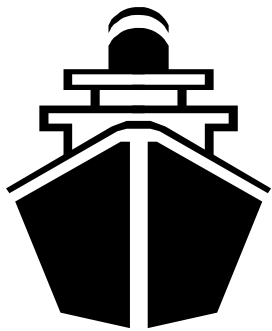


- Transparent price differential brings incentives to ship gas
- Regional System Operators know the available capacities
- Investments can be made with a regional/European overview and dimension
- More effective than static and national measures
- **Access to flexibility from other sources, including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

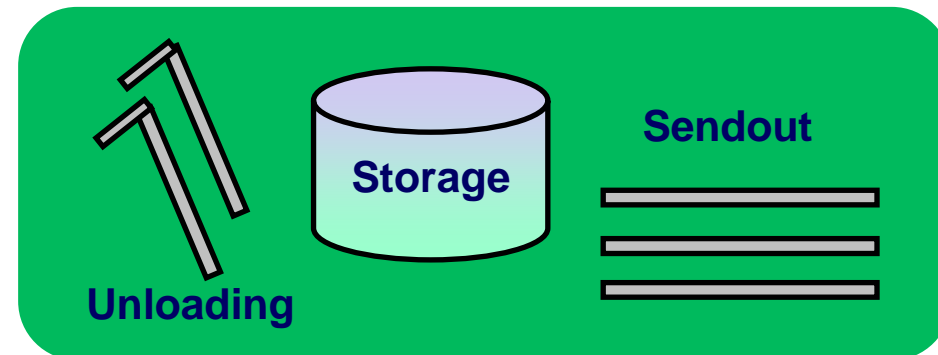
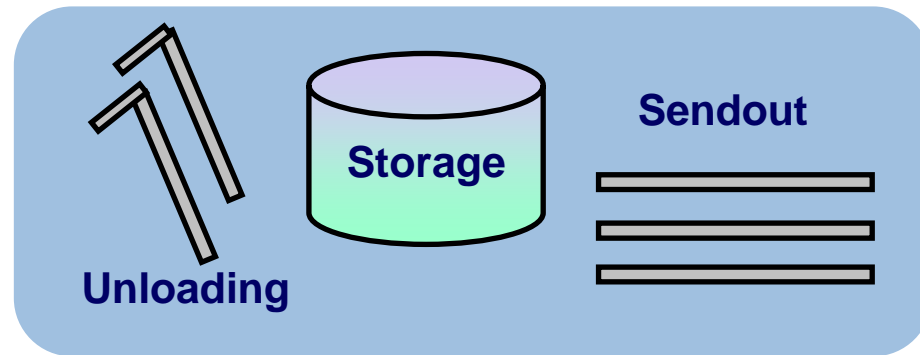
THE FUNGIBILITY CHALLENGE

Suppliers (& buyers) have choices.

Regional choices
across the globe



Choice of terminal
within a region

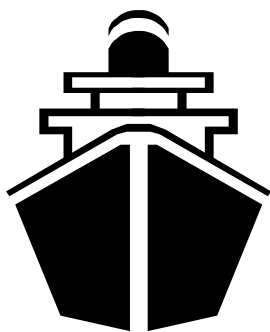


THE FUNGIBILITY CHALLENGE

LNG traders have choices, but with risk exposure



Regional choices
across the globe



Choice of terminal
within a region



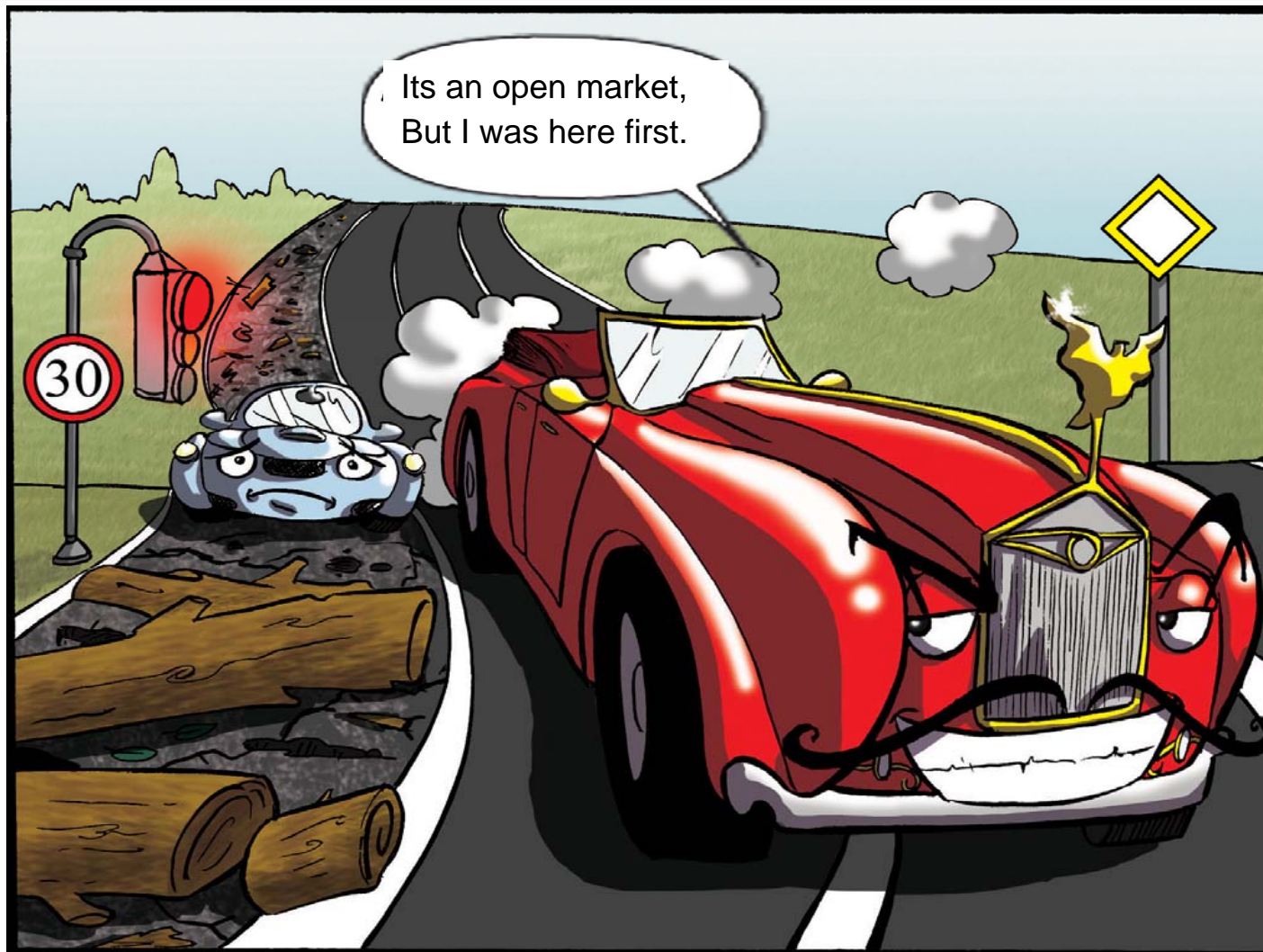
Is there access to the market with
the best value?

Can I lock in the price (& costs)?

Is there firm capacity with
guaranteed sendout to match a
market price I can lock-in?

THE FUNGIBILITY CHALLENGE

Do new entrants have the same opportunities?



LNG TRADING PERSPECTIVES

In Conclusion & for Discussion



- Growing **commercial opportunities** for LNG trade; Globally & in Europe the market is still developing
- But, at least for new entrants, **extracting value** is difficult because of structural or regulatory differences and market inefficiencies
- If Europe's regas terminals link more easily with markets this would **reduce risk**; *would standard options for firm sendout be a way forward?*
- Other suggestions include improved **information provision**, ensuring **capacity is freely assignable** to third parties & stimulating **secondary markets**

LNG TRADING PERSPECTIVES

Thanks for your attention



European Federation of Energy Traders

Tel: +31 (0)20 5207970
Email: secretariat@efet.org
www.efet.org