Public Consultation on the principles for trading natural gas on centralized markets

(ANRE - DOCUMENT DE DISCUȚIE PRIVIND PRINCIPIILE DE TRANZACȚIONARE A GAZELOR NATURALE PE PIEȚELE CENTRALIZATE)

EFET comments – 15 December 2017

The European Federation of Energy Traders (EFET)1 welcomes the opportunity to comment on the principles for trading natural gas on centralized markets under a formal consultation process, and especially appreciates that information has been made available additionally in English language. Nevertheless, as EFET has previously commented to Romanian authorities, the proposals impose unhelpful constraints on trading, particularly for long term contracts, that will not help liquidity. A reduced requirement that allows short term standardized products to be traded on a centralized market, but does not mandate it, would be a significant improvement on the proposal.

While EFET continues to follow the Parliament debate on Ordinance 64/2016 hoping that the foreseen changes do not receive the approval of the Chambers in their current form, we appreciate the opportunity to comment on the specific rules to be applied on the natural gas centralized markets and that have been put forward by ANRE to facilitate the trading of natural gas under competitive, transparent and non-discriminatory conditions.

In this regard EFET would like to once again point out the importance of implementing a favorable framework, upon which the gas market can grow and develop in the most efficient way, instead of establishing detailed specifications early in the process of market development that will potentially hinder future requirements. EFET therefore suggests initiating the gas market reform in Romania by focusing on

1 The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.
developing a well-designed Entry/Exit Model compliant with EU regulations, which consists of a market based balancing market with cash out rules, a Virtual Trading Point with all features as seen in other European markets as well as clear rules and regulations to increase confidence, inevitably attracting new market participants and therefore competition. Further specifications of the market can be developed jointly with stakeholders in a consultation process.

With this in mind, we reiterate comments made in previous communications, which are still relevant. In particular, centralized market platforms are suited for trading standardized products, however should not limit market players in their freedom to negotiate contract terms, as this is in an integral part of managing risk and opportunity across the value chain of gas trading. Any constraints in this sense would therefore represent virtually insurmountable barriers for any future upstream developments, making a material detrimental impact on the Romanian economy.

In this light, any presumed benefit in terms of increased liquidity possibly attributable to Ordinance 64/2016 in the current or future form risks being outweighed by unintended negative impacts. Specifically on the elements you are asking for feedback on:

- We note the importance of using the correct terminology to ensure equal interpretation of EU legislation. A common understanding of what Spot, Forward, Futures contracts as well as of what central markets are is in fact key to engage in a constructive discussion leading to effective regulation. At times we feel that such terms are not used in a rigorous manner and therefore we struggle to appreciate the rationale behind their use;

- While we appreciate the recommendation to use an EFET-type contract for trading, a more thorough legal review is necessary to see what additional terms may be required in an appendix for the Romanian market. In any case the contractual framework is very much dependent on the framework rules of the market, as it is often necessary to reflect specific local conditions contained in network access terms (or to replace terms that are unclear or inoperable);

- The role of a clearing house – in particular for long term transactions – is overstated;

- With respect to bilateral transactions, we note that they have a role in increasing market liquidity in that they complement standardized deals when the market so deems appropriate. Forcing sales terms – in terms of contract definition, location and pricing – add a level of complexity that may in fact hinder the development of liquidity in the early stage of the life of a market;
• We also highlight that rather than trying to impose excessive constraints on the functioning of the centralized market, especially when it comes to bilateral transactions, in order to promote liquidity the focus should rather be on establishing a well-functioning IT trading infrastructure and a virtual trading point in an entry-exit system;

• As for the transparency requirements EFET is very much in favor of establishing high standards, and welcomes the initial proposals. However, we note that this partially overlaps with existing REMIT requirements. Where definitions do not match, this can create burdensome, confusing and costly reporting requirements. We recommend to base the reporting obligation on REMIT requirements to ensure that authorities receive the same data.

• Also, if there is intention to publish aggregated information it is important to remember that non-liquid markets may not have a sufficiently high number of participants to allow the necessary level of aggregation to ensure anonymity.

In light of the above and noting that some fine tuning is necessary in order to ensure that the proposed regulations have the desired outcome on the market. Therefore, as EFET we make ourselves available to engage in constructive drafting exercise going forward.