European Gas Hub Development
Part 1 – Summary of Results
Presented at 25th meeting of the European Gas Regulatory Forum,
Madrid, 6-7 May 2014
Each new hub tries to reinvent services to market, incurring unnecessary costs for them and for traders.
<table>
<thead>
<tr>
<th>Responsible party</th>
<th>What should be done</th>
<th>Scoring mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>NRA</td>
<td>Establish a consultation mechanism</td>
<td>1 if group set up and English language</td>
</tr>
<tr>
<td>TSO</td>
<td>Entry-exit system established</td>
<td>½ for Entry Exit; 1 if a single VTP</td>
</tr>
<tr>
<td>TSO</td>
<td>Title Transfer</td>
<td></td>
</tr>
<tr>
<td>TSO</td>
<td>Cashout rules</td>
<td></td>
</tr>
<tr>
<td>TSO</td>
<td>Accessible to non-physical traders</td>
<td>1 if trade without signup to physical rules</td>
</tr>
<tr>
<td>TSO</td>
<td>Firmness of hub</td>
<td>0 if not firm; ½ if firmness “managed” by TSO; 1 if BUBD; 2 if fully market-based</td>
</tr>
<tr>
<td>TSO</td>
<td>Credit arrangements non-punitive</td>
<td></td>
</tr>
<tr>
<td>NRA</td>
<td>Resolve market structural issues (defined role for historical player)</td>
<td>½ for release etc; 1 if market maker</td>
</tr>
<tr>
<td>NRA</td>
<td>Role of Hub operator</td>
<td>1 – role defined; 2 – gov’nce addressed</td>
</tr>
<tr>
<td>NRA</td>
<td>Agree regulatory jurisdiction if cross border</td>
<td>0 if cross border and no agreement; 1 if not cross border or does have agreement</td>
</tr>
<tr>
<td>Market</td>
<td>Establish a reference price at the hub for contract settlement</td>
<td>1 if price always available; ½ if deemed</td>
</tr>
<tr>
<td>Market</td>
<td>Standardised contract</td>
<td>1 if specialised contract – EFET or equivalent (or standard is sufficient)</td>
</tr>
<tr>
<td>Market</td>
<td>Price Reporting Agencies at the hub</td>
<td>1 if several’ ½ if only one PRA</td>
</tr>
<tr>
<td>Market</td>
<td>Commercial / Voluntary market makers</td>
<td>1 if voice or few ; 2 if systems and many</td>
</tr>
<tr>
<td>Market</td>
<td>Brokers</td>
<td></td>
</tr>
<tr>
<td>NRA</td>
<td>Establishment of exchange</td>
<td>1 if exchange appointed and hub is liquid; ½ if exchange appointed and hub illiquid</td>
</tr>
<tr>
<td>Market</td>
<td>Index becomes reliable and used as benchmark</td>
<td>1 if Market parties frequently requested</td>
</tr>
</tbody>
</table>
Hub development scores (2014 Q1)

Raw scores by trading hub

Source: ICIS for Tradability Index and maturity definitions

Measures split between in sequence / out of sequence

Measures completed across all hubs

Consultation
Entry-exit
Title Transfer
Cashout rules
Pure traders
Firmness
Credit
Role for historic
Hub Operator
Cross-border
Reference price
Standardised
PRAs
Market makers
Brokers
Exchange
Index

EFET
ICIS

NRA
TSO
Market

Source: ICIS for Tradability Index and maturity definitions
Next steps

- Study is known to be incomplete – must decide what criteria to refine (e.g. information transparency?) and how often to update
- Draw up recommendations for markets in the order of interest to market participants
- Offer support to EFET national / regional task forces and open consultation programmes

Most common “next steps” for illiquid hubs
- Establish a consultation process accessible in English language
- Implement Entry-Exit regimes with a (preferably) single virtual trading point
- Ensure the VTP is firm – through market based rules, with a transparent reference cashout price
- Make sure the roles of TSO, hub operator, exchange etc are clearly defined with appropriate governance arrangements

- Continue to work on other market-opening measures in addition to hub design
Regional Hubs and pricing zones

Suggestions for emergence of regional markets

a) Build on NC BAL implementation, which implies that every MS needs to have a local balancing market.

b) Make sure that capacity rights for Entry/Exit systems give fully firm access from one VTP to the next.

c) Promote the other conditions that will allow some forward trading to take place, even if liquidity is low.

d) Help market areas to merge where that is supported by market participants and/or TSOs

Facilitate hubs and allow prices to converge according to market demand
European Federation of Energy Traders

Amstelveenseweg 998
1081 JS Amsterdam

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