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European Federation of Energy Traders

The features of successful,  
on-system Virtual Trading  
Points



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# The features of successful, on-system Virtual Trading Points

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## Introduction :

- Entry-exit systems facilitate local, notional trading hubs
- Exist within a single transport system, located between entry and exit
- Facilitates market entry for non-integrated players
- Can exist as a single node or part of a multi-node model
- Complementary to regional hubs located at interfaces to multiple pipelines

## Hub features

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- Establishes a point at which a market can function
- Enables pooling of liquidity at that point
- Reduces transaction costs
  
- Useful for integrated and non-vertically integrated market players
  
- Single system means one regulatory authority, one tax regime
  
- Location for balancing market – allows TSO to compare actions in different locations in price order, and select most efficient
- Also allows bids out of price order
- Location for gas release programmes – contract can be designed to reflect general portfolio, not linked to specific supply deal

# Conditions for transportation access terms

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- Hub access terms can be built into transportation contracts
- Terms should allow title transfer (or imbalance transfer)
- Allocations as nominations
  - Except for mismatched trades
- Location for imbalance cashout & imbalance trading
  - May be used for *ex post* trading of imbalances
- Clearly defined imbalance charges (for referencing in trading contracts)
- Credit and governance can be treated as part of transportation terms

## Multi-node model

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- Multi-nodes possible under transitional arrangements to minimise the number of hubs.
- Ability to centralise imbalances i.e. trade imbalances across nodes will help gather liquidity at a smaller number of points.
- Unless separate balancing markets are to be established, imbalance transfer should be possible at predetermined prices
- Nodes should be reduced over time, e.g. by expanding inter-node capacity, and allowing balance transfer.
- Multi-nodes can co-exist if trading is concentrated as specific points (c.f. PJM)
- Single regional node possible in theory, but no practical experience

## Further thoughts

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- Access to transportation into/out of hub critical
- Simplified access terms for pure traders, exchange operators
- Costs can be rolled into transportation charges for basic service; leaving fees for exchanges with value-add services
- Standard trading terms should be established by traders, but will depend on quality of the transportation contract.

# Thanks for your attention

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