

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



- 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

➤ Predictability of regulatory framework:

- 3rd 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

- **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)

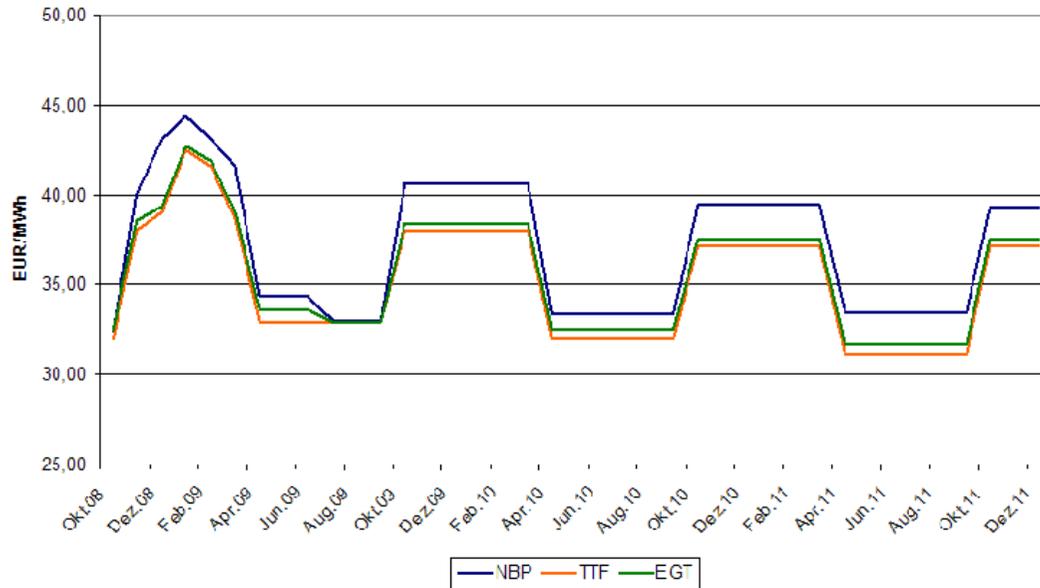
- **Establish liquid traded markets with a sufficiently large physical market underneath the Hub/exchange:**
 - NBP, a North West Continental one (PEG or Zeebrugge, TTF) or EEX (EGT+Bayernet), Italian gas exchange (PSV new, maybe market operator), CEGH if regional, Iberian,...????

Market pricing in EU



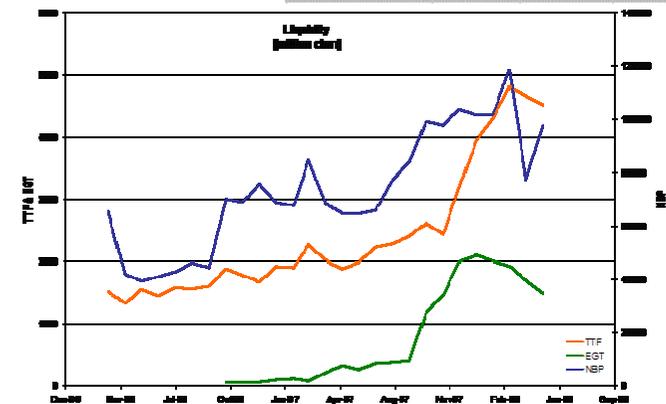
- It could all be so easy!

Forward Curve for NBP, TTF and EGT

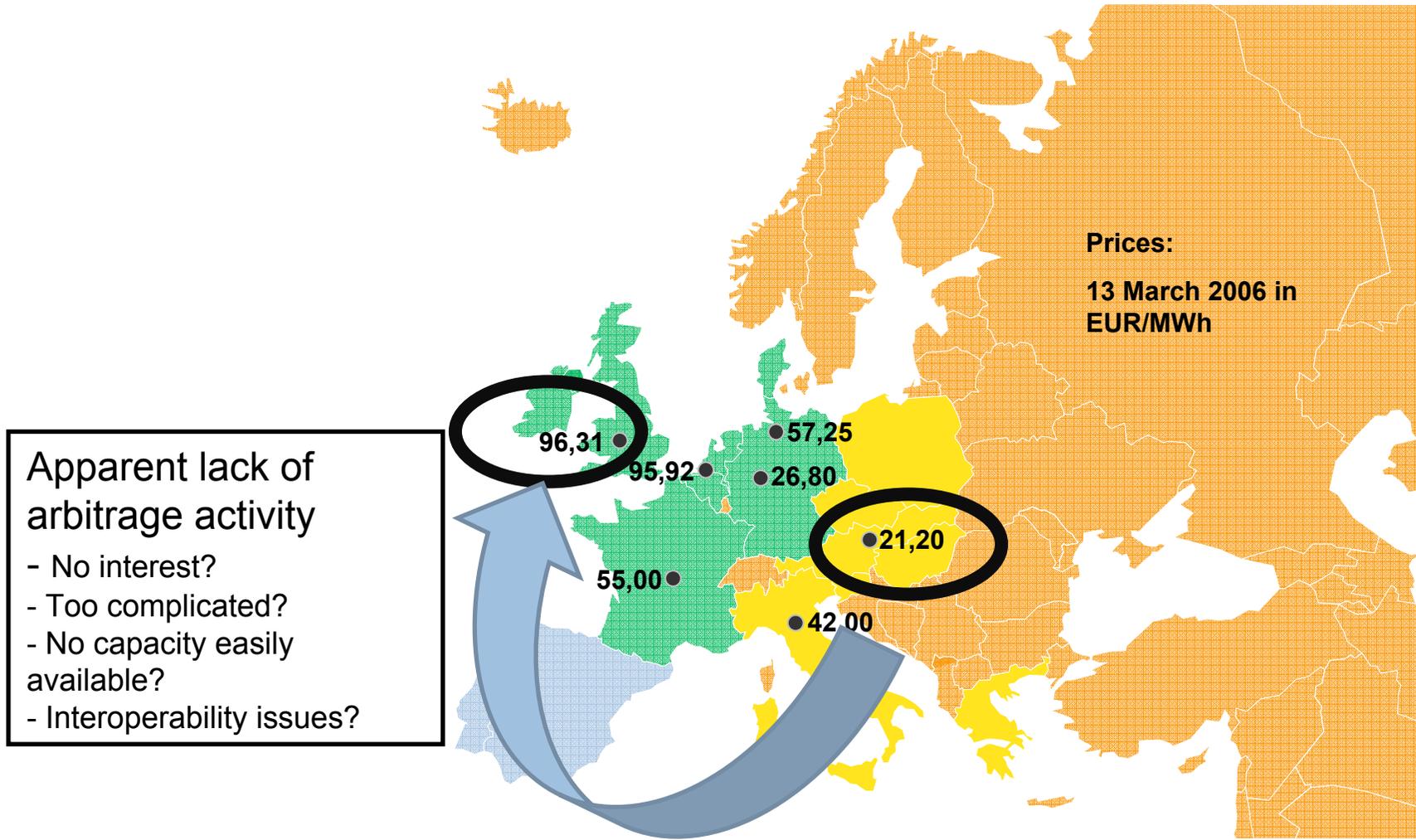


- However:
 - The question of liquidity is still dominant

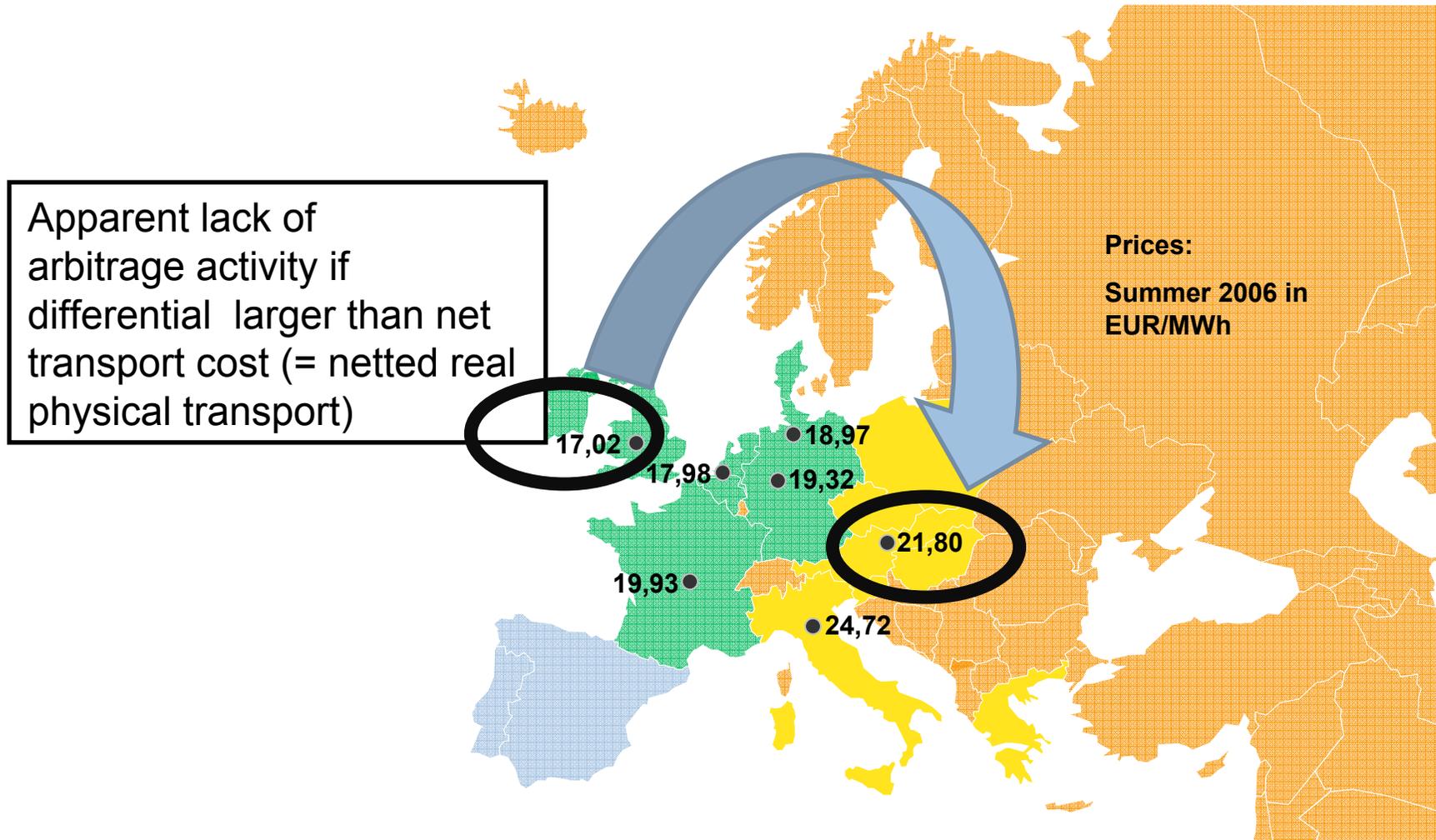
	NBP	TTF	EGT
Counterparts (OTC/Exchange)	90	55	45
Churn Rate	13-15	3,5	not given



Market pricing in EU – arbitrage 1



Market pricing in EU - arbitrage 2



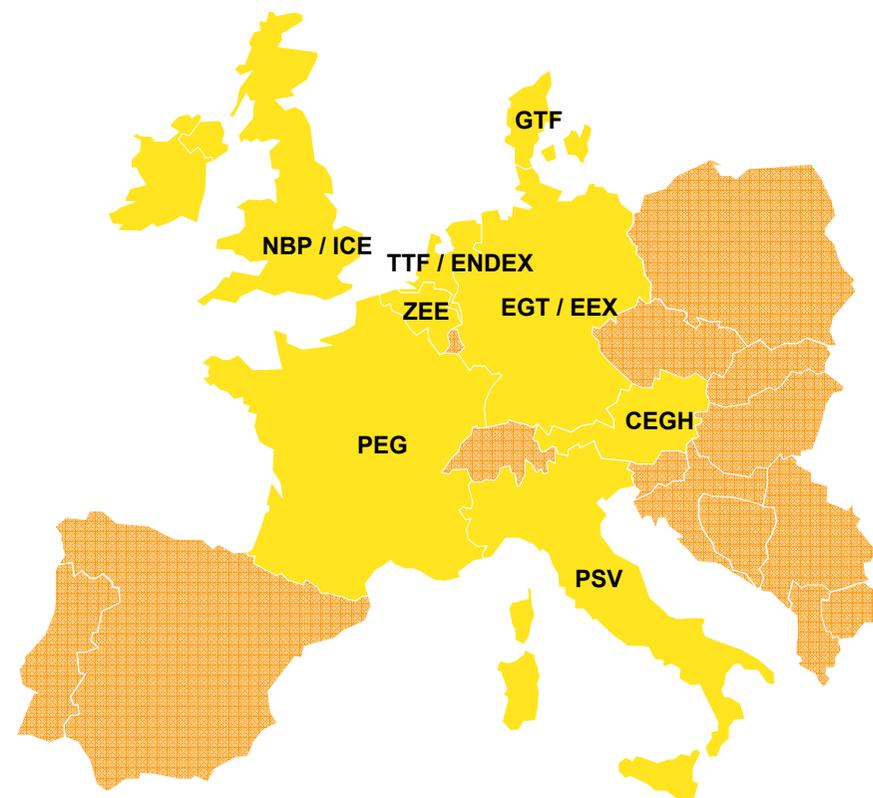
Market pricing in EU



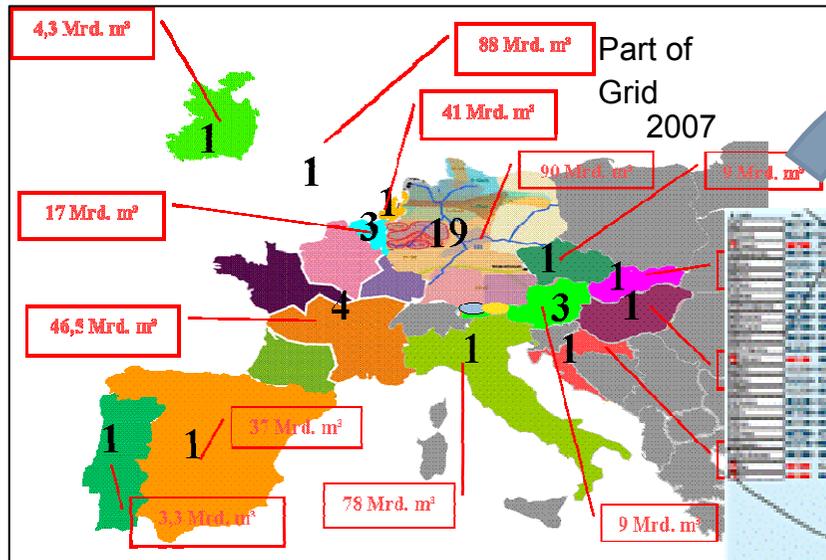
- Current Hubs/Exchanges in the EU

- In some parts many
- In other parts none

- CEE is rather illiquid for the time being

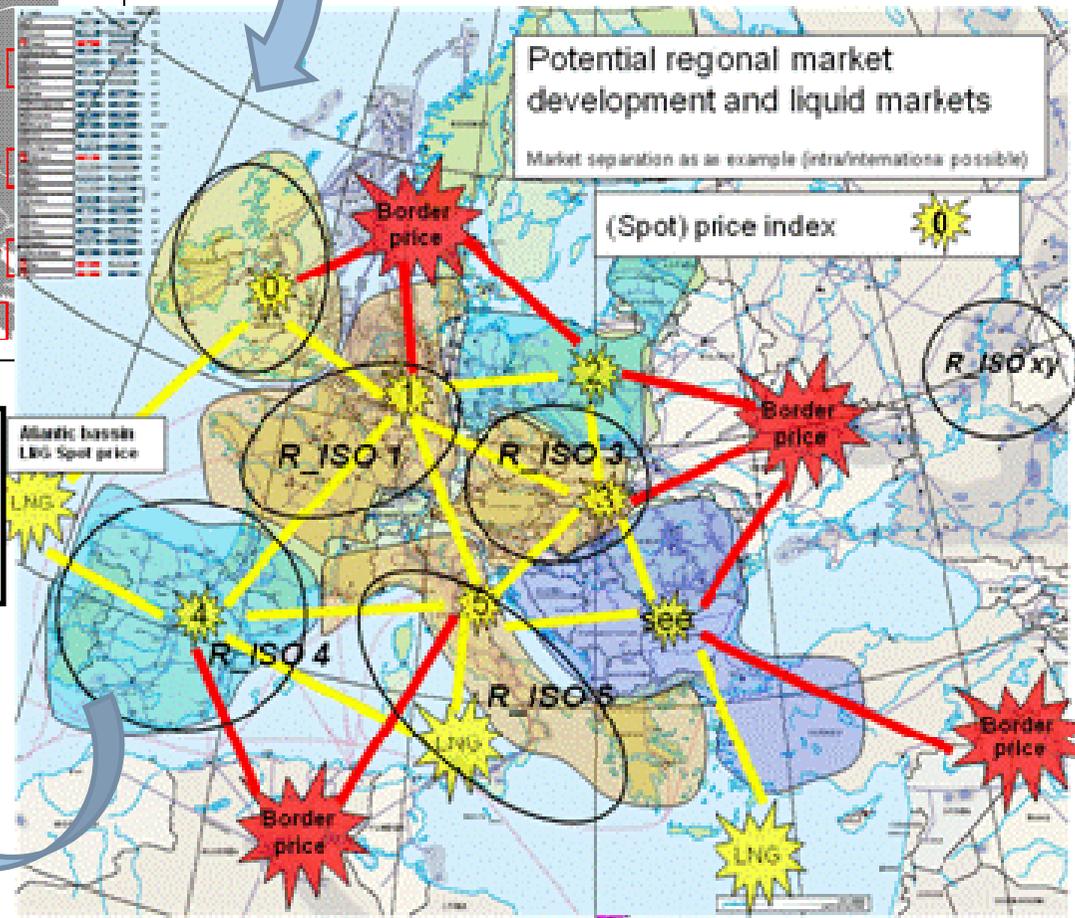
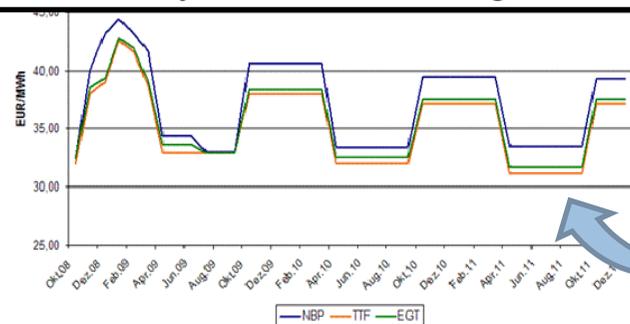


Multi - TSO integration potential 1



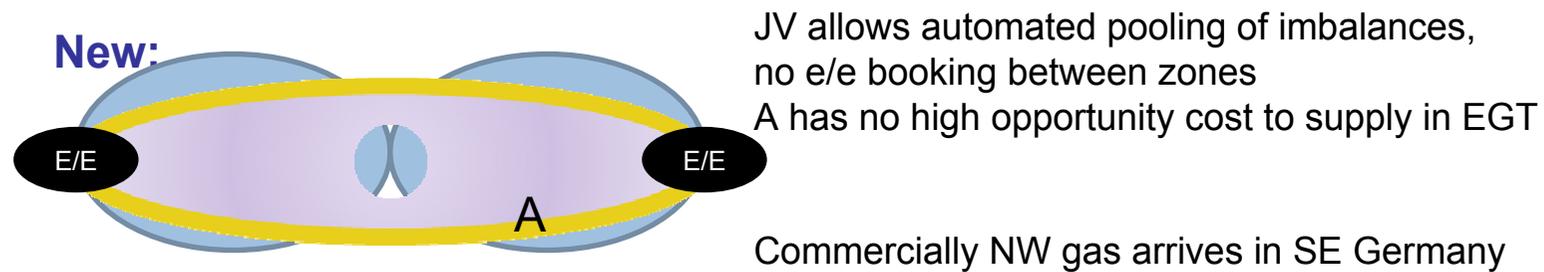
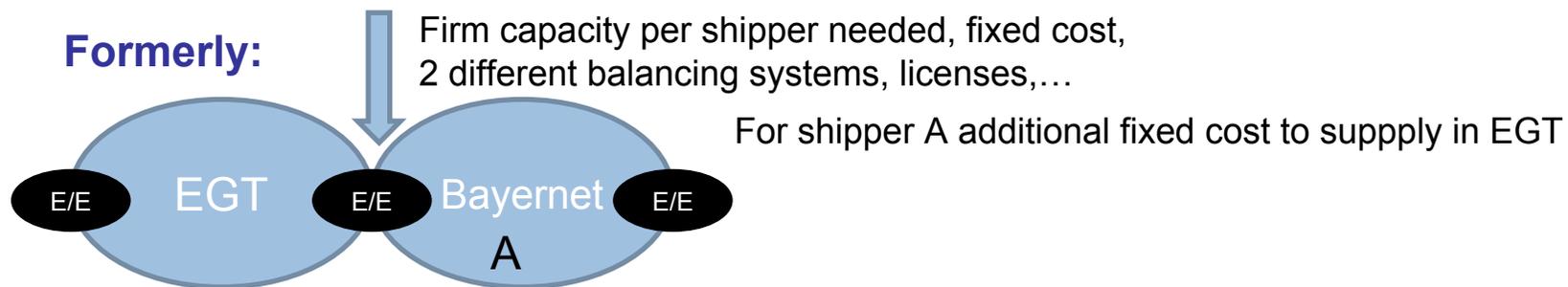
JV (NetConnect) of EGT and Bayernet is a good new example for a start

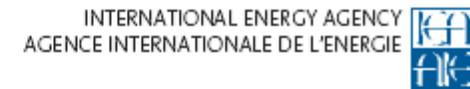
Forward curve for region 1-6
 Spot market for region 1-6
 Intra-day market for region 1-6



Multi - TSO integration potential 2

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



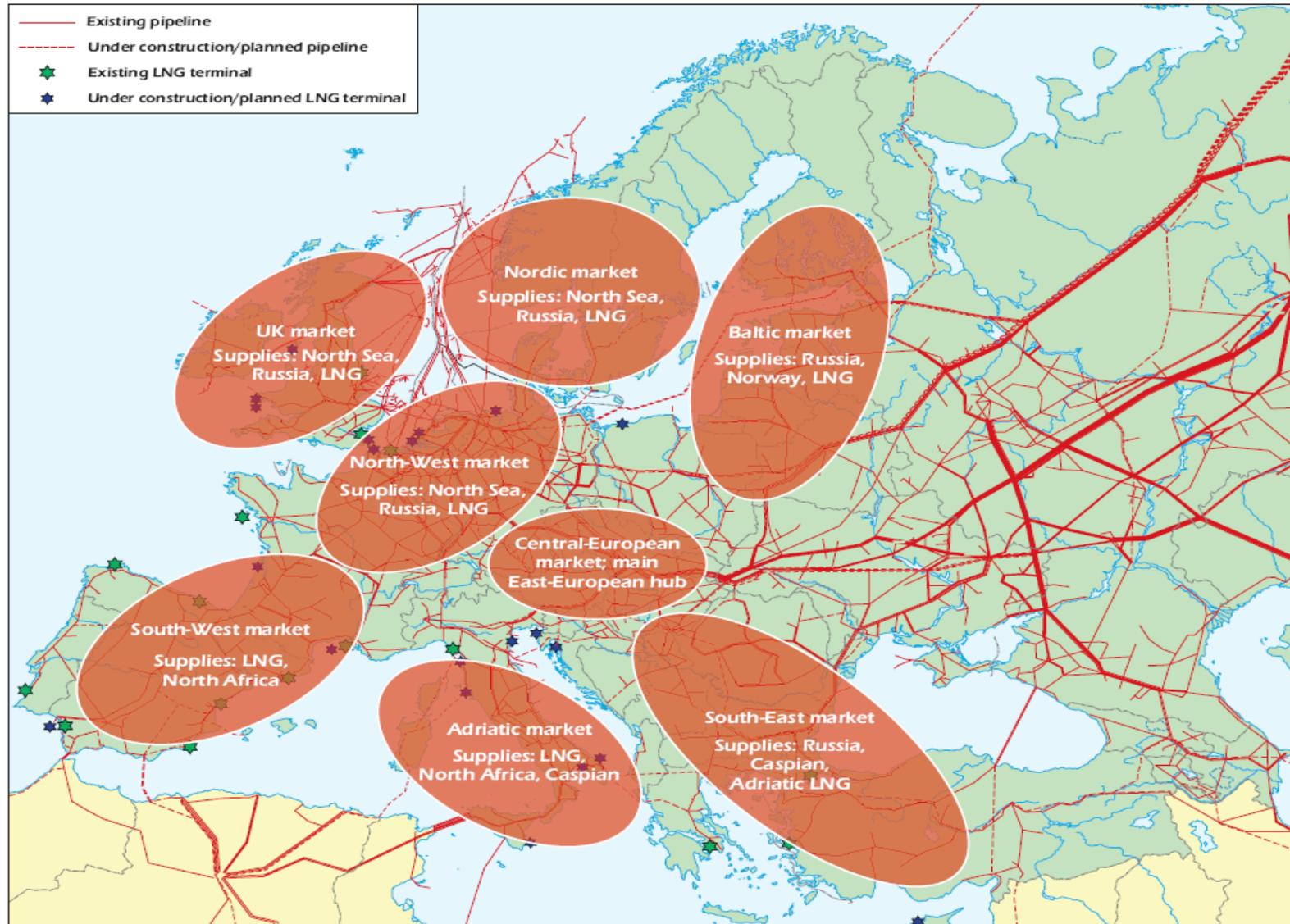


DEVELOPMENT OF COMPETITIVE GAS TRADING IN CONTINENTAL EUROPE

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

IEA INFORMATION PAPER

Multi - TSO integration potential – IEA view

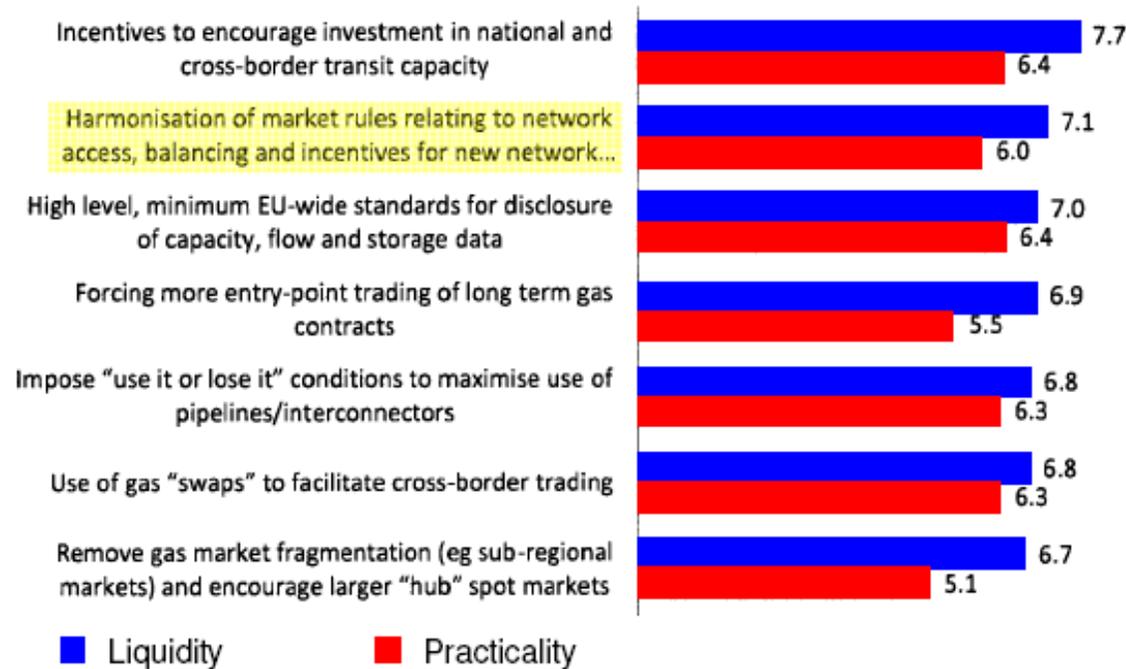


Moffatt wholesale study, July 2008

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 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?



- **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

- Overwhelming support from many market participants fostering stronger multi- system integration and respective 3rd 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