

Working Group Gas Markets

Input for the 29th Madrid Forum

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Association of European Energy Exchanges



1. Agenda

I – Gas Wholesale Market Functioning

- ACER Market Monitoring Report (MMR)

II – Energy Market Design and the Need for a Gas Market Redesign

- Market Design 1 – Current Framework Conditions
- Market Design 2 – GTM Vision and Prices
- Market Design 3 – Possible Measures

2. Gas Wholesale Market Functioning

ACER Market Monitoring Report (MMR)

- Europex welcomes ACER's dedication towards the full implementation of the Third Package and the Network Codes (NCs). The MMR provides a good indication about the state of gas trading activities in Europe. However, it remains unclear, if the **measured targets / metrics** are suitable to determine the overall **functioning of the market**.
- The MMR analysis shows that **hubs are evolving** and converging in an **organic** manner due to an **increased level playing field** as a result of the **implementation of the NCs** and a stronger hub price orientation.
- Therefore, potential inadequacies in relation to the Gas Target Model (GTM) should be further analysed and eventually reviewed **after the full NC implementation**. Nevertheless, they should not directly result in market integration projects (such as merging zones) **without** a clear European framework strategy.
- Different EU member states are currently at different phases of the NC implementation process. Local regulatory specificities can hamper the timely and full implementation. Those should be clearly acknowledged and flagged to the market, if and where appropriate.

3. Energy Market Design and the Need for a Gas Market Redesign

Market Design 1 – Current Framework Conditions

- Exchange markets continue their upward development in terms of market share (vs OTC) and volume growth, both in spot and derivative products. The trend of a higher gas price convergence between the individual zones is continuing (due to the NC implementation). It is a positive signal of the well-functioning of the market that in case of local / regional market events (e.g. physical curtailments / extreme market conditions / etc.) prices are developing independently.
- The existing wide spectrum of various EU gas markets demonstrates that the development of liquid trading venues remains an ongoing process. For this reason, exchange traded markets with their institutionalised features such as **an approved legal framework, a strong regulatory oversight, objective price signals, the exclusion of counterparty risk and the equal treatment of trading participants can serve as a kick-starter for liquid trading and as a facilitator for the future development.**
- As the figures on the most advanced hubs like TTF and NBP show, trust and acceptance of a market place are of great importance. Therefore, any (new) regulation should primarily **provide stable framework conditions**, since it is not possible to either **engineer or prescribe** functioning markets or change physical / geographical realities.
- A **long-term market design** enables investments in infrastructure to import natural gas (e.g. for regasification terminals), which is a crucial element to diversify gas imports in Europe, and thus, to increase the security of supply. Regulatory initiatives like the **Gas Target Model II** or **MiFID II** should therefore not **destabilise** the markets, but rather increase the level of regulatory certainty.

3. Energy Market Design and the Need for a Gas Market Redesign

Market Design 2 – GTM Vision and Prices

- The existence of **different entry-exit zones** is **not the reason for regional price differences** per se but provides an opportunity to **react to local requirements**. Spot and futures markets serve different purposes. Therefore, the pooling of liquidity at major hubs (TTF/ NBP) (not only for gas traders with physical portfolios but also for financial institutions) is **the result of a market development**. As the MMR clearly shows, at a certain level **liquidity gains at a hub** would be set off **with losses on another hub**.
- **Structural market changes**, such as market mergers, etc., **are no suitable instruments** to increase the liquidity of Virtual Points or Hubs, since trading is conducted not on the hub itself but on (regulated) market platforms or by other contractual means. Therefore, market mergers do not necessarily lead to an increase of liquidity at a given trading venue.
- With the **current setting of NCs** and the general regulatory framework, European gas markets are already in a position to **provide efficient gas prices to consumers based on a competitive environment**.

3. Energy Market Design and the Need for a Gas Market Redesign

Market Design 3 – Possible Measures

- In order to **increase the level of competition** in the gas markets in all zones, the market **access** to the individual EU gas markets should be **more standardised**. This will allow traders to be active in different market areas by similar means of registration and will enable an easy and swift access. Any **ancillary requirements** in terms of **formalities or obligations** should be kept to an **absolute minimum** (including regulatory requirements).
- In the future study “**Quo Vadis EU gas market?**” the focus should be on possible **gaps / shortcomings** of the existing system but not on a general overhaul of the system fundamentals. The actual instruments to achieve any change should be developed and selected by policy makers but based on an appropriate level of stakeholder involvement, i.e. by organising **advisory panels** and running **early consultations**.
- Priority should be put on the development of a regulatory framework for reverse flows, the faster implementation of bi-directional corridors as well as the further cooperation with the Energy Community Contracting Parties.
- The use of exchange-based spot markets by TSOs for physical balancing should be strongly promoted at local and EU level in order to provide full transparent and real time information for market participants to manage their positions in line with the BAL NC.

Thank you for your attention.

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