

24th Meeting of the European Gas Regulatory Forum
Madrid, 15th October 2013



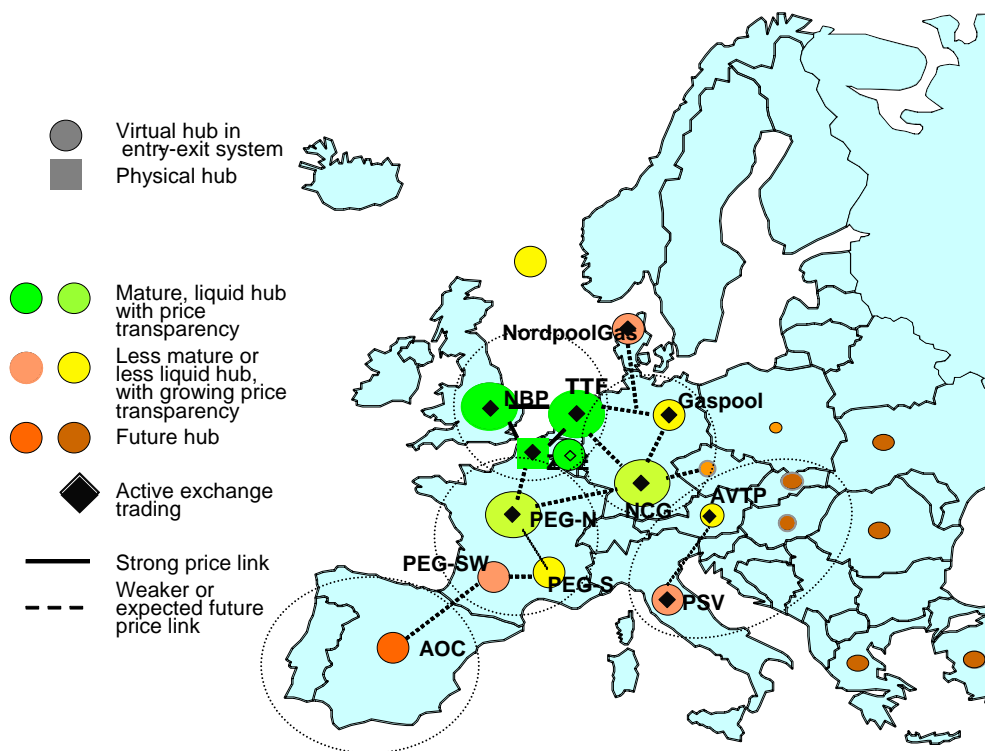
European Federation of Energy Traders

**European
Gas Hub Development**



European Gas Hub Development

Growth of new hubs



Source: ICIS

EFET Hub Development Group Project

1. Develop best practice model for creating a successful virtual trading point

← We are here

2. Benchmark Europe's existing hubs and recommend improvements

3. Work with local EFET Task Forces to apply best practice model at evolving VTPs

European Gas Hub Development

Roles of hub participants must be clearly defined



TSO

Operates system
Accepts flow/trade nominations from system users
Facilitates virtual trading point through entry-exit
Provides Title Transfer service at VTP
Balances system via balancing market

Hub operator

Platform for registration of OTC trades
Accepts notice from exchanges of exchange-based trades
Provides title transfer and matching services
Ensures trade firmness through back-up/-down
Runs balancing market
Market surveillance and reporting

Exchange

Central counterparty
Clearing and credit management
Notification of confirmed trades to Hub operator / TSO
Licensed / regulated by financial authorities
Market surveillance and reporting

In some markets, hub services are provided by TSO

In some markets, bilateral trading platform is provided by exchange

Market participants should not be forced to trade the exchange
Arrangements should allow for physical and “pure” (paper) traders
Regulator should also consider how Hub operator is regulated if not TSO / Exchange

European Gas Hub Development

Development of services at a trading hub



What should be done	By whom
Establish a consultation mechanism on local hub development issues	NRA / Stakeholders
Determine area to be covered by VTP, multiple nodes for a transitional phase	Traders / TSO / NRA
Establish an Entry-Exit system and VTP(s) through network access arrangements	TSO
Offering of title transfer or imbalance transfer services at the VTP	TSO
Resolve market structural issues	NRA
Define role of Hub Operator	NRA
Governance of Hub Operator (incl. licences and cost recovery arrangements)	NRA in consultation with market participants
Agree regulatory jurisdiction if a cross-border hub	NRAs/Governments/ACER
Firmness of the hub (contracted services such as Back Up Back Down)	TSO/HO
Firmness of the hub (a liquid balancing market)	TSO/HO
Establishment of a reference price(s) at the hub for imbalance penalties	TSO/HO
Use of the EFET master trading agreement or development of a specialized annex	Traders (EFET)
Price Reporting Agencies start to report at the hub	PRAs
Brokers become established (voice, systems)	Brokers/LEBA
Establishment of an exchange	Exchange/Financial Authority
Index becomes reliable and used as benchmark	PRAs, Market

Initial Conclusions

▪Think about hub design

- Good design is necessary but not sufficient to create liquidity; must also improve the underlying conditions that incentivise market participants to trade at the hub

▪Set up the services in the order they will be used

- There is little point in establishing an exchange or a specialised trading contract ahead of clarity on how the market will work

▪Consider what additional regulation/legislation may be necessary

- The role of an independent Hub Operator may not be governed under existing legislation

▪Define clearly the roles of market participants

- In particular, TSOs, Hub Operators and Exchanges – what services are competitive, what are appointed monopolies

▪Establish governance provisions

- These allow the hub to develop in response to changing regulations, market conditions

▪Consult with interested stakeholders at all key stages

Next steps

- **EFET paper on the features of a successful VTP** to be published end-October
- **Phase 2 already starting** – benchmarking existing hubs
- **Phase 3 to follow** – develop plans for emerging hubs
- **CEER to initiate scoping for Guidelines for Good Practice for Hub Operators (GGPHO) ?**
- **Progress report on hub development at next Madrid Forum**

Thank you for your attention! EFET



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