European Gas Hub Development
Virtual hub in entry-exit system
Physical hub

Mature, liquid hub with price transparency
Less mature or less liquid hub with growing price transparency
Future hub
Active exchange trading

Strong price link
Weaker or expected future price link

1. Develop best practice model for creating a successful virtual trading point
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
Growth of new hubs

EFET Hub Development Group Project

We are here

Source: ICIS
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

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

Index
Exchange
Brokers (systems)
Brokers (voice)
PRAs
EFET appendix
EFET master
Reference price
Firmness (balancing market)
Firmness (contracted BUBD)
Governance of Hub Operator
Defined role of Hub operator
Rules for historic player
Title Transfer
Entry-Exit (single Trading Point)
Entry Exit
Consultation group

Tradability Index Q3 2013 vs Q3 2012

Source: ICIS
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 now published on www.EFET.org [energy markets][gas position papers]
  [Link to EFET paper]
- Phase 2 started – 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!

European Federation of Energy Traders

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