ACER
Agency for the Cooperation of Energy Regulators

Competitive and integrated wholesale markets II

Forward markets and hub trading

2nd ACER GTM workshop, Ljubljana, 19 March 2014

Questionnaire on gas forward markets in Europe

- In the course of the AGTM process (Feb. 2014), ACER distributed a questionnaire to suppliers, traders, large end users etc. of gas to explore the current status of gas forward markets as well as future requirements of stakeholders
- To date, 17 respondents provided feedback
- Feedback still welcome until 4 April 2014
- The online questionnaire is available under the link:

http://www.acer.europa.eu/Official_documents/Public_consultations/Lists/Functioning%20Gas%20Forward%20Markets/Item/newifs.aspx?List=2b259bd9-89ea-4f65-a00e-6b2cb0b25a45&RootFolder=&Web=c7995bc9-8b91-4320-8ccf-04bf50d70dda

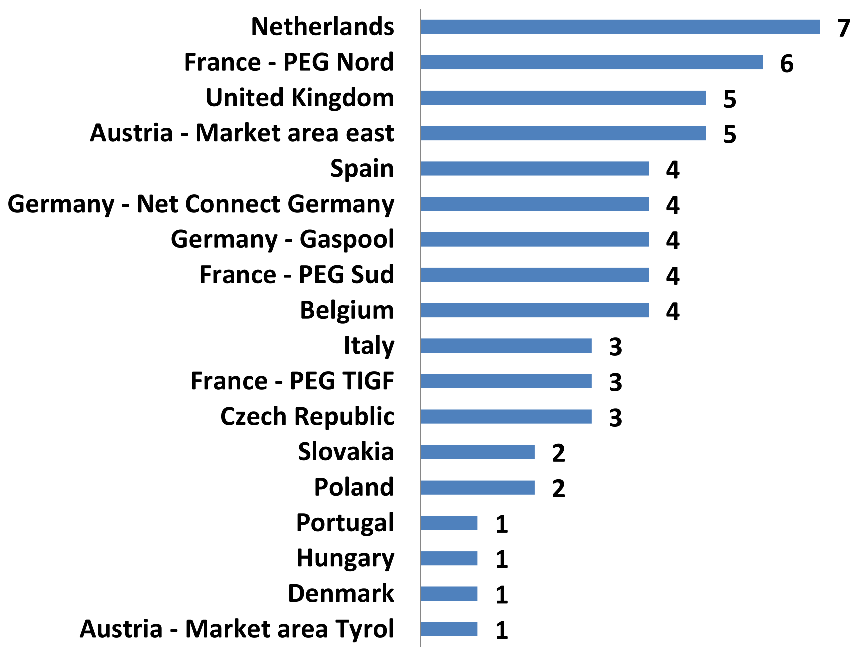
QUESTIONNAIRE ON GAS FORWARD MARKETS IN EUROPE
First results

Introduction

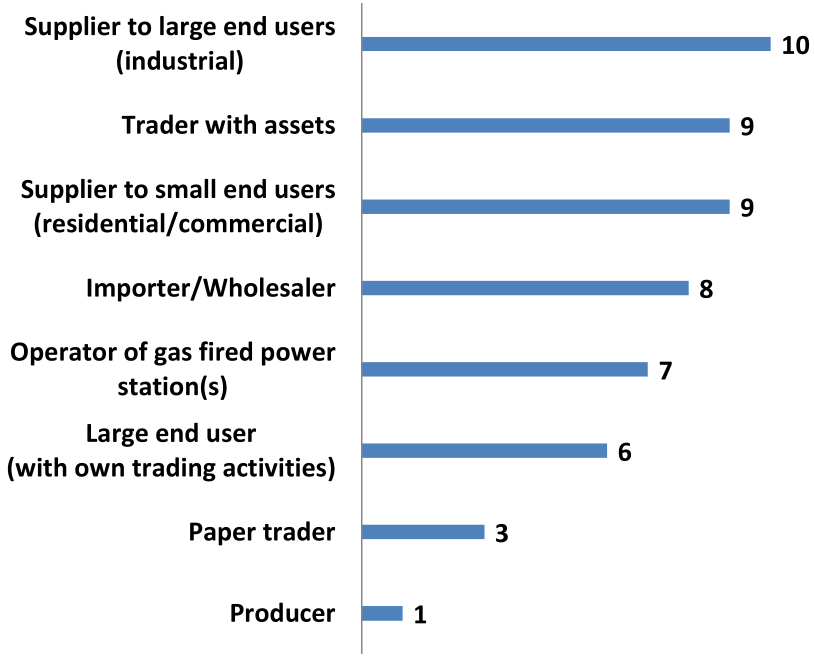
- In the course of the AGTM process (Feb. 2014), ACER distributed a questionnaire to suppliers, traders, large end users etc. of gas to explore the current status of gas forward markets as well as future requirements of stakeholders.
- The following presentation provides first results from analysing the responses to that questionnaire.

Statistics on Respondents

Sales Markets of Respondents



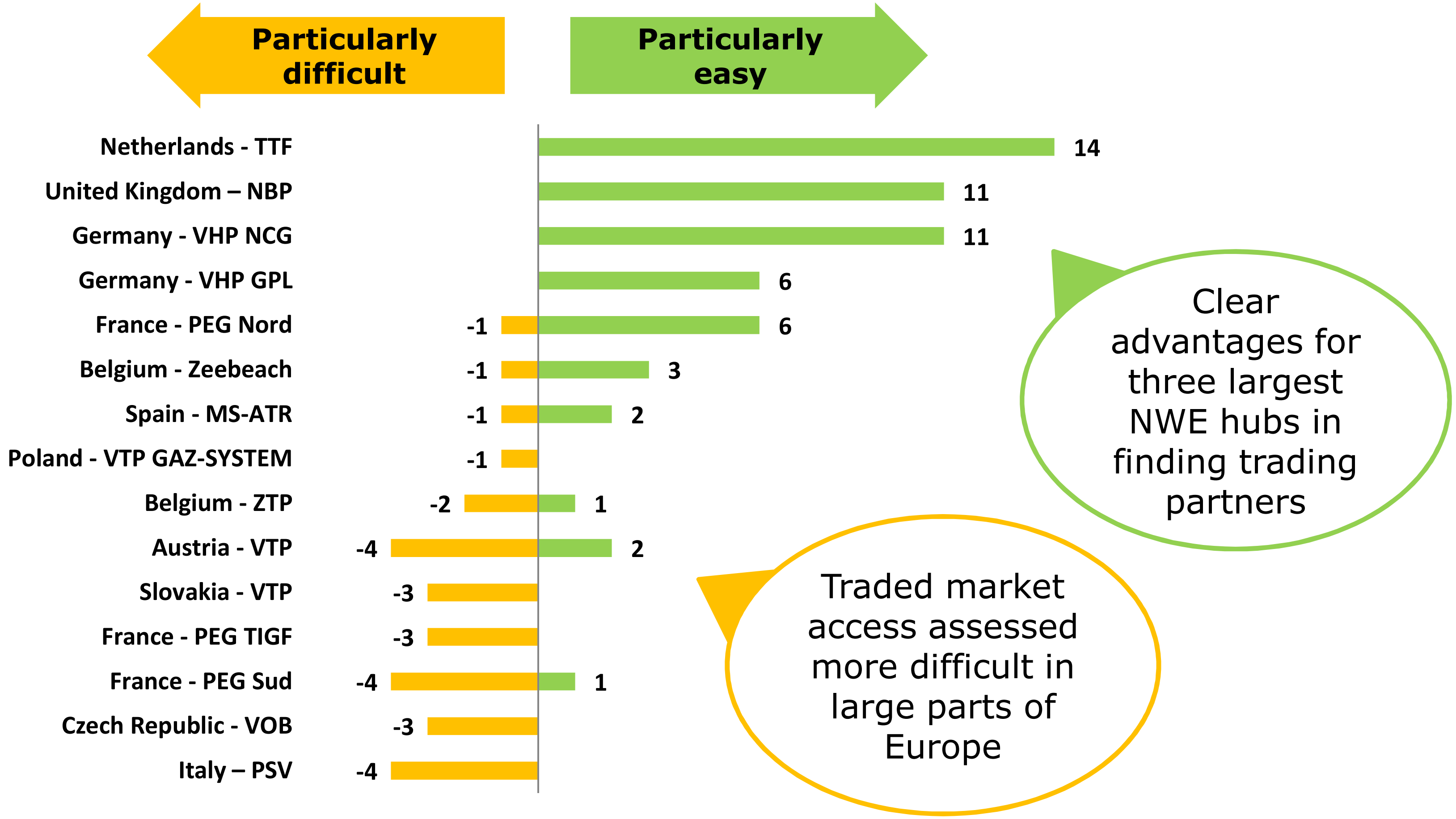
Business Roles of Respondents



In total, 17 questionnaires with evaluable data were returned

Notes: One (1) point was given for every mentioning by respondents of a specific sales market or business role.
Sales markets not listed here were not mentioned at all by respondents.

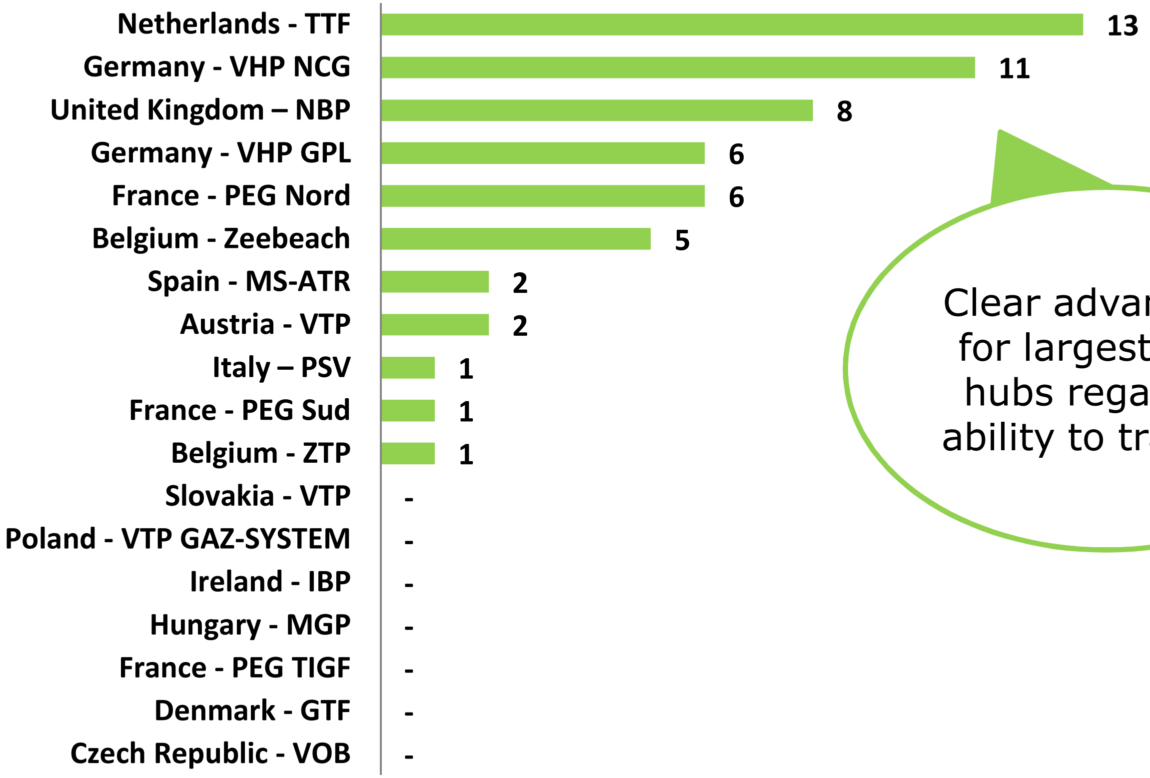
Market Access:
Ease and difficulty of finding trading partners at European gas hubs



Notes: One (1) point was given for every mentioning by respondents of a specific hub in respective category.
Hubs not listed here were not mentioned at all by respondents, which may be due to no activity of respondents on these hubs.

Ability to Transact:

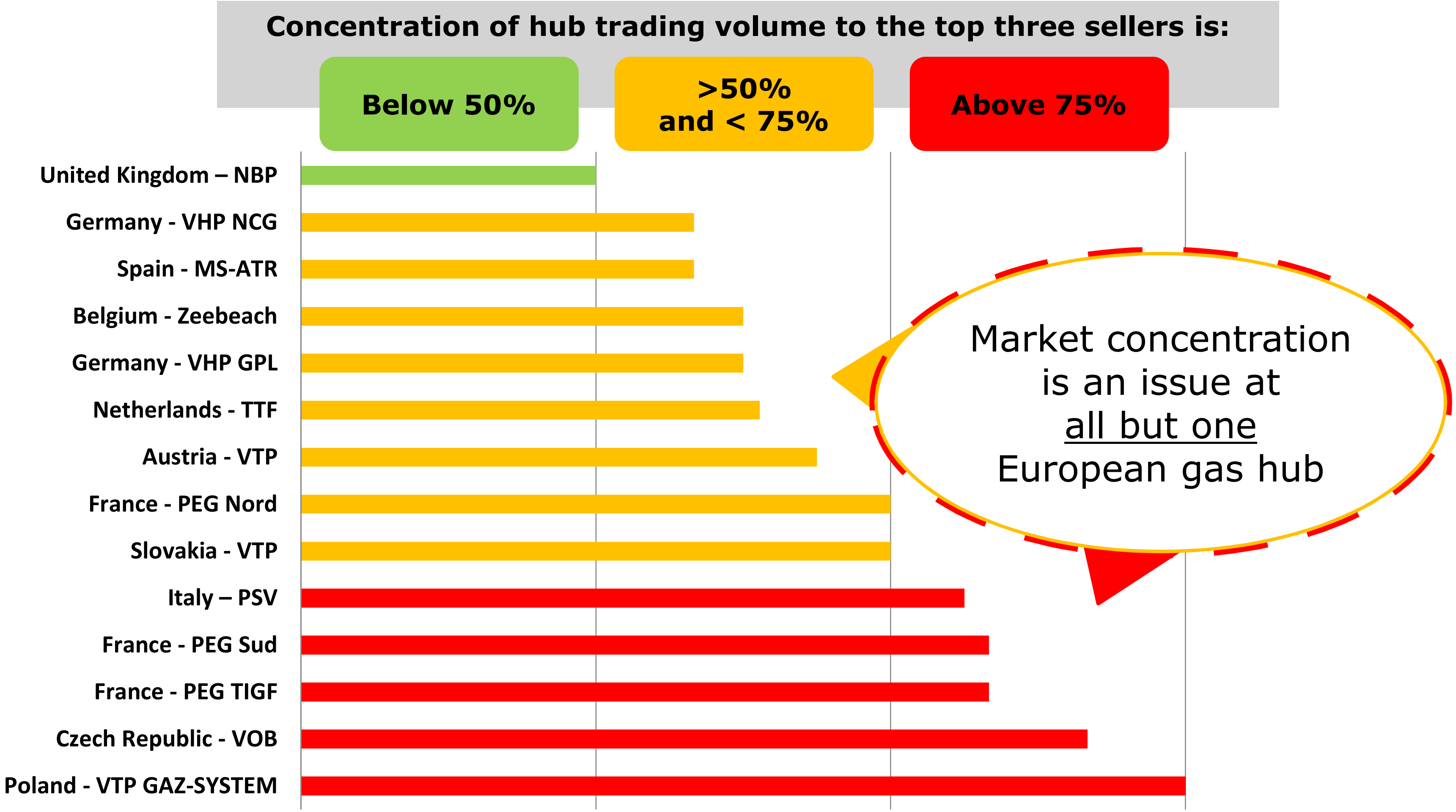
Where can traded market gas transactions be executed at fair prices whenever required?



Clear advantages for largest NWE hubs regarding ability to transact

Note: One (1) point was given for every mentioning by respondents of a specific hub.

Traded Market Concentration: What is the concentration of hub trading to players?



Notes: One (1) point was given for every mentioning by respondents of a specific hub in respective category.
Hubs not listed here were not mentioned by respondents, which may be due to no activity of respondents on these hubs.

Demands of Respondents on: deal frequency, liquidity and liquid trading horizon

Price relevance threshold:
Minimum number of deals required per product/hub/trading-day so that price signal can be considered trustworthy.

> 18 deals
per product/hub/trading-day

Liquidity threshold:
Minimum amount of gas simultaneously offered/requested (ask/bid) for a product on a hub so that product is considered "liquid".

> 120 – 150 MW
each: bid and ask

Liquid trading horizon:
Minimum time horizon within which trading in gas standard products should be possible with the market being in a liquid state.

> 36 months*
Liquid trading horizon

Are these requirements met in reality? Where and where not?

Note: Outliers were cleared by taking medians into consideration.
* This does not mean that trading should necessarily be possible on the basis of monthly forward products for 36 months, but only that delivery under the "longest" forward product should reach at least 36 months into the future.

ACER
Agency for the Cooperation of Energy Regulators

Preferred European Gas Market Design

Option 1: Every gas market area should have a liquid spot and forward market

Option 2: Every gas market area should have a liquid spot market, but forward markets should be concentrated to max. 3 of them

Notes:

- The question asked for the goal to be pursued, not for the means to achieve it.
- If market areas are enlarged by merging them with other market areas* in order to meet the goal of option 1, this option 1 develops in direction of option 2. The options coincide, if the number of market areas in Europe would have to be reduced to three (3) in order to achieve the goal of option 1.

* According to the Gas Target Model this can be done by merging the markets entirely (i.e. down to end users) or only on the wholesale level (Trading Region Model).

Background to Market Design Question

Exact language of question:
Which of the following alternative setups for European traded gas markets would you prefer for the future?

- Option 1: There is a liquid traded spot and forward gas market in every market area where you supply gas to end users (or use gas for your own purposes).
- Option 2: There is only a liquid traded spot gas market in every market area where you supply gas to end users (or use it yourself) plus, additionally, there are one or two or three liquid traded forward gas markets in Europe (e.g. NBP and TTF and …) which concentrate forward trading from all over Europe.

Justification* and notes from respondents choosing option 1	Justification and notes from respondents choosing option 2
• Option 1 makes sourcing and hedging / risk-management much easier. • Not every trader has access to large markets such as TTF/NBP. • Spreads between certain markets are not stable; if no forward market is available in market area, higher margins will be charged from customers to cover risk of hedging in other market. • In markets of a given size, forward market liquidity can be increased by imposing regulatory measures on incumbents (e.g. gas release or mandatory market making)	• Concentration of forward trading improves liquidity. • “Too many” hubs will lead to rising cost of trading. • Bigger markets will improve competition. • An efficient capacity market is required in combination with option 2 (for local hedging).

* Disguised / shortened

ACER
Agency for the Cooperation of Energy Regulators

Thank you for your attention!

www.acer.europa.eu

Discussion questions

4. Can the business requirements of gas market participants be adequately fulfilled by having only a few (e.g. NBP and TTF) functioning gas forward markets in Europe (next to functioning spot markets in every market)?

5. Is the diversity in the set-up of European gas hubs a barrier to trade? Which elements should be harmonised (e.g. products, type of regulatory oversight, etc.)?