



**European Federation of Energy Traders**

**Panel contribution  
Towards an efficient EU  
Gas Market**

**Hungarian Gas Market Workshop  
17 October 2012, Budapest**

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and Gas Committee Chairman**



# TOWARDS AN EFFICIENT EU GAS MARKET

## Structure of this presentation

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### Contents:

- The role of EFET
- Gas hub development
- EU Challenges
- Additional challenges in Hungary

# The role of EFET

## The voice of energy traders in Europe

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*“The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market”*

**Through better:**

- Information transparency
- Data exchange
- Products and procedures
- Laws
- Regulation
- Taxation
- European Contracts
- Organised market

# The role of EFET

## Our Membership



# The role of EFET

## Our Membership continues to grow



# TOWARDS AN EFFICIENT EU GAS MARKET

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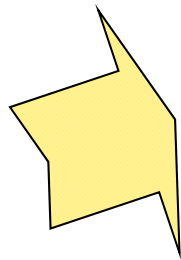
- The role of EFET
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# Gas hub development

## Typical evolution of a gas hub

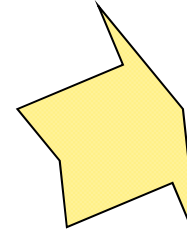
### Initial phase

- ▶ Spot trade
- ▶ Deliverability services
- ▶ Title transfers



### Development

- ▶ Title tracking system
- ▶ Standard trading contract
- ▶ Initial Price reporting



### Maturity

- ▶ Firm deliveries
- ▶ Price discovery
- ▶ Screen-based trading
- ▶ Forward trading
- ▶ Financial trading

# Gas hub development

## The benefits, once trading is established

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What do we  
get from hub  
liquidity?

- Price **transparency**
- Volume and price **risk management**
- Effective **market functioning** (allocative efficiency)
- Price signals for **investment**
- Location for a cost-reflective **balancing** market
- Improves **Security of Supply**
- **Lower barriers** to entry and exit
- Breaks requirement for **vertical integration**



# Gas hub development

## What have we learned?

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- **Firmness is important** - virtual and physical hubs may need different ways to ensure this
- **Transportation access terms are key** – better to build key provisions into access terms than address retrospectively in trading contracts
- **Legislation and licensing does not always allow for hub operators** – especially if these are distinct from TSOs. Some form of oversight – at least for confidentiality – is necessary
- **Exchanges do not create liquidity** – there must be an underlying desire to trade
- **Confidence must be built** – through physical reliability, transparency, contractual certainty, regulatory foresight

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# EU Challenges

## Consistency for financial and physical markets?



**EU Commissioner  
Michel Barnier**

Internal Market and Services

Example proposals

- MiFID II & MiFIR
- MAD => MAR

Example in force

- EMIR August 2012



European Securities  
and Markets Authority  
1 January 2011, Paris

Financial  
markets



**EU Commissioner  
Günther Oettinger**  
Energy

Examples in force

- 3<sup>rd</sup> IEM Package 2009
- Gas SoS Reg 2010
- REMIT 2011



Agency for the Cooperation  
of Energy Regulators  
3 March 2011, Ljubljana

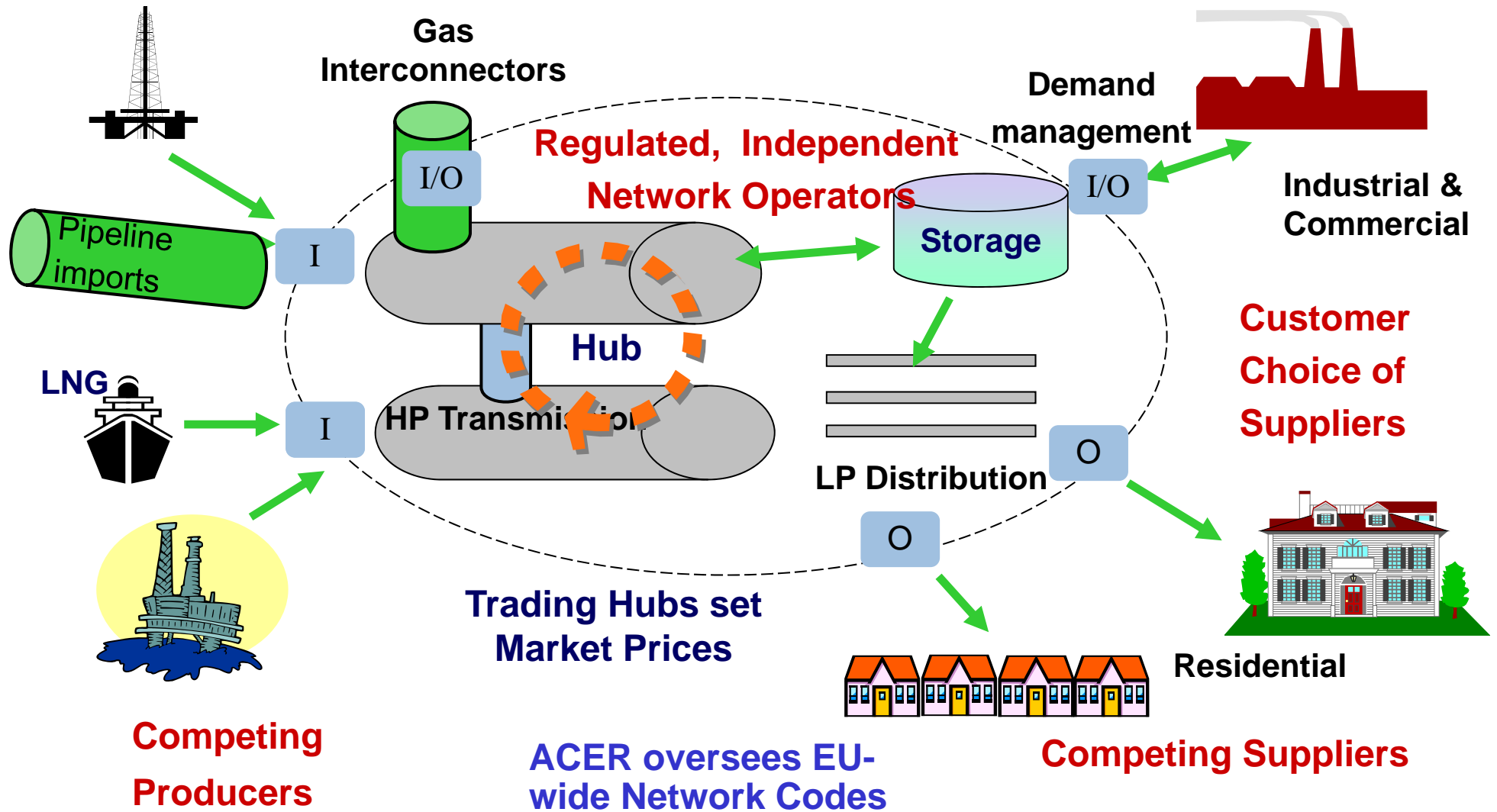
Physical  
markets

# EU Challenges

## Need an active market : beware of over-regulation



# EU Challenges Implementing the 3<sup>rd</sup> Gas Directive



# EU Challenges

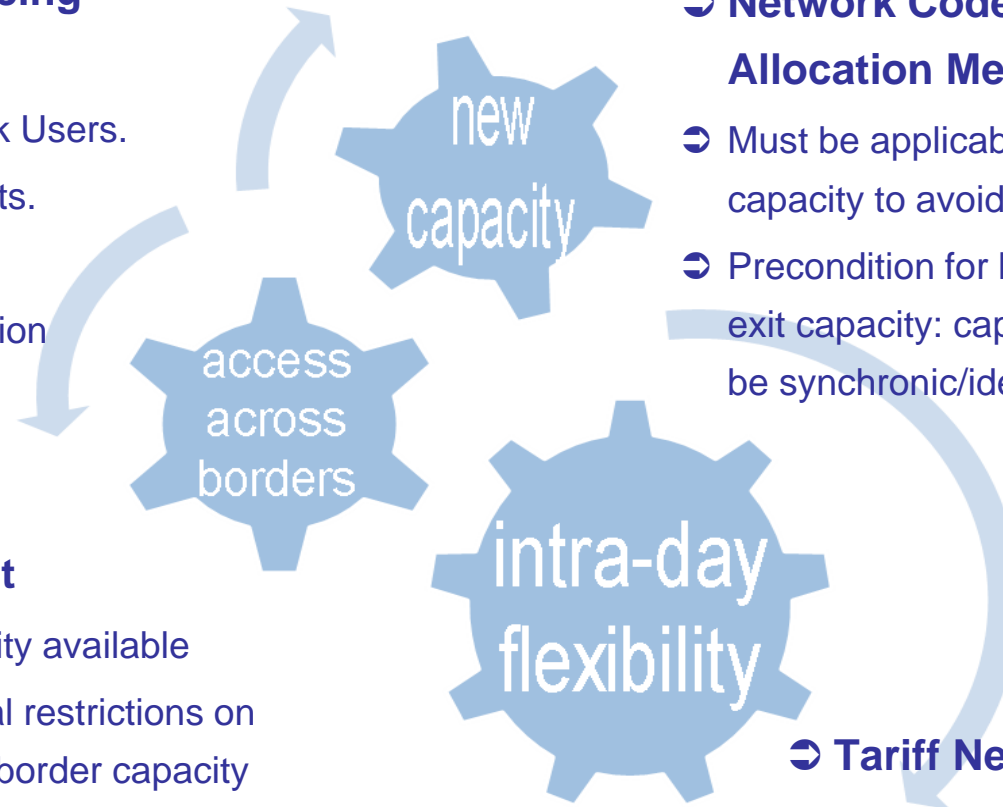
## Network Codes to facilitate hubs & market integration

### ⇒ Network Code on Balancing

- ⇒ Daily balancing;
- ⇒ Primary balancing by Network Users.
- ⇒ Integration with traded markets.
- ⇒ Cost reflective cash-out
- ⇒ Consistent Information provision

### ⇒ Congestion Management

- ⇒ TSOs have to make all capacity available
- ⇒ Earlier gate closure and partial restrictions on renomination rights on cross border capacity change the value of capacity and the access to cross border flexibility



### ⇒ Network Code on Capacity Allocation Mechanisms (CAM)

- ⇒ Must be applicable for all primary capacity to avoid risk of inconsistencies
- ⇒ Precondition for bundling of entry and exit capacity: capacity products have to be synchronic/identical

### ⇒ Tariff Network Code

- ⇒ Aims to achieve consistent tariff structure at interconnection points
- ⇒ Expected to set out reserve price principles for CAM auctions

# EU Challenges

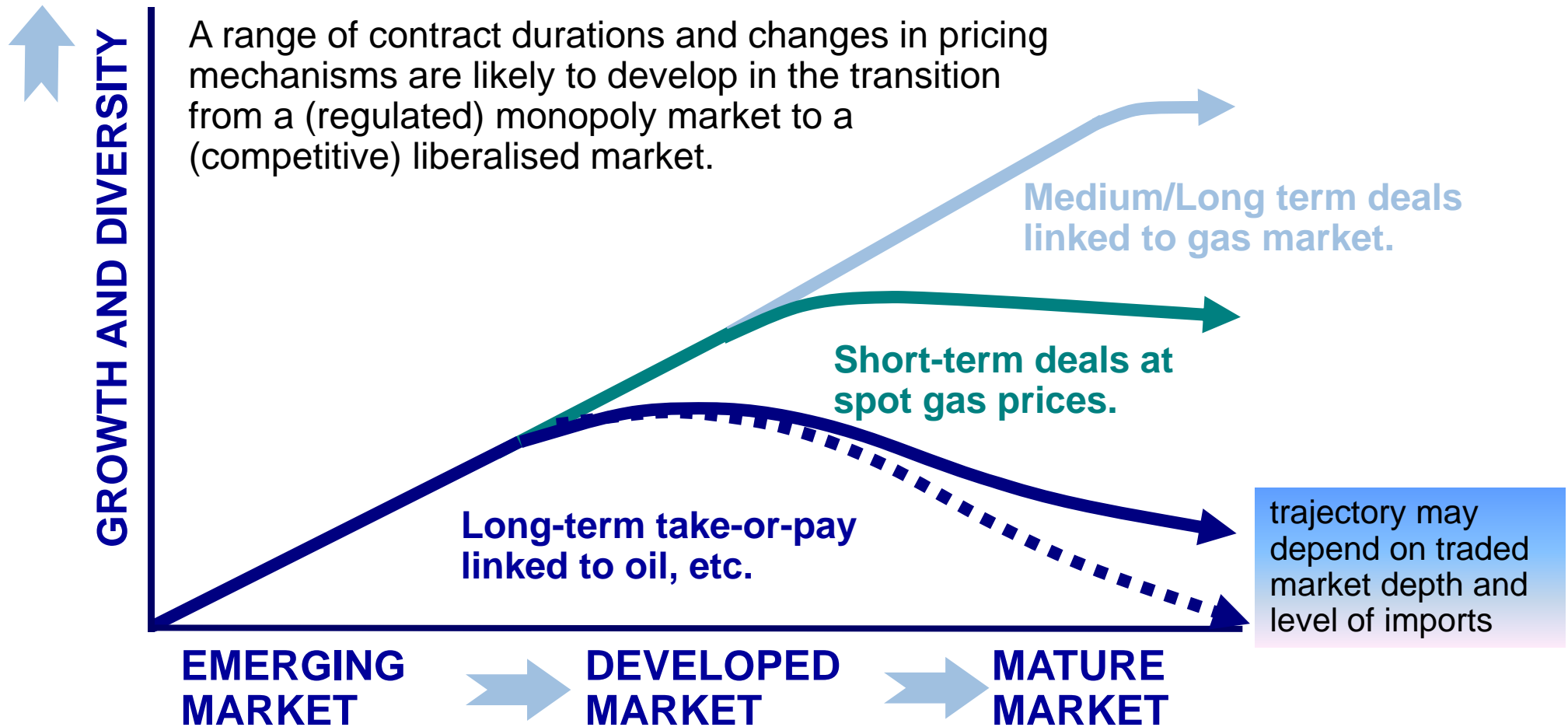
## Allowing liberalisation to deliver supply security



**Provision of fundamental information (transparency) is essential to both.  
Full implementation of Gas Regulation EC/715/2009 would help !**

# EU Challenges

## Coping with the natural evolution of gas contracts

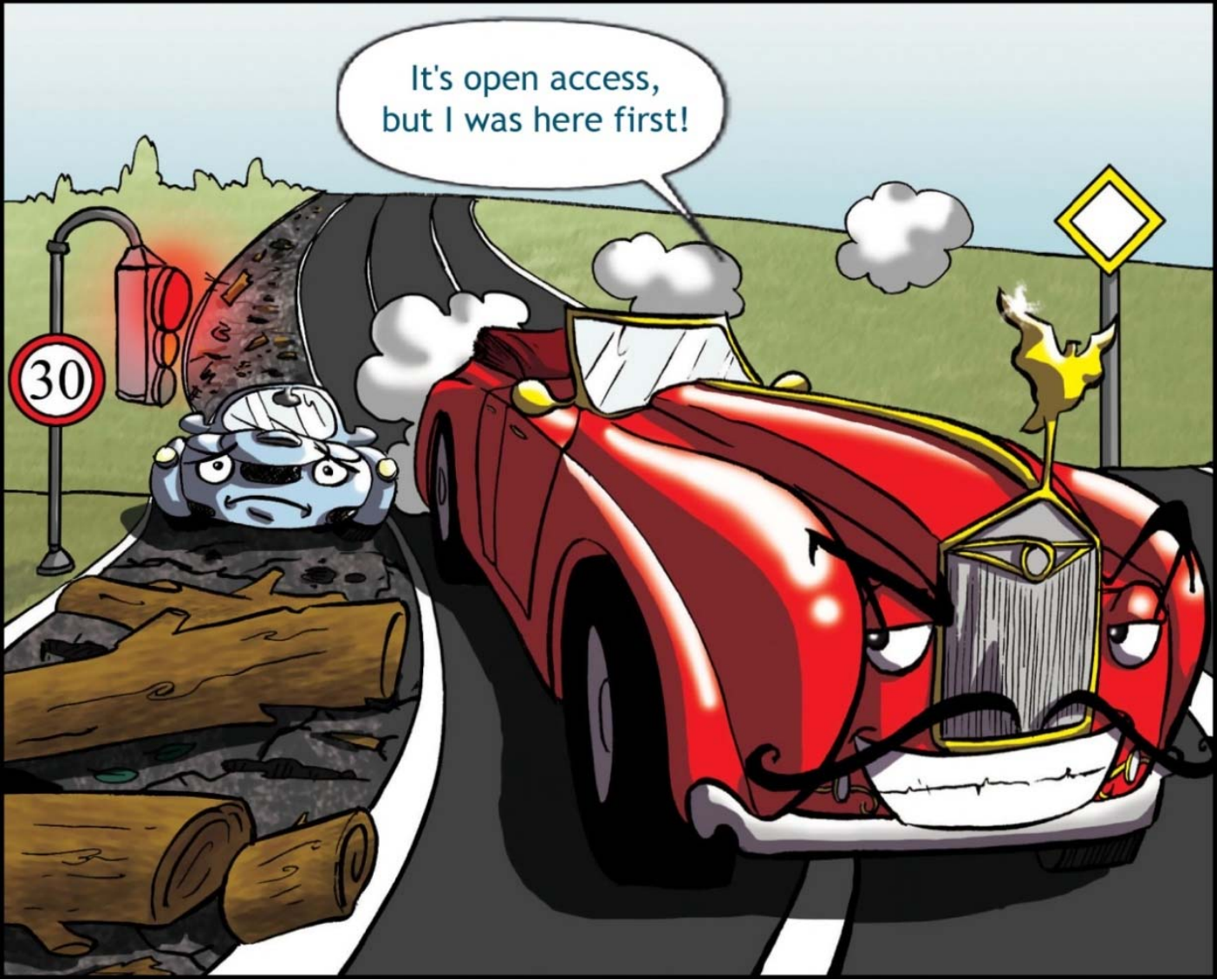


Acknowledgement: Derived from Eurogas-IEA workshop June 2005



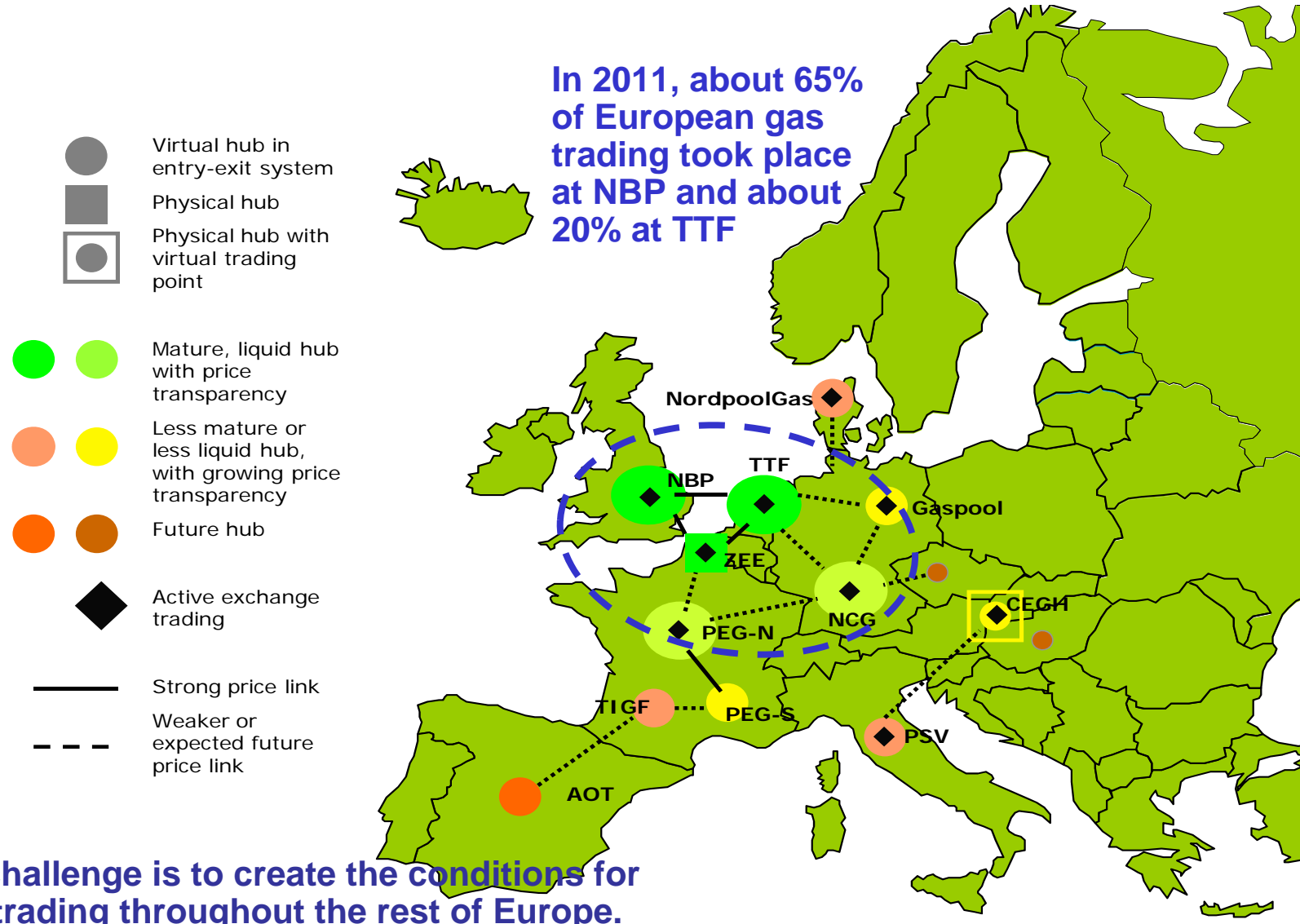
# EU Challenges

## Access across borders is being addressed



# EU Challenges

## Widening trading areas and deepening hubs



The main challenge is to create the conditions for liquid gas trading throughout the rest of Europe.

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## Additional challenges in Hungary

### Some specific suggestions

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- Establish stable, market-based capacity allocation at AT/HU border
- Improved communication about auction parameters and processes
- Ensuring that investment decisions for additional capacity are market-based and co-ordinated with neighbours
- Recognising the differences between wholesale energy traders and licensed (retail) gas suppliers
- Removing undue barriers in licensing requirements and adopting simpler registration of wholesale market participants (in line with REMIT)
- Creating the conditions to enable more supply-side competition
- Market-maker(s) at the national Virtual Trading Point
- Access to key wholesale information and documents in English language

# Thank you – Questions?

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**European Federation of Energy Traders**

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