ERGEG gas regional initiative

North and North-West regional energy market (REM) project

Definition of work streams

Draft

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Hub liquidity and the efficient transmission and trade of gas between hubs

Introduction

Liquid gas hubs and efficient transmission and trade between gas hubs will be a crucial measure for the development of a competitive European gas market. A lack of hub development will be a strong indication that something is impeding the development of competition and may be an obstacle for having a European internal gas market.

An internal market for gas is characterised by at least two main features. First of all it will be possible for a buyer of a certain quantity of gas to buy gas from a range of European companies. Secondly it will be possible for sellers of gas to enter all parts of the internal market to transparent, non-discriminatory and reasonable costs. Efficient transmission and trade between gas hubs will support these features through easy access to competitive gas and liquid gas hubs can develop as a consequence.

In ERGEG's gas roadmap conclusions paper it was identified that a key issue for ERGEG's gas REMs would be to look at the factors that are constraining the development of hubs.

The work in the gas REMs is not about identifying regulatory outcomes to impose on the market – gas hubs should be developed in response to demand and should be market based solutions. It is important however that there are no barriers to the development of gas hubs – and where they exist they should be identified and if possible removed. This is the underlying objective of the gas REMs – facilitating the development of gas hubs rather than identifying where new hubs should exist.

Today the majority of the North European hubs function as national or local hubs. This implies that gas exchanged on a hub is delivered in the national or local transmission system. Some other hubs are physical hubs, this implies that the trading is taking place a precise physical location. Lack of liquidity and setups on the different hubs in the region may be an obstacle to more efficient trade of gas between hubs.

Hubs can not do all the hard work alone and solely ensure efficient trade of gas between hubs and with that better integrated gas markets. On the other hand – better liquidity and more efficient trade between gas hubs can deliver an essential contribution to the integration of gas markets.

The overall objective of this hub project is to suggest concrete ideas, initiatives and requirements that can take the present hub situation to a situation were hubs are liquid and with the existence of efficient transmission of gas between hubs. Such a situation will support an internal market for gas in the North and North-West region.

The development of hubs in Europe has been on the CEER agenda several times. A report on this issue from August 2003 has been presented in the CEER Gas Working Group "The development of gas hubs and trading centres in Europe". Furthermore the lack of gas hub liquidity is mentioned in the "Roadmap for a competitive single gas market in Europe" – An ERGEG conclusion paper, March 2006.

Good possibilities for all market players to buy and sell even large proportions of gas at any time at a competitive market price is a crucial feature of a well functioning internal market for gas. On this basis the first sub objective of the hub project is to clarify the views of market players and TSOs on barriers to the development of liquidity and efficient trade of gas at gas hubs.

A second sub objective of the project is to clarify the present level of liquidity and trade of gas at hubs.

To deliver the overall objective and the two sub objectives work will have a number of strands:

Work strand 1: Actual trade on hubs
This work strand will look into the status quo of each of the hubs/markets. The first step will consist in defining what is meant by a hub compared with a market and what is therefore the difference between a hub operator and a market operator. The hubs/markets to be considered in the study will be listed.

For each hub/market the paper should include key characteristics on liquidity, transmission and trade between hubs such as:

- The number of active participants in the market
- The ability to find counterparts for any given size of transaction
- What services / products are offered at the hub
- Price differentials between hubs
- The size of bid-offer spreads in the market
- The volume that can be traded without moving the market
- Volume nominated within the hub in per cent of volume traded

- Volume delivered physically in per cent of volume traded
- Other factors promoting and inhibiting liquidity
- Flows of gas between hubs
- Flows between hubs in comparison to price differentials
- Utilisation of capacity on the routes between the relevant hubs

Work strand 2: Market players' views on barriers
Market players (including hub/market operators and TSO if they are also market users) views on barriers to the development of liquidity and efficient trade of gas at gas hubs and transmission between hubs are essential for clarity of where to put the spot light.

Answers to a questionnaire to market participants may help to focus on general issues in the region and specific issues between individual hubs.

The paper presenting the results of the questionnaire should also examine a number of trades (including backhaul and swaps) to a number of destinations to identify the steps that have to be achieved if the trade is to be completed successfully, what risks exist to success, and the obstacles that prevent success (such as access to gas, access to transport, TSO actions).

Work strand 3: Hub/market operators' views on barriers and how to overcome barriers
Hub / market operators' views on barriers to the development of liquidity and efficient trade of gas at gas hubs are also essential for being able to identify the most important problems. Under this work strand hub / market operators' should give their views on the barriers in a paper.

Furthermore the paper should include hub/market operators' suggestions on what is needed to be done to overcome the barriers.

Where appropriate input should be sought from TSOs.

Questions that also could be looked into in this work strand:

1) What is the influence of the access and pricing structure of the infrastructure - if any - on hubs?
2) How should congestion on infrastructure between hubs be dealt with?
3) Are there special requirements for the hub, market players or regulator?
4) Why are some hubs flourishing while others are not or are not even started?

Work strand 4: A consolidated paper
On the basis of the contributions in work strand 1, 2 and 3 there will be needed a consolidated paper where an action plan will be included.

<u>Outline work plan</u>

See below.

Work strand	Outcome	Responsibility	Timing
1. Describing the status of the hubs.	Definition of hub/market, hub market/operator. List of hub/markets to be studied. A paper on each hub describing the actual volumes of trade and prices on the hubs in the N/N-W region. For each hub the paper should include key characteristics on liquidity and transmission between hubs such as: • The number of active participants in the market • The ability to find counterparts for any given size of transaction • What services / products are offered at the hub • Price differentials between hubs • The size of bid-offer spreads in the market • The volume that can be traded without moving the market • Volume nominated within the hub in per cent of volume traded • Volume delivered physically in per cent of volume traded • Other factors promoting and inhibiting liquidity • Flows of gas between hubs • Flows between hubs in comparison to price differentials • Utilisation of capacity on the routes between the relevant hubs	RCC/DERA	August 06 – end of October 06
2. Market players' views on barriers	A questionnaire will be sent to market players (including hub/market operators and TSO if they are market users) in each part of the region. The questionnaire will address questions on barriers to the development of liquidity and efficient trade of gas at gas hubs and transmission between hubs. The results of the survey will be described in a paper. The paper will also examine a number of trades (including backhaul and swaps) to a number of destinations to identify the steps that have to be achieved if the trade is to be completed successfully, what risks exist to success, and the obstacles that prevent success (such as access to gas, access to transport, TSO actions).	RCC/DERA	September 06 – end of December 06,
3.a. Hub and Market operators' views on barriers	Papers on hub and market operators' views on barriers to the development of liquidity and efficient trade of gas at gas hubs and transmission between hubs. A brief fact sheet may be presented at the SG meeting in October. This should also where appropriate include input from TSOs.	Hub and Market operators	August 06 – end of November 06
	First action plan (I) based on first fact-finding	ERGEG – to be coordinated by NRA	November Action plan presented at Madrid Forum
3.b. Hub and market operators' views on how to overcome barriers	Papers on hub and market operators' suggestions on what is needed to be done to overcome the barriers. This should also where appropriate include input from TSOs.	Hub and market operators	December 06 – end of March 07
4. Consolidation and revision of the papers.	A consolidated paper including relevant views from stakeholders and an action plan.	RCC/DERA	April 07 – August 07

Reference material:

- ERGEG Conclusions Paper, Roadmap for a Competitive Single Gas Market in Europe, March 2006.

- Paper presented in the CEER Gas Working Group, “The development of gas hubs and trading centres in Europe”, August 2003.

- Flame presentation Gaselyse 2006