

Market Monitoring Report: on gas hubs and capacity bookings

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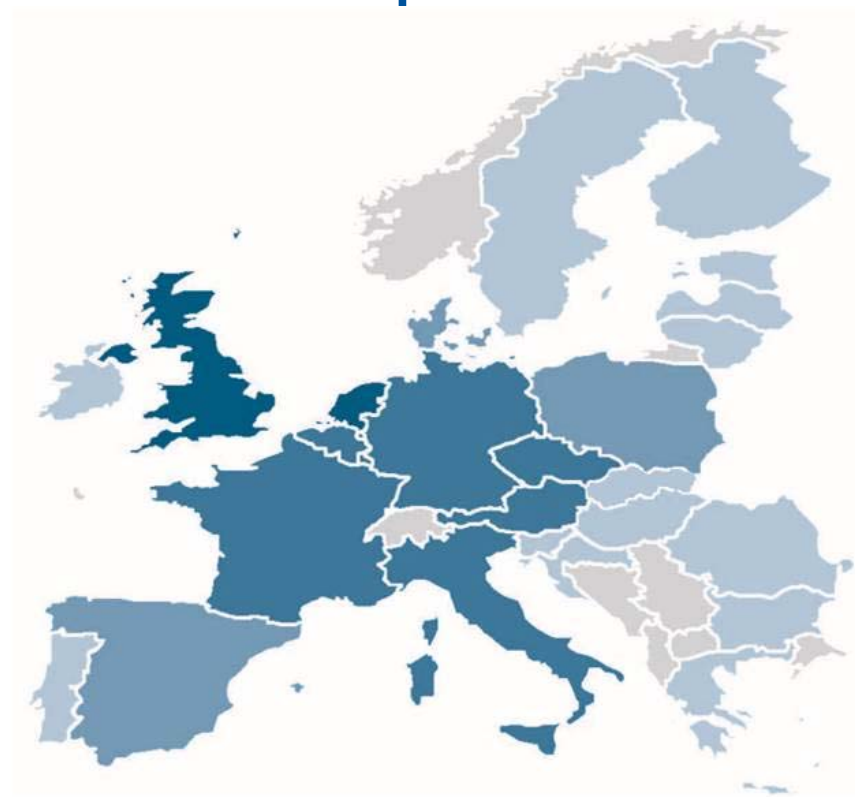
Amsterdam, 14 May 2019

This presentation draws heavily on the yearly Market Monitoring Report



- Seven editions available on ACER's website, 8th edition covering 2018 in the making
- Other MMR volumes:
 - Electricity wholesale
 - Electricity and gas retail
 - Consumer rights
- Gas wholesale focuses on
 - State of internal gas market
 - Gas Target model and hub functioning
 - Market effects of network codes implementation
- Includes recommendations
- Data portal with download function in excel

EU gas hubs are progressing but still show a heterogeneous state of development



■ Established hub

■ Emerging hubs

■ Advanced hubs

■ Illiquid-incipient hubs

- In some MSs, especially in SSE, hubs do not materialise or take off: tailored solutions needed?
- Year on year notable evolutions are, a.o.
 - NBP/ZEE/OTC losing some liquidity
 - PSV/PVB/ATVP increasing liquidity
- Most hubs remain at some distance from many Acer Gas Target Model targets: hub specialisation is taking place driven by market initiative
- Hub mergers and integration efforts are occurring
 - Formally (e.g. FR, DE, Baltics, ...)
 - De facto (e.g. SI leveraging AT hub)

Note: Assessment made based on Acer Gas Target Model and other metrics

After some years of monitoring, Gas Target Model progress is there but some challenges remain

Main areas of progress

- Most MSs can leverage more than three different gas sources
- More hub traded volumes
- Increased market discipline in long-term contracting thanks to increased price transparency at hubs
- Some hubs play transnational role increasing access and choice for market participants from across EU

Remaining challenges

- Ongoing status quo for a number of Member States, i.e. no or dormant hub
- Persisting high(er) levels of upstream supply
- Increasing future capacity concentration
- Slow forward markets development in most hubs vis-à-vis GTM expectations

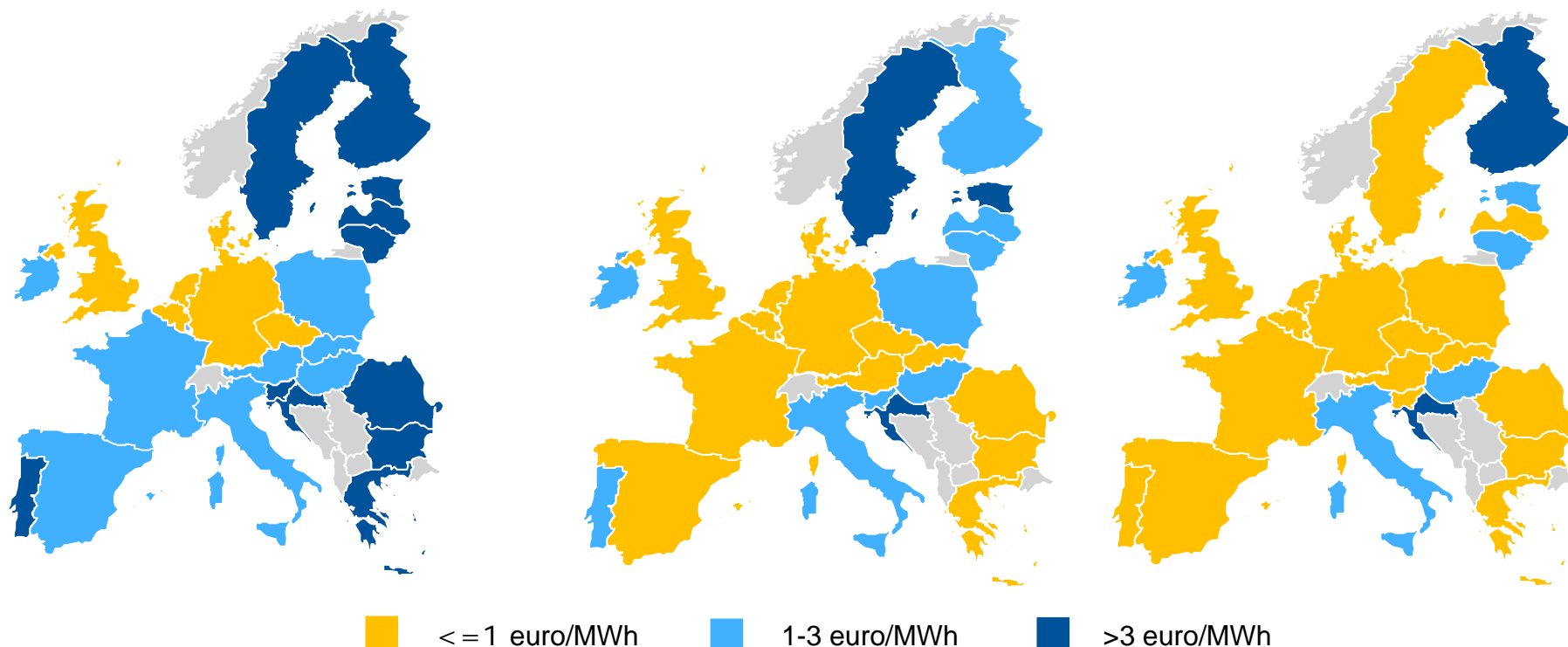
Gas supply sourcing costs convergence is stabilising, in most areas convergence has been reached

Calculated gas sourcing cost* compared to TTF - estimates

2014: TTF = 23.7 €/MWh

2016: TTF = 15.5 €/MWh

2018: TTF = 20.8 €/MWh

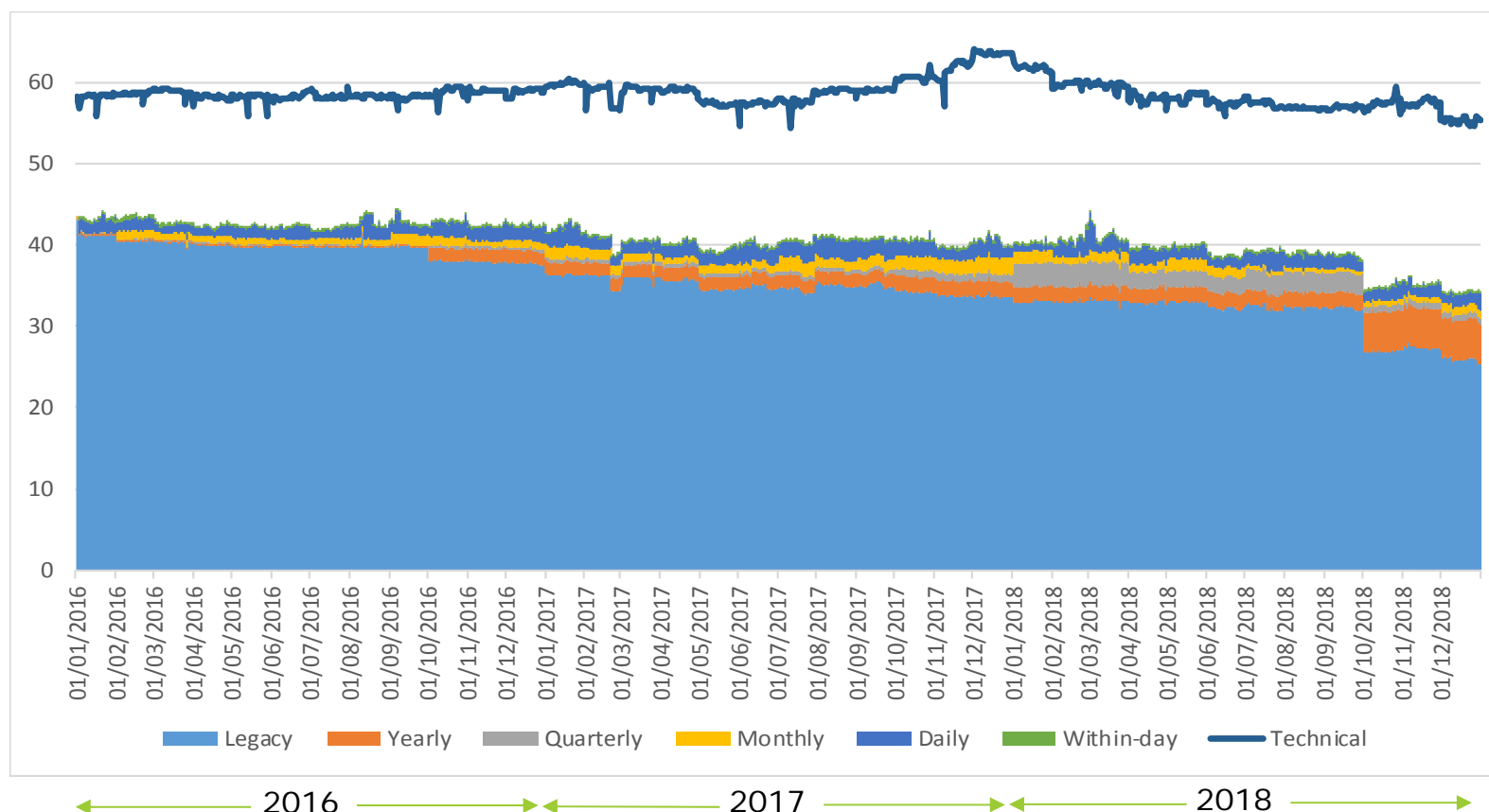


Hub trading also sees high levels of price convergence with spot spreads regionally usually below 1 euro/MWh for 90% of trading days in 2018

* Note: Suppliers' sourcing cost assessment based on a weighted basket of border import and hub product prices – 2018 provisional data.

Capacity made available through CAM enables shippers to respond to changes in short-term fundamentals

Aggregated capacity entry and exit bookings on the booking platforms – 2016-2018 – TWh/day



A lot of remaining legacy capacity is not to expire until 2025

Trends in capacity bookings

CAM bookings

- Reflect more actual utilisation of the pipe
- Reflect more seasonality of gas markets
- For use in 2016-2018, dominated by shorter-term commitments.
- Future bookings: almost all revolving YA bookings with a few MSs account for the bulk of these

Legacy contracts

- Dropped to 81% by end 2018 as share of total bookings
- Most expired capacity gets replaced, notable exceptions are for example IUK, BBL

Capacity bookings patterns are evolving which may impact price convergence in coming years

IP type	Characteristics	Bookings	Impact on convergence
Extra-EU import pipe	<ul style="list-style-type: none"> Entry point 	<ul style="list-style-type: none"> Continuous Sizeable YA 	<ul style="list-style-type: none"> Similar
Core to supply	<ul style="list-style-type: none"> Supply route linked to entry, demand areas 	<ul style="list-style-type: none"> Continuous Sizeable YA/QA but also shorter-term 	<ul style="list-style-type: none"> Similar
Periodic supply	<ul style="list-style-type: none"> Periodic but mostly for seasonal demand 	<ul style="list-style-type: none"> On demand Shorter-term products 	<ul style="list-style-type: none"> Periodically lower
Near idle	<ul style="list-style-type: none"> Less and less used 	<ul style="list-style-type: none"> Unpredictable 	<ul style="list-style-type: none"> Lower

How many IPs will fall in each bucket?

Convergence is driven by many factors, e.g. flexible assets (LNG, UGS)

The background of the slide is a large, waving European Union flag, featuring a blue field with twelve golden-yellow stars arranged in a circle. The flag is set against a light blue sky with soft white clouds at the bottom.

Thank you for your attention