

Turkish Delegation Visit

Vienna 26 January 2016



European Federation of Energy Traders

Natural Gas Trading Gas Hubs

Doug Wood

Chair of Gas Committee



- What is a hub?
- Why do we have hubs?
- What happens when you develop a hub?
- Where is liquidity developing in Europe?
- What makes a good hub?



Why do we have hubs?

Physical
balancing

Price
Transparency

Commercial
Optimisation

Risk
Management

Allow larger numbers of buyers and sellers
to meet in one place

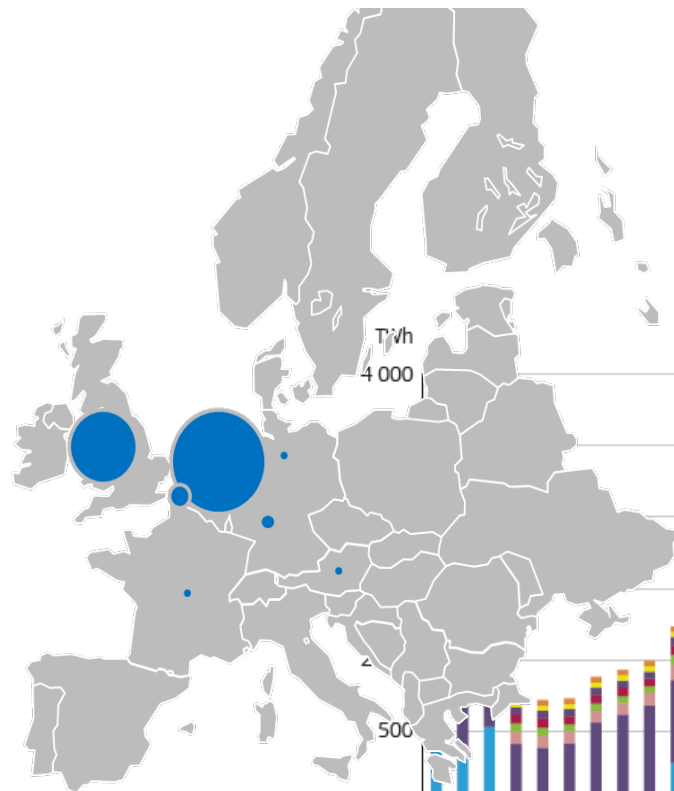
- to buy and sell
- to intermediate

What happens when you develop a hub?

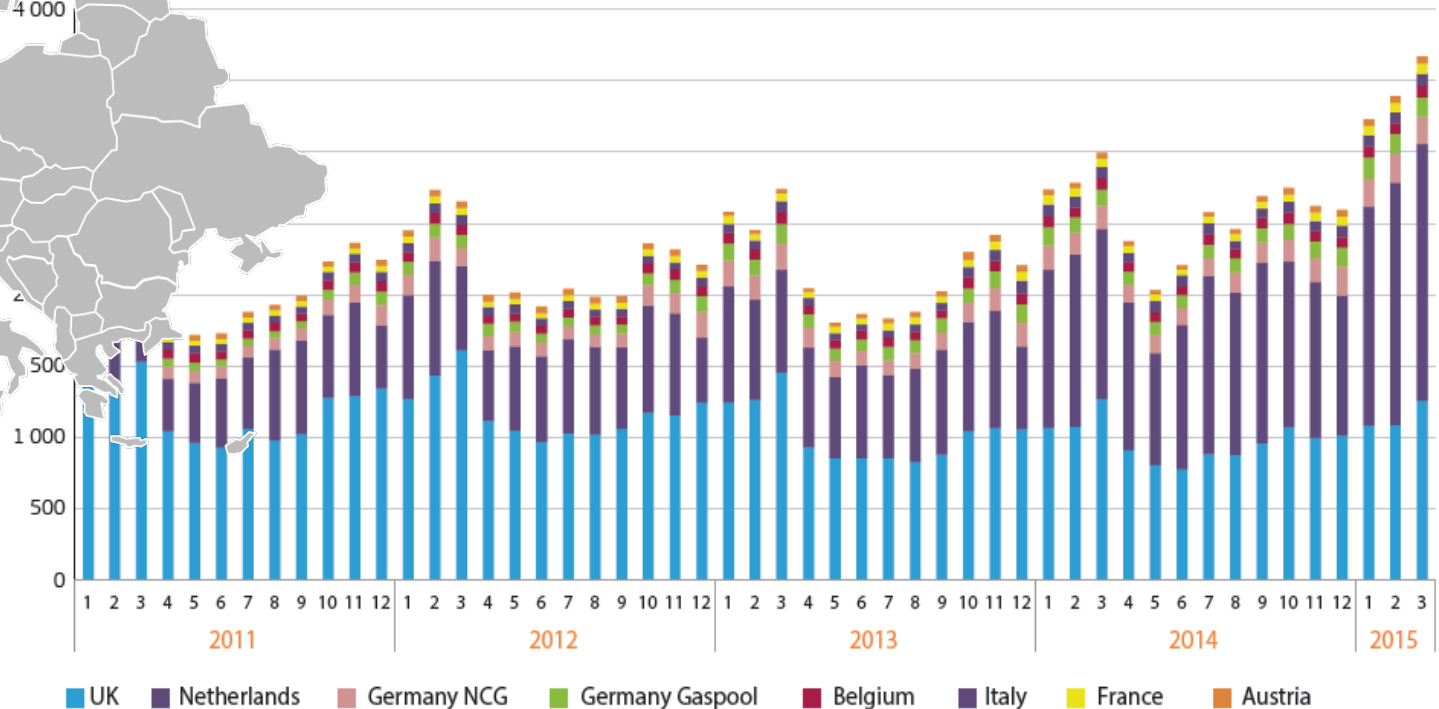


- **The pricing of optionality becomes more explicit**
 - Instead of buying large amounts of embedded optionality that is not required it may become more economic to buy fixed amounts on different timescales and only the required level of optionality
 - Forecasting accuracy is rewarded
 - Price responsiveness and demand management reveal value
- **Price transparency**
 - Parties can see where the market is and have confidence to trade
 - Long and short positions can be managed through multiple contracts
- **Standard products emerge**
 - Typically monthly and day ahead will develop first
 - Quarters, Seasons, Cal Yr, Gas Yr, WE/WDNW, Within-day emerge
 - Indexation opportunities arise
 - Volume risk is managed through trading rather than Take or Pay
 - Bid/Offer spread narrows as hub becomes more competitive

Where is liquidity developing in Europe



Traded volumes at European Gas Hubs [TWh],
source: EC Quarterly Report on European Gas Markets Q1/2015



What makes a good hub?



Underlying conditions for trade:

- Multiple buyers and sellers
- Access to capacity to bring gas to the hub
- Multiplicity of gas supplies / sinks – including storage
- Counterparties with imbalances to trade at the hub (customer churn, new supply contracts, LNG, gas release)
- Market-based balancing

Enabling legislation: customer eligibility, fair network access (unbundling), stability through transparency & governance, lack of cross-subsidisation between monopoly and competitive businesses.

Good hub design:

- Title transfer
- Backup/backdown to ensure firmness
- Clearly defined role of incumbent to support trading
- Price disclosure
- Standardised terms and conditions
- Well-designed, transparent network access terms, harmonised with interconnected systems

Network access terms: title transfer point(s), secondary capacity markets, reasonable balancing terms, reasonable credit terms, emergency procedures, clear definition of *Force Majeure*



European Federation of Energy Traders

**Amstelveenseweg 998
1081 JS Amsterdam**

**Tel: +31 (0)20 5207970
Email: secretariat@efet.org**

www.efet.org