

# Competitive Gas Markets in Europe

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# Roadmap

- The “Good Old Days”: sharing the margin?
- Changes in the 2000s: liberalization, GTG, hubs
- The Four Waves of price reviews: LEVEL and STRUCTURE disputes
- Which European hubs are relevant?
- Back to the LEVEL debate?

# The “Good Old Oil Days”

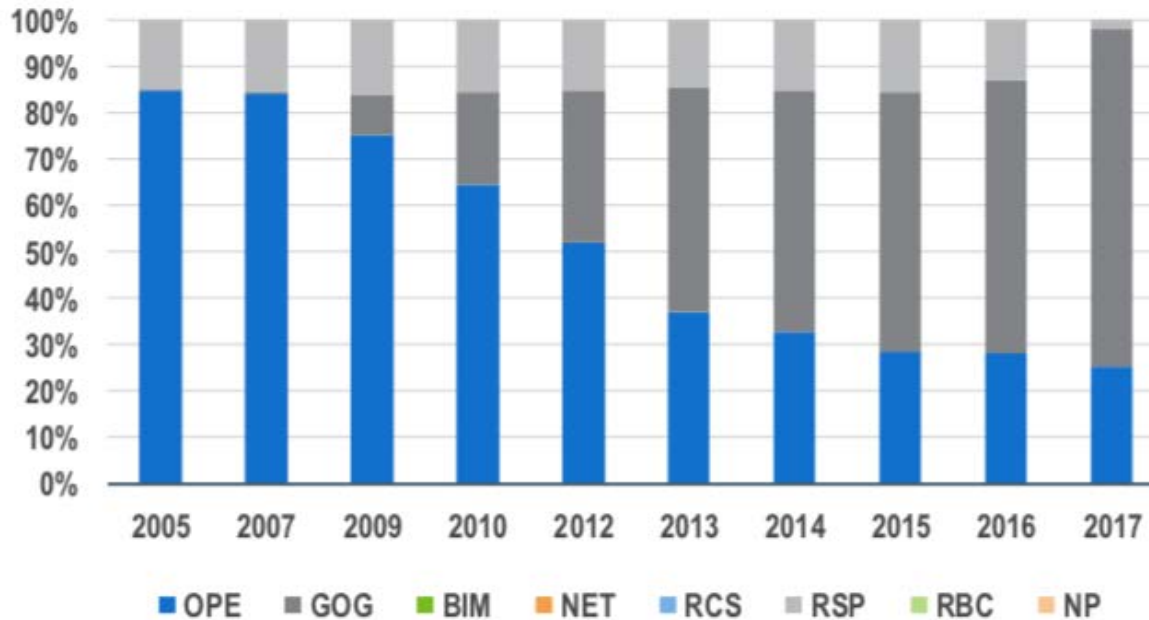
- ❑ No GTG competition
- ❑ Oil-linked indexation in GSAs
- ❑ Price review clause: sharing the margin

# Changes in the 2000s

- 1998 EU Directive 98/30
- Third Party Access
- GTG: Competitors entering the market
- Hubs: UK (NBP, 1996); Belgium (ZEE, 1998); the Netherlands (TTF, 2003); and now Italy (PSV, 2003), France (PEG Nord, 2004), Germany (NCG/GPL, 2009)

# Shift from oil- to hub-pricing

Figure 6.7 Central Europe Price Formation 2005 to 2017



Source: WORLD GAS CONFERENCE, Wholesale Gas Price Survey 2018 Edition (June 2018), p. 61.

# The Four waves of price reviews

- I. 2000s: *level* review
- II. 2008-10: Oil-based GSA prices shot above hub prices, GFC / *structure and level* debate
- III. 2012-15: Shift to gas hub indexation / formulae, *structure* debate?
- IV. 2016-19: Sellers' price increase claims, back to a *level* debate

# Which European hubs are relevant?

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## Five Key Elements Test

- ❑ Market participants
- ❑ Traded products
- ❑ Traded volumes
- ❑ The Tradability Index
- ❑ The Churn rates

**Source:** Patrick Heather, 'The evolution of European traded gas hubs' (December 2015), pp. 67-85.

# Which European hubs are relevant?

- ❑ Mature: TTF (Deep / Liquid / Benchmark / Trading hub)

Traded vol. 19,365TWh = 2/3 of the European total

- ❑ Active: NCG/GPL
- ❑ Others: ZEE/PEG Nord
- ❑ BUT: Locals still look locally!

**Sources:** Patrick Heather, 'The evolution of European traded gas hubs' (December 2015), pp. 67-85;

ICIS, 'European brokered gas trade jumps by more than 25% in 2018' (1 February 2019).



# Gas pricing disputes with EU law flavor

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## ❑ Gazprom / Case AT/39816 – Upstream Gas Supplies in Central and Eastern Europe:

“Customers in the five CEE countries\* will [...] be able to trigger a renegotiation of their gas prices if they diverge from competitive Western European price benchmarks, including transparent prices at liquid gas hubs such as TTF and NCG”.

\*Bulgaria, Estonia, Latvia, Lithuania and Poland.

**Source:** Case AT/39816 – Upstream gas supplies in Central and Eastern Europe Antitrust Procedure Council Regulation (EC) 1/2003 of 24/05/2018, para. 178.

# Where do we set the LEVEL?

- ❑ Hub-indexation: clear price signal = less risk = one day, no need for price review clause?
- ❑ What if the destination / end user / wholesale market is different from the hub reference? And looking at forwards or actuals (and *quid* hedging)
- ❑ *Level* debate: Buyer: Hub-  
Seller: Hub+

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