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Gas hub scorecard 2018 update

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Contents

1. Background to scorecard & Reminder of criteria
2. Annual review and findings
3. Breakdown by market maturity
4. Breakdown by stakeholder performance
5. Findings

Scorecard background & criteria

Background to scorecard

- Fifth year of results; hubs scored at cutoff point of midyear 1 July 2018
- Scorecard developed as “best practice” model for nascent hubs
 - Does not replace quantitative analysis where available
 - Retrofit to mature hubs as validation of model
 - Criteria refined to improve objectivity
- 18 Criteria; 4 have increased weights (1.5) to achieve to score maximum of 20;
- Criteria assigned to NRA / TSO / Market and new scores for short and long term liquidity.
- Minor updates of criteria to ensure continued comparability
 - Consultation process: max increased to 3 (1.5 for NRA/Ministry and 1.5 for TSO)
 - Accessibility to non-physical traders dropped / implicit in Title Transfer
 - System balancing: refined and updated
 - NRA: Licensing and reporting obligations added
 - Credit arrangements dropped
 - Defined role of hub operator dropped
 - Brokers & Exchange: weighting reduced
 - Recalibration of hub “liquidity”
- Portugal added; Zee Beach and TRS dropped.

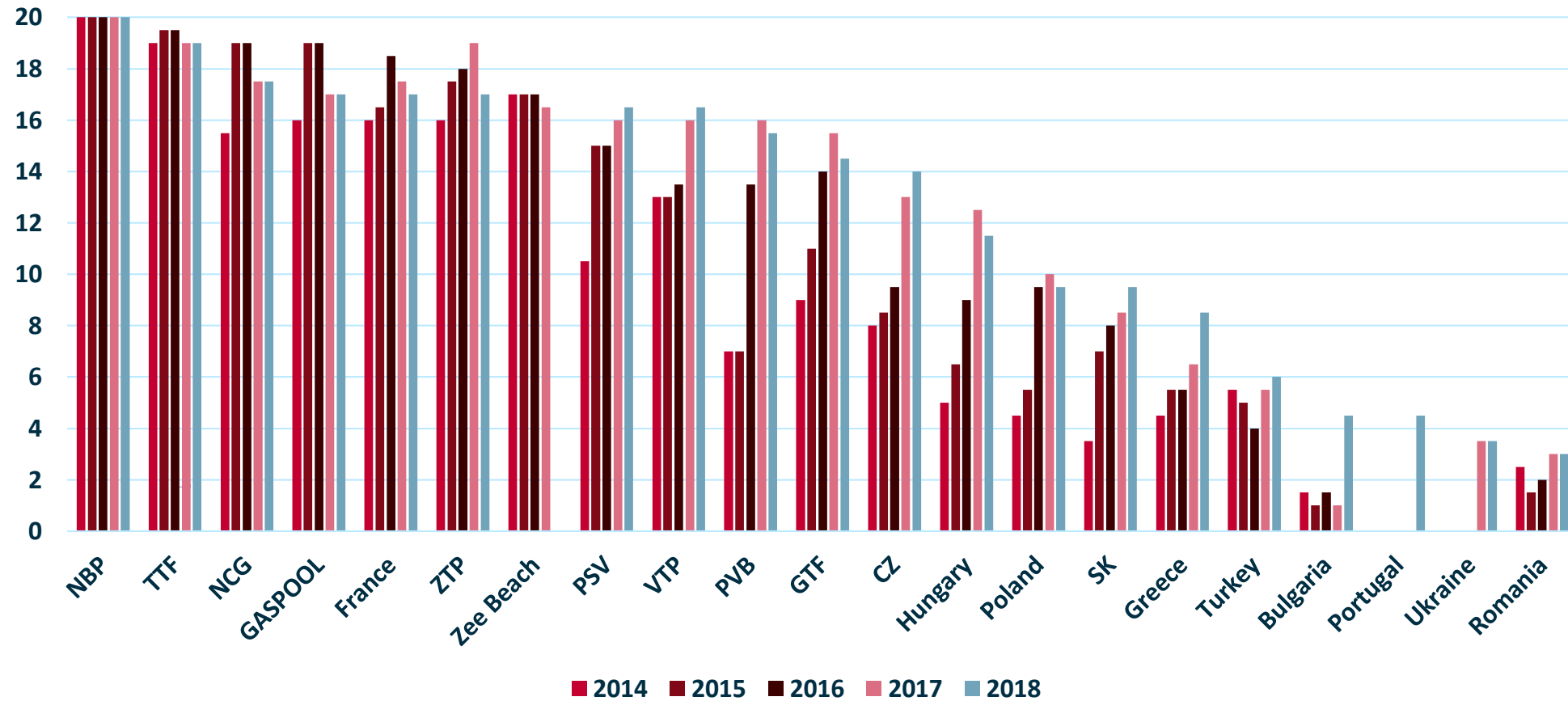
EFET Gas Hubs study - Best practice development model

Criteria	Responsible party	Heading 2018	Max Score 2018
1.a	NRA and/or Ministry	Transparency and consultation	1.5
1.b	TSO/Market Area Manager/Market Operator		1.5
2	TSO	Entry-exit system established	1
3	TSO	Title Transfer	1
4	TSO	Cashout rules (long short positions imbalances set to zero at the end of the day with payment/receipt of imbalance charge in local currency/MWh)	1
5	TSO/Market Area Manager/Market Operator	TSO system balancing	1
6	NRA/Ministry	Licensing and reporting obligations	1
7	NRA	Resolve market structural and concentration issues (defined role for historical player if flexibility/liquidity is scarce)	1
8	NRA, TSO or Market Operator	Hub fees (not fees relating to participating on a exchange or trading platform)	1
9	Market	Establish a reference price at the hub for contract settlement in the event of default	1
10	Market	Standardised contract	1
11	Market	Price Reporting Agencies producing daily prices at the hub	1
12	Market	Voluntary market makers operating at the hub	1
13	Market	Brokers	1.5
14	NRA	Establishment of exchange	1.5
15	Market	Hub price becomes reliable and used as benchmark	1
16.a	Market	Hub spot (shorter than monthly products) liquidity	1
16.b		Hub forward (monthly products or longer) liquidity	1
Total			20

Annual review and findings

Annual scorecard 2018 update

EFET 2018 Gas Hub Benchmarking Study



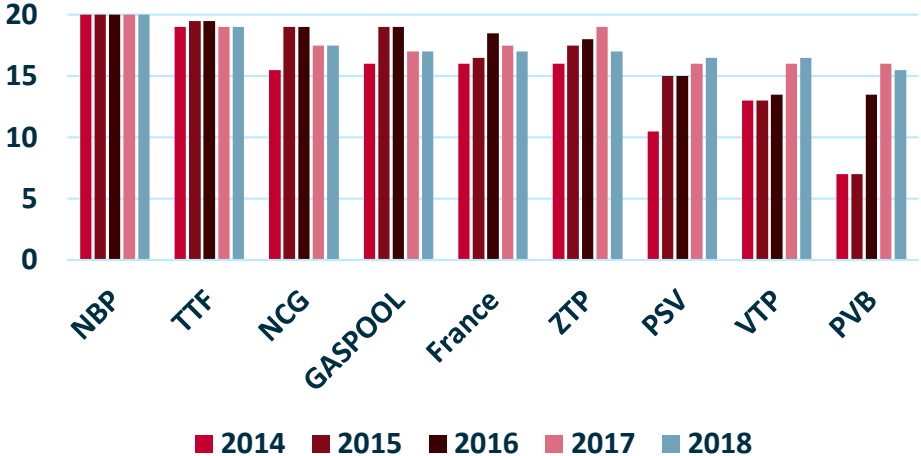
Summary of changes

- 20 Hubs assessed: 5 score more; 8 score less; 5 same; 1 new
- Most fallers in “mature” category, due to criteria changes and tighter scoring
- Further improvements across some middle hubs; some nascent hubs getting further behind.
- Biggest risers: GR and BU; next biggest CZ and SK
- More incidences of disconnects between hub scores and market confidence: increased presence of ministry-led, political barriers

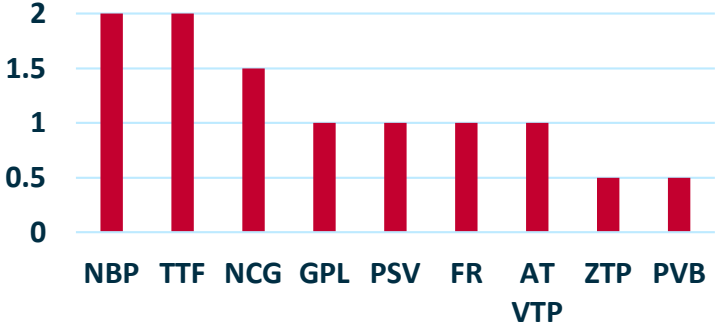
Breakdown by market maturity

More mature markets

EFET 2018 Gas Hubs Study - Liquid Markets

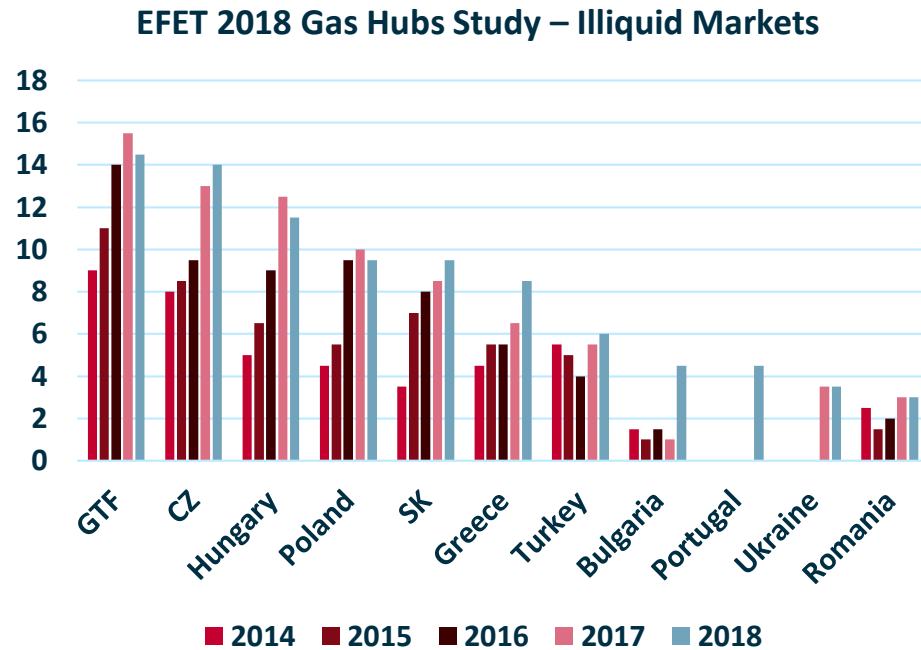


Liquidity Assessment



- Scores above 17 (NBP, TTF, NCG, Gaspool, France, ZTP) reflect mature hubs
- Liquidity unlikely to be affected materially by completion of final criteria
- More dependent on other political issues – Brexit, currency risk, hub mergers, migration to/from other hubs
- Not the primary intention of the study, but reasonable reflection of liquidity experience
- ACER report has higher liquidity levels for Gaspool and Italian PSV, but lower liquidity for Spanish PVB, otherwise similar.

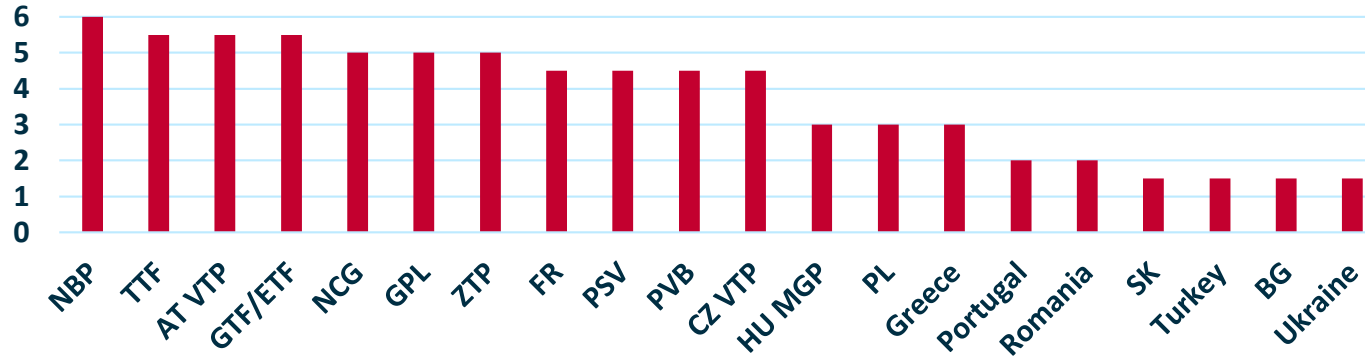
Low liquidity hubs



- GTF and CEZ score well in hub design, but low view of liquidity reflects locations next to more liquid markets, notably Germany
- HU, PL had historical improvements in hub design, but liquidity is now more negatively affected by wider trading conditions, reflected in reduced score.
- GR, BU have made some catchup progress in implementing network codes, but trading environment still poor for other reasons.
- PT added – future success will depend heavily on relation with PVB
- TU, UA, RO have frozen in progress; EFET aware of some progress in TU legislation, but limited effect and traders still discouraged by country risk.

Stakeholder performance

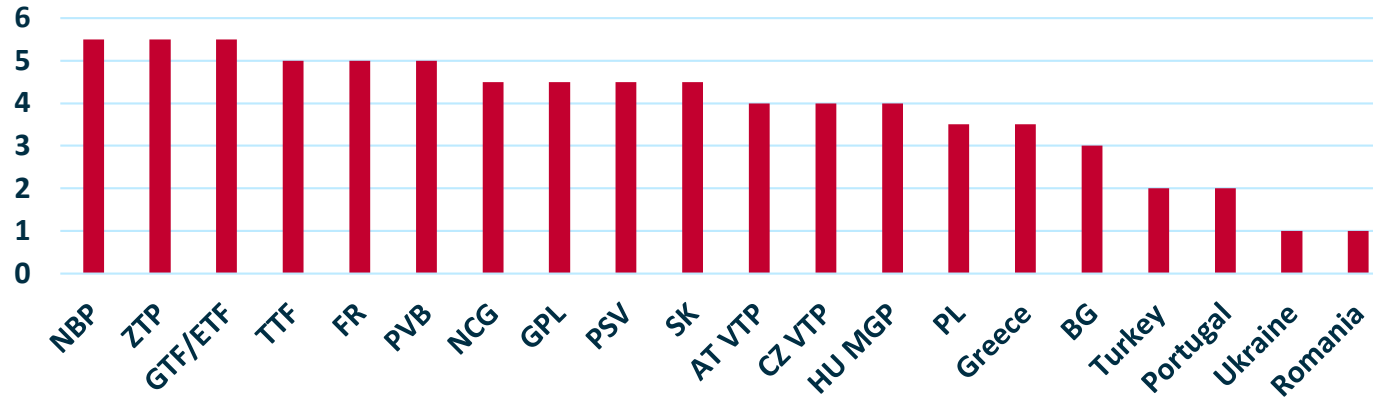
National Regulatory Authority assigned tasks



Criteria	Responsible party	Heading 2018	Max Score 2018
1.a	NRA and/or Ministry	Transparency and consultation	1.5
6	NRA/Ministry	Licensing and reporting obligations	1
7	NRA	Resolve market structural and concentration issues (defined role for historical player if flexibility/liquidity is scarce)	1
8	NRA, TSO or Market Operator	Hub fees (not fees relating to participating on a exchange or trading platform)	1
14	NRA	Establishment of exchange	1.5
Total			6.0

- NRA a proxy for NRA and ministry, as powers and obligations are split differently across different MS
- Main opportunities for improvement relate to transparency and consultation often not available in English language
- Onerous licensing and reporting obligations in illiquid markets
- Reduced instances of appointing exchanges before underlying trading framework is established, but is still a common action.

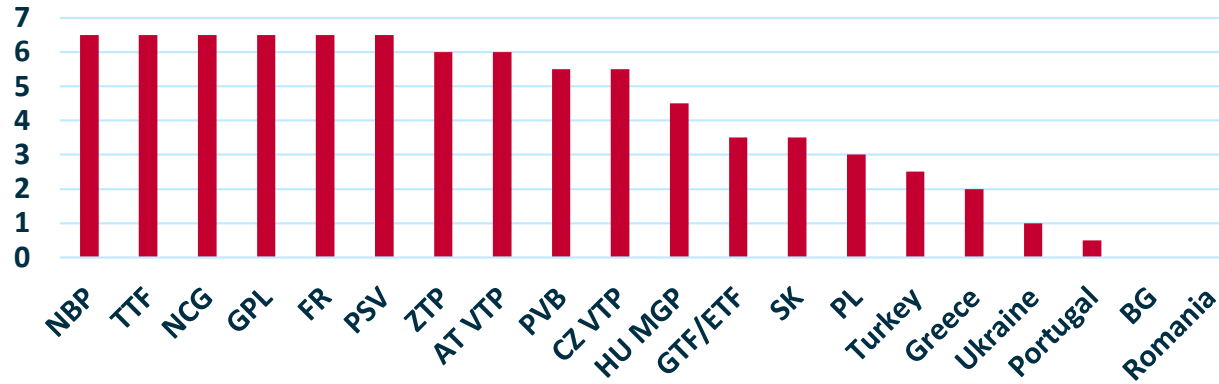
TSO assigned tasks



Criteria	Responsible party	Heading 2018	Max Score 2018
1.b	TSO/MAM/Market Op	Transparency and consultation	1.5
2	TSO	Entry-exit system established	1
3	TSO	Title Transfer	1
4	TSO	Cashout rules (long short positions imbalances set to zero at the end of the day with payment/receipt of imbalance charge in local currency/MWh)	1
5	TSO/MAM/Market Op	TSO system balancing	1
Total			5.5

- GTF and CEZ score well in hub design, but low view of liquidity reflects locations next to more liquid markets.
- HU, PL had made improvements in hub design, but liquidity is negatively affected by wider trading conditions.
- GR, BU have made progress in implementing network codes, but trading environment still poor for other reasons.
- TU, UA, RO have frozen in progress; EFET aware of some progress in TU market, but effect not fully felt and traders still discouraged by country risk.

Market Party assigned tasks

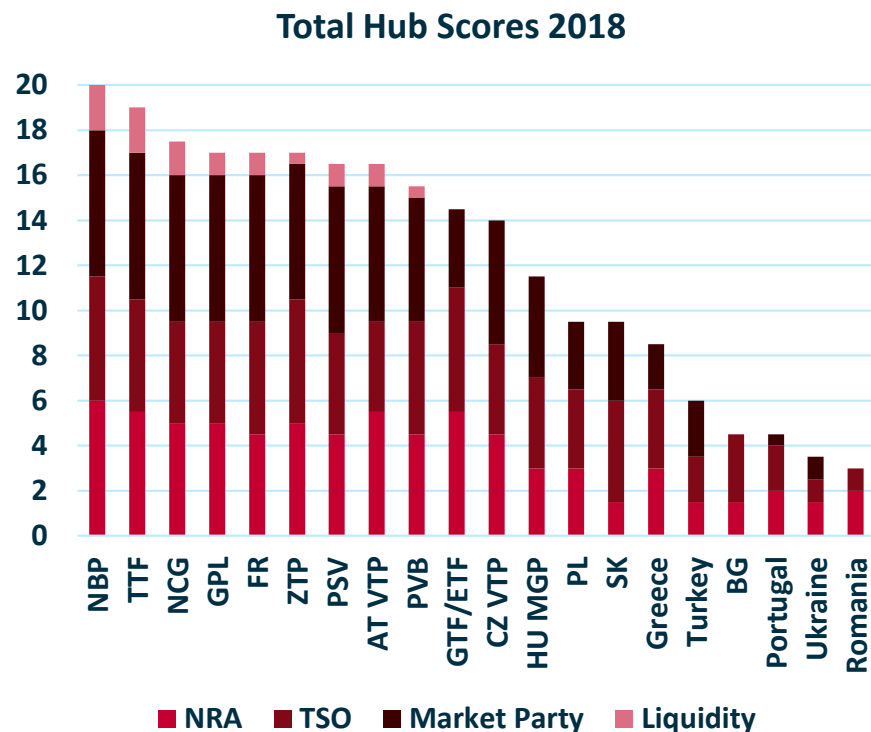


Criteria	Responsible party	Heading 2018	Max Score 2018
9	Market	Establish a reference price at the hub for contract settlement in the event of default	1
10	Market	Standardised contract	1
11	Market	Price Reporting Agencies producing daily prices at the hub	1
12	Market	Voluntary market makers operating at the hub	1
13	Market	Brokers	1.5
15	Market	Hub price becomes reliable and used as benchmark	1
Total			6.5

- Market Party Tasks a mix of Traders, PRAs, Brokers
- Often dependent on other tasks being completed or a level of liquidity being already achieved.
- Improved implementation of NC BAL allows better establishment of reference price
- Network access terms not always detailed enough to ensure workability of standardised contract
- PSV now frequently used as benchmark, achieves max score; PVB used for short term trades

Findings

Findings



- Average score (on like for like basis) remains constant for third year, reflects raising of the bar.
- Hubs scoring 17 or more are generally mature. Improved consultation and transparency would be appreciated, but unlikely to have material effect on liquidity.
- Some improvements still being achieved in mid-level hubs, enabling efficient short term and balancing markets, though not all may achieve longer term liquidity.
- Some low-performing hubs are making improvements in hub design but they discourage liquidity in other ways.
- Least-advanced hubs are getting further behind

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