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Gas Market Integration: How liquid are Europe's hubs?

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Liquidity on EU hubs is still “good“

- Through many years liquidity continuously grew on EU hubs.
- 2020 the COVID-pandemic stopped this trend in the second half of the year.
 - Q3 2020 -8% (1,150 TWh) y-o-y.
 - All EU hubs, except TTF, saw decreases.
- Pipeline & LNG (-15% Q3 y-o-y) imports, consumption &, thus, traded volumes were falling.
- Importance of TTF (88% without NBP) % of exchange executed contracts grew (41%)
- This year liquidity will – most likely - grow again once economy recovers somewhat from the lockdowns

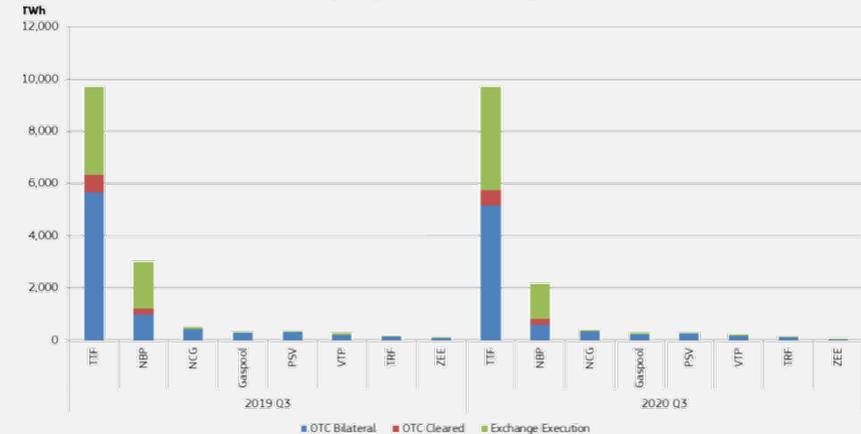
Figure 14: Traded volumes at EU hubs (TWh/year) – 2017–2019 (four scales)



Source: ACER calculation based on REMIT data, Trayport and hub operators.

Source: ACER MMR 2019, EC Gas Market Quarterly Q3 2020.

Figure 28 Traded volumes on the main European gas hubs in the third quarter of 2019 and 2020

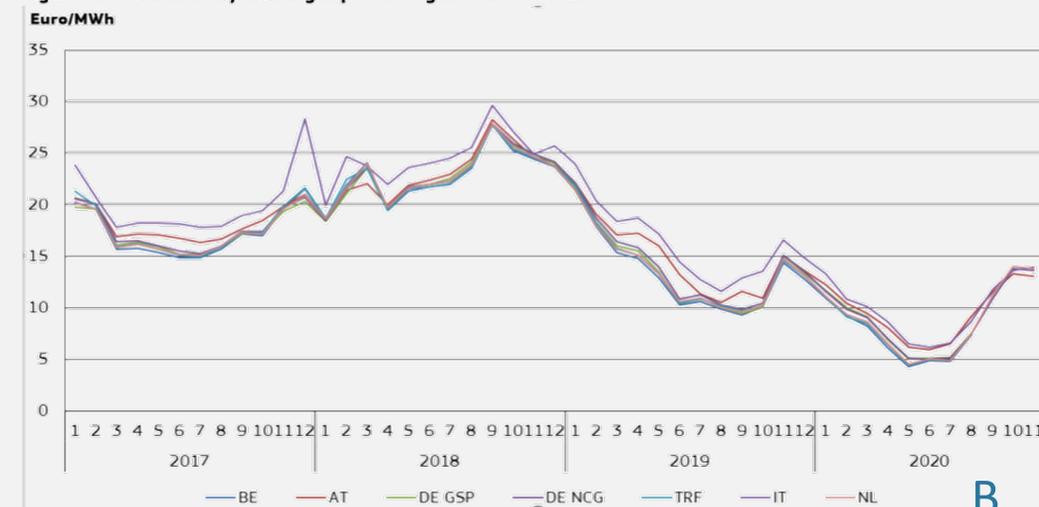


The chart covers the following trading hubs: Netherlands: TTF (Title Transfer Facility); Germany: NCG (NetConnect Germany) and Gaspool; France: TRF (Trading Region France); Italy: PSV (Punto di Scambio Virtuale); Austria: Virtual Trading Point (VTP); Belgium: Zeebrugge beach; UK: NBP (National Balancing Point)
 Source: Trayport Euro Commodities Market Dynamics Report

Hub development is a goal of the regulatory framework

- The current EU gas regulatory framework, essentially the 3rd package & the respective NCs, target the opening of markets & increase of competition.
- The establishment of entry/exit zones & harmonisations at cross-border level improved possibilities of market participants.
 - The 'old' gas world, purely 'at the flange' is outdated.
- Developments since 2009 show that the 3rd package delivered fairly well.
 - Significant progress towards the Internal Energy Market, as e. g. price alignment between hubs increased.
- However, improvement is still desirable.
 - Market mergers → growing market sizes
 - Trading/transportation across several E/E zones
 - Full competition with LNG

Figure 30 Wholesale day-ahead gas prices on gas hubs in the EU



Source: S&P Global Platts

Relevant rules for hub development

- In addition to the 3rd package, the **Gas Target Model**, with a focus on timely completion of the internal market outlined
 - How the EU gas market should look like;
 - How the different 3rd package instruments relate to each other, and;
 - Where & how to implement additional measures proposed.
- In general hubs work best when:
 - Markets are big (30 bcm+)
 - Several supply sources and storage capacity is available at acceptable prices;
 - The E/E zones (or the VTP) are easy to reach without structural congestion from as many other hubs/regions as possible;
 - Tariffs are low enough to allow flexible re-routing of gas.
- The relevant regulatory framework consists of
 - Capacity Allocation Management Network Code (CAM NC),
 - Balancing Network Code (BAL NC),
 - Tariff Network Code (TAR NC),
- However, all other Network Codes & Guidelines are of relevance as well.
- In essence they fit well together as the basis for hub development.

2030 Agenda: Retaining & improving liquidity

- Decarbonisation is the top priority for EU policy makers these days, next to economic recovery.
- Hydrogen will be the “energy molecules” traded in 2050.
- However, for quite some time wholesale markets will primarily trade natural gas & only increasingly decarbonised gases & hydrogen.
 - Whether separately or on a joint market has to be seen/discussed.
- Regarding gas wholesale market development new opportunities from neighbouring regions & from new infrastructures arise.
 - Ukraine (as a low cost storage location and as a regional trading hub
 - Turkish Stream,
 - NS2, (more transportation optionality)
 - etc.
- As transport patterns are changing, adjustments & support from Regulators & policy makers is needed to retain & further improve the liquidity of European wholesale gas markets.

Challenges ahead for wholesale gas markets

1. LNG

- Supports liquidity of wholesale markets already today,
- Access rules and downstream delivery options in Europe need improvement
- Global market rules are desirable,
- Longer-term effects of COVID-19 on the LNG glut? → Many FIDs delayed; What next?
- Price formation intransparent (e.g. Asian price spike)
- Restrictions from destination clauses, etc.

2. Energy transition

- The decarbonisation & hydrogen economy targets could fragment the gas wholesale market
- Different gas qualities in member states pose significant risks for cross-border trade.
- Careful considerations needed on how to transition the achievements of the IEM & gas wholesale market to a future fit market place with fully decarbonized “molecules”
- If the total energy consumption decreases significantly in general, this would impact markets as well.

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