

# Ukrainian Gas Forum

Kyiv, 11 October 2018



**European Federation of Energy Traders**

**“Standards as essential  
condition for building a  
wholesale market for  
Gas**

**Dr. Jan Haizmann**

EFET Board Member

Legal Committee Chair



# The role of EFET

## The voice of energy traders

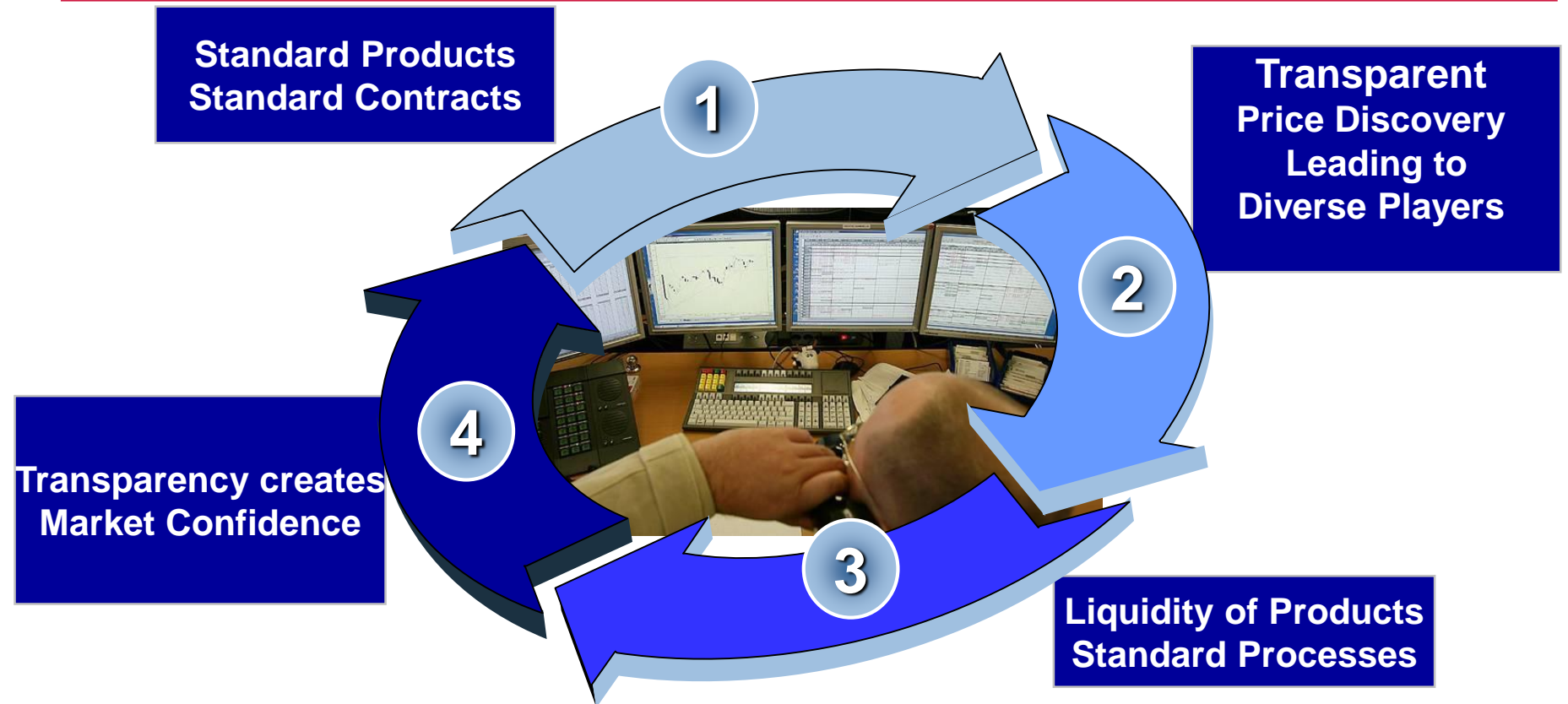
***“We promote competition, transparency and open access  
in the European energy sector.”***

European Federation  
of Energy Traders (EFET)



- Represents around 120 energy trading companies, operating in 26 countries
- Main activities include:
  - Promotion of wholesale energy markets through advocacy with European Institutions National Governments, ACER ...
  - Promoting legal standard documentation for physical OTC market ([www.efet.org](http://www.efet.org))
  - Promoting IT-standardisation and electronic reporting service solutions (eRR)
  - EFET Academy

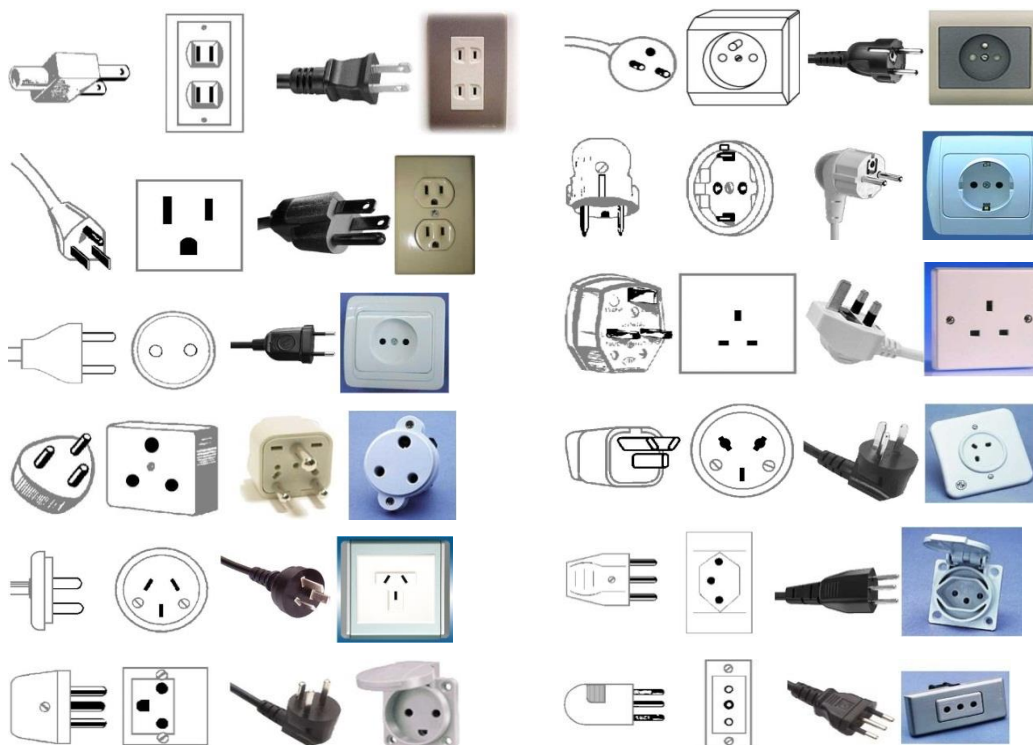
# How does a market Develop?



- Any action creating market confidence within companies such as reliable price discovery, neutral price reporting, entry of new and diverse market participants will help liquidity. A market cannot develop based on incumbent and vertically integrated structures as they hamper choice and flexibility.

# Why standardisation?

## To prevent things going wrong!



# Advantages of Standard Agreements

Standardisation

Ensures smooth operational processes and avoids back to back risks, needs to be enabled in Ukraine.

Credit Protection

Credit clauses work only if there is transparency on financial situation of firms.

Insolvency Protection

Close-out netting and single agreement concept are not enabled by Ukrainian law.

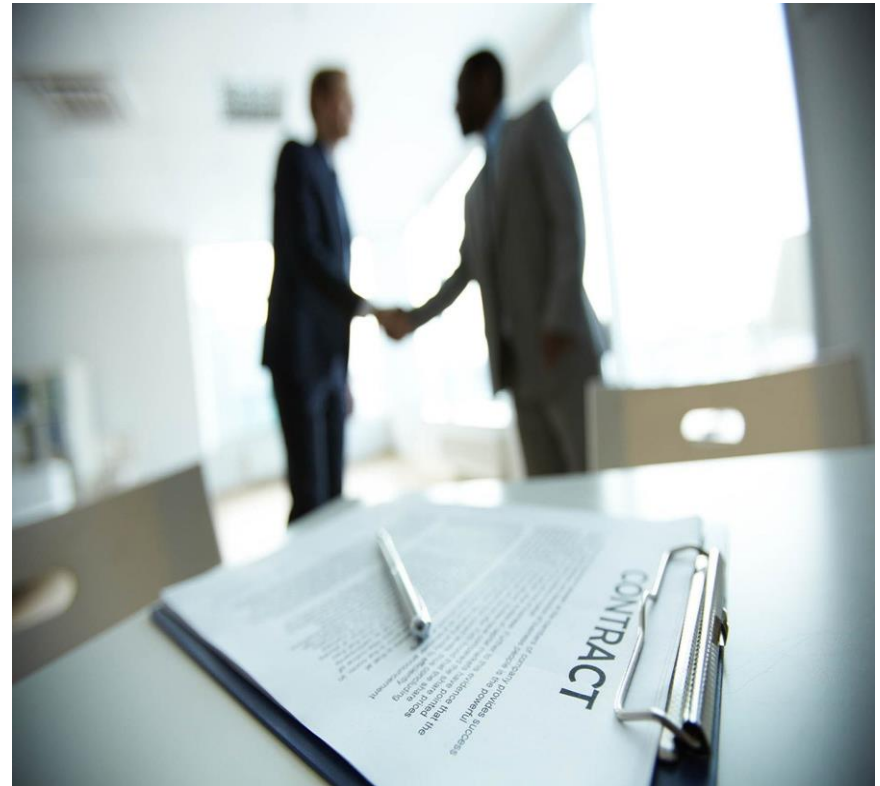
Legal certainty

**Ukraine does currently not offer legal certainty for international standard contracts as more legal reforms are needed to enable their protective effect.**

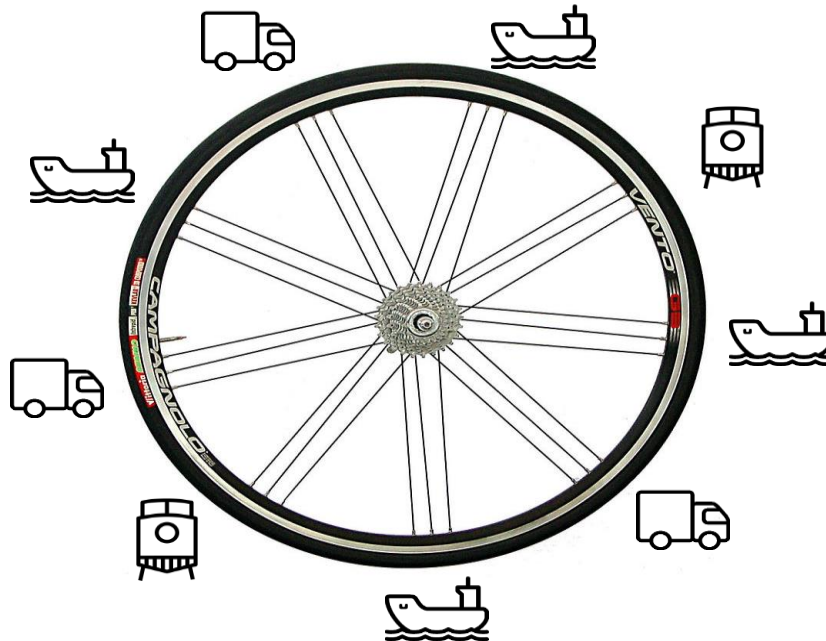
# What needs to be standardised?

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- Products
  - Duration (week, month, quarter, year)
  - Firm/Non-Firm Delivery
- Contractual Terms
- Operational Processes
- IT Standards (Cpml protocol)
- Reporting and Data Storage
- Legal Identifier
- Title Transfer Facility
- Settlement and Clearing process
- Regulatory Standards protecting markets from manipulation



**Platforms are market enabler  
provided they live up to minimum  
standards**



- 1. Standard Platform Terms**
- 2. Standard User Agreements**
- 3. Regulation Standards**
- 4. Pre-Post Trade Transparency Obligations**



# 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, title transfer, clearing and risk management, REMIT transparency regulation

## 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

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



# Roles must be clearly defined

## TSO

Operates system  
Accepts flow/trade nominations from system users  
Facilitates virtual trading point through entry-exit  
Provides Title Transfer service at VTP  
Balances system via balancing market

## Hub operator

Platform for registration of OTC trades  
Accepts notice from exchanges of exchange-based trades  
Provides title transfer and matching services  
Ensures trade firmness through back-up/-down  
Runs balancing market  
Market surveillance and reporting

## Exchange

Central counterparty  
Clearing and credit management  
Notification of confirmed trades to Hub operator / TSO  
Licensed / regulated by financial authorities  
Market surveillance and reporting

In some markets, hub services are provided by TSO

In some markets, bilateral trading platform is provided by exchange

Market participants should not be forced to trade the exchange  
Arrangements should allow for physical and “pure” (paper) traders  
Regulator should also consider how Hub operator is regulated if not TSO / Exchange

# EFET Gas Hub Development

## Best practices show the way

What should be done	By whom
Establish a consultation mechanism on local hub development issues	NRA / Stakeholders
Determine area to be covered by VTP, multiple nodes for a transitional phase	Traders / TSO / NRA
Establish an Entry-Exit system and VTP(s) through network access arrangements	TSO
Offering of title transfer or imbalance transfer services at the VTP	TSO
Resolve market structural issues	NRA
Define role of Hub Operator	NRA
Governance of Hub Operator (incl. licences and cost recovery arrangements)	NRA in consultation with market participants
Agree regulatory jurisdiction if a cross-border hub	NRAs/Governments/ACER
Firmness of the hub (contracted services such as Back Up Back Down)	TSO/HO
Firmness of the hub (a liquid balancing market)	TSO/HO
Establishment of a reference price(s) at the hub for imbalance settlement	TSO/HO
Use of the EFET master trading agreement or development of a specialized annex	Traders (EFET)
Price Reporting Agencies start to report at the hub	PRAs
Brokers become established (voice, systems)	Brokers/LEBA
Establishment of an exchange	Exchange/Financial Authority
Index becomes reliable and used as benchmark	PRAs, Market

# Thank you for your attention!

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**European Federation of Energy Traders**  
**EU Liaison Office**  
**Dr. Jan Haizmann**  
**Rue Le Corrège 93 B-1000 Brussels - Belgium**  
**Email: [j.haizmann@efet.org](mailto:j.haizmann@efet.org)**  
**[www.efet.org](http://www.efet.org)**