

ENTRY-EXIT SYSTEMS AND ACCESS TO GAS TRADED MARKETS

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(1) Overview

An entry-exit system allows gas shippers, traders and suppliers to book capacity rights independently at entry and exit points in the system. It enables more flexibility for network users, system transparency and cost reflective network tariffs. The independence of entry and exit capacities is further enabled by a virtual trading point where network users who booked exit capacity can buy gas. In this set-up natural gas can easily change ownership, facilitating the gas market.

The implementation of entry-exit systems in the individual EU member states is ongoing. Member States have given their own interpretation to the implementation of the Third Energy Package resulting in a variety of actual market designs.

This paper provides an assessment (and strategic view) on the status of entry-exit systems and their implementation in the EU. The primary focus of the analysis/paper is to assess how the implemented entry-exit systems influence the liquidity of the wholesale market and the possibility to trade gas at the virtual trading point (VTP), e.g. whether there are barriers for the entrance of new or foreign market players.

(2) Method

Based on factual information gathered for individual countries, the entry-exit systems implemented in the different EU Member States are compared. The assessment is structured around two key aspects:

- General design of entry-exit systems, including the number of entry-exit zones, interfaces and basic access arrangements, and VTPs.
- Contractual arrangements and licenses (e.g. licenses, contract for capacity, access to VTP, etc.) required for the network user (shipper, trader, supplier)

Therefore, we conduct a technical analysis and categorization of possible varying models employed by Member States, National Regulatory Authorities and TSOs and subsequently the identification of general methods used for the implementation of entry-exit regimes.

(3) Result

Results are presented in overview tables and graphs, categorising the countries on the key aspects. We identify key success factors of access to trading in entry-exit systems and develop recommendations towards improving the implementation of entry-exit regimes, with special reference to the objectives of the Third Energy Package.

A virtual trading point is essential and intrinsic to an entry-exit system facilitating a functional wholesale market. How a virtual point is established, or its specific features are of secondary importance as long as they do not represent barriers for accessing the virtual point. The basic function of a virtual trading point (or for that matter of an entry-exit system) is to facilitate easy market access and trading (title transfer) between network users. However, creating a VTP and supporting title transfer currently is not an explicit requirement in the EU gas regulations. In addition, it should be pointed out that the existence of a virtual trading point (with title transfer) provides no guarantee for the development of a liquid wholesale market. Other forces are important in the development of the wholesale market as well.

(4) Conclusion

Access arrangements to the virtual point should not be restricted by inadequate or unreasonable bureaucratic procedures and financial security requirements. Access to the virtual point could be incorporated in the capacity contracts concluded with the TSO. The virtual trading point would then be a network point that may be used without separately arranging access to it. Traders without any contracted capacity should have equal, non-discriminatory, access to the virtual trading point. In addition, restrictions with regards to firm and flexible access to VTP should be minimized (restricted capacities should be used only after careful assessment of alternatives and only to a limited extent).

In order to foster trade, it would be beneficial to make the use of the VTP free of charge or cheap (small fee). A more moderate approach would be to not remove all fees, but to harmonize at least the payment structure. This means that either a variable fee, related to traded volumes or number of transactions, or a fixed subscription fee would be required. The former reduces potential barriers for new entrants as initial outlays are low, whereas the latter could increase trading volumes and support price integration between different markets as the monthly subscription fee can be regarded as sunk cost.

A move towards a single platform that integrates multiple non-complementary functions would be beneficial. Currently, in some countries, a separate balancing platform co-exists alongside the virtual point. At first instance this might be required as liquidity in the wholesale market could be insufficient to act as a reliable source of balancing gas. However, once liquidity and confidence in the market have increased, the aim should be to integrate both functions on a single platform. The currently proposed Balancing Network Code already foresees that such steps need to be taken once the wholesale market is sufficiently liquid.