

EEX Trader Workshop THE

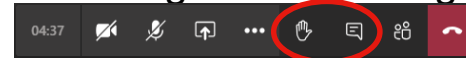
Trader workshop for the gas market merger Germany

18/06/2020, MS Teams

Sirko Beidatsch, EEX Gas Market

Spielregeln / Rules of the game

1. Bitte deaktiviere deine Kamera und dein Mikrofon.
2. Der Händlerarbeitskreis wird in deutscher Sprache mit Folien auf Englisch durchgeführt.
3. Diskussionen werden in deutscher Sprache geführt - für unsere englischsprachigen Teilnehmer gibt es eine Simultanübersetzung (Einwahldaten siehe unten).
4. Fragen bzw. Redebeiträge bitte über die Chatfunktion bzw. die erhobene virtuelle Hand ankündigen → Wir geben Bescheid, wenn Du sprechen kannst
5. Bitte berücksichtige, dass wir ggf. für die Simultanübersetzung mehr Zeit benötigen.
6. Bitte nutzt die Chatfunktion für eure aktive Rückmeldung / Abstimmung.



1. Please switch off your camera and mute your microphone.
2. The trader workshop will be held in German based on slides in English.
3. The discussion will be in German - simultaneous translation is available for English-speaking participants via telco (dial-in data below):
 - From the Netherlands: 0031-207946388; conf. code: 5864743190#
 - From Germany: 0049-06924437392; conf. code: 5864743190#
 - From France: 0033-170375500; conf. code: 5864743190#
4. Please let us know you have a question or wish to contribute to the discussion using the chat function or raising the virtual hand → We will inform you, when to speak
5. Be aware that, due to simultaneous translation, more time might be needed.
6. Please use the chat function for active feedback / polls.



Your contact persons for Germany



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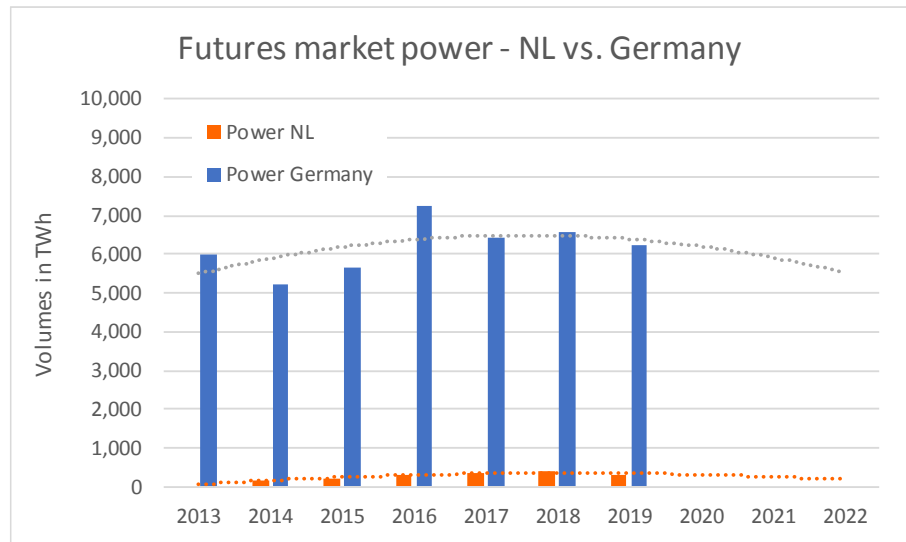
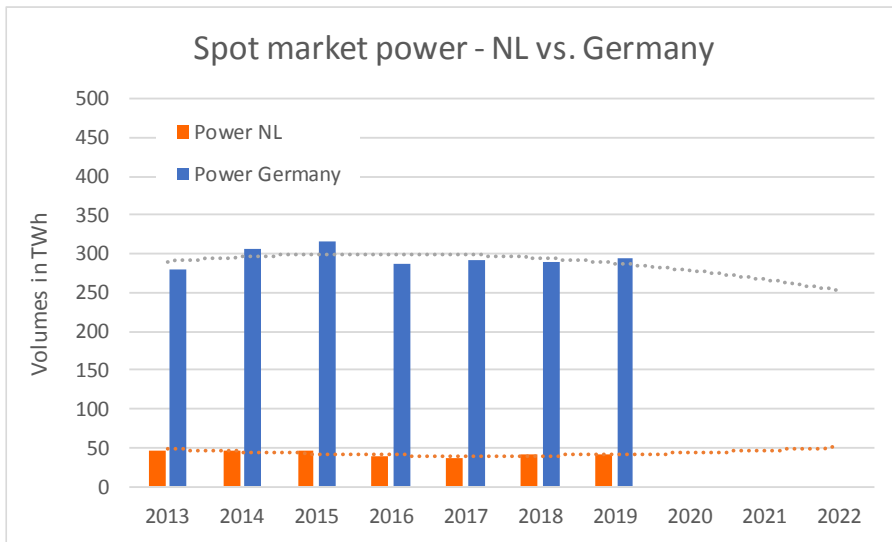
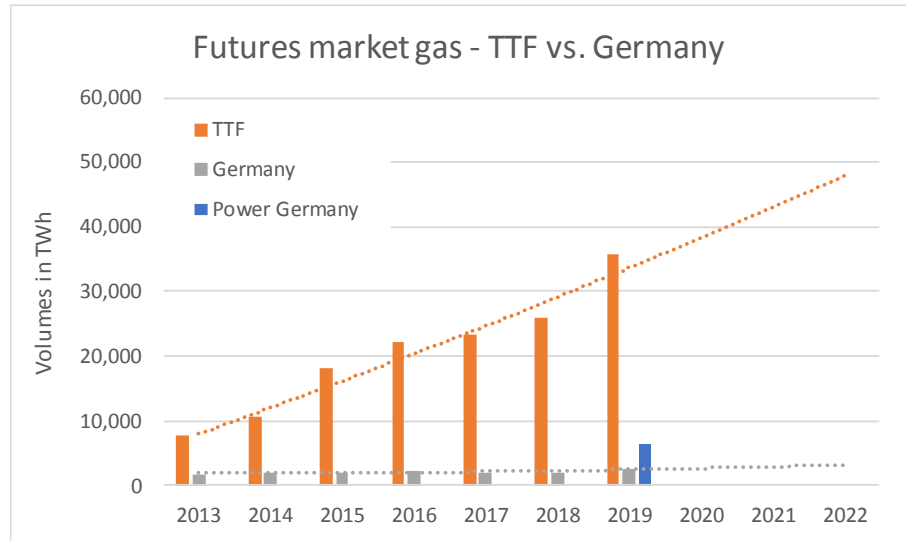
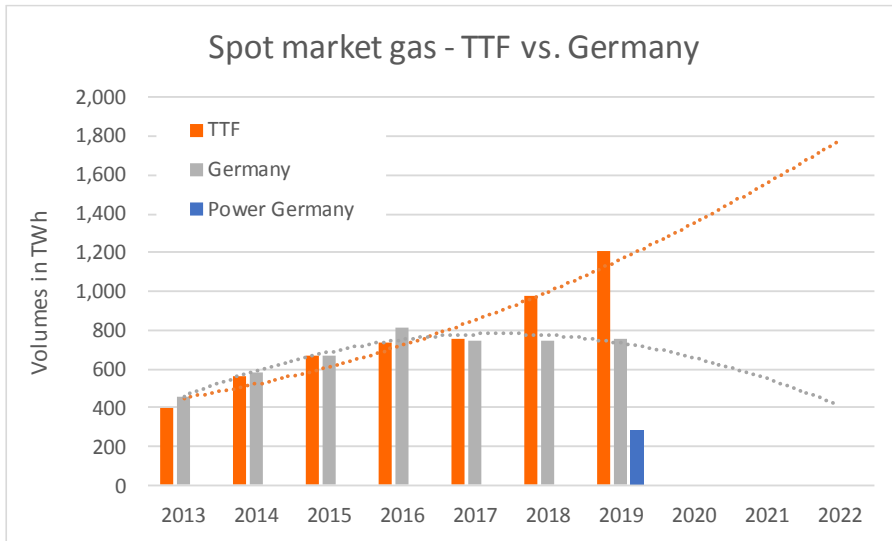
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Agenda

1. Development of gas trading in Germany in an European context
2. Discussion about competitiveness of gas trading in Germany
3. Introduction of new trading products and processes for Germany
4. Summary and lookout

Today: Different acceptance for German power and gas



Expectations for gas futures trading at THE

- Will the gas market merger in Germany push the interest in futures trading?



- In general, is there an interest/need for trading in Germany?
- Will market participants move their futures business into the German market?
- A: Yes, B: No

- Which level of liquidity is expected for the German futures market in 2025?



- C: Same liquidity as today - market merger into THE changes nothing
- D: Higher liquidity than today but lower than TTF - THE remains satellite hub
- E: Roughly the same liquidity as TTF - THE and TTF on an equal footing
- F: Higher liquidity than TTF - THE becomes European benchmark

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Disadvantages of Germany versus competitors

- Split of liquidity in Germany (one country → 4 market prices)
 - 2 gas markets, 2 gas qualities + conversion fee
- Procurement/trading of gas for Germany in neighbouring market
 - Lack of interest/commitment of market leader in Germany for futures trading in Germany → chicken-and-egg problem since liberalisation of German gas market
 - Futures trading primarily in front products (M+1, Q+1, S+1, Cal+1)
- Dominance/existence of linked (sub-) balancing accounts (WECOM, 2016)
 - Unique and extensive link of (sub-) balancing accounts compared to remaining EU
 - Netting between gas traders not directly on the VTP, but already in sub- and under-balancing accounts of a few balancing cooperations
 - Liquidity at VTP is structurally held back but inevitable for growth
 - German market participants sidestep to the more liquid neighbouring market
- Persistent regulatory uncertainty in the German market
 - Conversion fee, market merger, market area switch (L→ H-Gas), multipliers for intraday transport capacities, ...
- Missing reference/reputation of the German gas futures market
 - Insufficient attractiveness of gas trading for financial market participants

Advantages of Germany vs. competitors

- Strong gas demand by a huge number and diversity of gas companies
 - Gas sales in 2019: ca. 1,000 TWh
- Enormous flexibility by gas storage, power plants and industrial customer
- Strong international links mainly without capacity bottlenecks
 - Upcoming: North-Stream 2 and LNG terminals on the northern coast of Germany
- Well-functioning and established balancing market
 - Huge number of market participants, sufficient liquidity and market-based prices
 - Room for improvement:
 - With further near-time information about status of own transport portfolio, traders could increase their contribution to system responsibility
- Highly liquid German power futures market as possible drawing card
 - More than 150 active market participants in 2019
 - More than 6,000 TWh power traded in 2019, churn rate around 13
 - Already pan-European reference for power
 - Linkage to gas could enable hedging of power production in the production market
 - Strong interest and activity of financial market participants

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Futures trading for THE as soon as in Q4/2020

- Why:
 - Fastest possible increase of liquidity in the unified German gas futures market
 - Trading in THE according to clear rules/standards for internal company approval
 - Without delivery area risk in case of a delayed market merger; in other words: without breakdown of initial THE deliveries into GPL and NCG
- Two proposals for discussions:



G: Renaming from NCG into THE	H: Introduction of a new order book THE
<ul style="list-style-type: none"> ▪ Renaming of order book NCG in THE as soon as in Q4/2020 ▪ All THE und GPL products with delivery before October 2021 will be delivered in the NCG and GPL market areas. ▪ All THE und GPL products with delivery as of October 2021 will be delivered in the market area THE. ▪ Retaining trading in the GPL order book for delivery periods as of October 2021, as long as launch date of THE is not binding. 	<ul style="list-style-type: none"> ▪ Introduction of a new THE order book as early as in Q4/2020 as a supplement to existing GPL and NCG order books ▪ Trading for THE only for delivery periods as of October 2021 ▪ All GPL and NCG products with delivery before October 2021 will be delivered in the GPL and NCG market areas. ▪ All THE, GPL and NCG products with delivery as of October 2021 will be delivered in the market area THE. ▪ Retaining trading in the GPL and NCG order books for delivery periods as of October 2021, as long as THE launch date is not binding.

	GPL			
	Qty	Bid	Ask	Qty
Nov-20				
Q1 21				
Sum 21				
2021				
2022				

	NCG THE			
	Qty	Bid	Ask	Qty
Nov-20				
Q1 21				
Sum 21				
2021				
2022				

	GPL			
	Qty	Bid	Ask	Qty
Nov-20				
Q1 21				
Sum 21				
2021				
2022				

	NCG			
	Qty	Bid	Ask	Qty
Nov-20				
Q1 21				
Sum 21				
2021				
2022				

	THE		
	Qty	Bid	Ask
Nov-20			
Q1 21			
Sum 21			
2021			
2022			

- In the event of a THE delay: backup delivery in the NCG market area because almost all GPL traders are also trading NCG futures
 - # market participants in the gas futures market: 132 NCG, 111 GPL, 109 NCG + GPL
- Precondition for trading in the order book: valid balancing agreement at NCG (later on also THE)

Introduction of financial gas futures for THE

- Why introduce financial gas futures for THE as in case of Phelix for power?
 - Simplification of trading for financial market participants (banks, hedge funds)
 - Increase in attractiveness for participants that mainly trade power today
 - Before delivery: settlement at the same time as power futures: 15:50 - 16:00 CET
 - In the delivery month: final settlement will be made after 6 pm CET (D-1) against a reference price for the delivery day, calculated on the highly liquid EEX spot market

- The following proposals for implementation are being discussed:
 - Choice of the best reference price for the delivery day for final settlement:
 - I: EGSI - considered all DA trades executed between 8:00 - 18:00 CET (D-1)
 - J: EOD - considered all DA trades between 17:15 - 17:30 CET (settlement window, D-1)
 - Is there a demand for optional physical fulfilment on the EEX gas spot market (as in the Phelix) during the delivery period?
 - Automatically by EEX Market Operation (after registration)
 - K: Yes, an option for physical fulfilment is wanted.
 - L: No, an option for physical fulfilment is not wanted.



	THE Gas Fin.			
	Qty	Bid	Ask	Qty
May-20				
Jun-20	60	5.750	5.950	30
Q3 20	5	6.440	6.745	30
Q4 20	30	11.150	11.445	30
Win 20	10	11.975	12.145	30
Sum 21	30	11.685	12.065	25
2021	10	12.450	12.755	10
2022	10	13.880	14.205	12

Introduction of Spark Spreads

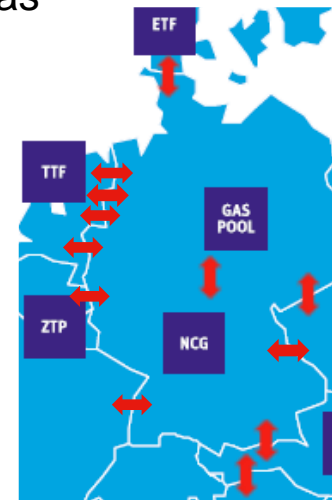
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- What is a “Dirty” Spark Spread?
 - Price difference between revenue for power sales and costs for gas procurement to operate a gas power plant; without consideration of costs for emissions
 - If the price difference is positive/negative, the revenue for power sales are higher/lower than the costs for gas and the power plant is profitable/not profitable.
- Trading-related link between German power and gas futures market
 - Precondition: Offering of physical/financial gas futures for Germany
 - Enables direct financial hedging of power gas for power plant operators in Germany, to be sold on German power futures market, via gas procurement in Germany
- Advantage EEX: execution guarantee of all spark spread related orders
- Proposals:
 - Standardised efficiency of 50%; 100 MWh gas → 50 MWh power
 - Introduction of own order book for Spark Spreads in T7
- Which order books should be linked for the spark spread:
 - M: Spark Spread = German Power Fin. - THE Gas Fin./50%
 - N: Spark Spread = German Power Fin. - THE Gas Phys./50%
 - O: Both, THE Gas Fin. and THE Gas Phys. linked with German Power Fin.



Implicit allocation of short-term capacities at VIPs

- Why?
 - Allocation of gas and transport capacity rights at the same time - NC CAM Art. 2 (5)
 - Implicit allocation of short-term (WD, DA) transport rights at the VIPs from/to Germany
 - Risk minimisation through continuous, market price-based and simultaneous trading/allocation of short-term transport rights with the commodity gas
- Proposal:
 - Allocation of transport rights via existing EEX location spread order books under consideration of regulated reserved (minimum) prices
 - Allocation of transport rights at VIPs to A, B, CZ, DK, F und NL
 - Allocation by TSOs or third parties on behalf of TSOs (MAM, Prisma,...)
- Preconditions:
 - VIP is located between two EEX gas markets
 - Adjacent TSOs agree on the way of allocation via EEX
 - Allocation of transport rights not at the same time at EEX and Prisma
- Discussion: Is there a demand for setup at EEX? (P: Yes, Q: No)?



	TTF					NCG / TTF							NCG			
	Qty	Bid	Ask	Qty		Comp	Qty	Bid	Ask	Qty	Comp		Qty	Bid	Ask	Qty
WD	100	4.950	5.125	200	WD	A	50	-0.250	0.050	100	B	WD	50	4.875	5.000	100
DA	100	5.075	5.100	500	DA	C	100	0.025	0.100	100	MGV	DA	9	5.125	5.150	29

Transport:
NCG → TTF

Transport:
TTF → NCG

Financial incentives for futures trading in Germany

1/2

- EEX Experience
 - Possible Market Maker/Volume provider already lost interest for Germany due to:
 - Low interest of other parties in posting an order in the given Bid-Ask-Spread of the MM
 - MM or VP already in the neighbouring market with lower price and volume risks
 - Insufficient financial compensation vs. extra risk and burden
 - Those Market Makers/Volume providers rather support EEX on TTF
- “Market Maker” program of MAM NCG offered since January 2019
 - Rewards companies that commit ahead toward the MAM to trade a minimum volume in M+2 and Q+2 products at VTP NCG during a fixed time period
 - Idea: Shift of (physical) trading volumes from neighbouring markets to NCG
 - The five winners of the tender with the highest commitments get k€ 100 each
 - For 2019: ca. 10 TWh committed trading volume were rewarded by NCG
 - Program shows strong success as early as in 2019:
 - Vs. 2018: + 50% gas volumes traded (ca. 30 TWh) in rewarded M+2 und Q+2 products
 - Increase in Q+2 products much stronger than in M+2 products
 - Small adjustment for 2020 tenders by NCG (6 months, k€ 50) → two tenders
 - Both tenders for 2020 were oversubscribed
 - Good to know: For the 5 winners of the tender, EEX, on request, waives all trading, trade registration and clearing fees for trading in M+2 and Q+2 products

Financial incentives for futures trading in Germany

2/2

- Is there a need for Market Makers/VP also in German gas futures?
 - Should EEX look for MM/VP contracts with possible THE supporter?
 - R: Yes, S: No

- Which incentive schemes might have the strongest support for THE?
 - T: Market Maker: refund for providing Bid-Ask-Spread
 - U: Initiator/Aggressor: refund for posting/execution of an order
 - V: Volume Provider: refund for trading of a committed volume
 - W: Others: Please describe briefly via chat.



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Germany remains interesting as a gas market!

1. Liquidity edge of neighbouring Dutch market TTF is huge
2. Regulatory disadvantages in Germany have already been identified, they are known and need to be removed quickly to support a smooth start of THE
3. High liquidity in German power futures market, huge gas demand for Germany but bridge and innovative products can also support THE liquidity.
4. Germany as a gas market is definitely moving into the limelight internationally!

Thank you very much for your attention!

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