

German Gas Market: More integration and liquidity

According to Anke Alvermann of BEB in Hanover, gas contracts are becoming shorter and co-operation between network operators has helped the market in North Germany to establish itself as the most liquid virtual trading hub for natural gas in the country.

Setting the scene

The European and German gas world has undergone substantial changes. Only a few years ago, the gas business in Germany was characterised by long-term gas purchase contracts linked to the price of oil.

Today, the terms for the transactions of the shippers and traders are becoming increasingly shorter. For gas transport companies, this creates the need to offer the market services for gas transport and gas storage tailored to customer requests.

Moreover, given the large number of German transport operators, it means that co-operation amongst these companies is becoming more important, so that the range of services can be extended further and the entry-exit capacities of a number of gas transport companies can be booked by shippers and traders on joint internet platforms.

Network cooperation

Unlike many European countries, where there is only one national gas transport company, there are about 700 local, regional and supra-regional gas network operators conducting business in Germany. 16 gas transport companies, which operate pipeline systems in H-gas and/or L-gas, are active in the business of supra-regional gas transport. Currently, there are 18 market areas (13 in H-gas and 5 in L-gas) in Germany.

Back in 2006, the gas network operator, BEB Transport GmbH & Co. KG, Dong Energy Pipelines GmbH, Hydro Energie Deutschland GmbH and Statoil Deutschland GmbH decided to cooperate in the Market Area H-Gas North Germany. The Market Area L-Gas North Germany was formed by BEB and ExxonMobil Gastransport Deutschland GmbH. BEB coordinates activities in both markets. ►



On 1 July of this year, these two market areas, along with the market areas of ONTRAS VNG Gastransport, went online with a joint Internet platform. (see figure 1 opposite)

From August 2007, customers can book transport capacities between the Dutch and Polish border in both market areas online on this Internet platform (www.marktgebiete.com). Transport customers will be able to select from a clearly structured and transparent list of the capacities of all six cooperating gas transport companies, add their selection to a joint shopping basket, then book their requests by a “click and book” function. This cooperation of the market areas of North Germany with the market areas of Ontras VNG Gastransport simplifies processes significantly for customers, thereby supporting the further development of a liquid gas market in Germany.

Expansion in trading

By launching its entry/exit network access system on 1 July 2004, BEB established the first virtual trading point in Germany. The BEB concept was also incorporated into the German Gas Network Access Regulations, enacted in 2005 to mandate the establishment of a virtual trading point for each of the 18 market areas currently existing in Germany.

The virtual trading point of the Market Area North Germany has already established itself as the most liquid trading hub for natural gas in Germany. Just under 30 companies have announced their interest in the sale or purchase of natural gas on the internet page set up especially for this purpose, moving away from traditional supply agreements.

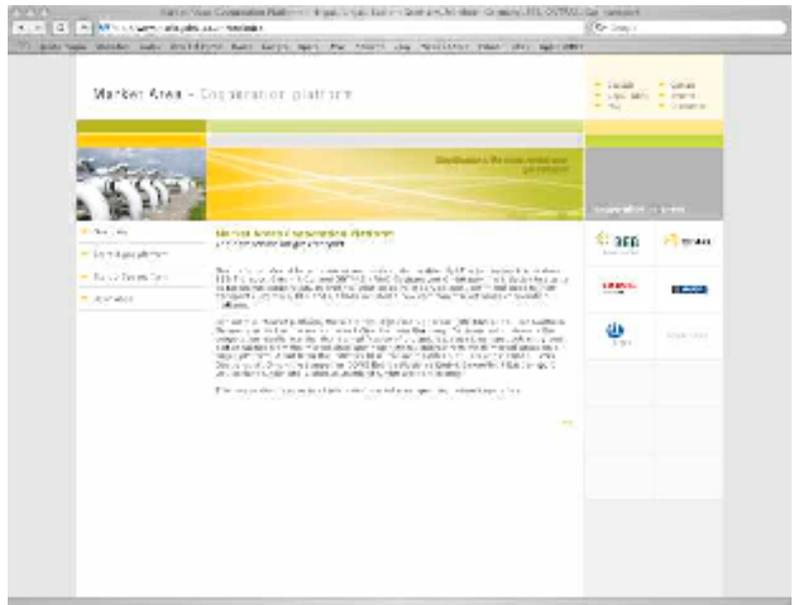


Figure 1 – Internet Trading Platform

Since the establishment of the BEB virtual trading point, gas volumes traded have risen rapidly. (see figure 2 below) In the first half of 2007 alone, the BEB hub handled a total trading volume of 20.9 billion kWh, an increase in the trading volume of 150% compared with traded volumes in 2006. The current record for trading volume within one month was registered in June 2007 at about 3.7 billion kWh. ▶

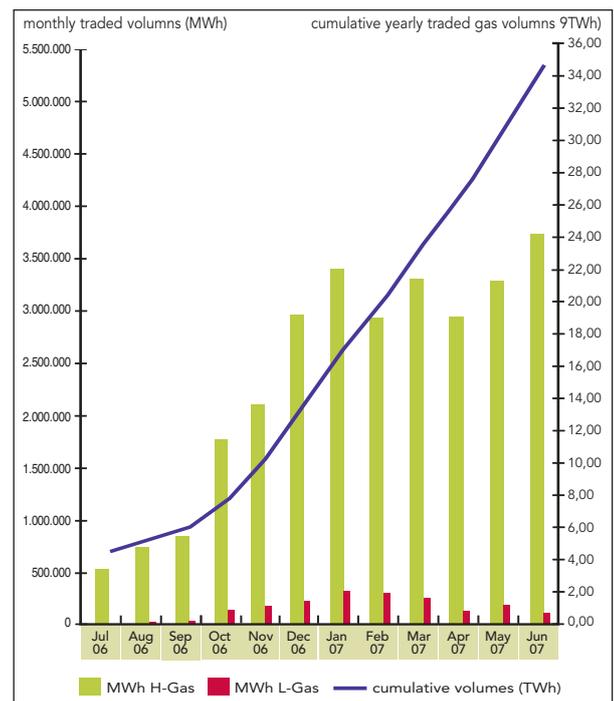


Figure 2 – Market Area H – Gas North Germany – Traded Volumes

Currently, trading is mostly in the Market Area H-Gas North Germany. Virtual points contribute to the increase in liquidity for natural gas because new opportunities for gas procurement, portfolio optimisation and the realisation of arbitrage transactions between the domestic and international gas trade points are opened up for all market participants.

The realisation of the so-called two-contract variants and the related adaptation of all traditional supply agreements with further distributors within one market area by 1 October 2007 as required by the German Federal Network Agency, will likely result in a further substantial increase in liquidity at the virtual trading point.

Gas exchange and transport capacities

The European Energy Exchange (EEX) set up the first German gas exchange on 2 July 2007 at the BEB virtual trading point in the Market Area H-Gas North Germany. In addition, BEB offers available storage capacities and the integration of important import and export points for natural gas in the market area, thus meeting all of the important requirements of the EEX for participating network operators.

Market participants can trade products, including gas, on both spot and futures

markets on the EEX. The spot market is necessary because it enables physical portfolio optimisations within a short period. But growing potential is also expected for the futures market – especially in view of the step-by-step elimination of city gate agreements.

BEB is going to offer day-ahead capacities at selected cross-border points from the beginning of August 2007, thereby supporting gas trading on a short-term basis. Booking transport capacities for the following gas day during the period from 09.00 to 10.00 am will be possible. The possibility of offering combined day-ahead capacities is currently being discussed with neighbouring network operators.

Combined day-ahead capacities would involve the opportunity for network users to be able to book entry and exit capacities at a cross-border point with one click on an internet platform.

To increase utilisation rates in its pipeline system, BEB is going to improve the publication of historical network utilisation data at selected entry and exit points. This data will enable network users to assess the risks of interruptions themselves. BEB's intention here is to increase further the liquidity of the European gas market. ■

