



### In the first of a two-part outlook for 2013, ICIS looks at new natural gas infrastructure and market initiatives in the most widely traded northwest European countries.

Much focus in those countries where spot gas trade is mature will be on further improving cross-border capacity access and promoting storage usage. Scrutiny in Austria and Belgium will remain on the new virtual markets, which are both in their infancy. Looming in the background for all players is EU legislation on trade, transparency and gas-specific network codes.

In the second part of the natural gas outlook for 2013, ICIS looks at countries in the south and east of Europe where gas trade is either at an earlier stage or currently nonexistent.

Eni's surrender of import capacity in Italy means the PSV will continue to trade at a tighter spread to northwest European hubs than in recent years. Spanish AOC trade will continue to struggle. The glimmer of liberalisation light will spread across Poland and Greece with further improvements in liquidity in the Czech Republic.

## UK

French storage operator Storengy plans to start operations at its British Stublach storage facility this summer, bringing on line an initial capacity of 40 million cubic metres (Mm<sup>3</sup>). Following a delay of approximately five months, a final investment decision (FID) on King Street Energy's Cheshire-based storage facility is expected to be reached in May. The fast-cycle facility is targeted to become operational approximately four years after the decision is made, and will have an initial capacity of 270Mm<sup>3</sup>.

EDF Energy's UK-based Hill Top Farm site will become operational this year, having been put back from late 2012. The facility will be operated by EDF subsidiary EDF

Trading and have an initial storage space of 234GWh (21.7Mm<sup>3</sup>).

SSE has proposed potential changes to contracts at its UK-based Hornsea storage site. The changes, to be brought into effect for contracts from 1 May, will provide an increased injection rate at the front end of the season and a reduction at the back end.

Political and market debate will continue over the nature and terms of capacity mechanism auctions scheduled for 2014. Ensured demand for gas for power generation is key to any forecasts of growth for UK gas in the mid-term.

With the lifting of the ban on shale gas production in December, companies such as Cuadrilla and IGas will remain in the news but the government will keep a close eye on regulatory consent and planning permission for new projects.

British regulator Ofgem will oversee consultations on system operator incentives - to end on 22 January.

The government will close a consultation period over which clauses are used in the 2013 Finance Bill covering decommissioning tax relief on 6 February.

## France

Storengy said that it will reduce prices for gas storage allocated in 2013, compared with this year's prices, adding that it will perform its allocation process in January, rather than in February, as in previous years.

Shippers are pessimistic about the impact the adjustments will make, suggesting it is still highly likely that a large amount of capacity - estimated to be close to 30TWh - will again go unsold.

System operator GRTgaz has said it will look to better coordinate maintenance work at the north-south link in a bid to lessen the impact on the spread between PEG Nord and PEG Sud prices.

The spread between the PEG Nord and PEG Sud Day-

ahead contracts is expected to be relatively flat for the rest of the winter, owing to expected improved supply in the south of France. But in the summer months traders expect the spread to be high once again because of increased forecast exports to Spain from TIGF.

## Belgium

Focus on slow trade at the ZTP will continue. After a long period with almost no activity on the OTC market, in the second week of January some activity re-emerged, but it remains to be seen whether this will be sustained or intensify. System operator Fluxys will review the performance of the new hub and market-based balancing in spring 2013, and if necessary move to a market consultation to assess eventual issues arising from this in the summer.

In response to market demand, Fluxys is trying to modify its storage offering to make more long-term capacity available. A consultation is running is due to close on 18 January. The opening-up of Belgium's only storage facility, Loenhout, to shippers without end-customers in the country has stimulated its use, resulting in heavier withdrawals in November and December 2012 compared with the previous year.

Due to Fluxys joining the PRISMA platform for booking capacity across seven European countries, Fluxys will launch a market consultation in January in order to move to hub-to-hub products. The current system must also be changed in order to have auctions on a primary market. Registration for the platform will begin at the end of February, and auctions are due to begin from 1 April 2013.

## Netherlands

A proposed change to the balancing regime which will remove use of the Dutch system operator's Bid Price Ladder mechanism is expected. This will allow the market to handle its own imbalance is expected to boost Within-day liquidity. The system operator GTS will also start balancing its grid by trading on the TTF as part of a new

agreement with APX-ENDEX. The TSO will buy and sell gas on the APX NL Within-Day and Day-ahead markets.

The Dutch competition authority NMa sent a letter to the Dutch government concerning the legal obligation for Gasunie Transport Services to offer flexibility to shippers. The Ministry of Economic Affairs is currently evaluating the proposal and has yet to make a decision.

The ministry is studying possible legislation that will introduce lower rates for gas transport to and from gas storage following lobbying from Dutch storage body Gas Storage Netherlands.

## Germany

Results of a consultation on a possible merger of NCG and GASPOOL are expected by mid-January. While system operators expect the costs to outweigh the expected benefits by far, many analysts and traders are in favour of the merger, saying that in the long run the market would benefit. Another option being discussed among participants is a merger of the German GASPOOL and the Dutch TTF hub.

The NCG and GASPOOL hubs have announced they will aim to buy the majority of their gas for balancing purposes through standardised products via the European Energy Exchange (EEX) from 1 October 2013. After criticism from market participants, they decided to change the planned merit order for balancing gas, prioritising procurement through the exchange. Procurement via the hub operators' own bilateral balancing platforms was moved down to second place in the order - the same level as buying balancing energy through exchange products in neighbouring market zones such as the Dutch TTF.

At times when the spot market is lacking liquidity or the hub operators need backup gas in order to be able to guarantee system stability, they can then buy standardised long-term products in the form of options, the country's new balancing target model says. As a last step, the hubs also can negotiate individual long-term

products for exceptional cases.

The GASPOOL hub will have to lower its fee for converting H-gas and L-gas (high-calorific and low-calorific gas) by at least €0.44/MWh by 30 September 2013. The current €1.76/MWh charge will have to drop to €1.32/MWh or less from this date.

For each hub, the German regulator Federal Network Agency (BNetzA) has set a maximum yearly fee from 2012 until October 2016, at which point the conversion fee will drop to zero. The current NCG fee of €0.70/MWh will not have to be reduced until 30 September 2015, at which point the maximum level for the hub will drop to €0.45/MWh.

## Italy

The new physical forward trading platform MT-Gas is being developed, which will offer trading on the two front seasons, four front quarters, three front months and balance of month (BOM). Most participants polled by ICIS were sceptical, saying the design is too similar to one of the other platforms managed by GME - where liquidity is almost entirely lacking with the exception of balancing platform PB-Gas.

A new session will be added to the PB-Gas balancing arena to ensure the security of the system when gas in storage is insufficient. The new session, which will take place the day before delivery (D-1), will enable system operator Snam Rete Gas to use LNG and gas imports.

Tighter PSV spreads to other hubs will continue. This follows the incumbent's commitment to offer at auction at least 5 billion cubic metres (Gm<sup>3</sup>)/year of import capacity on pipelines from northern Europe from October '12 until 2017.

Because of the higher import capacity available, TTF prices became the main driver of the PSV, eroding the influence of once-predominant Brent crude. Many wholesale suppliers are now able to get physical supply directly from north European hubs broadly using TTF spot indexation in supply contracts with industrial players.

As cross-border location spreads fell dramatically, the attractiveness of import capacity subsequently suffered, to the point that some sources said the reverse flow project on Transitgas might actually start to make sense at some point, especially with Italy's current oversupply which is likely to continue.



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