Natural Gas Wholesale Trade: Opportunities and Obstacles

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Agenda

- Basic framework of gas wholesale trade
- Wholesale products
- Role of the storage infrastructure
- Regulatory relations
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Natural Gas Wholesale means giving customised answers to partners’ unique needs

**End-customer (Retail) sales**
- Partners are end-customers
- Trader company sells natural gas to an end-customer at a fixed location and with mostly fixed parameters
- Partner’s opportunities are limited in terms of delivery point and type of delivery
- Partner’s demand is solely driven by its own consumption
- Main decision factor is the price

**Wholesale**
- Partners are mostly trading companies with international portfolios
- Pricing and logistics environment changes dynamically
- Partners’ needs can be fulfilled in several alternative ways
- Further usage of natural gas / capacities is most of the time not considered
- Regulatory environment is decisive
Wholesale portfolios are not just GSPA contracts

- Physical sale and source contracts
- (Physical assets)
- Natural Gas Wholesale Portfolio
- Flexibility
- Financing
- Capacities
- Financial hedging positions
How Hungary looks like from a Natural Gas Wholesale perspective?

- TTF
- VTP
- MGP
- MMBF
- MFGT
- CEEGEX

Locations:
- Mosonmagyaróvár (AT > HU)
- Balassagyarmat (SK - HU)
- Beregdaróc (UA – HU)
- Csanádpalota (RO – HU)
- Drávaszerdahely (CRO – HU)
- Kiskundorozsma (HU > SRB)
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A wholesale contract is not just a volume and a price

- Profile vs Flat demand
- Yearly / Quarterly / Monthly / Daily flexibility
- Potential switching of delivery points
- Nomination framework
- Buy-back options
- Financing

- Alternative-based pricing
- Regulated tariffs act as a benchmark
- Value of flexibility is a system-usage cost
- Storage needs

- Product parameters
- System-usage pricing
- Molecule pricing

- Fixed vs Indexed pricing
- Price fixing opportunities
- Options to switch between price indexes
- Different price definitions at a particular hub
- Natural / financial hedging opportunities

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Competing alternatives create need for constant financial optimisation

- In February my portfolio short for the coming December in a particular entry-exit system.
- Purchasing flat natural gas or a flexibility service / call option for December.
- Purchasing primary or secondary cross-border capacities and transporting natural gas source in December.
- Purchasing Time/Location SWAP service (e.g. March-December Time-Swap / VTP-MGP Location-Swap).
- Booking primary storage capacities, injecting natural gas in the summer period and withdrawing it in December.

Decision will be based on:
- Forward curves of different HUBs, source portfolios on the market
- Capacity availability, potential scarcities and auction calendar
- Perceptions and future expectations of market players
- Hedging opportunities
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3. Role of the storage infrastructure
4. Regulatory relations
Natural gas storage is vital from a security of supply point of view

- Main reason for the existence of storages is to balance the difference between the consumption and production.
- Large amount of import gas is delivered in a flat profile.
- Export quantities are not sufficient to balance consumption and are mostly covered by flat inflexible contracts.
- Supply security.

Balance between production and consumption

Power flexibility is supported by CCGT

Supply of peak consumption is reliant on CCGT power generation

Average power consumption profile (MW)

- Spreading of unpredictable renewable energy highlights the need of flexible gas.
- CSS trading is further supported by flexible gas supply.
There are huge differences in availability of storage infrastructure within Europe.

- Balancing
- Flexibility on both gas and power market
- Supply Security

### Natural gas storage capacity to yearly consumption ratio

- Physical
  - Potentially realization of intrinsic value
- Extrinsic values
  - Profiting from summer/winter spread movement
  - Source and sales timing ability
  - Capacity optimization
  - Quick reaction to the change of location spread

### Opportunities provided by storages

- Storage long countries are capable of off taking excess quantities

**Excess gas → Swing seller**

Storage long countries may have the opportunity to become the price setter of the region

**Swing buyer**
Natural gas storage can create value in several ways

Extrinsic value through storage optimization

**Spread movement**

Summer/Winter spread on TTF

Location spread movement

- Quick location spread movements can be taken advantage of with the utilization of flexible storage withdrawal, while injection can be managed during a less expensive period
- Withdrawal capacity, withdrawal speed is a major factor in the ability of exploiting sales opportunities

**Source and sales timing**

- Ability to handle large quantities → LNG offtake and optimization
- Timing of flexible source offtake or sale on liquid market (Example)

**Capacity optimization**

- Competitive advantage in providing flexible products as related capacities can be optimized, re-injection of withdrawn quantities under a flexible sale contract can be delayed
- Virtual injection and withdrawal → drop in capacity and/or variable costs

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A favorable regulatory environment is key in well functioning wholesale markets

Reliable and well-forecastable regulatory environment

Reaching a balance among the preferences of consumers, producers, system operators and traders

Acting as communication mediator between market players
THANK YOU FOR YOUR ATTENTION!

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