

CEEGEX Central Eastern European Gas Exchange Ltd.

Impact on the domestic and regional gas markets



Roland Lajtai
Chief Executive Officer
CEEGEX Ltd.

16th May 2013

Agenda

»» Quick questions and answer

»» The approach of CEEGEX,
outcome and impact

»» Implications regarding the V4 countries

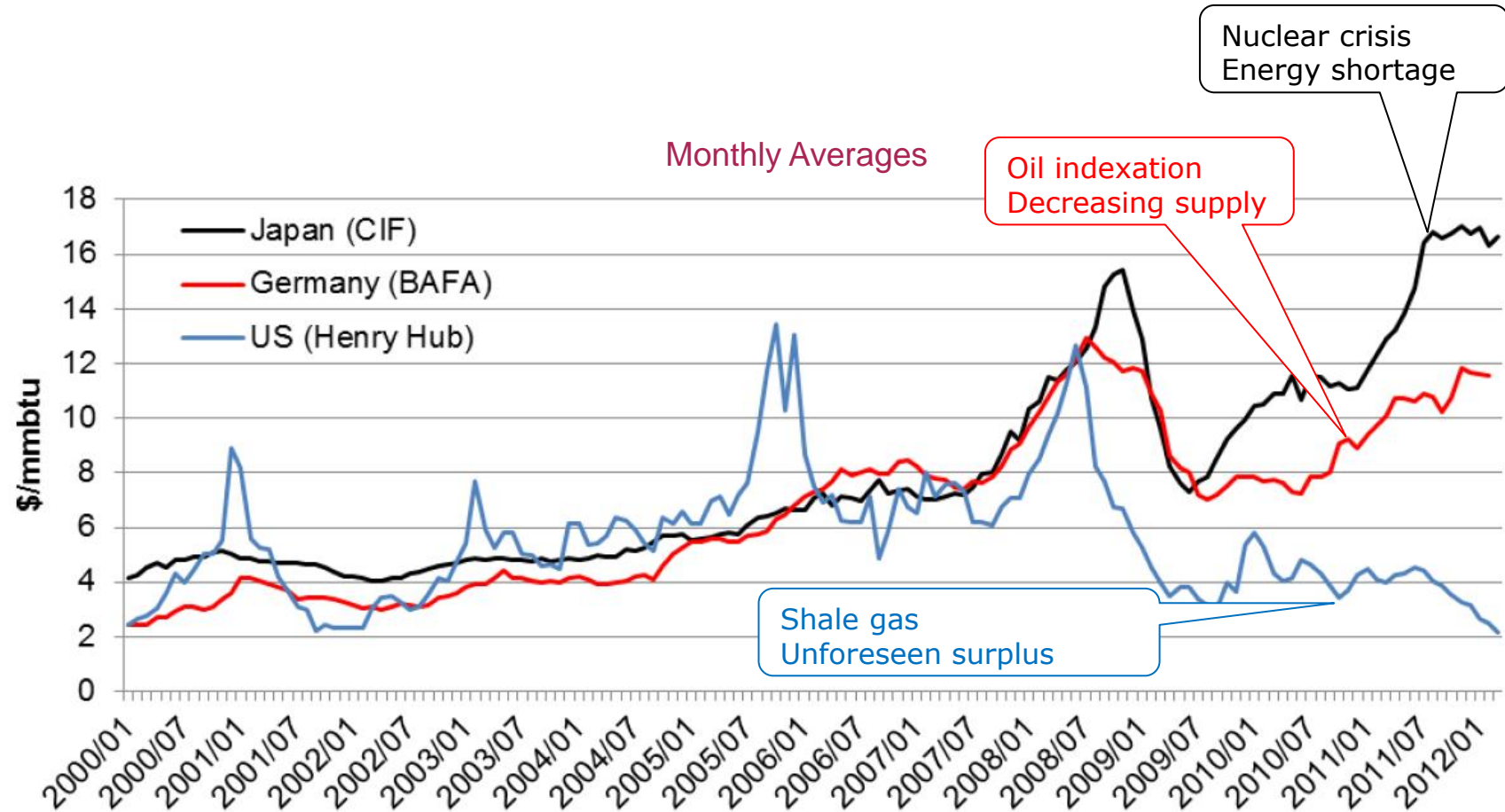


What is the goal? What do we desire?

3 correlated market today
opened a wide spread

What is the goal?

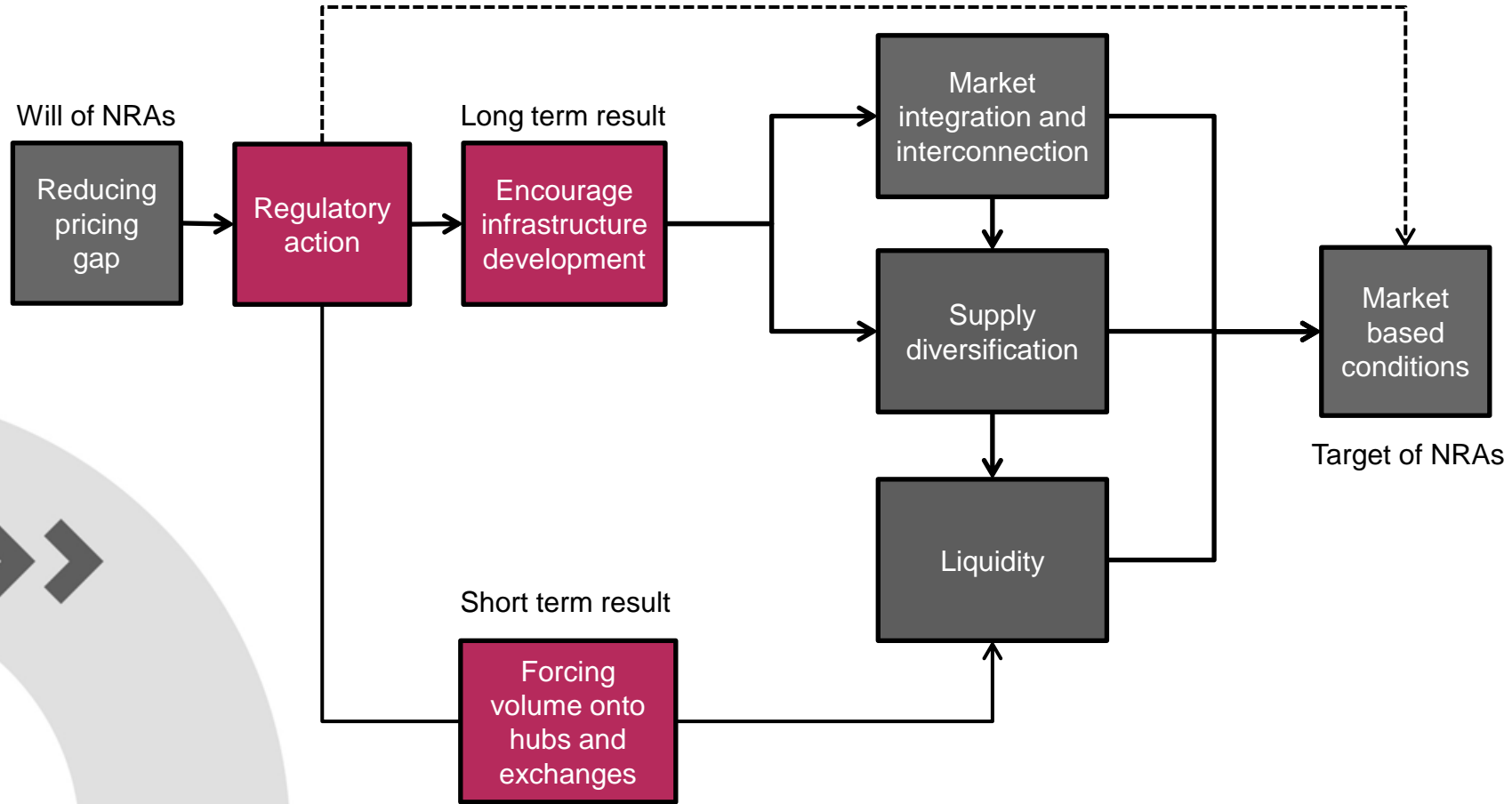
- » Low prices
- » Competitive market
- » Supply diversification
- » Pricing based on market fundamentals
- » Competitive pricing
- » Transparency
- » Regional cooperation




Source: Karen Sund & Dragos Talvescu, 2012. június 6;
Japan Trade Statistics, EIA, BAFA, 2012. május



Goal: Reaching market based conditions

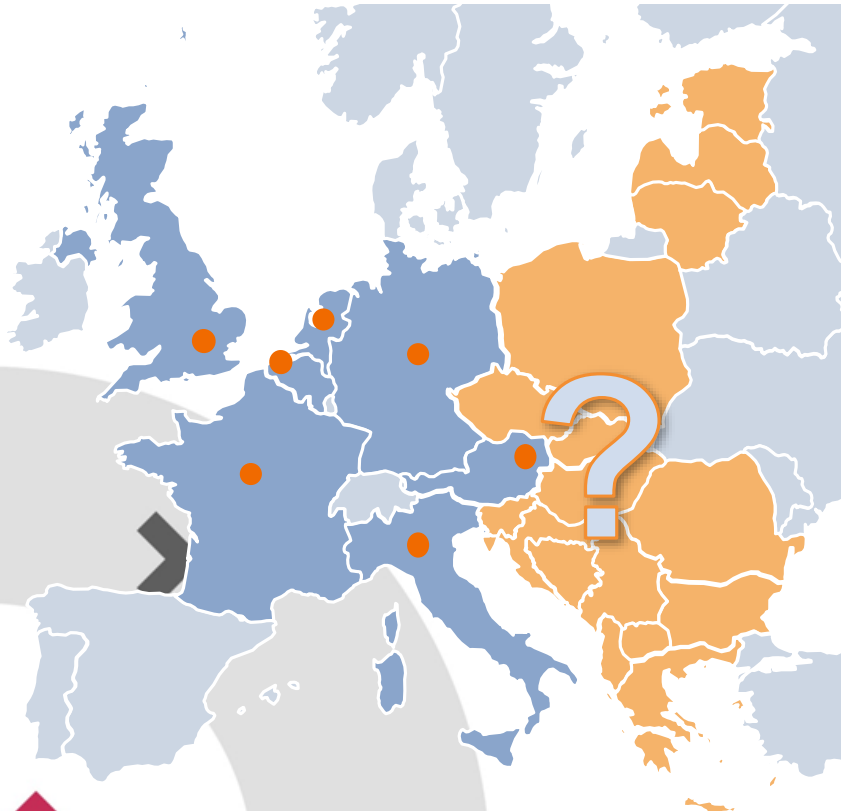


 Potential tools to reach changes



What is the difference between us and them?

Western Europe markets are liquid and competitive



The CEE region is still a Russian market

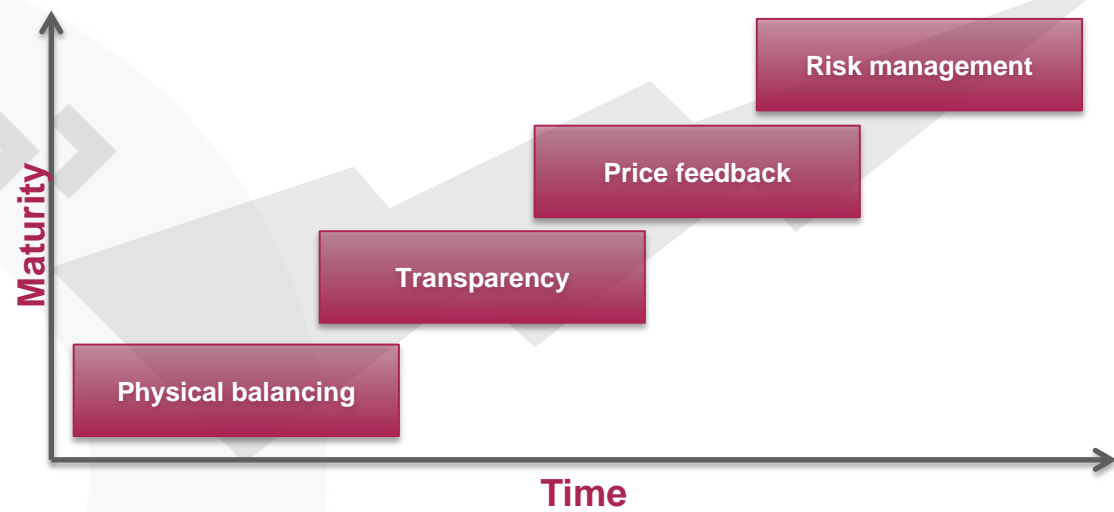
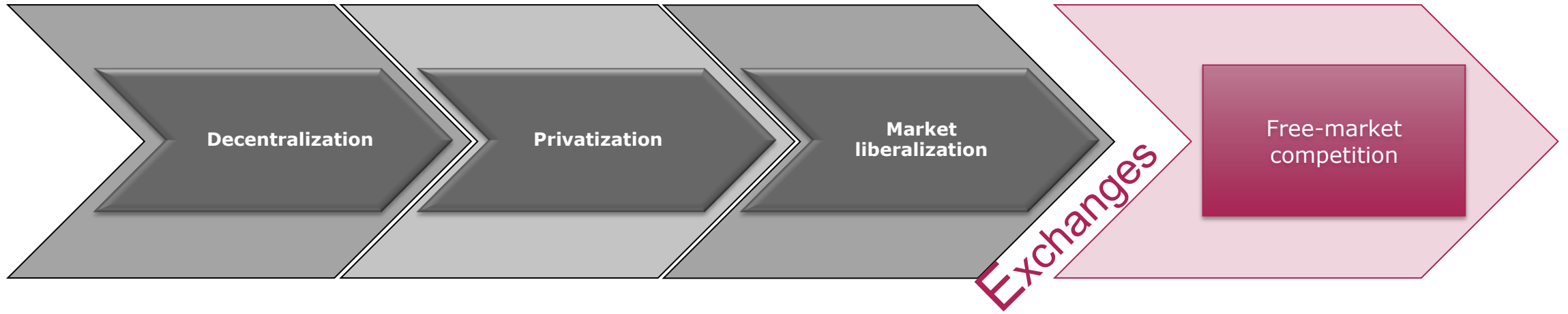
The Western European market participants cannot enter the eastern premises

- »» Natural gas hubs and exchanges are missing from the region
- »» The Western European market participants cannot trade in the Eastern markets
- »» Dependency on Russian gas sources still determines the market prices through the long term gas purchase agreements

Market concept has to be created with Western European best practice

- »» Taking part in Gas Target Model
- »» EU NCs adaption
- »» Inviting international trading companies

Where are we at compared to them?



Recognizing Western European practice

Difference in stages of development

Identifying monopolistic attributes

Monopolistic gas market

- Bundled network and upstream
- Tight regulatory framework
- Government owned regulatory
- TSO state owned
- No exchange exist only bilateral long-term contracts
- Existing barriers to entry
- Non public pricing
- Government owned supply
- Regulated import/export
- Long-term contracts

Demerger of state owned companies

Regulation renewal

Public Benefit organisations

Privatisation

Required by government regulation

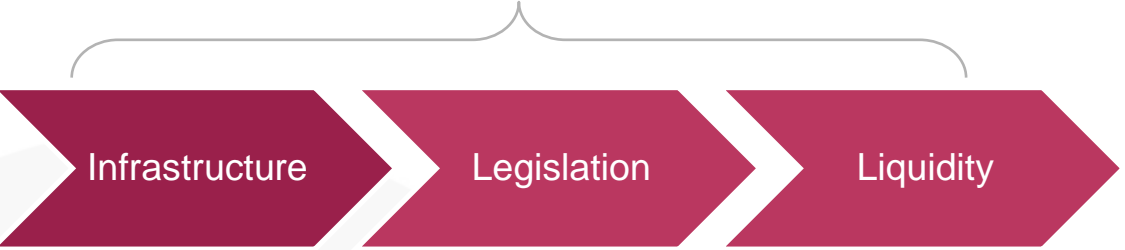
Support of an Exchange
exchange

Liberal gas market

- Unbundled Network system, upstream and down stream
- Consumer driven regulatory framework
- Independent regulatory
- TSO privately owned
- Existing Exchange
- Easy to entry
- Transparent pricing
- Diversity of supply sources
- Free flow
- Futures market for long term trading



How to identify and adopt working principles?



»» Diversified supply

»» Legislative and regulatory framework

»» Pricing methodology



Best practice identification

Order of application	Infrastructure	Regulations	Liquidity
Henry Hub	<ul style="list-style-type: none"> »» 216 excessive storage capabilities »» 13 LNG terminals »» Centralised Physical HUB 	<ul style="list-style-type: none"> »» Regulated on Exports »» Deregulated on prices »» Privately owned 	<ul style="list-style-type: none"> »» Most liquid »» Natural Gas supply growing »» Churn ratio on futures market 30
NBP	<ul style="list-style-type: none"> »» 9 storage »» 9 LNG terminals »» Centralised virtual HUB 	<ul style="list-style-type: none"> »» Deregulated »» Privately owned 	<ul style="list-style-type: none"> »» Europe most liquid market »» Natural Gas supply decreasing »» Churn ratio 19
APX-ENDEX TTF	<ul style="list-style-type: none"> »» 4 storage »» 2 proposed LNG terminals »» Centralised virtual HUB 	<ul style="list-style-type: none"> »» Publicly owned networks »» Partly privatised »» Liberalised downstream 	<ul style="list-style-type: none"> »» Increasing liquidity »» Natural Gas supply decreasing »» Churn ratio 18

Appropriate regulation
 +
Sufficient infrastructure
 =
Liquidity and efficiently working domestic and regional markets

Agenda

»» Quick questions and answer

»» The approach of CEEGEX,
outcome and impact

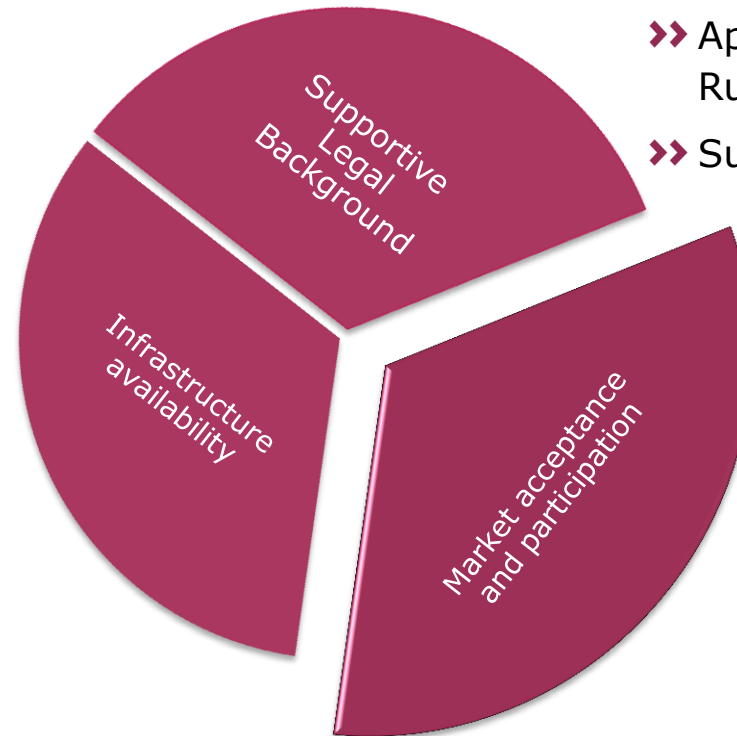
»» Implications regarding the V4 countries



What do you need for a successful domestic market?

The 3 main components for success...

- » Virtual Trading Point
- » Effective physical delivery
- » Cross-border capacity
- » New interconnections and transit routes
- » More than 6 Bcm storage
- » Supported transit



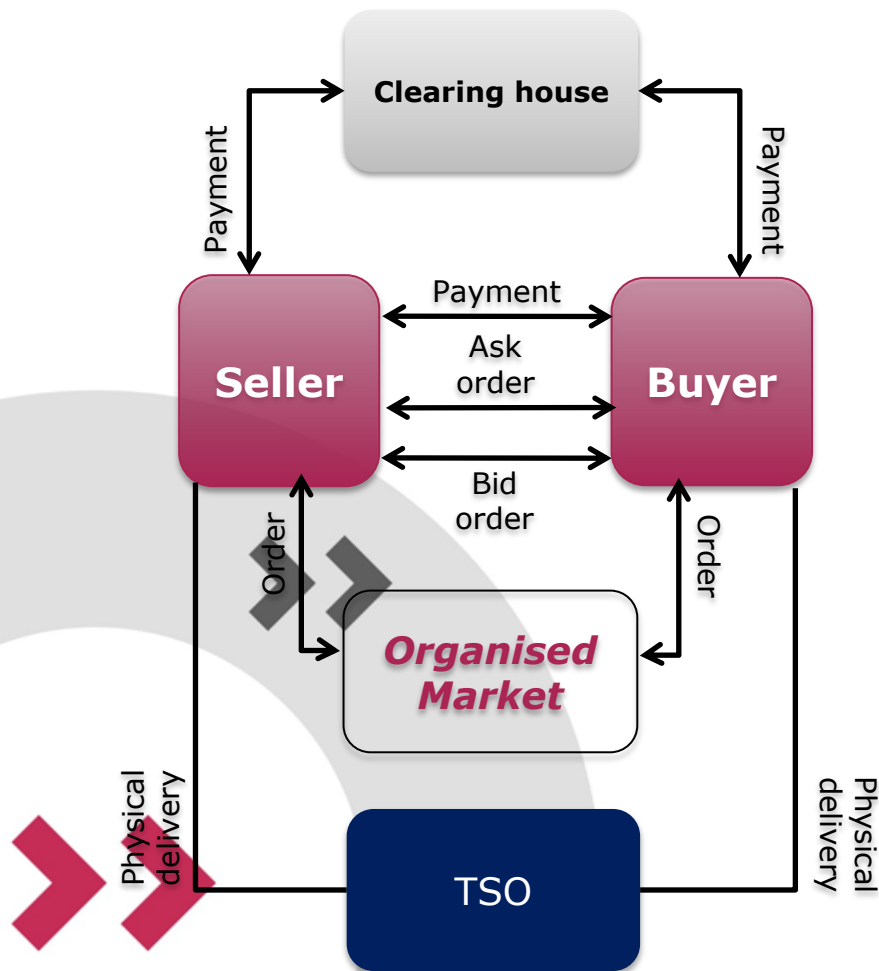
- » Efficient cooperation with the Hungarian Energy and Public Utilities Office
- » Appropriate operational licence and Market Rules
- » Supporting the EU NC specifications in advance

- » Best practice from Western Europe
- » Well-known and accepted solution
- » Standardized products
- » Harmonization and comparability
- » Full scale service
- » Supporting the change

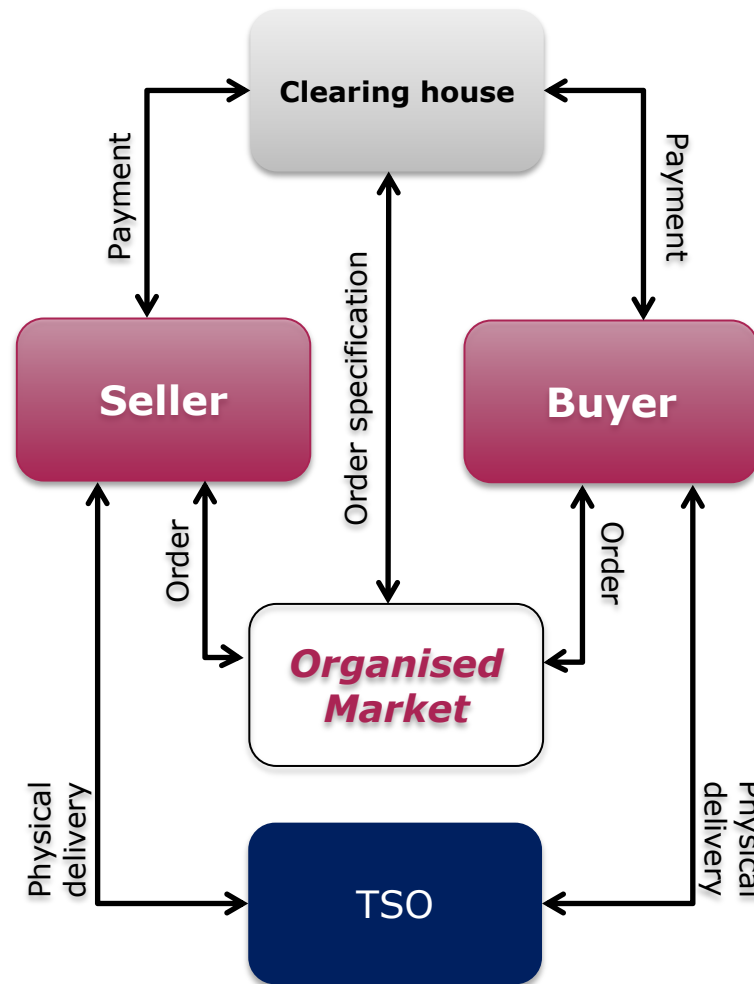
The liquidity is assured by accomplishing the three pillars

Market acceptance with best practice in clearing and delivery

Over-the-Counter (OTC) trading



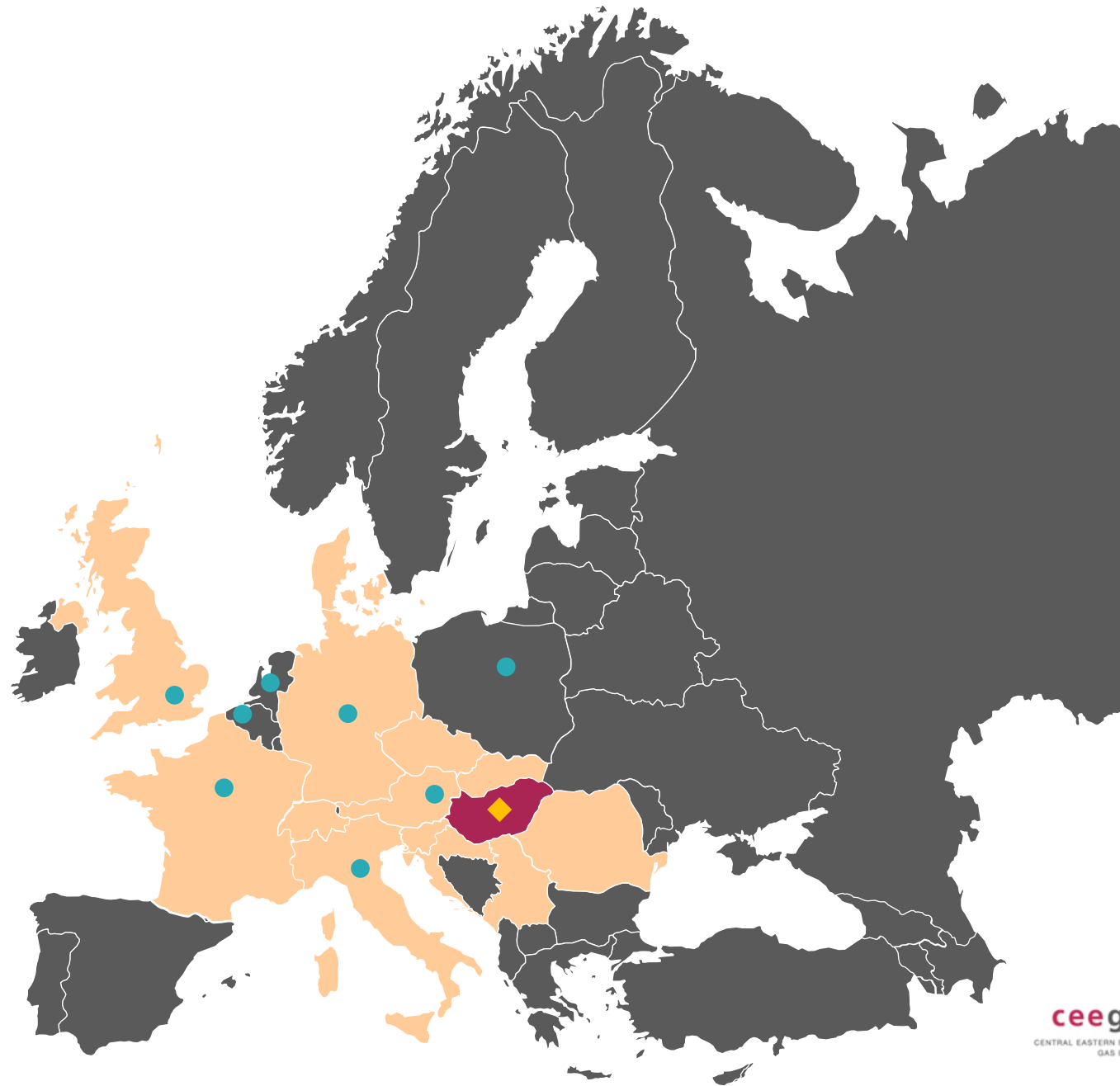
Organized Market trading



- » No counter-party risk
- » Reliable settlement
- » Easy to use Balancing
- » Fast admission

Map of interest

» More than 50 enquiry from more than 10 countries



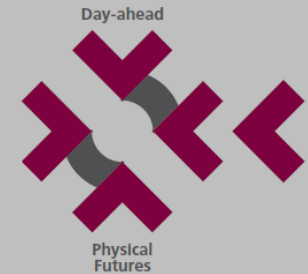
Towards a Domestic and Regional Impact

Assertive
regulatory
support

Available
infrastructure
and further
developments

New tool to
provide
supplies

Support from
Hungarian
gas market
participants



Change of thinking



The most important aid in change

**GCV 25/0°C
and MWh**

Already comparable
with Western European
price indexes

Fixed conversion
between MWh and MJ
to ease the change



Agenda

»» Quick questions and answer

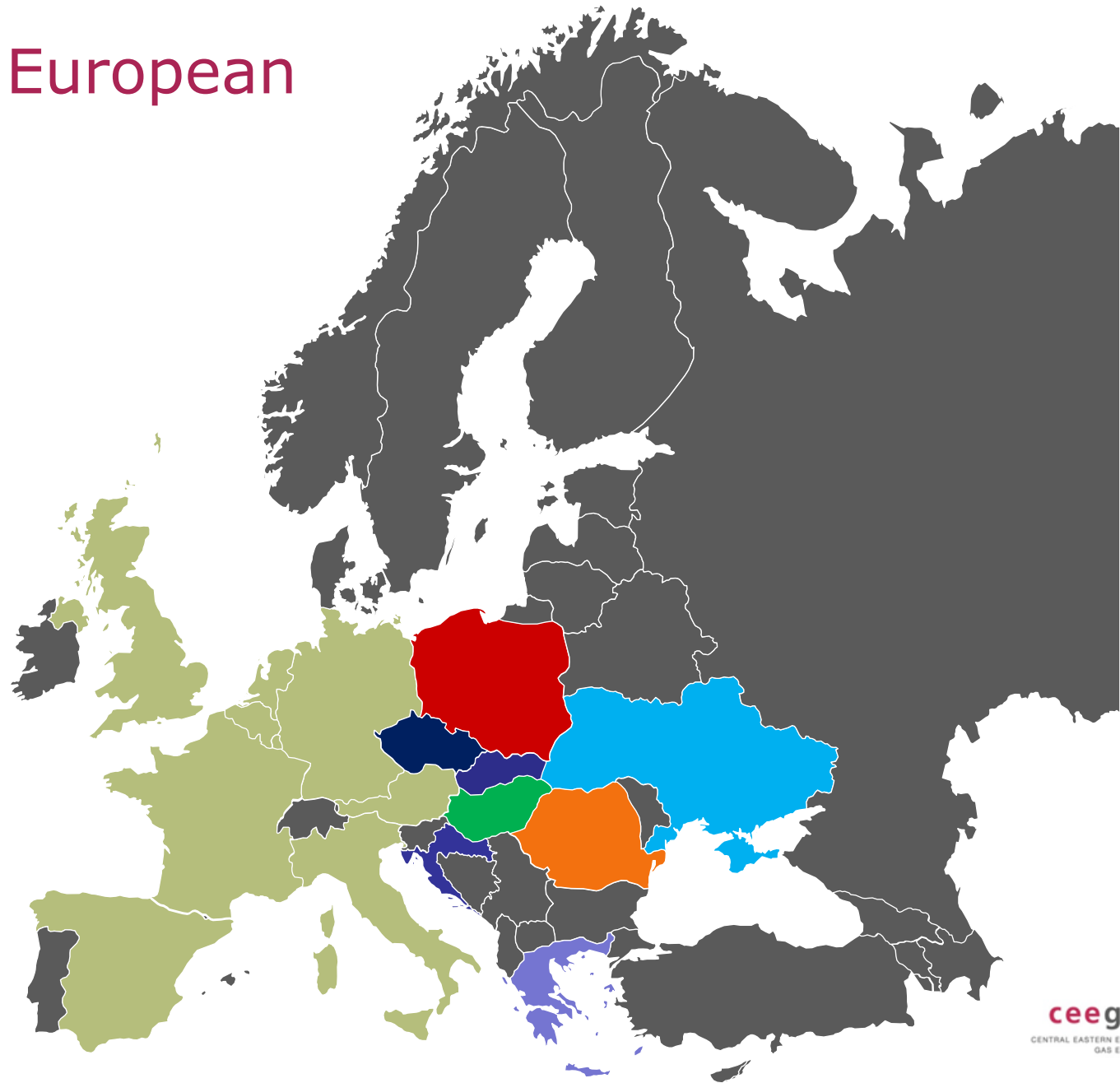
»» The approach of CEEGEX,
outcome and impact

»» Implications regarding the V4 countries



Harmonization of European Gas markets

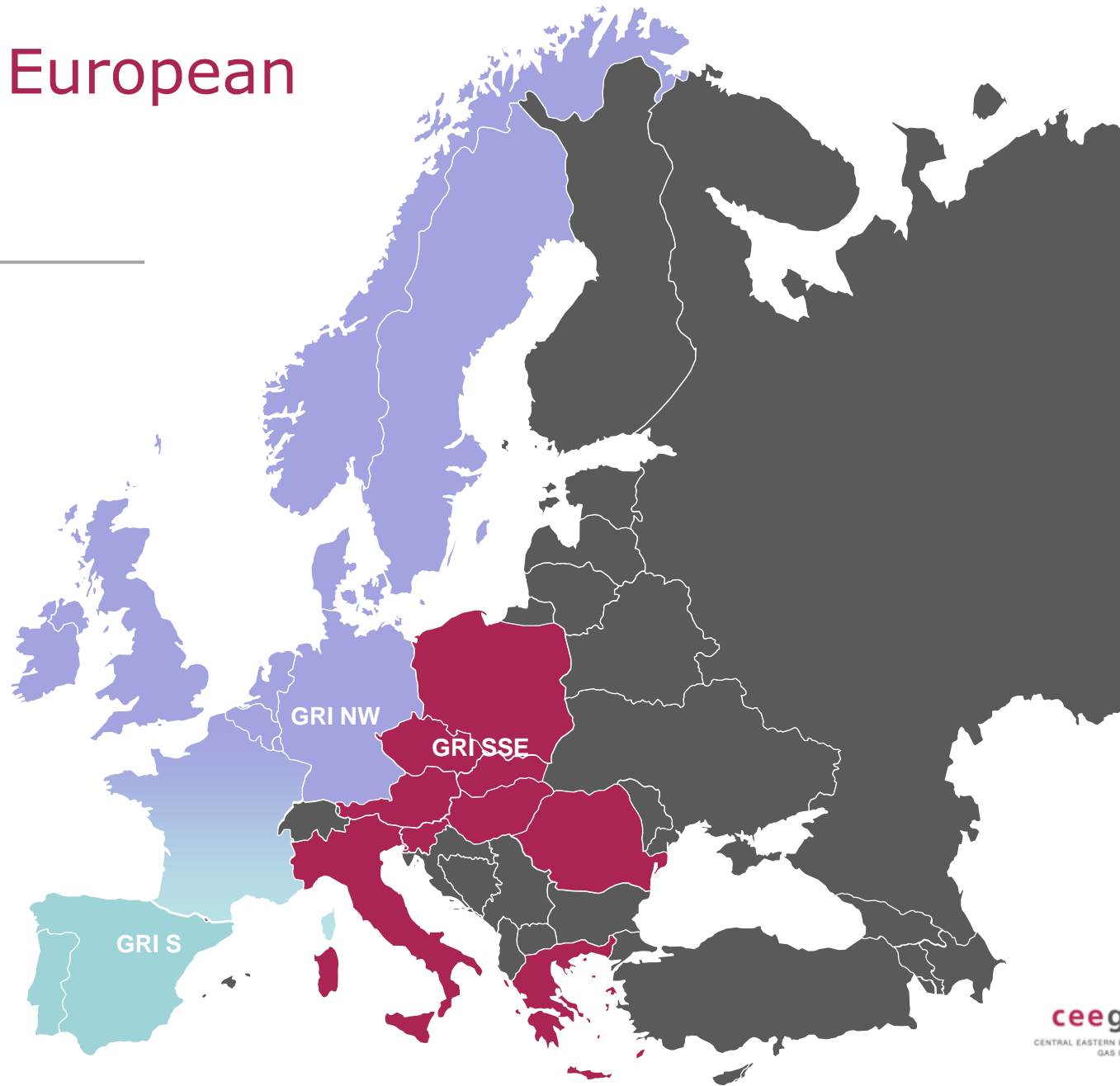
- »» Different market structures
- »» Different Gas qualities
- »» Different Regulations
- »» Different pipeline initiations
- »» Different interests



Harmonization of European Gas markets

ERGEG regions

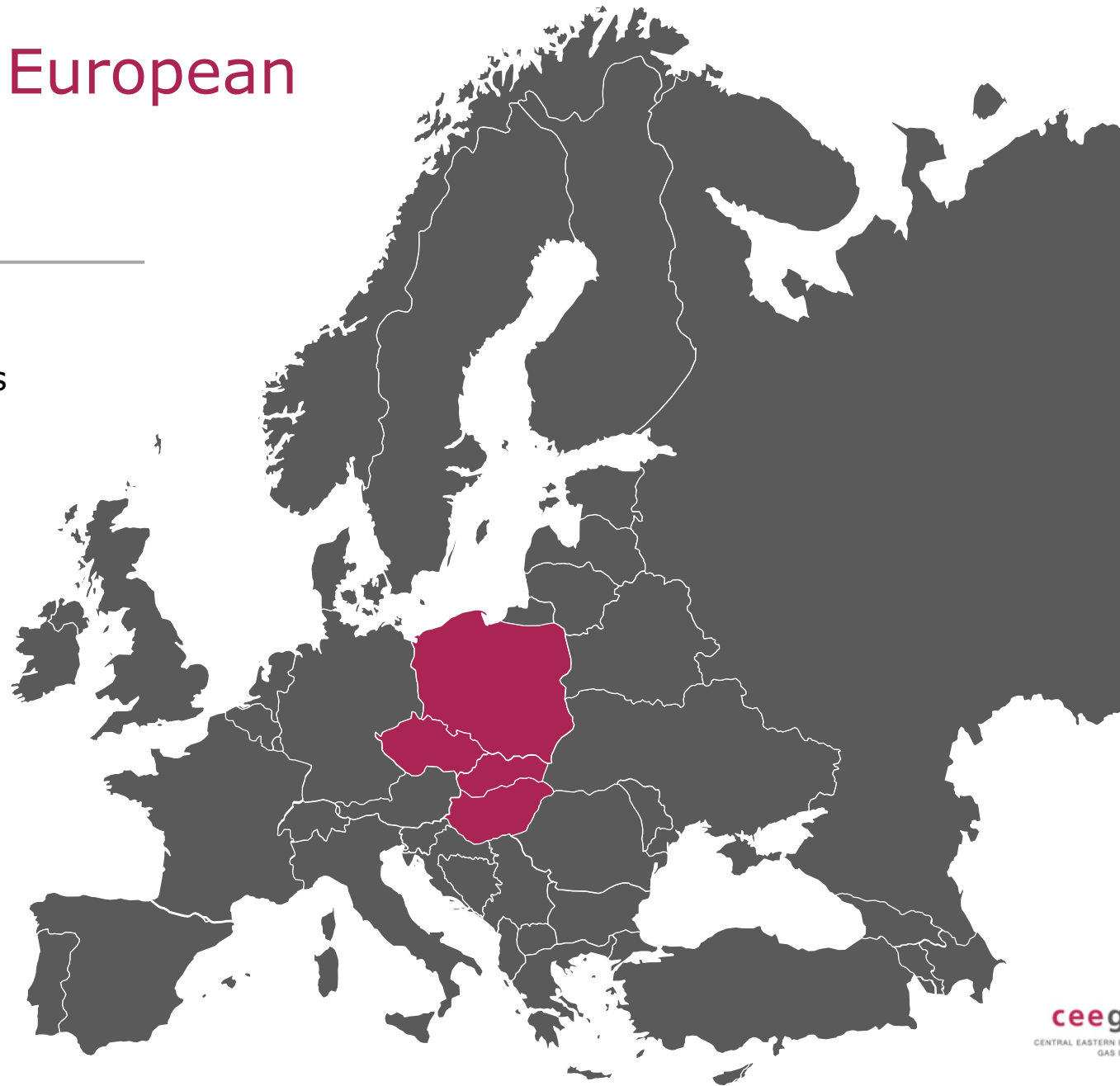
- »» GRI NW
- »» GRI S
- »» GRI SSE
- »» Different initiations



Harmonization of European Gas markets

V4 countries

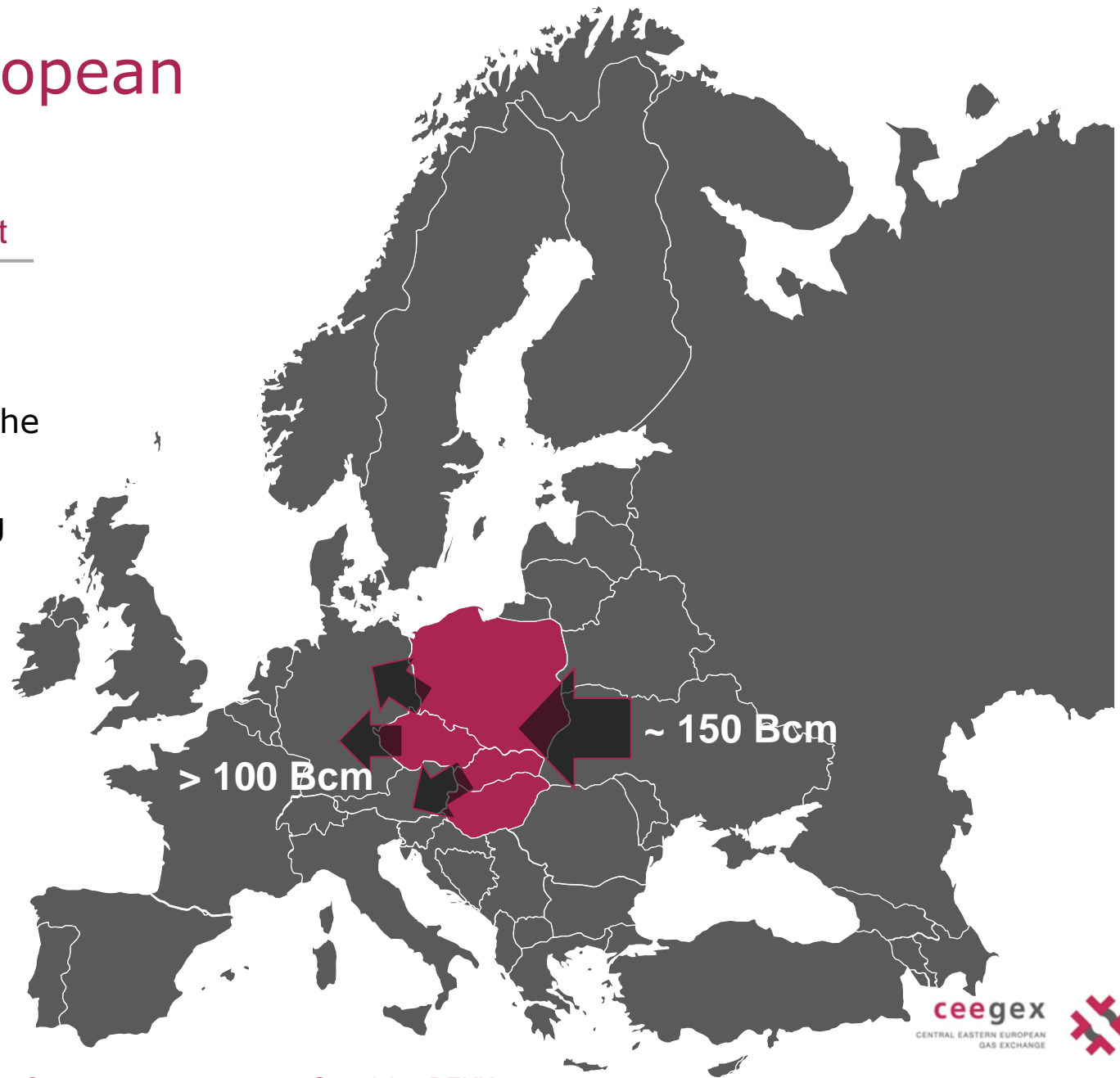
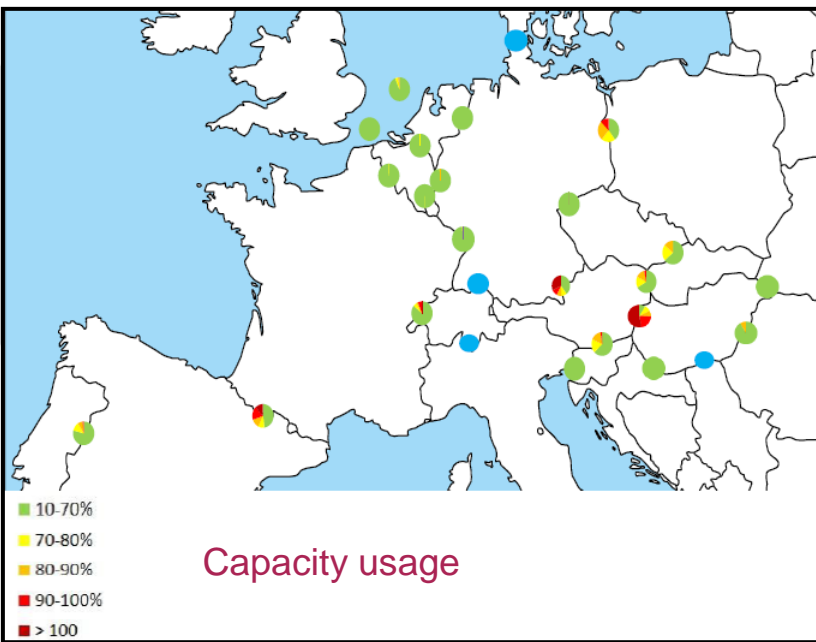
- »» Dominance of Russian supply
- »» Yet we are the transit countries
- »» Efficient group of interest
- »» We are in similar development stage
- »» Implementing CAM NC in time
- »» Similar goals and targets for the future



Harmonization of European Gas markets

Do in what we are best in: efficiently transit

- » Inbound capacities: est. 167,7 Bcm
- » Outbound capacities: est. 183,6 Bcm
- » At least 100 Bcm p.a. flows through the V4 countries
- » Efficient, integrated service is missing



Source: www.entsog.com, Gas vision REKK 2011

Reaching a regional HUB

Single Price Zone

High infrastructure need

N-1 rule for hub zone together

No bottlenecks on borders

High trading and clearing complexity



- »» Longer implementation
- »» Higher expenses
- »» Higher cooperation
- »» Conflicts of interest
- »» Liquidity

Market Coupling

Relative infrastructure need

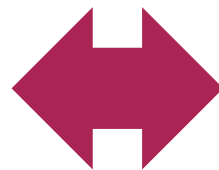
N-1 rule for hub zone individually

Trading up to available border capacity

Increasing trading and clearing complexity with countries



- »» Shorter implementation
- »» Intense Knowledge base
- »» Competitive markets
- »» Less liquid



Concluding remarks

- »» We have what it takes
- »» Best practice is already implemented
- »» Keeping V4 as a gas region would benefit for all
- »» Strong bridge to Western Europe
- »» Good region to expand once integrated
- »» Efficient cooperation is proven
- »» Cooperation in power has already resulted in a well functioning cooperation
 - »» CZ-SK-HU market coupling



Thank you for your attention!

Roland Lajtai
Chief Executive Officer
CEEGEX Ltd.

16th May 2013

