Press Release

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The first German cross-quality market area has seen dynamic growth and an increase in liquidity

NCG's Annual Review 2011

Due to substantial changes in the market's framework the year 2011 held exciting challenges for the market area manager NetConnect Germany GmbH & Co. KG (NCG), and German gas market participants. As early as in April 2011 the OGE L-Gas as well as the Thyssengas L-Gas and H-Gas market areas were integrated into the NCG market area, which created the first German cross-quality market area and constituted a major step in the development of the gas market. For market participants the expansion of the market area led to a simplification of the processes regarding the settlement of transportation contracts and the accounting and balancing of gas volumes; furthermore, the newly introduced gas quality conversion scheme allowed for cross-quality gas trading. In addition to the preparation and planning of the market area's expansion another major challenge was presented by the joint efforts to implement the new and modified processes in time before the Cooperation Agreement IV's entry into force on 1 October 2011.

Developments at the Virtual Trading Point

One of the objectives pursued by market area integration was to promote competition in the gas market. The positive effect that the expansion has had on the market area has been confirmed by the development of trading activities at the NCG Virtual Trading Point since 1 April 2011. The volumes traded in each month have increased significantly, with year-on-year growth rates of up to 80 %. This development has been supported by a constantly high churn rate (above 3), which is deemed to be a measure of liquidity in the market area. NCG's management has also been particularly pleased with the development of exchange-based futures trading in the market area, which rose to a record high of 7,385 GWh of volumes traded in November 2011 and which has been developing into an increasingly attractive marketplace with good growth expectations. Furthermore, thanks to a BNetzA ruling NCG was allowed to return to charging fees for the use of the VTP from 1 October 2011, a right which has been exercised by NCG. At 0.18 ct/MWh the cost-based fee levied by NCG is well below the ceiling of 0.8 ct/MWh that had been specified by BNetzA and has not affected trading activities at NCG's VTP. The VTP fee is set annually by NCG and is valid for a period of 12 months, respectively. In the future NCG will continue to further expand its VTP services according to market requirements.

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Cross-quality trading in the market area

In addition to the increase in the dynamics of exchange-based and OTC gas trading as well as the positive development of liquidity market participants have been given the possibility to trade gas in the market area across gas qualities via the commercial conversion scheme. Under this scheme customers may be supplied with L gas while their supplier procures H gas volumes for their deliveries. Each month, around 5% of the traders active in the market area have seized this opportunity, representing a volume of around 77,000 MWh/month (commercially converted from L gas into H gas). NCG was able to send a positive signal for future trading activities by reducing the conversion fee from 2 €/MWh (regardless of the direction of conversion) to 1.5 €/MWh as of 1 October 2011. A further reduction of the conversion fee is expected.

Control energy market

With respect to the procurement of external control energy two effects in particular have led to a significant price optimisation and have thus contributed to a reduction in the costs that are charged to the control energy levy account.

On the one hand, competition between lots of different gas quality has been strengthened by the introduction of cross-quality merit order lists on NCG's control energy platform. On the other hand, thanks to its buying and selling L gas control energy via EEX for delivery at the Dutch TTF since June 2011 NCG has been able to realise prices close to market levels. Each month around 80% of the market area's total L gas control energy demand is covered in this way. Other factors that have helped to diversify NCG's control energy procurement and that have supported the positive development of control energy prices were the introduction of 24/7 trading hours at EEX (extended from previously 8am-6pm) and the acquisition of new control energy suppliers.

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NCG offers a range of products and customer-friendly services for network operators and shippers across different market areas throughout Germany and handles the operational management of the market area cooperation between various partners. Its market area, which stretches from the North Sea coast down to the Alps, is the largest and most important German market area, connecting around two thirds of all end users in Germany.

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