

OPINION on position limits on Powernext Dutch Gas TTF contracts

I. Introduction and legal basis

1. On 31 October 2018, the European Securities and Markets Authority (“ESMA”) received a notification from the Autorité des Marchés Financiers (“AMF”) under Article 57(5) of Directive 2014/65/EU on markets in financial instruments¹ (“MiFID II”) regarding the exact position limits the AMF intends to set for the Dutch Title Transfer Facility (TTF) Gas futures and options commodity contracts in accordance with the methodology for calculation established in Commission Delegated Regulation (EU) 2017/591 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the application of position limits in commodity derivatives² (“RTS 21”) and taking into account the factors referred to in Article 57(3) of MiFID II.
2. ESMA’s competence to deliver an opinion is based on Article 57(5) of MiFID II. In accordance with Article 44(1) of Regulation (EU) 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority)³ (“ESMA Regulation”), the Board of Supervisors has adopted this opinion.

II. Contract classification

Commodity base product: energy (NRGY)

Commodity sub product: natural gas (NGAS)

Commodity further sub product: TTF (TTFG)

Name of trading venue: POWERNEXT DERIVATIVES

MIC: XPOW

Venue product code: TTF

¹ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).

² Commission Delegated Regulation (EU) 2017/591 of 1.12.2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the application of position limits commodity derivatives (OJ L 87, 31.3.2017, p. 479).

³ Regulation (EU) 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15. 12.2010, p. 84).

III. Market description

3. Natural gas is a hydrocarbon gas mixture consisting largely of methane and other hydrocarbons, occurring naturally underground (often in association with petroleum). It is used as a source of energy for heating, cooking, electricity generation, fuel for vehicles and chemical feedstock in the manufacture of plastics and other organic chemicals.
4. Natural gas is usually processed to remove impurities and meet the specifications of marketable natural gas. The resulting by-products include ethane, propane, butanes, pentanes, and higher molecular weight hydrocarbons, hydrogen sulphide, carbon dioxide, water vapour, and sometimes helium and nitrogen.
5. The fundamentals of the gas markets are based on the supply and demand of gas in Europe. On the supply side, the key drivers are the availability of gas production (especially those from Norway, the Netherlands, Russia, North Africa and Middle East), transportation and storage (pipelines maintenances or outages). On the demand side, the consumption is mainly driven by the weather (heating needs).
6. Market participants in this market can be classified as:
 - a. Utilities, which have a gas portfolio (entry/exit capacities, storage capacities, consumption clients, etc.) and use the market for optimizing or sourcing;
 - b. Industrial consumers, which are essentially buyers in the wholesale market;
 - c. Municipalities, which aggregate final consumers and bring their needs to the wholesale market;
 - d. Operators (transport system operators, storage system operators, LNG system operators, etc.) which enter the system for their own needs or for balancing purposes;
 - e. Trading companies, which do not have a shipper or supply agreement in the market (banks, commodities traders, investment firms, etc.)
7. Although congestions related to capacity limitation may appear (e.g. maintenances, upstream production problems), the gas system in Europe is designed to grant physical availability. As mentioned before, the Transmission System Operator (TSO) is ultimately responsible for balancing supply and demand⁴.
8. Powernext offers for trading TTF derivative contracts for the 4 next months, the 5 next quarters, the 4 next seasons and the 4 next calendar years. In 2017, 17 TTF derivatives instru-

⁴ The roles and the tools for balancing are defined in (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission networks.



ments were available for trading on Powernext and the volumes traded amounted to 994 TWh. All the contracts are physically delivered via a nomination to the relevant TSO.

IV. Proposed limit and rationale

Spot month position limit

Deliverable supply calculation methodology

9. Deliverable supply amounts to 254,120 lots. A lot is equivalent to 720 MWh.
10. The calculation of the deliverable supply is based on actual daily entry capacities of each of the entry types. While the capacities of the system are relatively stable during the year, the flows of gas depend on the consumption (not only national, but also European), which depends on the weather conditions. This calculation takes into account the following sources:
 - 1) Entry pipeline capacity = 889 GWh/d⁵
 - 2) LNG import capacity = 399 GWh/d⁶
 - 3) Storage withdrawal capacity = 3,530 GWh/d⁷
 - 4) Average indigenous production in 2016 = 1,281 GWh/d (average 2016)⁸
11. The total deliverable supply sums up to 6,099 GWh/d. The lot size used by the trading venue is 720 MWh (1 MWh/h*24 hours/d * 30 days/month = 720 MWh/month). Therefore, the final monthly deliverable supply in lots equates to 254,120 lots (6.099 x 30 / 720).

Spot month position limit

12. Spot month limit amounts to 65,000 lots, which corresponds to 25.6 % of the deliverable supply. The limit applies to Dutch TTF Gas futures and options contracts.

Spot month position limit rationale

13. The AMF has considered all the adjustment factors available in RTS 21, however the AMF does not see any of those factors as appropriate to justify an adjustment either upwards or downwards from the baseline.
14. In considering the volatility in the contract, as required by Article 21 of RTS 21, there has been some variation in the price of the commodity derivative but the AMF has not found evidence that this is excessive or that a lower position limit would reduce volatility.

⁵ ENTSG: http://www.entsoe.eu/public/uploads/files/maps/systemdevelopment/ENTSG-GIE_SYSDEV_MAP2015-2016.pdf

⁶ Ibidem

⁷ <https://agsi.gie.eu/#/historical/NL>, Gas storage Europe, GIE

⁸ Eurostat: <http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=ten00076&language=en>



15. The spot month limit has been rounded up to 65 000 lots, which corresponds to 25.6 % of the deliverable supply.

Other months' position limit

Open interest calculation methodology

16. The open interest amounts to 663,637 lots. A lot is equivalent to 720 MWh.

17. The open interest value was calculated as the average of the daily open interest of all TTF futures from the 01/01/2017 to the 31/12/2017, based on data provided by Powernext.

Other months' position limit

18. Other months limit amounts to 166,000 lots, which corresponds to 25% of the open interest. The limit applies to Powernext TTF gas futures and options contracts.

Other months' position limit rationale

19. The AMF has considered all the potential adjustment factors from the RTS 21, however the AMF did not see any of them appropriate as to justify the adjustment of the other months' limit either upwards or downwards from the baseline.

20. In particular, considering the open interest adjustment under Article 18, AMF has noted that the total open interest calculated (663,637 lots, or 478 TWh in equivalent delivered energy) is not deemed to be large when compared to other similar contracts traded in Europe (e.g. the OI on NBP contract listed on ICE reaches 265,555 lots or 2,770 TWh in equivalent delivered energy). The OI is larger than the deliverable supply (663,637 vs 328,967), nonetheless the difference is not deemed to be significant enough to require an adjustment.

21. In considering the volatility in the contract, as required by Article 21 of RTS 21, there has been some variation in the price of the commodity derivative but the AMF has not found evidence that this is excessive or that lower position limits would reduce volatility.

22. Overall, the AMF considers that the levels chosen for the position limits constitute a good balance between the objectives of preventing market abuses, ensuring a well-functioning and orderly market without harming neither the development of commercial activities in the underlying commodity market nor the liquidity of its derivative market.

V. ESMA's Assessment

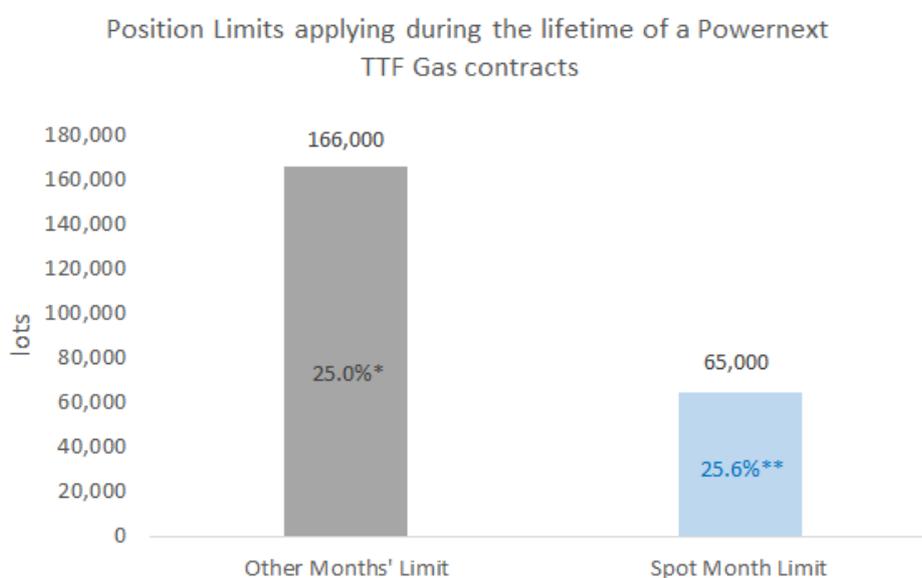
23. This Opinion concerns positions held in Dutch TTF futures and options.

24. ESMA has performed the assessment based on the information provided by the AMF.

25. For the purposes of this Opinion, ESMA has assessed the compatibility of the intended position limits with the objectives of Article 57(1) of MiFID II and with the methodology for calculation of position limits established in RTS 21, in accordance with Article 57(3) of MiFID II.

Compatibility with the methodology for calculation of position limits established in RTS 21 in accordance with Article 57(3) of MiFID II

26. The AMF has set one position limit for the whole spot month and one for the other months’.



(*) Position limit as % of Open Interest

(**) Position limit as % of Deliverable Supply

Spot month position limit

27. The estimation of deliverable supply for natural gas is calculated by aggregating Dutch gas local production, the imports and transmission capacity from neighbouring countries, LNG imports and the average withdrawal rate from storage facilities.

28. ESMA notices that the calculation of available gas in storage includes the withdrawal rate from storages located in Germany that are directly and solely connected to the Dutch grid. ESMA agrees that adding to total storage capacity the withdrawal rates figures from German storages provides an adequate representation of natural gas in storage. Furthermore, ESMA agrees with using a figure that corresponds to the minimum between German storage withdrawal rate and border interconnector capacity, to take into account both restrictions.

29. ESMA considers that the deliverable supply calculation’s methodology is consistent with Article 10(2) of RTS 21 that sets out that “Competent authorities shall determine the delivera-



ble supply (...) by reference to the average monthly amount of the underlying commodity available for delivery over the one year period immediately preceding the determination”.

30. ESMA considers that the spot month limit set by the competent authority is appropriate.

Other months' position limit

31. The open interest was calculated as the daily average over 2017 of the number of open contracts that have not been closed out or expired. ESMA considers such an approach suitable as an average for a period of time gives a more stable measure of open interest and considers such approach consistent with Article 12 of RTS 21.

32. ESMA agrees that the other months' limit set by the competent authority is appropriate.

33. Consequently, these position limits have been set following the methodology established by RTS 21.

Compatibility with the objectives of Article 57(1) of MiFID II

34. ESMA has found no evidence indicating that the proposed position limits are not consistent with the objectives of preventing market abuse and supporting orderly pricing and settlement conditions established in Article 57(1) MiFID II.

35. Overall, the position limit set for the spot month and the other months, in conjunction with the position management powers of the trading venue, appear to achieve a reasonable balance between the need to prevent market abuse and to ensure an orderly market and orderly settlement, while ensuring that the development of commercial activities in the underlying market and the liquidity of the Dutch TTF Gas commodity contracts are not hampered.

VI. Conclusion

36. Based on all the considerations and analysis presented above, it is ESMA's opinion that the spot month position limit does comply with the methodology established in RTS 21 and is consistent with the objectives of Article 57 of MiFID II. The other months' position limit does comply with the methodology established in RTS 21 and is consistent with the objectives of Article 57 of MiFID II.

Done at Paris, 18 January 2019

Steven Maijoor

Chair

For the Board of Supervisors