

ener|gate gasmarkt

Dr. Heiko Lohmann



THEMA DES MONATS
Netzkodex Entgeltharmonisierung
TOPIC OF THE MONTH
Network Codes Tariff Harmonisation

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Dear reader,

the topic of the month is a rather short one: It is the termination of the comitology procedure for the Network Code Tariff Harmonisation (NC TAR). Reading the code is not something that will fill you with joy – it is a complicated code. Why did I choose it as the topic of the month? One point is to again make clear the importance, but also the complexity of European regulation. Another reason is that it is quite remarkable that the complicated procedure with numerous players and countless changes of the wording have finally come to an end. The adjustment needs for German regulation should be rather small, and I will try to point out the most important topics. But the need for adjustment is also low because on the one hand, many regulations are already part of the German framework and on the other hand, German stakeholders were intensely involved in the negotiations on different levels.



> Dr. Heiko Lohmann

This edition is full of personnel news. Some are important beyond the mere exchange of some people. The most important one is the replacement of Gerhard König as the spokesman of the Wingas management board. It was not really unexpected but may be kick off a stronger integration of the European Gazprom affiliates. Another piece of personnel news that kept me busy was Henrik Lind's appointment as the new CEO of Danske Commodities (DC). The Danish trading house had faced years of tremendous growth and a subsequent hard landing. In Germany, utilities and trading companies have appreciated Danske's very flexible short-term trading for gas in particular at times when the markets were less liquid (that was the time when I first heard about DC). That has changed and DC has changed, too. Market participants have different views on that change process. I talked about it with Carl Hagert, Head of Origination. It was ultimately an interview that turned out to be about gas only up to a limited extent.

One bit of personnel news is a sad one. Karsten Heuchert, who was the CEO of VNG until the end of September, has died. Mr Heuchert had been ill for some time, but had lately seemed to be in a slightly better condition. I myself moderated a discussion in September in which he participated. He was very active and willing to fight for the future of gas (first natural, later synthetic). I talked with him about his plans and the fact that he was looking forward to continuing his work as the Norwegian consul general and in the German-Russian raw material forum. However, his health had worsened in a matter of days.

Enjoy a mindful read!



Dr. Heiko Lohmann
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4. Market Structure

4.1 Company strategies and results

4.1.1 NatGAS

The Potsdam-based gas and now also power and service supplier natGAS earned 1.9 million euros before tax in 2015. This figure is from the annual report published in the Federal Bulletin. In 2014, the earnings before tax were 2.6 million euros. High competitive pressure and low sales margins are responsible for dwindling results according to the explanation in the annual report. In the report, the year 2015 but also the current year 2016 are characterised as years of transition. NatGAS is developing towards a service provider and away from sales to increase margins: “We see ourselves as solution providers in the energy sector” Jörg Bauth, the sole member of the executive board told *ener|gate Gasmarkt*. Already in 2015 the company adjusted the staff and the organisation. The number of people working for natGAS went down from 99 to 89 and, as Mr Bauth explained, a substantial number of commercial staff were replaced by people with a technical background to build up the necessary capabilities for the new business segments. Meanwhile the company has first pilot customers for these segments, such as the operation of a virtual power plant, control of plants, demand side management and very short-term trading. “But”, Mr Bauth emphasised, “despite the reduced team, the traditional sales business will be continued”.

Last year, more than 90 per cent of the turnover of 2.6 billion euros still came from the sales of natural gas and related services. In total, 109 TWh of gas were sold, most of it trading volumes. From 2017, sales activities for the new services should be fully in place and from 2018, according to Mr Bauth, the impact should be visible in the company’s figures. But he did not want to release any profit target.

4.1.2 Danske Commodities

Danske Commodities (DC) appointed the founder and majority owner Henrik Lind at the beginning of October as the new CEO (he already has experience in the job, see personnel news). It was more by chance that *ener|gate Gasmarkt* had already agreed a meeting with DC’s new head of portfolio management, Carl Hagert (*ener|gate*

Gasmarkt 09/16). The meeting took place after Mr Lind’s appointment was announced and of course *ener|gate Gasmarkt* talked to Mr Hagert not only about his new job but also about Danske’s strategy and vision under the new CEO.

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ener|gate Gasmarkt: *What is the latest development within DC?*

Mr Hagert: The board realised after a quite extensive process that the best person to replace Dirk Mausbeck would be Henrik Lind. This is quite natural, Henrik is the founder of DC, and he understands the business and works very well with the management team. With this, DC has managed to turn the corner and is in a much better place now. It’s a very strong opportunity for us.

ener|gate Gasmarkt: *To be honest, I was surprised. He was CEO before and for some reason he stepped back a bit. An outside management would have a more objective view?*

Mr Hagert: I firmly believe it’s the opposite. Henrik is the best possible CEO for DC. He understands the business, he has a personal relationship with the people and he understands the strategy. It’s hard to find external people that fit quickly into that culture and take the necessary strategic steps. To be honest, everyone in the organisation was very happy to have him back.

ener|gate Gasmarkt: *When you talk to people in the market about Danske they tell you there was a fantastic team spirit and a very innovative atmosphere for the first ten years, but that this spirit has faded away during the last two years.*

Mr Hagert: That is not my impression. I have just joined the company, so I can’t really tell you

about what happened one or two years ago, but I find that the company is full of highly motivated people. Perhaps a bit of drive or strategic direction was lacking, but that is what Henrik Lind is bringing to the table. You can feel a new buzz in the business.

ener|gate Gasmarkt: *But where really are the new business opportunities now?*

Mr Hagert: The key is that we focus, and that we focus on these things where we have a competitive edge.

ener|gate Gasmarkt: *But that was already the message two years ago, when restructuring started.*

Mr Hagert: But it's clearer now. What is DCs edge? We have unparalleled market access. We cover 33 markets in Europe. We have one of the best intraday and 24/7 coverage, both in gas and in power. We are innovative, customer driven, private and independent. That gives us flexibility in the market. Leveraging these skills is our way forward.

ener|gate Gasmarkt: *Leveraging is a bit difficult with tough competition, more transparent markets and thin margins?*

Mr Hagert: The market situation is challenging, but it is the same for everybody. The key thing is that DC is leaning up the business. We are becoming leaner in the front and the back of the business by automating a lot of processes towards straight through processing. We need to remain very diligent about being lean. Take Germany for example, still one of our absolutely core markets. Clearly, margins have eroded especially in direct marketing and we are rightsizing our German business to fit in with this. The opportunity set has decreased and we have to downsize the business.

ener|gate Gasmarkt: *Downsizing when it comes to people, too?*

Mr Hagert: Mostly when it comes to portfolios. We have trimmed down our direct marketing portfolio but want to keep a critical mass. We are more selective concerning what we take on board.

ener|gate Gasmarkt: *Isn't it a contradiction to say that you see business opportunities and that*

you have to admit that you are trimming your business?

Mr Hagert: More than 50% of current Gross Profit in DC comes from activities that we did not have 5 years ago, clearly showing our innovative track record. Furthermore, we are not a volume or size driven business. We aim for a portfolio size that creates value for both DC and the customer.

ener|gate Gasmarkt: *Do you have a concrete innovation in mind?*

Mr Hagert: Germany is still a core market but we are expanding in other markets and new areas. In UK for example we signed a 15 years Power Purchase Agreement with Beatrice Offshore Windfarm, a clear long-term commitment to the UK market. On the gas side we are pushing the boundaries into Central and Southeast Europe. In general, we want to do more of what we are good at, and we will keep on pushing the boundaries around the things we want to do and create innovate new products to capture the opportunity.

ener|gate Gasmarkt: *But part of the re-organisation was to make the boundaries narrower, to correct over-expansion. And now you are saying the opposite?*

Mr Hagert: We are now more agile about the way we expand our business. We want to catch the opportunities but we do not want to establish complex systems. We need to be more diligent coming into a market but also when it comes to walking out if something does not fit for us and the customer.

ener|gate Gasmarkt: *Agility and Flexibility seems to be your core approach. It looks like a very opportunity driven business.*

Mr Hagert: Yes. We always ask where we can apply what we are good at to an opportunity in a way that is not complex and creates value.

ener|gate Gasmarkt: *And you are good at...*

Mr Hagert: I would say that we are market leaders in intraday trading, market access, and short-term gas business. We are also very strong in certificate trading, small-scale asset management for renewables and conventional generation. But

large power plants or infrastructure are not our business. We are traders at heart and are not aiming for “steel on the ground” type of positions.

ener|gate Gasmarkt: *Your business is not asset based?*

Mr Hagert: Our people are our key asset. We believe we are one of the absolute leaders in handling market access and volume hedging for renewable energies. And we want to continue to be a leader in that space. We believe that the European market is going through a transformation away from coal to renewables. And that creates the need for services and products we are good at.

ener|gate Gasmarkt: *That means managing renewables is the core business?*

Mr Hagert: Yes, but also gas because we believe the future is a strong combination of gas and renewable energies. We have a strong gas trading team that we continue to build. We are able to deliver very flexible gas to very flexible production assets across Europe.

ener|gate Gasmarkt: *You need a large business to make substantial profits in this kind of short-term business.*

Mr Hagert: But since we are private and independent we are going much more into a partnership type of approaches with new builders. We do not have to own it but can apply our knowledge to their business.

ener|gate Gasmarkt: *Let's come back for a moment to the German market. It is a very, very competitive market, margins are very low, and Direktvermarktung has seen its best days....*

Mr Hagert: I see what you want to say but that's a bit over the top. We are going to continue to offer Direktvermarktung access for our German customers. But at the moment there is immense pressure in that segment. Clearly we had to go out and offer something new. We tried the ancillary services segment offering very short-term flexibility, batteries for example. One of the areas where we see growth potential is consumption management for industrial users and Stadtwerke. We see increased need for short-term hedging. We see an increased need for certificate trading, which is partly a very regional market.

What we would also like to do also is to create within DC a home for people and small companies that have very good ideas in the energy field and who are looking for a platform to grow. We can provide them with a platform for growth on a partnership or profit sharing basis.

ener|gate Gasmarkt: *In parts of the energy sector outside your core business?*

Mr Hagert: Exactly, then we do not have to build up these skills internally. We provide access to systems, legal, credit, capital and risk management required to make trading systems work. The entrepreneur brings along the idea.

ener|gate Gasmarkt: *What you are ultimately saying is that over the last ten years we have developed capabilities and skills in a number of business segments and markets you mentioned and now we are saying: Hey where else are these skills needed in other markets or by partners in other business segments?*

Mr Hagert: Yes. We were in the German market very early on and now we see that similar things are happening outside of Germany. We see that we can apply our knowledge to these new markets without adding a tremendous amount of complexity, headcount or systems. That's what we mean by agility.

ener|gate Gasmarkt: *How is Trading organised within Danske?*

Mr Hagert: We have two units, Trading and Origination. The origination business is the face the customer can see, helping the customers with solutions. The trading business, which is headed by Jesper Tronborg, who has been with DC for 8 years, is the face to the market where we manage the risk. Origination itself has four units: small scale conventional asset management, short-term portfolio management, long-term portfolio management and international origination.

ener|gate Gasmarkt: *Finally, what are you personally adding to a young company like Danske? You have had a long career but usually worked for larger groups.*

Mr Hagert: Maybe I bring a certain level of seniority and international experience. And I think I bring a kind of management style that is appreciated at this time. What attracted me is to work

for an entrepreneurial business. Also, I want to bring new energy into the company.

ener|gate Gasmarkt: *What does that mean?*

Mr Hagert: The fact that Henrik stepped in is a strong belief in the business. That he came back makes people feel stronger about the future. We can now set clear goals and expectations and deliver on them.

ener|gate Gasmarkt: *It still sounds a bit like: “we do not really know the direction of travelling but we have the right captain now!”*

Mr Hagert: On the contrary, we have a very clear view of where we are going. Again, the energy markets in Europe are changing. This leads to opportunities in the short-term market. We have a strong track record for catching these opportunities, and we have the right setup for catching them in the future as well. That’s the agility part. Innovation is part of the DC DNA.

ener|gate Gasmarkt: *Mr Hagert, thank you very much for the interview.*

BIOMETHANE SPLITS:

The specialist for bio fuels, Verbio sold in the company’s business year 2015/16 in total 521 GWh biomethane, an increase of eleven per cent compared to the previous business year.

MVV Energie bought from an affiliate of bmp greengas the outstanding shares for the two biomethane processing plants Klein Wanzleben and Kroppenstedt. Bmp greengas will focus completely on the trading with biomethane and related system services (*ener|gate Gasmarkt* 11/15). The current trading portfolio according to company information is 1.7 TWh.

4.1.3 GASAG

Berlin-based GASAG still makes the overwhelming part of its sales and turnover in the gas business, but the company is working intensively on broadening its business model. The power sales business is established, until the end of the year 100,000 customers in Berlin will be supplied. More on a small scale level the business is being extended by acquisitions. With a facility manager, a joint venture will be founded that covers a broad range of energy services. Furthermore,

a smart home provider shall be taken over. And GASAG is in negotiations with a wind-farm project developer to extend the wind plant portfolio.

An important part of the business is contracting, which is to be expanded. This part of the business will be organised more coherently. All departments of the Group that deal with energy services shall be merged into one unit.

Any new action or business idea GASAG launches is almost inevitably in competition with one of its shareholders. But because all three shareholders neutralise each other at least to some extent, the company and the management can live with that nicely as long as no fresh money is needed. When and whether the shareholder structure will change is completely open (see *ener|gate Gasmarkt* 07/16). On the political level, negotiations for a “R2G” coalition started after the state election for the Berlin parliament. That means a potential coalition of two “red” parties, the Social Democratic Party (SPD) and Die Linke, the successor of the former GDR state party SED, and the Green Party. All of them want in principal a bigger influence on the networks and/or energy supplies. The potential partners have different views whether to focus on power or include gas and how far the influence should reach (only networks or also sales). And whether the future potential coalition partners are willing to invest money to buy shares in networks and/or sales companies is undecided. For GASAG, a take-over by the city and a role as a trailblazer for a local “Wärmewende” (heat transition) would not be the worst outcome.

But before anything happens, the outcome of the power concession procedure will be awaited. The binding bids have been made, the winner not yet picked. Independent of the outcome, a legal challenge of the result is not unlikely. And it should not be forgotten that the gas concession procedure is still in the courts. On October 18, the German High Court had its internal hearing and decision on the question whether the Kammergericht Berlin rightly refused to summon Berlin Energie to the procedure of GASAG against the City of Berlin. Allegedly, it will take some time before the High Court publishes its decision. Afterwards the Kammergericht can continue its proceedings. Just as a reminder: The City of Berlin commissioned the concession to Berlin Energie, and GASAG legally challenged that decision.

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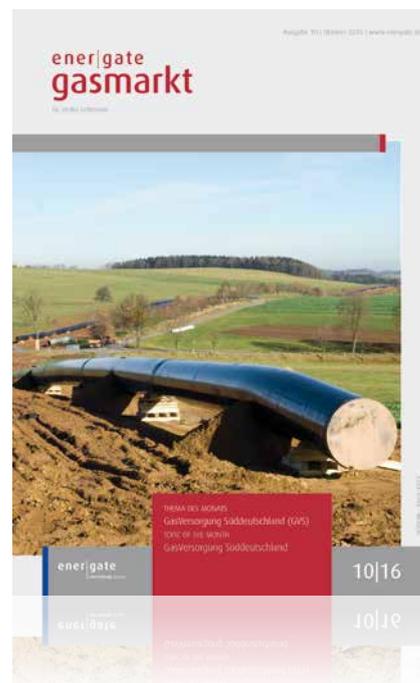
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