

ACER



Agency for the Cooperation
of Energy Regulators



THE GAS TARGET MODEL AND HOW IT COULD HELP THE REGIONAL MARKET

Dennis Hesseling

Head of the Gas Department

BFIEC Natural Gas Forum – November 13, 2015
Sofia

Third Energy Package

**Directives 2009/72/EC and 2009/73/EC and
Regulations (EC) Nos 713/2009, 714/2009 and 715/2009**

**Commission Regulation (EU) No 838/2010
(on the Inter-TSO Compensation Mechanism)**

**Regulation (EU) No 1227/2011
on Wholesale Energy Market Integrity and Transparency
(REMIT)**

**Regulation (EU) No 347/2013
on guidelines for trans-European energy infrastructure
(TEN-E Regulation)**

ACER



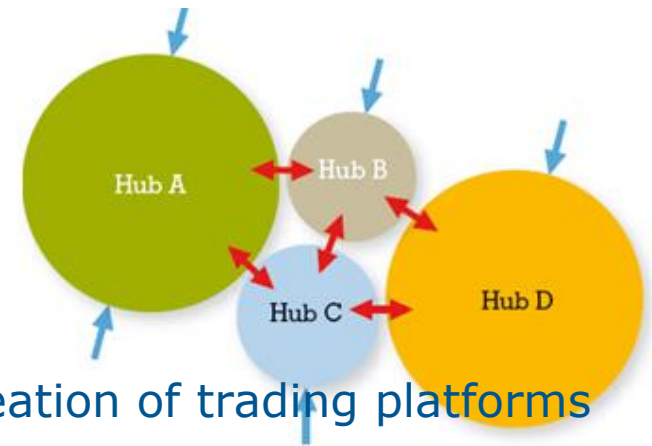
**Opinions on Infrastructure Planning
Ten-Year Network Development Plans
Lists of Projects of Common Interest (PCIs)**

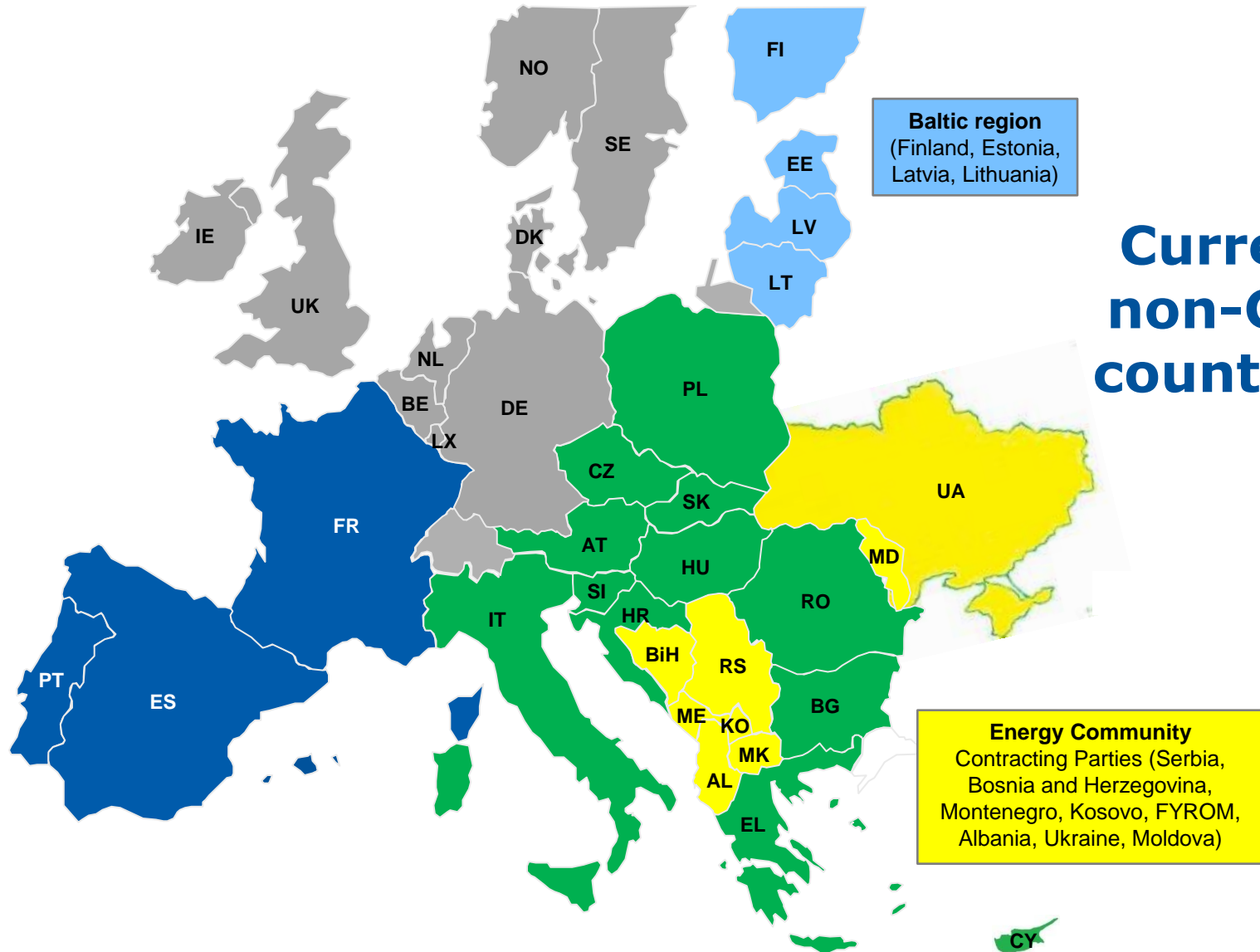
Framework Guidelines for Network Codes

**NRA Support and Coordination
Decisions on Terms and Conditions for Access
to/Operational Security of Cross-border
Infrastructure
Decisions on Exemptions and Cost Allocation**

**Market Monitoring
Access (incl. RES), Retail Prices and
Consumers' Rights
Wholesale Trading (REMIT)**

- » EU gas market is organised as **entry-exit zones** belonging to **virtual hubs**
- » Simplified cross-border transp.: **bundled standard cap. products at IPs**
- » Market based CAM: regular & harmonised **auctions**
- » Developing **short-term** wholesale gas markets
- » **Market-based** & harmonised **daily balancing regimes** (with clearly shared responsibilities)
- » Promotion of short-term capacity availability for **hub-to-hub trading** (in support of RES-E)
- » Virtual IPs, **common booking platform(s)**, creation of trading platforms
- » Reviewed information provision to enable the **development of liquid hubs**
- » Appropriate charging & tariff methodologies to ensure **non-discriminatory pricing** between network users for cross border & domestic products
- » Operational, communication and business rules for proper **data exchange** and **interoperability** of the EU gas network





Current non-GRI countries

- To accelerate market integration in SSE – clear political support from Member States necessary
- Deeper involvement of stakeholders is welcomed – more bottom-up initiatives (pilot projects)
- Strong support from the European Commission and ACER should be continued
- NRAs and TSOs close cooperation is crucial

A liquid hub which is key to well functioning markets needs to fulfil a set of requirements

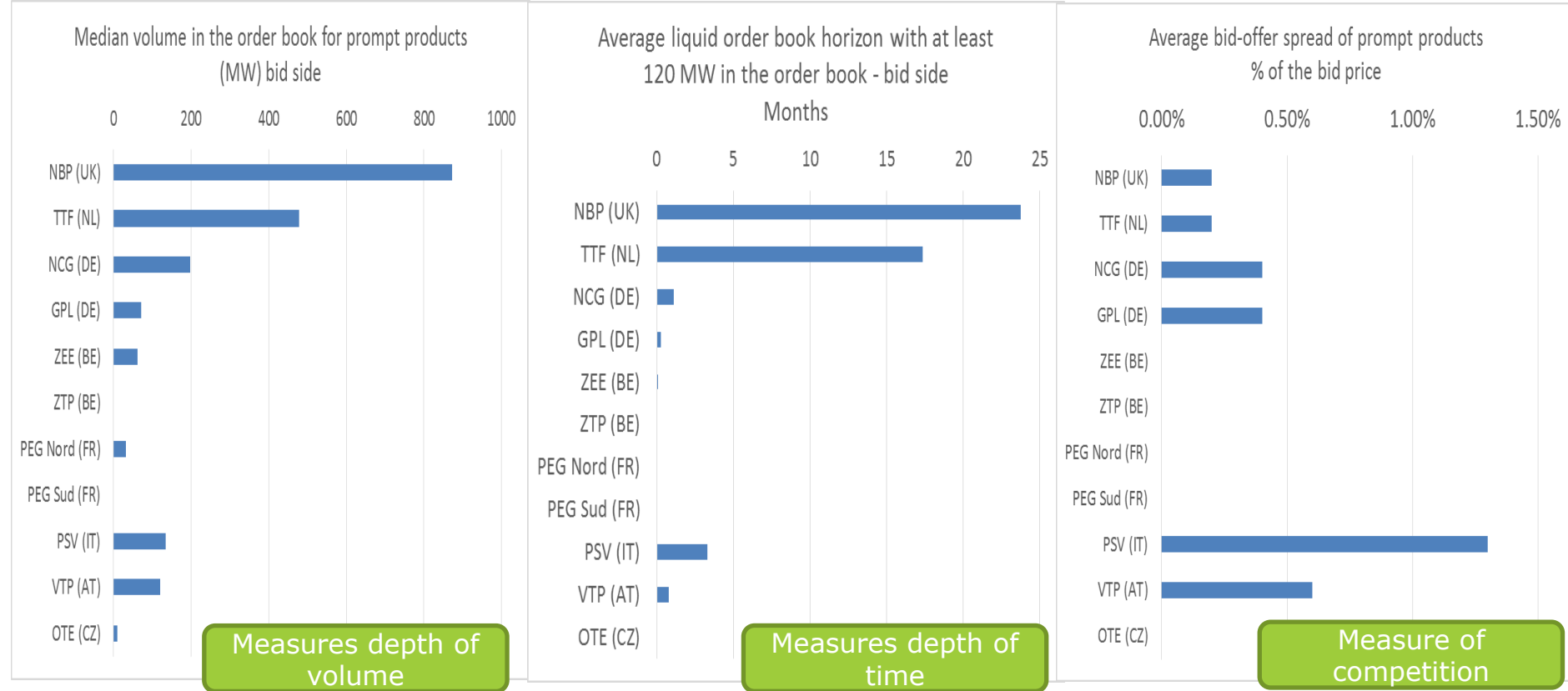
- Some characteristics of a liquid hub are:
 - » Access to multiple sourcing options
 - » Suppliers can
 - source variety of gas products including forwards
 - Manage price and trading risks
 - » Act as a price reference for setting prices of long term gas products
 - » Easy access and presence of financial parties



**EU hubs are
at present at
different
stages of
development**

NBP and TTF hubs play leading roles, particularly on forward liquidity, by attracting hedging risk and financial trading

Hub comparison for a selection of GTM parameters related to functioning degree of hubs.

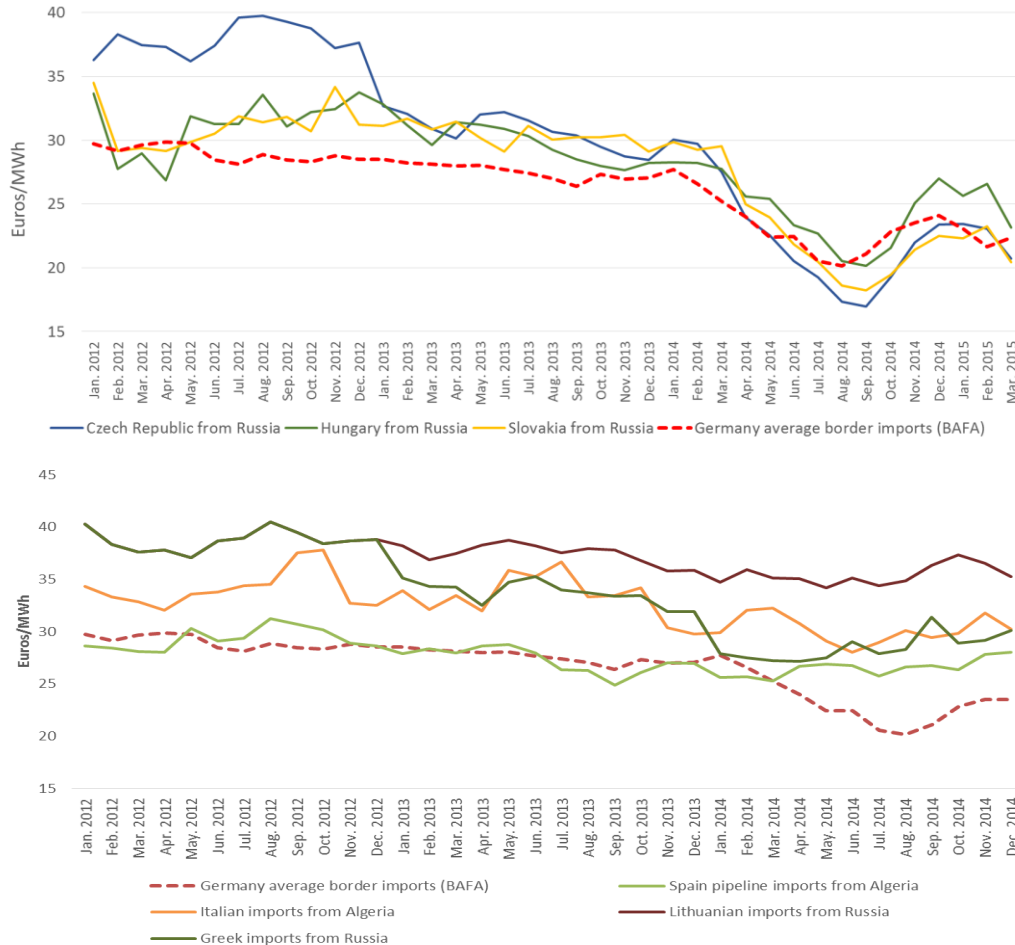


NBP and TTF show larger volumes availability, at longer time horizons and lower trade operations ask-bid price spreads

SOURCE: GTM 2014 indicators (2013 data) Wagner & Elbling, ICIS Heren, EFET hubs scoreboard, ENTSO-G, Trayport, Frontier (2013 data), National Grid (UK), GTS (NL), NCG (DE), GASPOOL (DE), Huberator (BE), GRTGaz (FR), Snam (IT), CEGH (AT), VTP (CZ), POLPX (PL).

Differences in long-term contracts prices persist across geographies even though these are reducing

Comparison of CEE region MSs Russian supplies (above), Mediterranean, SSE and Baltic region (below) vs German average import prices – 2012 – 2014, (euros/MWh)



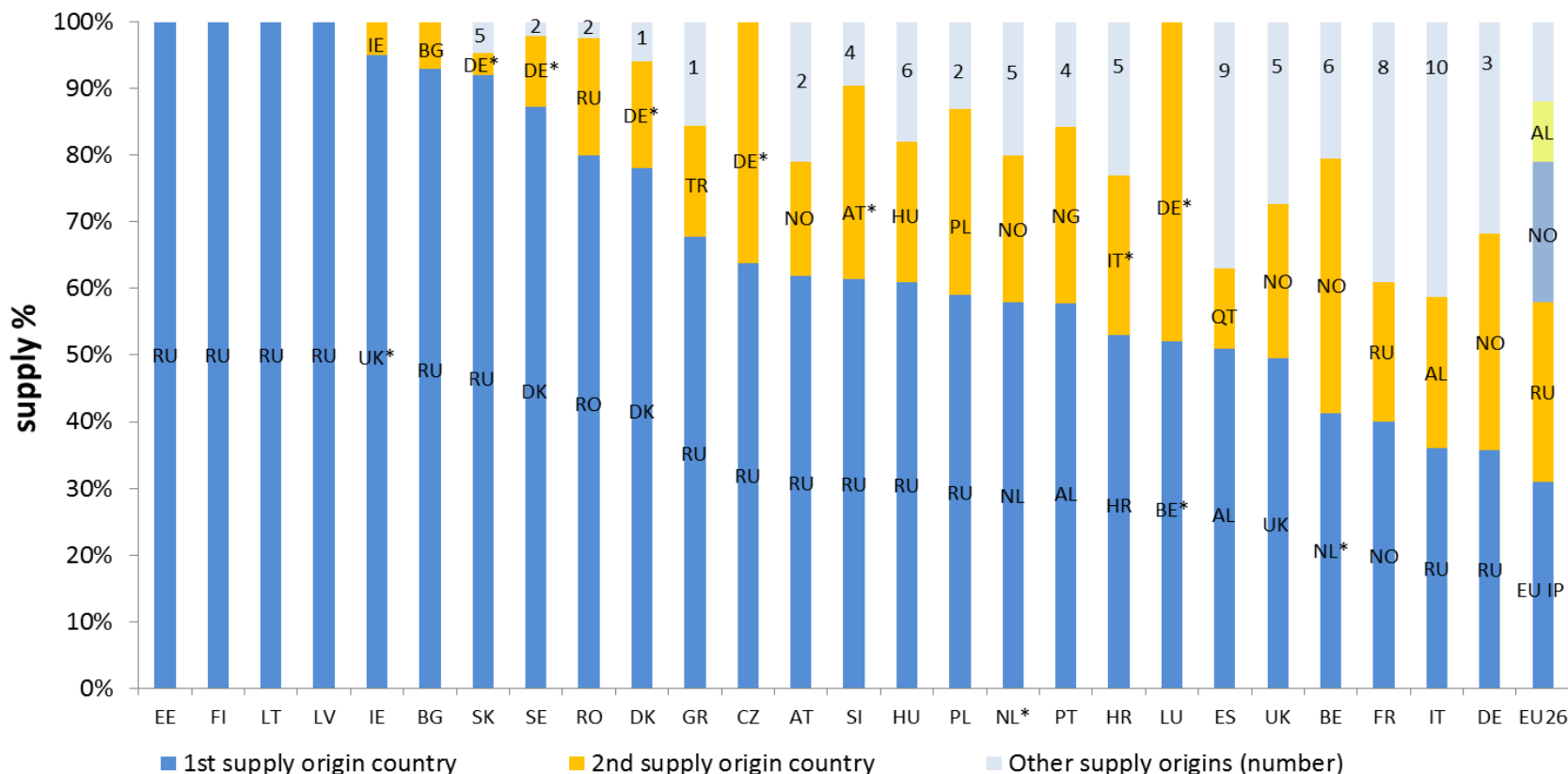
Reasons for divergence:

- Market competitive frames
- Role of hubs
- Bargaining powers
- Diversity and origin of supplies
- Interconnection infrastructure availability

SOURCE: Eurostat Comext, BAFA

Large disparity in number of gas source access in Europe

Estimated diversity of gas supply in EU per MS and by origin of supply country 2013 (%)

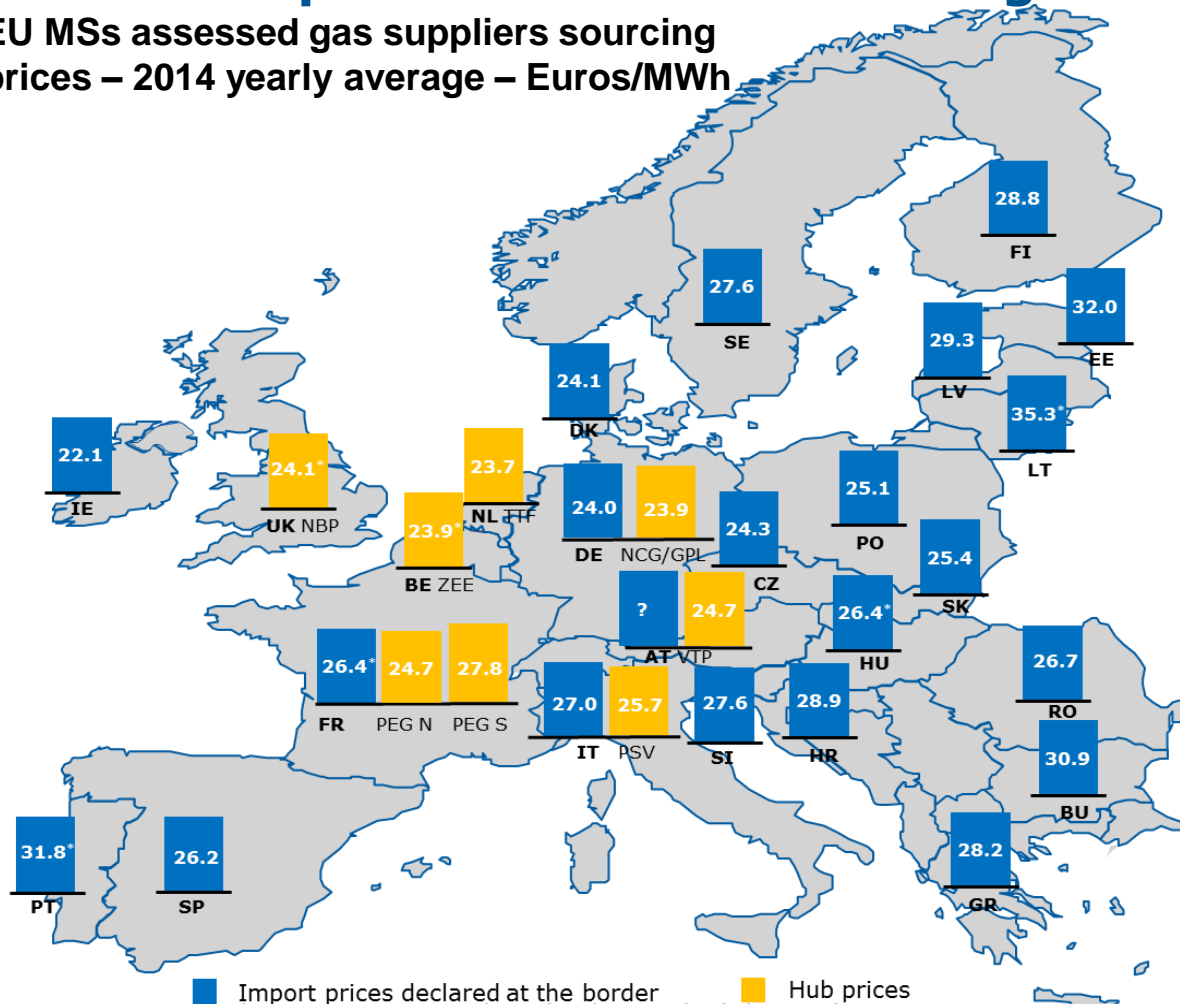


Note: Supply origins indicate the upstream gas producer state or, in those origins marked with an asterisk, a MS featuring an organised market where gas has been purchased.

SOURCE: Eurostat Comext, BP Statistical Report, Eurogas, MSs' National Reports (2014) and ACER calculations

Result is that countries with limited sourcing options and less developed hubs tend to have higher sourcing costs

EU MSs assessed gas suppliers sourcing prices – 2014 yearly average – Euros/MWh



- Differences in suppliers' sourcing prices result in relevant gross welfare losses: MMR 2013, 7 billion euros
- Welfare gains to be obtained from further market integration

* Assessments work in progress pending final input/validation from some NRAS
SOURCE: Eurostat Comext, BAFA, NRAS, ACER methodology

ACER supports the GTM implementation and has developed a template to facilitate NRAs' self-evaluation work

Self-evaluation in two phases

- Phase 1:

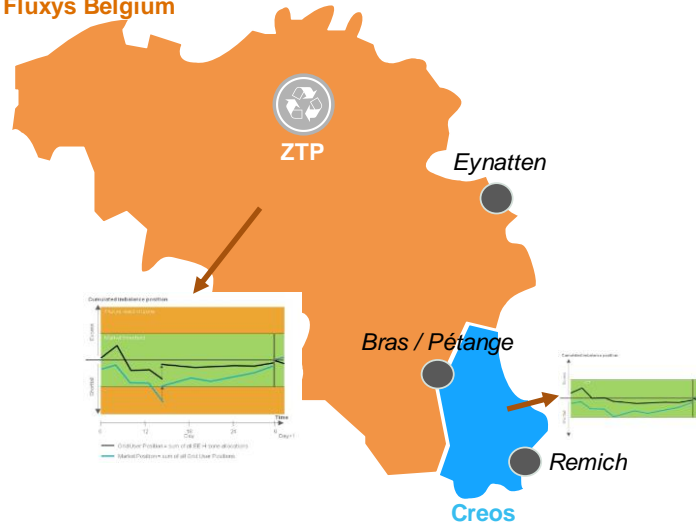
- » Assessment of the current state of wholesale market functioning based on GTM metrics
- » Identification and description of the key drivers towards improved wholesale market functioning
- » Expected state of wholesale market functioning in 2017
- » Consultation

- Phase 2:

- » Identification and description of potential structural market reforms
- » Consultation

Situation today

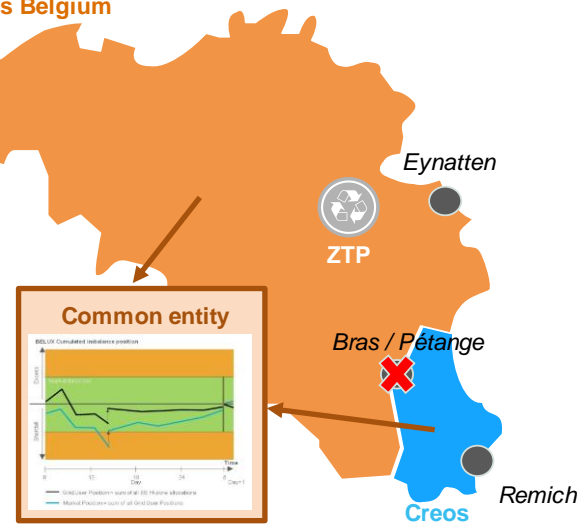
Fluxys Belgium



- 2 Entry/Exit markets with capacity fees in-between
- Separate gas trading place in Belgium
- 2 independent sets of rules

BeLux

Fluxys Belgium



- Single E/E market capitalizing on TSO existing means
- Single gas trading place in BeLux ZTP
- Harmonized balancing rules set; 1 common balancing contract

The Czech Republic, Austria and Germany as first movers in self-evaluation

- The Czech Republic and Austria conduct respective self-evaluations in line with bilateral market integration project
- Germany: commissioned study to assess the potentials for further market integration on the basis of criteria

Other NRAs welcome to join

ACER will continue to monitor Gas Target Model indicators as well as implementation plans

What about Bulgaria and its neighbours?