

Gas Target Model State of play

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Where are we now? - 1

- At the 18th Madrid Forum, European regulators agreed to bring forward proposals for the Gas Target Model (GTM).
- The February 2011 **European Council** confirmed its commitment and set **2014 as the deadline** for the completion of the internal market.
- From November 2010 onwards European regulators launched a **call for evidence**, initiated a series of **five public workshops**, invited stakeholders continuously to give **feedback**, and organised **meetings with Member States, stakeholder roundtables** and **bilateral meetings**, as well as a **public consultation**.
- The 19th Madrid Forum set the cornerstones for the GTM:
 - provide support for the guidelines and network code development work in view of reaching the 2014 target to complete the internal market; and
 - provide an outlook on the framework for the development of the EU gas market beyond that date.

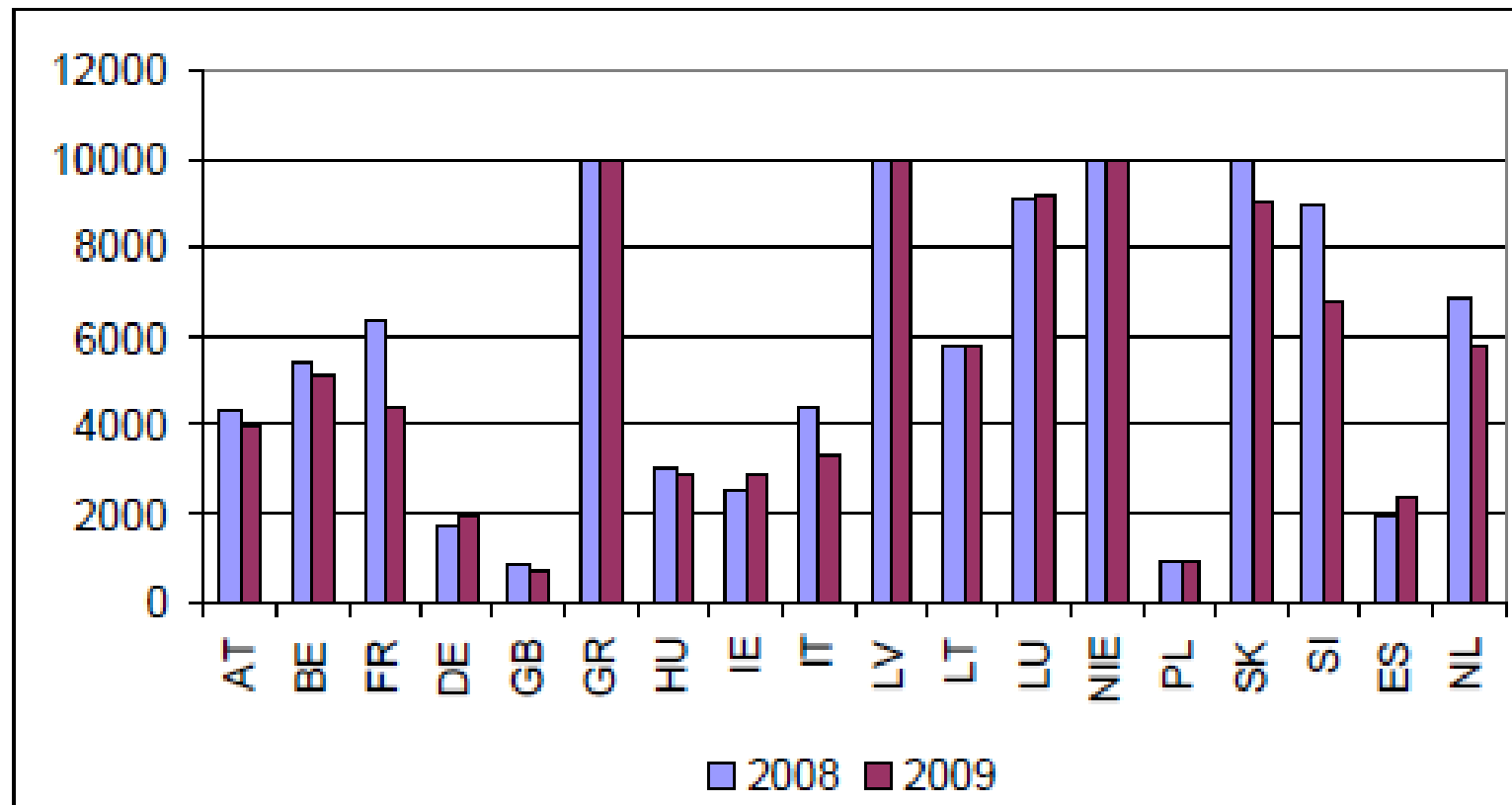
Where are we now? - 2

- As a result of the discussions with stakeholders and in line with the Madrid Forum conclusions, European regulators published the draft vision for the GTM for public consultation in July 2011.
- The basis for the development of the draft vision paper is the full implementation of the 3rd Package.
- This paper considers both what can be put in place by 2014 and issues for a longer term vision until 2020.
- Consultation closed on 20 September.

One of the key challenges is to put in place effective rules for facilitating cross-border trading and market integration **between** Member States.

Functioning markets in Europe?

Figure: HHI in national gas wholesale markets

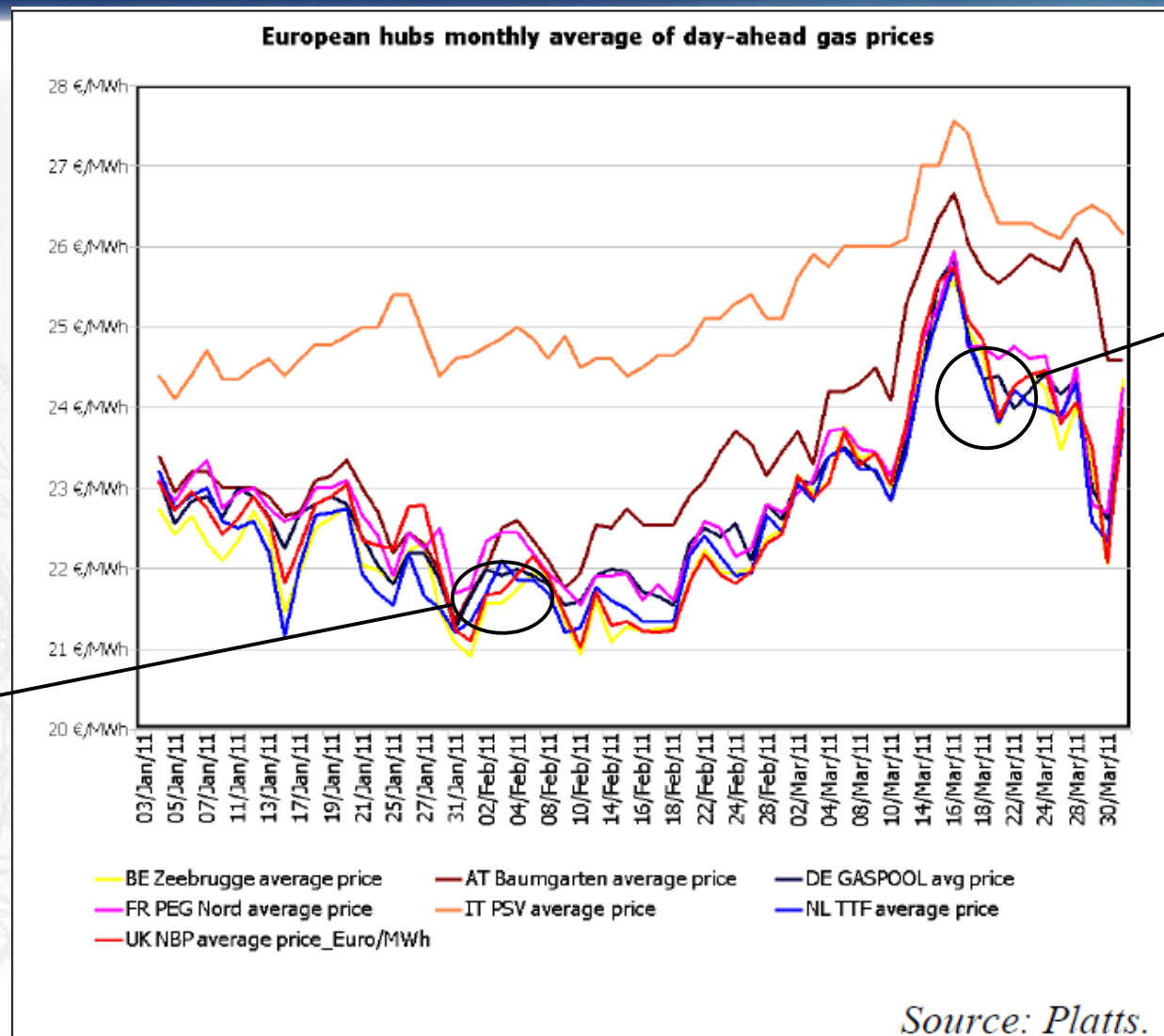


Source: Regulators data

Source: EC 2011 Report on progress in creating the internal gas and electricity market

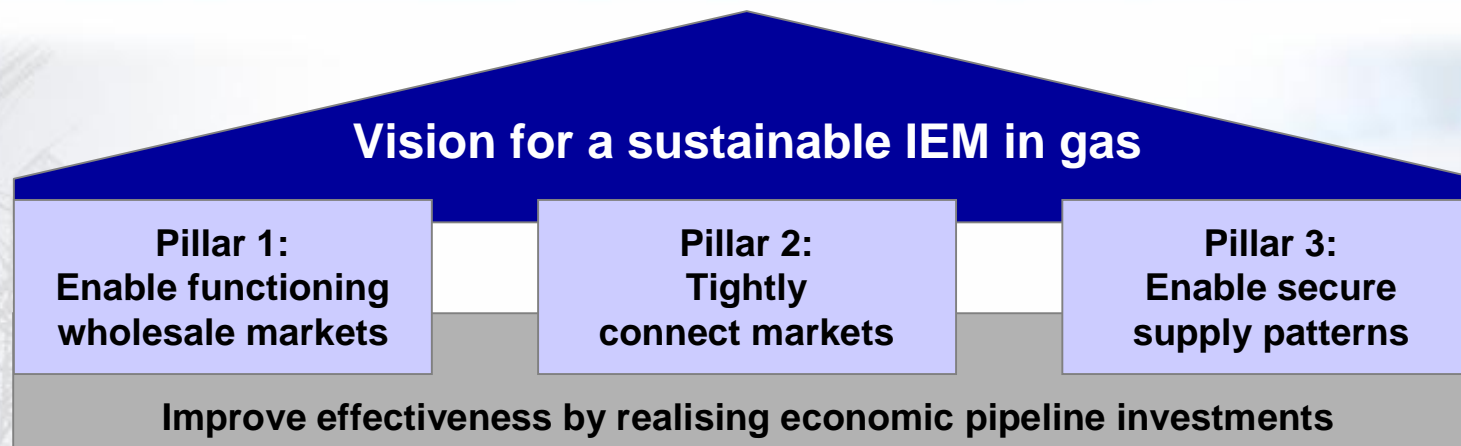
Please note that the figures for Poland are being revised

Wholesale markets in Europe?



Source: Platts.

Objectives of the IEM



Pillar 1: Structuring network access to the European gas grid in a way that enables functioning wholesale markets so that every European final customer is easily accessible from such a market.

Pillar 2: Fostering short and mid-term price convergence between the functioning wholesale markets by tightly connecting the markets through facilitating cross-market supply and trading and potentially implementing market coupling as far as the (at any time) given infrastructure allows.

Pillar 3: Enabling the establishment of secure supply patterns for the functioning wholesale markets.

Foundation: Improving the effectiveness of pillars 1 to 3 by making sure that economic investments in pipelines are realised, as well as, the integration of renewable sources.

Overview of high-level options

MECO-S & LECG

Enabling Markets:

- **Market areas (sub-) national or cross-border**
 - Full vertical integration
 - Merging of market areas
- **Trading region**
 - Merger of entry-exit systems
 - Separate end-user zones with national balancing system

Connecting markets:

- Bundling of capacity
- Harmonisation of products, gas-day
- Explicit auctions
- Make capacity available via UIOLI and/or overbooking
- **Market coupling**
 - Day-ahead implicit auctions /allocation as possible element to be tested in pilots first

GTM in the context of the EU regulatory framework

- **Step 1:**

FGs and network codes on CAM, Balancing, etc. and CMP guidelines have the aim that capacity between those functioning markets will be used as effectively as possible leading to improved price alignment between the markets.

- This will maximise efficiency and thereby public welfare in/from supply and trading on a European scale by making sure that all gas assets (procurement contracts, storage, ...) are used in the most economic manner.

- **Step 2:**

GTM proposes several models at cross-border level to realise liquid wholesale markets: All European final customers will be served from a functioning wholesale market.

- These functioning wholesales markets will act as enablers and fertilisers for retail competition as they provide easy access to competitively priced gas and are the basis for proper risk management.

Draft vision for the GTM - 1

- Functioning wholesale markets in Europe
 - If a country is able to create a functioning market within the country itself
 - Market area
 - If a country is not able to create a functioning market within the country itself
 - Cross-border market area
 - Trading region
- Connected functioning wholesale markets in Europe
 - Explicit versus implicit auctions
 - How to value short term capacities? (discussion in the Tariff FG workstream).



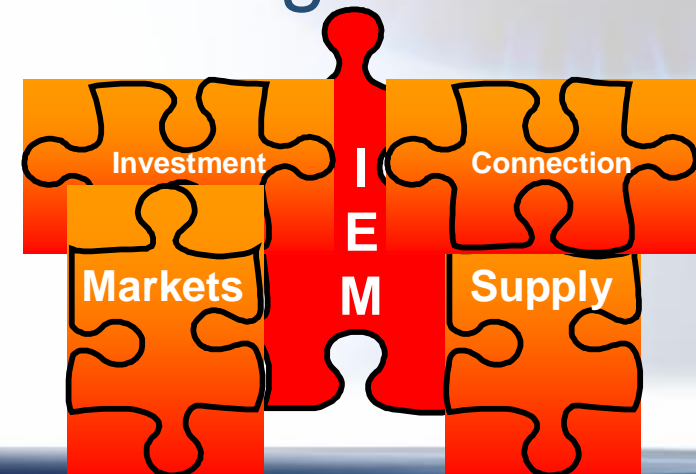
Draft vision for the GTM - 2

- Secure supply patterns
 - Short term trading will allow to respond to the growing need for flexible gas demand and
 - Ensure that gas comes to Europe.
- Ensure that economic investments take place
 - Regular 'bidding' process.



Draft vision for the GTM in a nutshell

- Efficient use of existing infrastructures;
- Functioning wholesale markets in all of Europe;
- Connected functioning wholesale markets in all of Europe;
- Secure supply patterns that ensure gas flowing to Europe;
- Economic investments need to take place.



Initial Assessment of responses to consultation

- CEER public consultation between 11 July – 20 September 2011.
- Over 60 stakeholders from across the gas supply chain requested logins to respond on-line, including producers and generators, TSOs, industrial consumers, exchanges, traders and consultants.

Preliminary assessment of responses received - 1

- 49 responses received, 1 confidential, 1 partly confidential
- Definition of functioning markets: Indicators should not be interpreted too strictly.
 - Stakeholders asked for considering further criteria/indicators
- Market should derive the “optimal” size of zones; CBA required
- Stakeholders urged for as large as possible national E/E zone(s), depending on economic feasibility
- Respondents asked for further clarifications regarding the trading Region model
- Stakeholders see priority for full implementation of 3rd package and FGs/NCs
- Most respondents agree on 2014 goal, although it seems very ambitious to them

Preliminary assessment of responses received - 2

- Large majority in favour or strongly in favour of implicit allocation pilot projects (Strong support from users)
 - About one fifth of respondents explicitly mentioned the importance of allowing continuous trading.
 - A small number of respondents opposed pilots now since outcome and effects of the CAM and CMP rules cannot be seen yet.
- Stakeholder agree on need for explicit long-term capacity allocation.
 - Consumers said that in parallel to allowing long-term capacity bookings, CMP rules should be strengthened.
- Economic test for incremental capacities is being welcomed
 - Stakeholders asked for developing the proposal further, including an assessment of the differences between long-term auctions and Open Seasons
 - Market integration, SoS and environmental aspects shall be considered
 - Majority opted for an annual process, however, some asked for a biannual process aligned with TYNDP process

Preliminary assessment of responses received - 3

- Respondents largely support reserve prices based on the same cost-based allocation method as the regulated tariff.
 - However, as expected there was less agreement over the approach for short-term capacity.
 - Several respondents also noted that pricing should be in accordance with Regulation 715/2009.
- The majority of stakeholders felt that the framework provided was largely sufficient with regard to the integration of renewables
 - Several respondents felt that more detailed consideration of how best to integrate renewable energy should be reserved for the development of binding network codes.
- Expectations over the level of detail in the GTM varied

Thank you for your attention!

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