

CEER vision for European gas target model

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Why are we here today?

- **18th Madrid Forum** invited EC and regulators to explore, in close cooperation with system operators and other stakeholders, the **interaction and interdependence** of all relevant areas for network codes and to **initiate a process** establishing a gas target model.
- Regulators expressed their readiness to chair and coordinate this process, and to present an outline on the definition and the scope of the gas target model to be developed.
- Process launched in early November
 - Call for evidence (open until 7 Jan 2011)

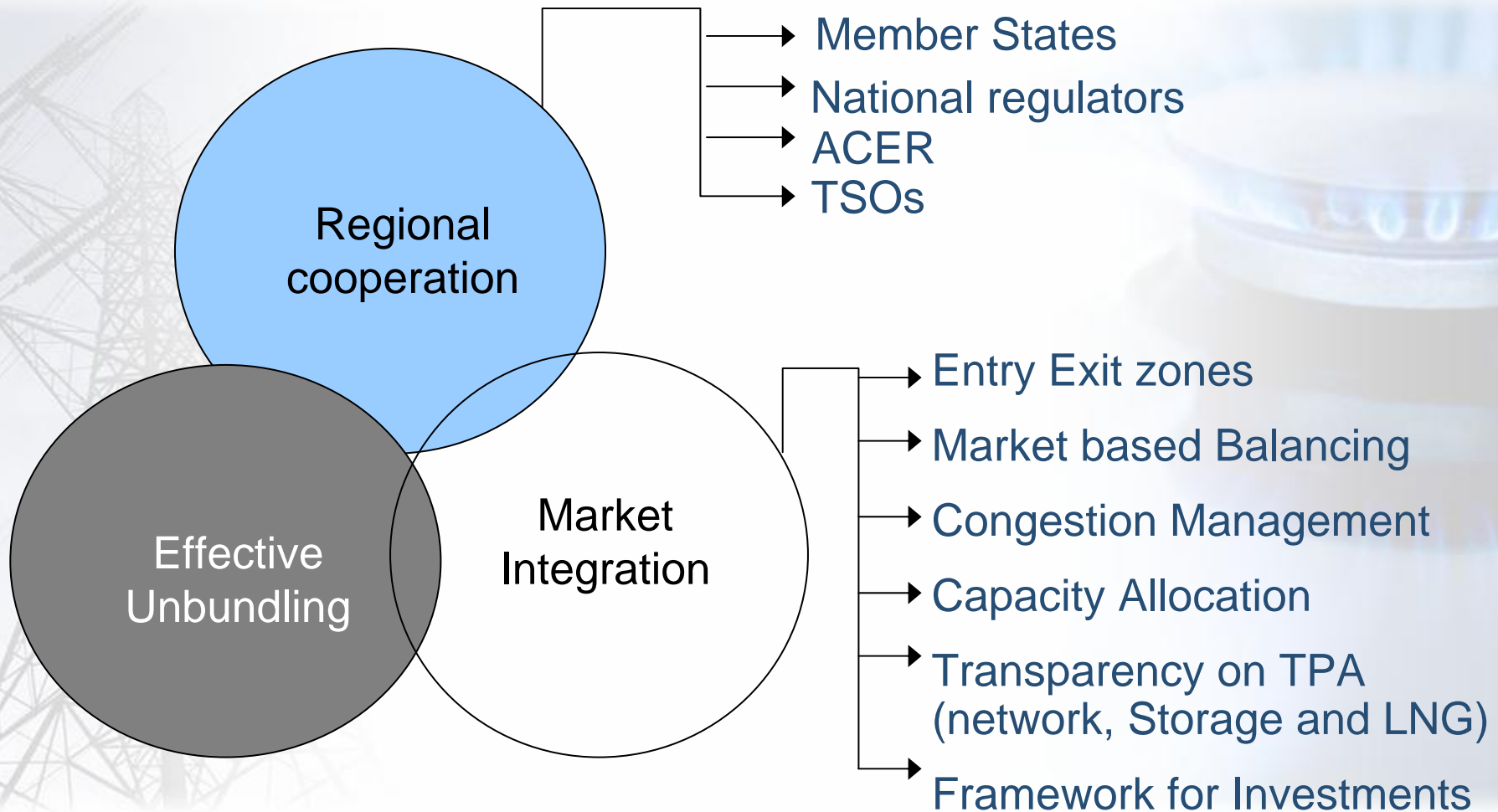
Where are we starting from?

Current market structure is built upon national gas markets

- 27 different market designs
- Level of market integration between national markets is low
 - Lack of available firm interconnection capacity
 - Price differentiation between national markets and Hubs
 - Low market shares outside the home markets
 - Flexibility of gas flows (is improving)

Currently we are far away from an Internal Gas Market in Europe

3rd package – Interacting Instruments



Regulators' work up to now

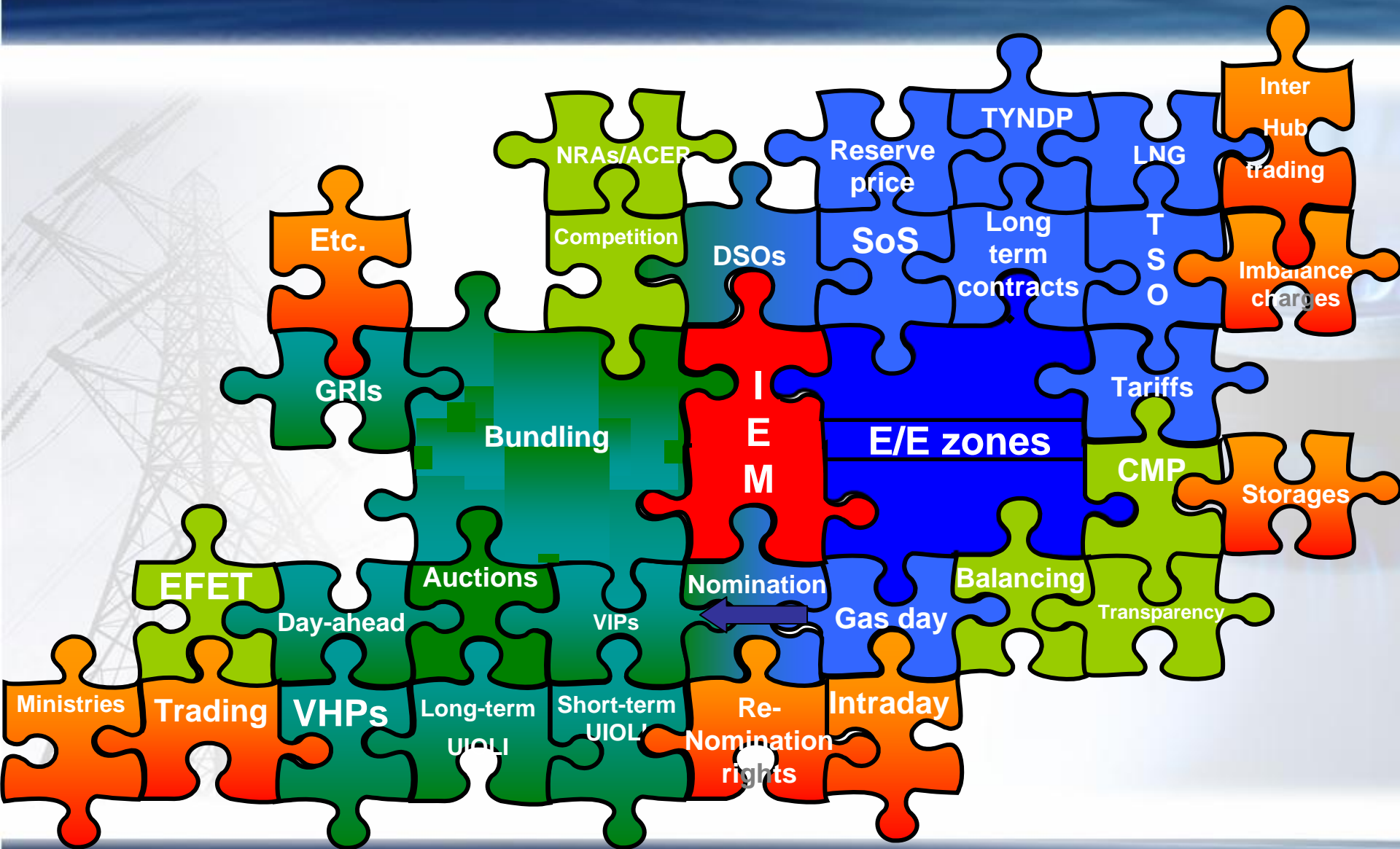
- A conceptual model should give an **overall guidance** for the ongoing and future drafting of **FGs and NCs**, which are the **ideal instrument** to define detailed rules on specific matters and enable market integration.
- European Energy Regulators have based their work in the past on a conceptual model
 - However, there is a need to discuss this more widely with all stakeholders and to reach a broad agreement on the relevant aspects.

To ensure that all work streams fit together, a vision of how the European gas market should look like in five years is needed.

EER vision: Overall goals

- Effective implementation of entry/exit systems;
- Facilitating cross border market integration;
- Efficient capacity allocation procedures;
- Efficient usage of pipeline capacity, especially for cross-border flows;
 - Integration of national markets;
 - Limiting (physical and contractual) congestions;
- Improving the integration of Trading Points;
 - Convergence of market prices, reflecting market risks and supply/demand imbalances;
- Improving security of supply;
 - Appropriate network, storage and LNG capacity enhancement;
 - Upstream investments

EER vision: core elements



Framework Guideline on Capacity Allocation

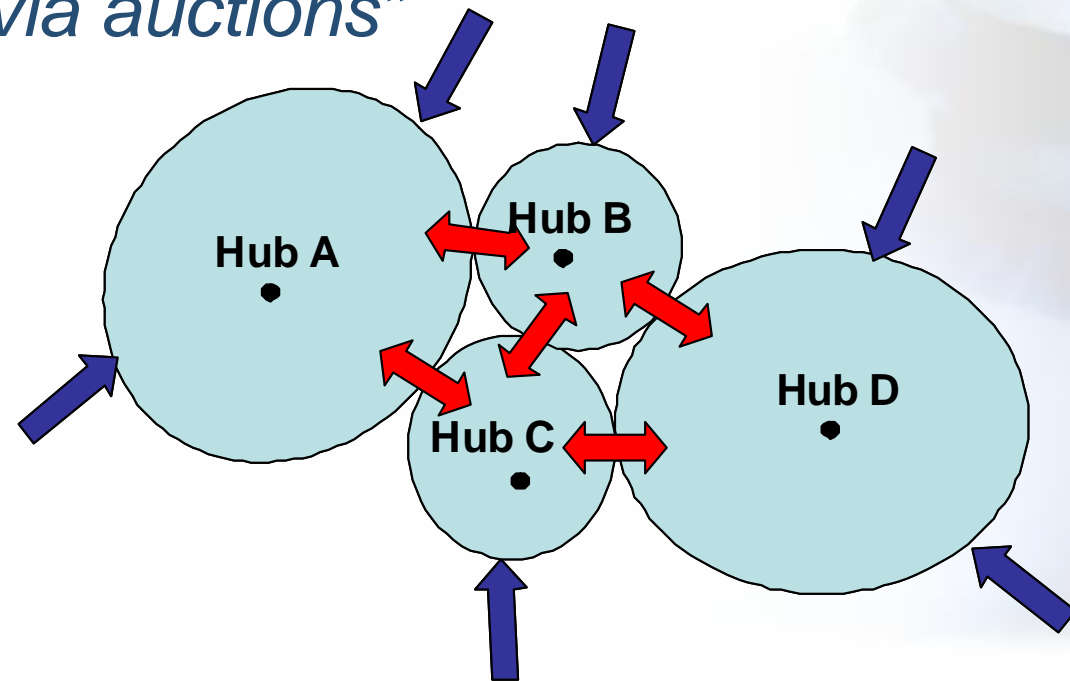
- Entry / Exit zones (3rd package)
- (National) virtual trading points (VTPs)
- Bundling of capacities to better connect VTPs (hub-to-hub trading)
- Virtual interconnection points
- Standardised capacity services
- Auctions as standard allocation mechanism



Size of market areas based on physical characteristics rather than political boundaries

Vision for a Target Model on Capacity Allocation

“a set of entry/exit market zones with their own virtual hubs connected through a limited number of bundled capacity products identical all over the EU and allocated via auctions”



Congestion Management Procedures

- Dynamic capacity calculation to maximise the offer of capacity to the market;
- Oversubscription and capacity buyback to make available an extra amount of firm capacity to the market;
- Surrendering of capacity back to the TSO;
- Limitation of existing re-nomination rights to increase offer and allocation of firm day-ahead capacity;
- Withdrawal of underutilised capacities (long-term UIOLI)



Make more existing capacities available to the market

Framework Guideline on Gas Balancing

- Roles and Responsibilities of TSOs and Network Users;
- Definition of gas day;
- Daily balancing period with within day constraints and at the end of the day cash-out;
- Information provision obligations;
- Market based imbalance charges;
- Cross-border cooperation and integration of balancing zones;
- Buying and selling of flexible gas and balancing services by the TSO;



The vision on Balancing

Balancing framework guidelines— key to market design
(not just technical rules)



Facilitating a single market

- **Remove barriers to cross-border trade** created by different balancing arrangements
- **Reduce fragmentation of the market** by looking at ways to merge balancing zones
- **Promote the development of regional markets** by encouraging the use of interconnectors (and gas from cross-borders) in balancing

Develop liquid traded market

- **Facilitate new entry** by ensuring balancing arrangements are non-discriminatory;
- **Promote market liquidity at gas emerging gas hubs**
 - by encouraging shipper trading across timescales;
 - by having market arrangements for TSO procurement of balancing gas

Suitable for all parts of Europe

- **Provides a coherent set of rules, which**
 - lead to a common vision of balancing arrangements;
 - can be implemented in network codes and is enforceable by NRAs;
 - take account of the different degree of market development across Europe
- need for interim steps)

Stepwise approach ?

- Cross-border netting (individual network users to net their imbalances between neighbouring markets through virtual bilateral trades)
- TSO-led cross border balancing
- Merged balancing zones

EER vision: next steps

- Implicit versus explicit auctions;
- Harmonisation of transmission tariff structures;
 - Pricing of very short-term capacity products to facilitate efficient gas trade and competition;
 - Avoiding perverse effects of potential competition between short and long term bookings;
 - Avoid cross-subsidies between cross-border and domestic network usage;
 - Providing incentives for efficient investments;
 - Guaranteeing the recovery of allowed revenues by the TSO (reserve price for auctions);
- Etc.



Criteria to measure successful market integration

- Development of VTPs (active traders, churn rate);
- Sales of incumbents outside their home market;
- N° and volume of congestions at IPs;
- Lack of implementation of legal obligations;
- Price convergence (industrial customers, import prices, VTP prices);
- New entrants from other countries;
- Market share and concentration measure of incumbents (such as HHI);
- Etc.

What we want to achieve

- Shared vision for the European Internal Gas Market;
- Identify practical steps to achieve this goal within e.g. 5 years;



Questions - 1

- What are the main goals to be aimed at beneath the high-level policy goals set out by the 3rd Package?
- What are the major developments and anticipated changes in the European gas market and where would a target model bring added value? Including:
 - the role of long term capacity contracts in the future European gas markets;
 - the role of hubs / gas exchanges.
- What are the key elements of a conceptual model considering key aspects of market design (CAM, CMP, tariffs, bal, gas quality, wholesale pricing)?

Questions - 2

- What level of detail, e.g. level of harmonisation, do you expect? For example:
 - Do we need a definition of an EU-wide gas day? If yes, what should this definition be?
 - How deep should the "reach" of the model be, i.e. should it encompass DSOs? Is there a trade-off between vertical depth (i.e. including all levels of national gas markets) and horizontal depth (i.e. integrating balancing zones cross border)?

Questions - 3

- Which areas or aspects of the gas market should be affected and what are the constraints for such a model?
- Which areas or aspects of the gas market should be excluded and left to national/regional decision making?
- What are the options for integrating the currently fragmented European markets?
- Are there any existing models you would like to recommend?
- Should we merge balancing zones to create cross border or regional zones? How many balancing zones does Europe need and how big should they be?
 - Is the coupling of market areas as it is being developed in European electricity markets appropriate for gas?

The background of the slide is a light blue gradient. On the left side, there is a faint, semi-transparent image of a high-voltage electricity pylon. On the right side, there is a faint, semi-transparent image of a gas burner with blue flames.

Thank you for your attention!

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