

# **EuroPEX views on Gas Target Model**

European Energy Regulators' workshop on  
target model for the European gas market

Vienna  
3 December 2010

The 3<sup>rd</sup> Energy Package defines the framework for an European Gas Target Model

- Entry-exit zones for transmission systems
- Market-based balancing
- TPA to
  - transmission systems
  - storage facilities
  - LNG facilities
- Regional cooperation of TSOs
- Transparency

Under the framework of the 3<sup>rd</sup> Energy Package, the target model should be(/is) aiming to implement:

- The development of a liquid Internal European Gas Market
  - reduce barriers to free trade of gas within Europe
- Ensure transparent price formation mechanisms for energy and capacity trading in the wholesale markets
- Implement market-based, non-discriminatory and competitive TPA to transmission systems, storage and LNG facilities
- Implement market-based balancing mechanism
- Promote/ensure availability of adequate market and system information
- Reduce barriers to new entrants

## Main requirements for an (the) European Gas Target Model:

- Harmonized set of rules at European level, especially with regards to
  - EU-wide gas day (6:00 a.m. to 6:00 a.m.)
  - CAM/CMP mechanisms
  - Criteria for definition of balancing zones and market areas
  - Balancing mechanisms
  - Clear definition of interim steps (binding transitional arrangements with clear deadline)
- Balancing markets integrated in the wholesale market
  - to foster liquidity in the wholesale market
- Capacity allocation methods and congestion management procedures based on markets methods
  - explicit auctions for allocation of long-term capacity products
  - implicit auction (market coupling) as short term method for capacity allocation and congestion management
- Clear separation of roles of Exchanges (development of liquid market and formation of reliable price indices, promotion of market innovations and assumption of entrepreneurial risk) and TSOs (calculation, administration and provision of capacities)
- Regional cooperation of TSOs and Gas Exchanges
  - needed in case of (for) market coupling

Main goal of gas exchanges is to develop liquid market by:

- Neutral, save, fair and orderly market
  - as Central Counter Party (CCP) exchanges provide anonymous trading
  - clearing & settlement reduce counter party risk and guarantee (physical) delivery
  - ensure market integrity through Market Surveillance
  - facilitation of trading of standardized products
- Promotion of market information (transparency)
  - transparent price formation mechanisms
  - publishing indices (reference for the OTC market and investments)
  - providing ex post information (volumes, number of trades, prices, etc)
- Enhancing competition
  - reducing barriers for new entrants
  - non discriminatory (towards all members)
  - efficient price signals for new investment
- Promotion of market integration
  - efficient capacity allocation & congestion management (Market Coupling)
  - Provision of services to the system (secondary markets, financial settlement and clearing,...)

Exchanges play a key role in providing efficient market solutions in the framework of 3rd package

- Creation of liquid balancing markets (Directive 2009/73/EC), integrated with the wholesale markets, where
  - gas exchanges can provide TSOs with an efficient market design
  - gas exchanges provide TSOs and market participants with financial clearing & settlement services
  - market participants balance their portfolios
  - TSOs participation in the balancing markets ensures that costs incurred by TSOs are transparent and efficiently reflected in the imbalances fees
  - relevant regulatory authorities can monitor market behavior

Exchanges play a key role in providing efficient market solutions in the framework of 3rd package

- CAM&CMP through market-based mechanisms (Regulation (EC) No 715/2009)
  - in case of implicit auctions (market coupling) Exchanges
    - are jointly responsible for managing “day-ahead” coordinated and harmonized price matching procedures
    - take into account grid model defined by TSOs
    - efficiently allocate capacity according to price differential between adjacent hubs
    - ...
  - in case of explicit auctions Exchanges could
    - support TSOs in designing and managing auctions
    - develop secondary capacity markets
    - provide TSOs and market participants with financial clearing & settlement services
- Transparency (Directive 2009/73/EC)
  - organized markets are identified as key tools to remove “*structural rigidities arising from the concentration of suppliers, the long term contracts or the lack of downstream liquidity*”

- In the last decade Exchanges have developed a wide experience in providing efficient market mechanism solutions for electricity and gas trading
- 3rd energy package identifies efficient “market mechanisms” as key feature of balancing and CAM&CMP methods and as fundamental requirement for the enhancement of transparency and competition in Europe
- Gas Exchanges are willing and able to provide their contribution and to cooperate with relevant European institutions and stakeholders in a view of fulfilling the objective: **“a truly integrated European Gas Market”**