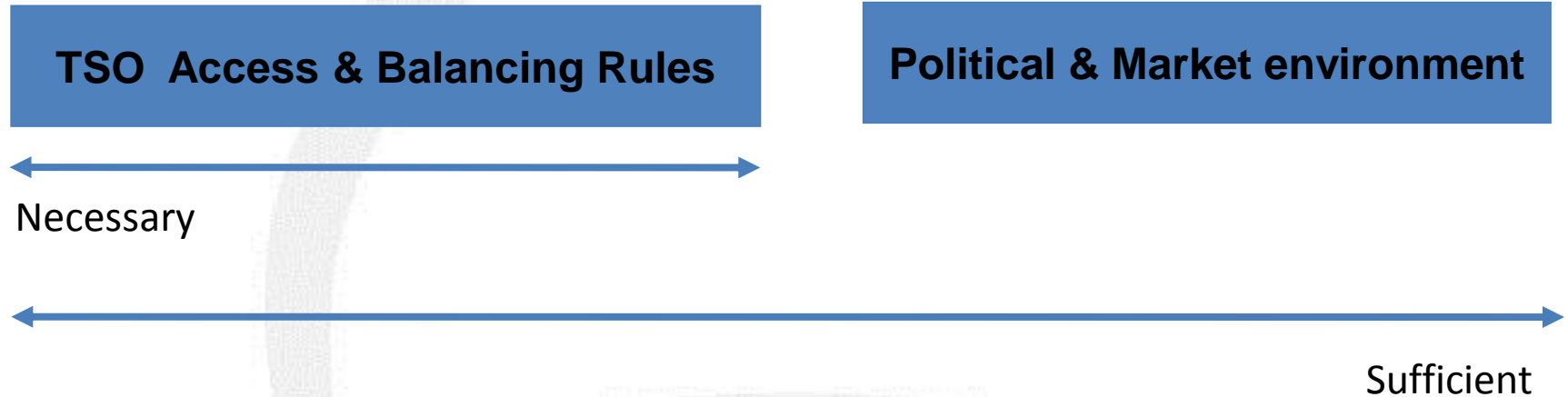




Target Model – Lessons learnt and next steps

Harald Stindl
Board Member

Delivering internal energy market functioning



***... TM development must recognise
need for collaborative development and change,
the interaction between sub-elements,
the focus on 2014 delivery and
the requirement for a stable, longer term vision***

Critical interactions within current focus areas

Some key elements that need resolution:

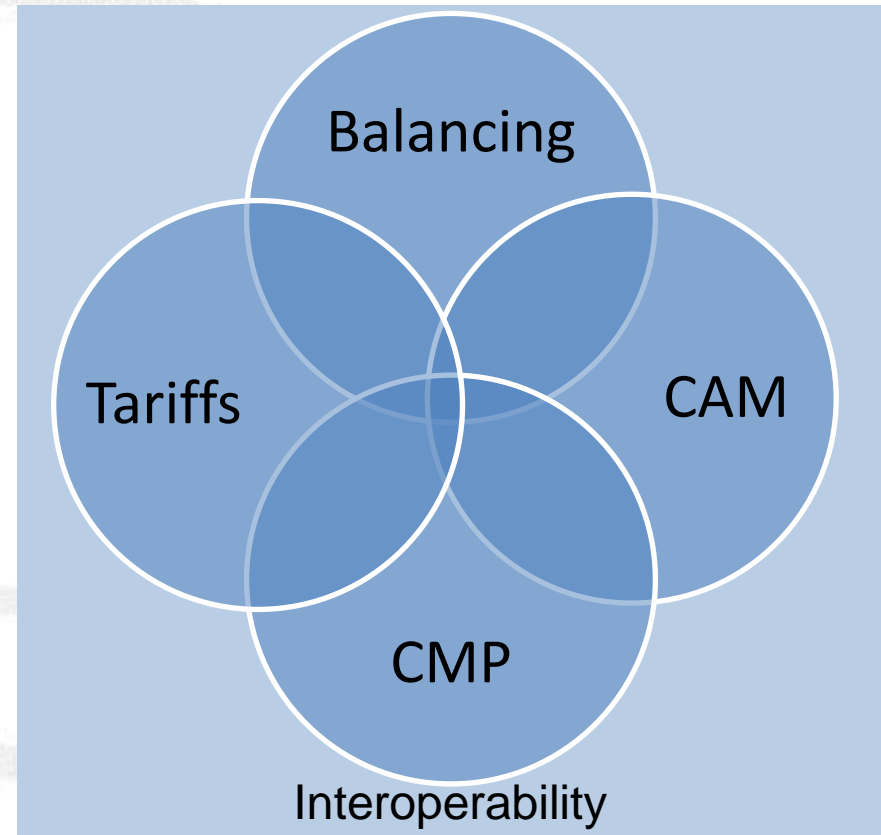
CAM – sunset clause

CMP – renominations

Tariff – short term v long term pricing

Balancing – within-day constraints

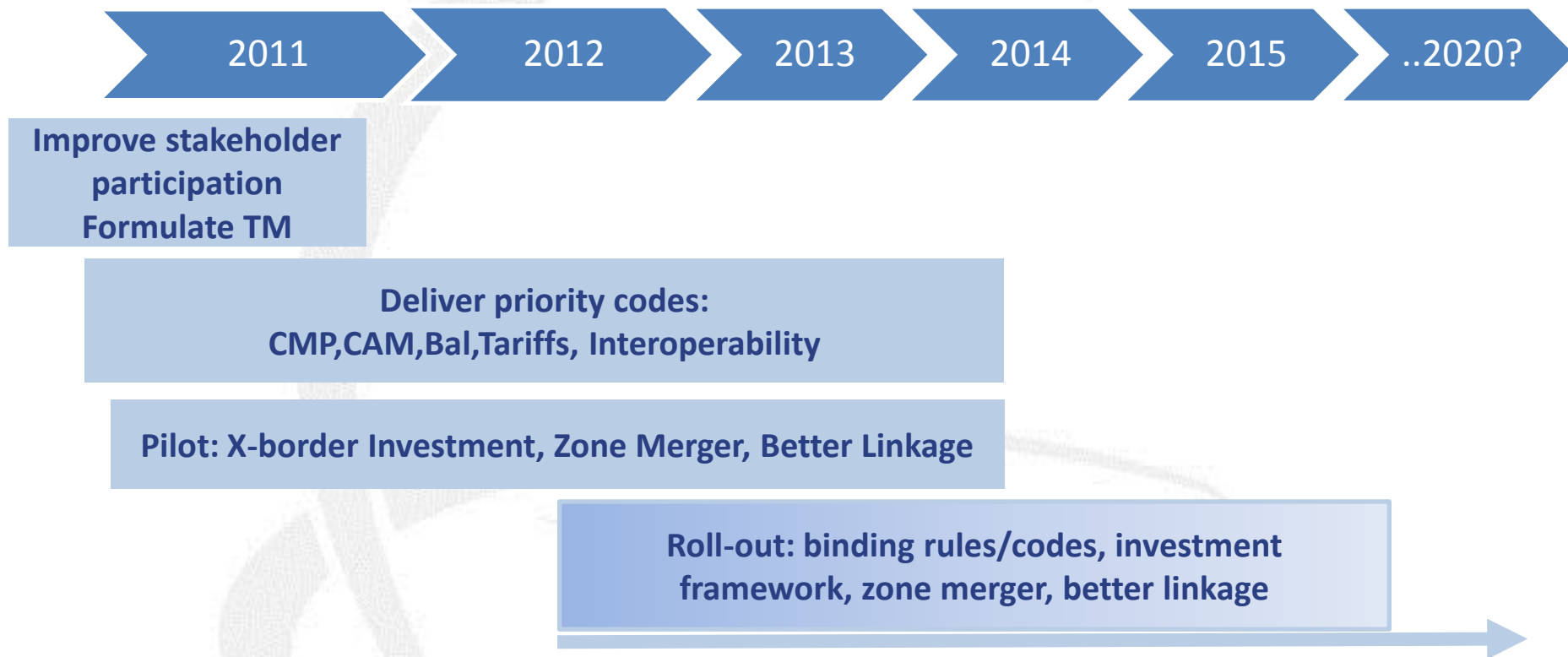
Investment – “market test approach”



... current proposals must be given a chance

***... CMP, CAM and Balancing proposals aimed at addressing current gas regime weaknesses
... developing a robust investment framework is perhaps the major missing link***

Target Model must enable progressive evolution



***... TM must be agreed and stable,
... to provide a vision of the journey to 2014
... refinement and geographical extension to complete a fully functioning market***

2014 Critical Issues

– must understand and decide upon trade-offs

Policy choices required e.g.

- Short term versus longer term trade-offs?
- Market determined system and/or interventionist approach?
- Capacity rights – an option to flow gas until what point in time?

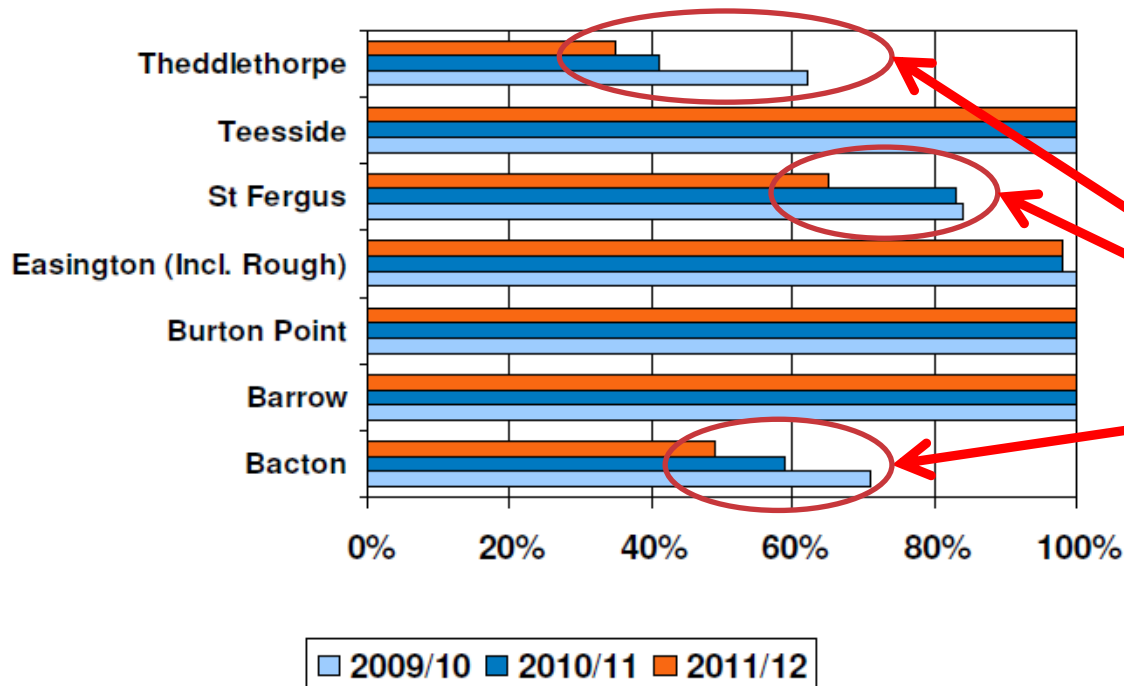
Short v long term pricing implications

- *Fixed costs must be recovered somewhere*
- *Prices need to be set to minimise distortions and inefficiencies*

... interactions imply some regime parameters may be best determined as part of the early, or first, code development

GB experience of short term capacity zero reserve price

Peak Capacity (Maximum) Sold as a Percentage of TYS Forecast Peak Supply



**Migration
from long
term
booking**

Source: National Grid Sep 2009

nationalgrid
The power of action.

... unfortunately substitutability between long and short term capacity is observed and this may create material distortions and inefficiencies in regime functioning

Learning opportunities

- Investment
- Zone mergers
- Market linkage

Learning opportunities - Investment

“Market test” to

- allow market signals
- establish a “trigger” for capacity release
- enable infrastructure investment
 - risk/reward framework for return/recovery of investment
- ensure no undue risks and cross-subsidies
 - cross-border cost allocation and recovery mechanism

**Tariff
or
subsequent
code?**

“Political / SoS test”

- to allow investments where market signals won't satisfy “market test”
- to provide a cross-border allocation framework

**Energy
Infrastructure
Program?**

Learning opportunities – Zone mergers

Opportunities

Enhanced trading opportunities

- Focussed liquidity
- Robust price indexes

Simpler transportation arrangements

- Less entry/exit zone bookings

Easier system user balancing

- Access to functioning balancing markets

Challenges

Increased contractual, tariff and operational complexity

- Enhanced cross-border TSO cooperation

Risks of internal congestions

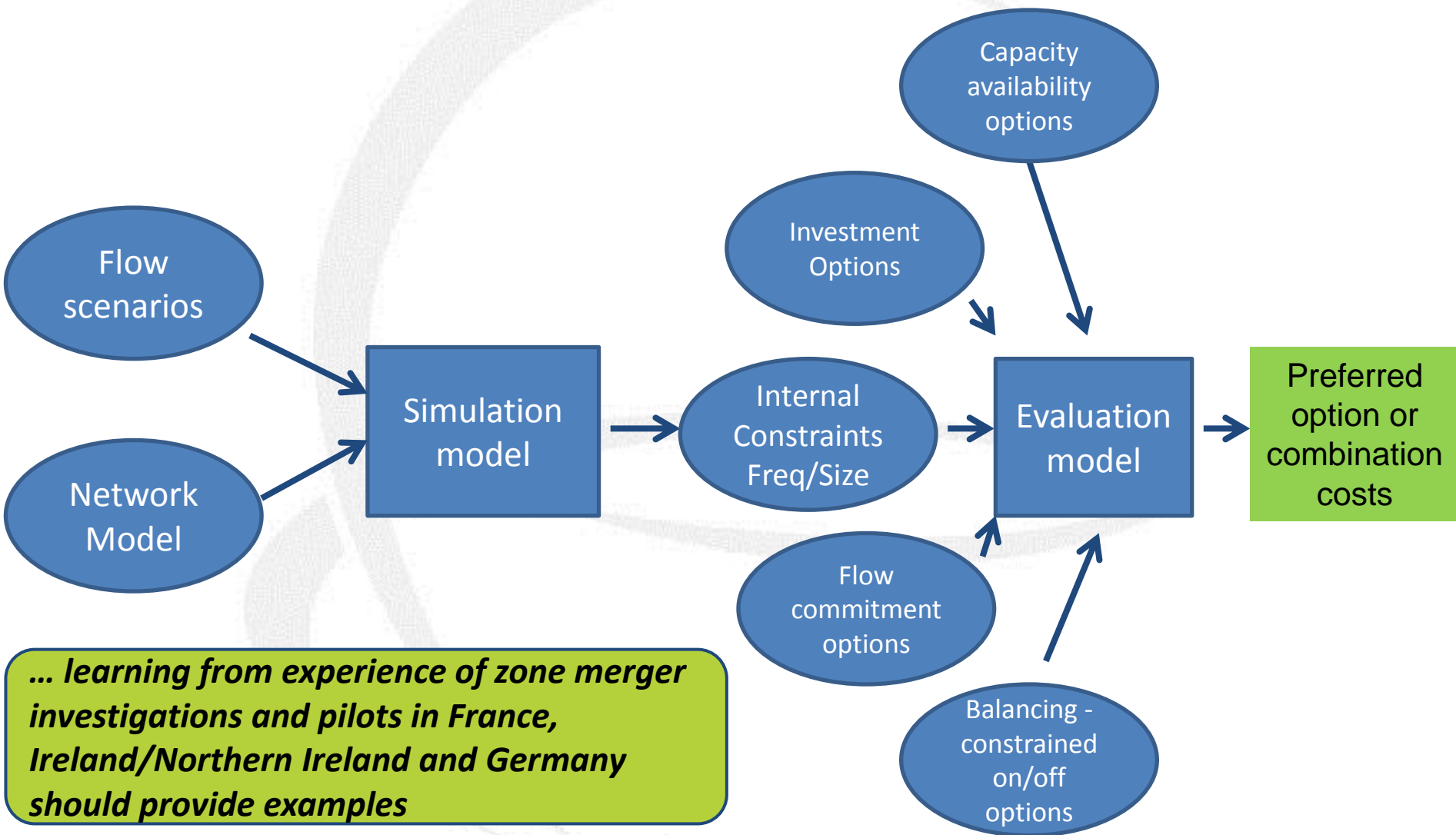
- changes in flows may expose new constraints
- Which options to manage risk

Establishment of “balancing market operator”

- New operational and settlement functions

... free lunches do not exist; so how do we assess the tradeoffs?

Possible methodology to assess potential for internal congestion costs arising from zone merger



Learning experiences – Linking markets

“Market coupling”

- an electricity approach developed taking account of electricity specificities

“Linking markets”

- A gas concept requiring definition in the context of gas specificities
 - enabling either system users or a central arbitrager to link markets/exchanges
 - reflecting the continuous trading aspects of the gas regime?

...ENTSOG offers to work with stakeholders to pilot options for better linking markets in gas

Conclusions

TM must

- be collaborative development
- be completed quickly
- provide a robust longer term vision

2011

Promote delivery of 2014 binding priorities

- CAM/CMP (plus essential tariffs)
- Balancing
- Interoperability

Pilots should focus on:

- Investment framework
- Zone mergers
- Linking markets

To
2014

Full roll-out of initial binding rules and further development towards a fully functioning internal energy market

After
2014