

The Commission's vision of a Gas Target Model

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● The GTM aims to drive towards an EU internal gas market

- **18th Madrid Forum (9/2010)** called to „ [...] *to explore [...] the interaction and interdependence of all relevant areas for network codes and to initiate a process establishing a gas market target model.*”
- **The 19th Madrid Forum (3/2011)** confirmed the goal that the GTM should be „ [...] *providing a description of how the market is expected to develop in line with the objective to create a single integrated, open, flexible and competitive gas market in the EU. [...] should provide support for the guidelines and network code development work in view of reaching the 2014 target to complete the internal market and (ii) should also provide an outlook [...]*”

GTM's aim: Facilitation of creation of EU internal energy market

● Taking a step back...why are we here? (1)

- Undoubtedly, there has been **significant development** of the EU gas markets **since** the publication of the Commission's **Sector Inquiry** in 2007, which depicted a rather archaic sector largely „unphased” by two rounds of market liberalization
 - » **NWE** region has several **relatively liquid hubs** to show for and a **considerable** degree of **price alignment**
 - » **Retail competition** has **started** to develop in some markets
 - » **Commission's competition cases** have achieved considerable effect
 - » **Some cross-border ICs** have been put into place connecting markets

● Taking a step back...why are we here? (2)

● But **serious shortcomings** still remain

- » In **several areas competition effectively doesn't exist** yet
- » **Overall market integration** still very **limited** on an EU level
- » **Market concentration remains high** in many areas
- » **Access to long-term gas supply and capacity** still largely „**regional privilege**” of **select** undertakings
- » **Infrastructure** still **used** in **suboptimal** way

Market integration, sourcing diversification and effective market rules should enable competitive markets to develop to benefit EU consumers and allow sustainable business models for market players

- Enter the Third Energy Package and subsequent Network Codes and Guidelines – the Gas Target Model 2014
 - Effective rules on **unbundling** for transmission, storage and LNG
 - Development of non-discriminatory **Entry-Exit models**
 - Mandate to improve and **harmonize market functioning** further via network codes/guidelines on congestion mgmt, capacity allocation, balancing, tariffs, interoperability, etc.
 - **Strengthened** role of national **regulators** and inception of ACER

As in the electricity sector and its Target Model, work on FGs/NCs and Guidelines in the gas sector will lead to significant improvements by 2014

- Impediments to the completion of the internal market are manifold
 - As of 1 June 2011 **no Member State has notified full implementation** of the Gas or Electricity Directives
 - The Commission has sent **35 Reasoned Opinions** in June 2010 **for infringements** procedures in conjunction with the **Second Package**
 - **Huge gaps in market development between regions** in the EU
 - SoS and the EU's gas dependency

2014 deadline and the corresponding GTM 2014 are a very good target to focus on to bring all the work of the past 10 years to fruition

- To achieve the Gas Target Model 2014 requires huge effort and careful reflection from all sides
 - First draft NC (CAM) just published last week and there are many clear interlinkages to be addressed down the road (CMP, TAR, IO, etc.)
 - Further work on FGs, NCs and Guidelines needs continued focus on links assuring that the Target Model is consistent
 - GTM 2014 should be reviewed in 2013 to assess progress and results

● Where will we be in 2014 once we implement this Gas Target Model?

● Competition increasing:

- » **sourcing diversification and increased competition within segments** (*e.g. LNG and producers in midstream and retail*)
- » More **efficient/effective capacity allocation and congestion mgmt** (*liquidity*)
- » **Traders arbitraging between markets**
- » **Interconnection and reverse flow projects** (PL, N-S, BEMIP)
- » **Market-based balancing systems, harmonized tariff structures and interoperability** (*level playing field*)

- Will the Gas Target Model 2014 be the final destination of the EU internal market?
 - EU Member States with large domestic markets such as Germany, France, UK, Italy, Spain etc. should be on a good track to develop into/further competitive markets
 - Smaller markets (e.g. Baltics, some CEE MSs) may still need to focus on physical interconnection and further integration (perhaps merger of balancing zones?)

● What issues may remain?

- The **EU** is and will likely become even **more dependent on gas imports**; unlike electricity and like oil, gas needs to be shipped to markets
- **Market liberalization didn't involve „tabula rasa” termination of long-term contracts** and dismantling of monopolists; their legacy and the corresponding competitive landscape – while somewhat weakened – remains
- **Heterogeneous geographical specificities**, network topology

● Can elements of a GTM 2020 vision be defined already today?

● **Market merger versus interconnection?**

- » Is market-based allocation and physically sufficient interconnection capacity enough to reap cross-border benefits?
- » Or do we need market mergers to reap full benefits of the internal gas market?

● Type of **most appropriate connection rules?**

- » Does a sector need to go through the learning curve: from FCFS to Explicit auctions to Implicit auctions (as has essentially been the case in electricity)
- » Or is a „generation skip” possible moving right to implicit auctions?

● etc.

There can be indications for further work ahead, but we should now focus on achieving what we have set out to do for GTM 2014

- GTM work should obtain stakeholder buy-in for the work ahead
 - Target Model should be based on broad stakeholder support
 - This will facilitate the process in establishing Framework Guidelines and Network Codes