Study on Market Coupling

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- NMa -
Contents

- Gas Target Model
- Brattle study on implicit allocation of capacity
- Possible Role of the GRI
Background: Gas Target Model

- Gas Target Model speaks of MECOS: Coupling liquid wholesale markets
- “Keeping in mind that the ultimate goal of the internal gas market is to achieve functioning markets, regulators, Member States, TSOs and market participants should cooperate to conduct pilot projects that design and trial an implicit capacity allocation mechanism between at least two entry-exit zones in different Member States. Regulators recommend that the initial conclusions of these pilot projects are presented by early 2013.”
- Via the Gas Target Model, CEER has invited proposals for implicit allocation of capacity
- NMa has contracted Brattle to investigate the possibilities of implicit allocation mechanisms.
- NMa thinks that the NWE market is a market where market coupling has the most chance of success.
General purpose of Brattle study

- Part 1
  - What are the problems in NME gas markets?
  - What role could implicit allocation play?
  - What kind of implicit allocation mechanism could be suitable for the NWE market given relevant gas characteristics?

- Part 2
  - What kind of implicit allocation mechanism could be suitable for the Dutch borders

- Part 1 is developed to **initiate** an European discussion. No definitive conclusions.
Brattle study

- Current Issues in the EU gas markets
  - Lack of access to capacity and contractual congestion
  - Insufficient liquidity on wholesale markets

- Existing proposals to solve those issues
  - Overbooking and buy back
  - Re-nomination limits and firm UIOLI rights
  - Bundling cross-border capacity
  - Explicit allocation of capacity

- The role of implicit allocation
  - Solving co-ordination problems
  - Better access to liquidity
  - Welfare Benefits for NWE countries
Brattle study

- Relevant Gas Market Characteristics
  - Continuous trading
  - Large cross border flows
  - OTC vs Exchange volumes
  - Liquidity of gas markets

- Design issues for implicit allocation mechanisms
  - Exchange or OTC
  - Continuous vs Discrete
  - Time period
  - Rent allocation and price determination
  - Implicit allocation as exclusive mechanism

- Tentative evaluation of different allocation mechanism vs explicit and FCFS
Role of GRI

- End goal: Position paper of GRI
  - The role of implicit allocation in NWE
  - Suitable implicit allocation mechanisms for NWE
  - Advice on the possibilities for a pilot project
- Step Zero: do we agree about the involvement of the GRI?
- If yes, the NMa suggests the following steps:
  - First step: discussion amongst regulators
  - Second step: consultation of market parties and TSOs via workshop
  - Third step: writing position paper with Brattle report as attachment
- NMa plans to announce Brattle study on Madrid Forum (22/23 March) and if agreed the involvement of the GRI.