2nd ACER Gas Target Model Workshop

2nd ACER GTM workshop, Ljubljana, 19 March 2014

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- Opening

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OPENING

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Welcome to ACER, Ljubljana

5200 years old wheel

Visit to the City Museum of Ljubljana: oldest wooden wheel

- Join the visit (uided tour) to the City Museum in the lunch break (between 13:15 – 13:45)!
- 5 minutes walk from workshop venue, in the historical heart of Ljubljana
- Max group size: 30
- Interested participants please sign up at the regsitration desk

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IEM in gas - Regulators´ strategic work

2nd ACER GTM workshop, Ljubljana, 19 March 2014

General context

- Main priorities:
  - » Implementation of the 3rd Energy Package
  - » Development and implementation (of Framework Guidelines and) Network Codes

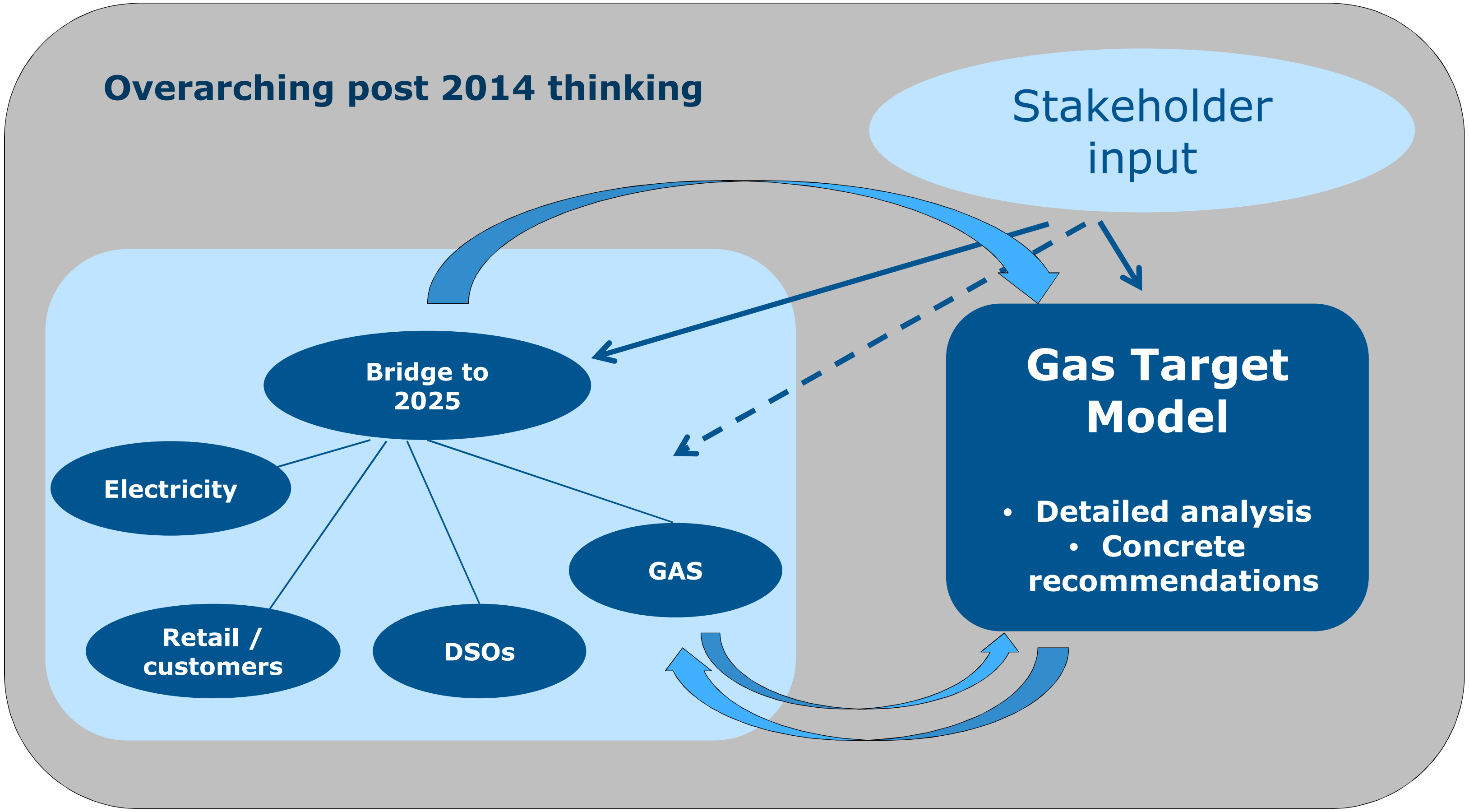
- 2014 deadline for the IEM completion is soon approaching.
  → Need for strategic thinking on post-2014 aspects

- ACER develops a vision: "Energy Regulation – A bridge to 2025" – overarching strategy on key factors, challenges and possible responses for the coming years to 2025

- Part of this work is the enhancement of the electricity and **gas target model**s

What are the main changes and challenges?
How can we adapt to market realities?

Interrelation between the regulatory "Bridge" and the GTM process



GTM strategic context is aligned with the Bridge 2025 gas content
The Bridge 2025 provides direction and guidance for GTM while GTM is:

- More detailed; and
- Will deliver concrete recommendations and implementation proposals.

Gas Target Model 2011

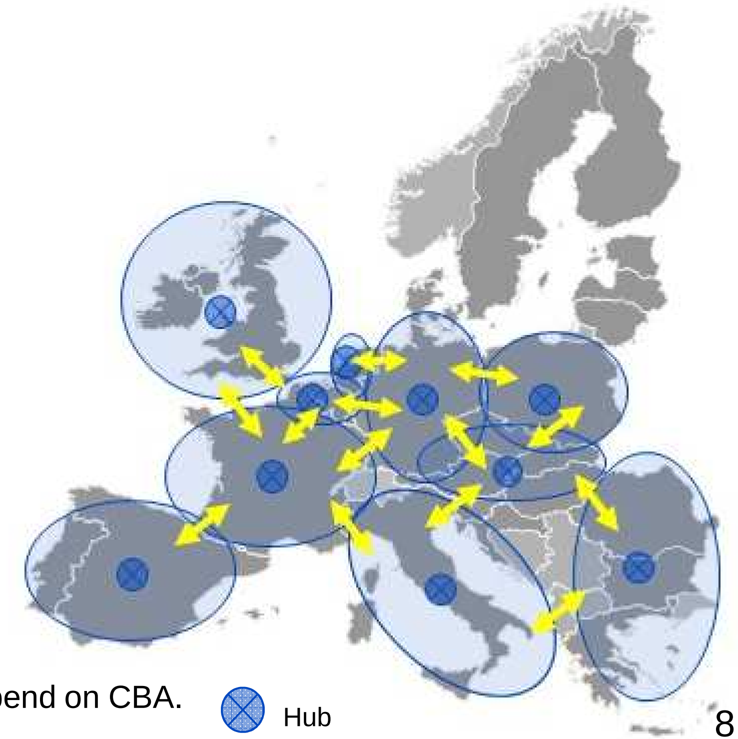
Background

CEER Vision for a European Gas Target Model

- Published in December 2011; developed with strong stakeholder support
- Approach: 3 pillars and recommendations

Vision for the 1st GTM in a nutshell

- Liquid hubs with sufficient and efficiently used infrastructure
- Functioning markets in all of Europe
- Ensure that gas flows to Europe
- Served as guidance for the FG/NC development



* Zones drawn for illustration. Size of zones will depend on CBA.

Hub

GTM review and update

Approach: ACER is developing the update of the GTM

- Based on studies and analysis of specific areas – currently running
- In exchange with stakeholders
- Why an update?
    - Major changes of the gas market
    - Demand outlook changed
    - Flexibility role questioned

External contribution: expert advise and stakeholder input is key:

- ACER informal advisory panel (17 members from European associations, industry, traders, consumers, academia, EC as observer; 3 meetings)
- Stakeholder workshops and input (3 stakeholder workshops: 8 October 2013, 19 March and 15 May 2014; FSR academic workshop on GTM: 13 March 2014)
- Round table discussions

GTM review and update

1st ACER GTM workshop – 8 October 2013

- Agreement among participants:
  - Priority: 3rd Package implementation, including development and implementation of Network Codes
  - Changes and improvements could become necessary → Given the long lead times of legislative measures, we have to start thinking ahead now
  - Need to assess and define the additional areas where possible additional (regulatory) measures are necessary
  - Consensus that the integrated European energy market can bring benefits – at the same time costs should be also analysed

FSR Gas Target Model Workshop – 13 March 2014, Brussels

- With the participation of academia, FSR sponsors, NRAs

Discussing

  - Staking out the goal of functioning gas wholesale markets
  - Status and update of the GTM pillars 1 and 2
  - Forward market functioning
  - Evidence from price correlations btw markets: what does it mean?
  - Can business requirements be met by current markets?
  - Market connection as a booster and / or replacement of functioning home markets?

GTM review and update

Next steps

- In the frame of regulators´ strategic work „Energy regulation – A bridge to 2025" a Green Paper will be launched for public consultation between 29 April-15 May 2014 – final „Bridge" document to be published in September 2014
- 3rd ACER GTM workshop, 15 May 2014, Brussels
- Final GTM to be published in September/October 2014

Stakeholder feedback is invited throughout the GTM process

- This workshop is web streamed
- Presentations will be published on the ACER website shortly

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EU gas market – changing strategic context

Changes in:

- **Demand**
- **Supply**
- **Flexibility role**

→ Reverting in significant changes in gas market characteristics
→ New challenges
→ Consequences

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Demand development

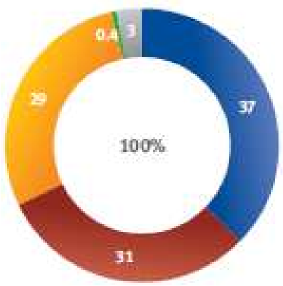
INLAND SALES OF NATURAL GAS IN THE EU-28, SWITZERLAND AND TURKEY, 2012

TWh	Residential & commercial	Industry	Power plants	Transport	Others uses	Total inland sales	% Change 2012/2011
AUSTRIA	27.4	34.2	22.6	0.1	11.6	95.9	-5%
BELGIUM	62.0	57.5	46.9	0.1	12.4	178.8	1%
BULGARIA	1.1	15.2	10.8	0.6	1.9	29.6	-8%
CROATIA	8.3	10.2	7.8	0.0	4.8	31.2	-6%
CYPRUS	0.0	0.0	0.0	0.0	0.0	0.0	-
CZECH REPUBLIC	38.8	45.8	0.0	0.1	1.6	86.3	1%
DENMARK	10.7	9.5	5.8	0.0	11.4	37.5	-8%
ESTONIA	0.9	0.7	0.2	0.0	5.0	6.8	4%
FINLAND	0.9	19.0	18.9	0.1	0.0	38.8	-10%
FRANCE	282.7	146.8	48.3	1.3	13.3	492.4	4%
GERMANY	393.2	368.0	135.0	2.8	10.1	909.1	1%
GREECE	5.4	9.5	32.0	0.2	0.0	47.1	-8%
HUNGARY	34.6	41.5	26.6	0.0	4.5	107.4	-10%
IRELAND	13.0	6.2	32.6	0.0	0.8	52.6	-3%
ITALY	330.0	166.4	265.7	9.6	21.0	792.6	-4%
LATVIA	3.3	2.2	9.7	0.0	0.0	15.2	-6%
LITHUANIA	2.8	18.3	12.7	0.0	0.4	34.2	-2%
LUXEMBOURG	4.5	3.4	5.8	0.0	0.0	13.7	2%
MALTA	0.0	0.0	0.0	0.0	0.0	0.0	-
NETHERLANDS	211.7	141.5	65.0	0.0	8.0	426.2	-4%
POLAND	68.1	66.7	16.5	3.3	22.4	176.9	6%
PORTUGAL	6.5	31.3	11.9	0.0	0.4	50.1	-13%
ROMANIA	44.3	52.9	34.3	0.0	13.1	144.7	-4%
SLOVAKIA	20.5	18.2	11.6	0.1	4.8	55.3	-4%
SLOVENIA	3.1	4.4	0.6	0.0	0.1	8.3	-6%
SPAIN	48.7	133.6	179.4	0.9	0.0	362.6	-3%
SWEDEN	1.8	5.8	4.7	0.7	0.0	12.9	-14%
UNITED KINGDOM	425.7	166.3	235.9	0.0	27.1	855.0	-5%
EU-28	2 049.8	1 575.0	1 241.5	19.8	174.7	5 060.9	-2%
% Change 2012/2011	6%	-1%	-17%	6%	10%	-2%	
SWITZERLAND	21.7	11.0	2.5	0.2	2.4	37.8	10%
TURKEY	122.0	117.4	230.2	0.2	11.5	481.4	4%

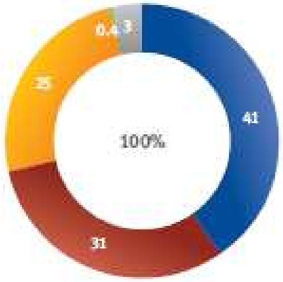
Units: terawatt hours (gross calorific value).
Note: figures are best estimates available at the time of publication.

EU-28 NATURAL GAS SALES BY SECTOR, 2011 AND 2012

2011



2012



Inland deliveries represent deliveries of marke gas to the inland m including gas used gas industry for he and operating thei equipment, and includes losses in distribution.

Most significant decrease in electricity generation: -17%

Quelle: Eurogas, Statistical Report 2013, http://www.eurogas.org/statistics/

Demand: significant decrease in electricity generation

Figure 20 - Residential, commercial and Industrial consumption. Winter 2009-2013 (*)

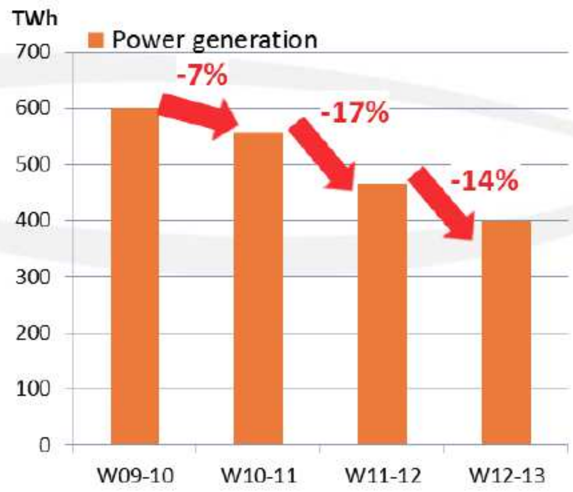


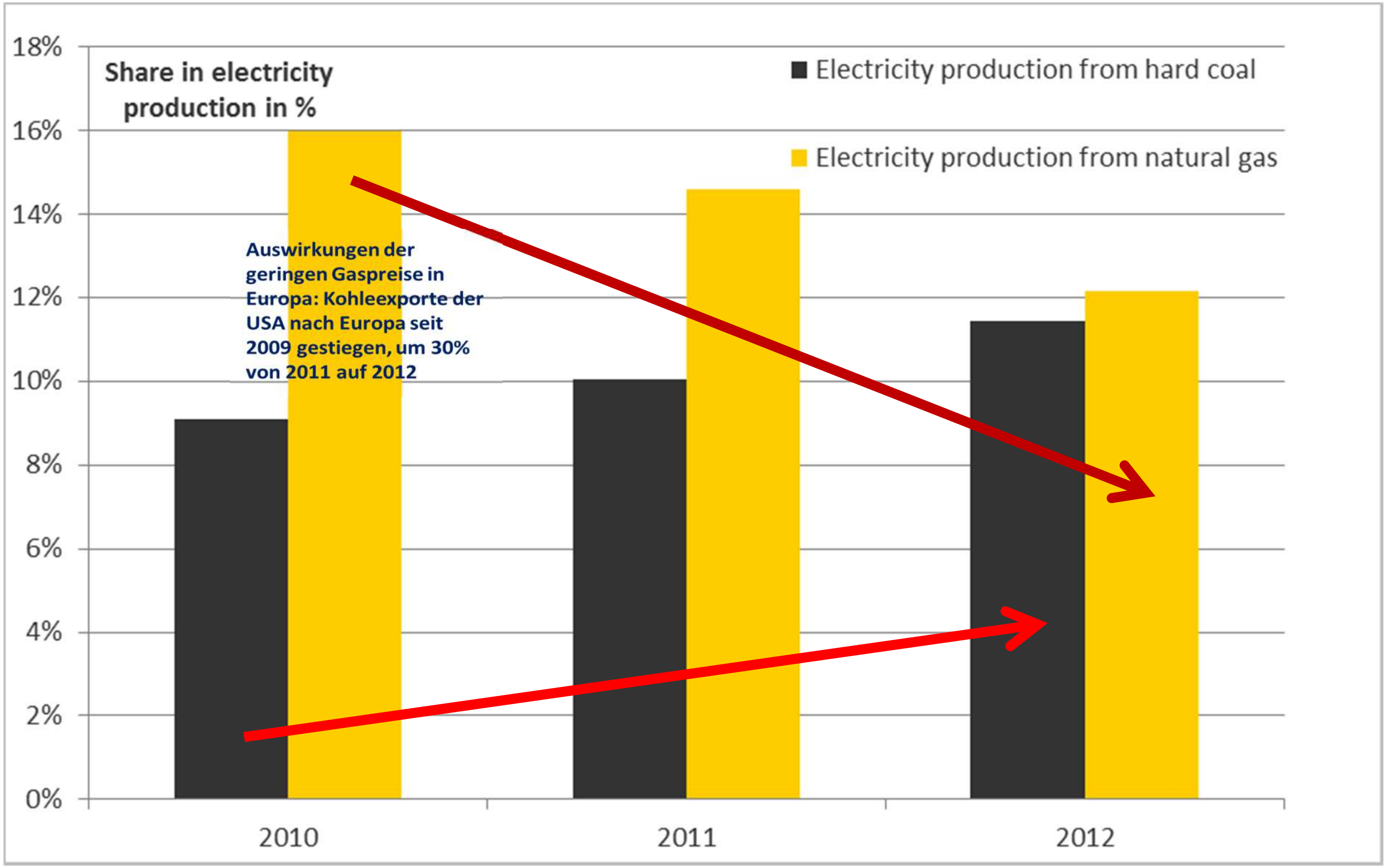
Figure 21 - Gas consumption for power generation. Winter 2009-2013 (*)

(*) These graphs refer to the countries for which demand breakdown is available (Belgium, Croatia, Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Italy, Lithuania, Netherlands, Portugal, Slovakia, Slovenia, Spain, Sweden, and United-Kingdom)

Reasons: cheap coal; low CO2 price

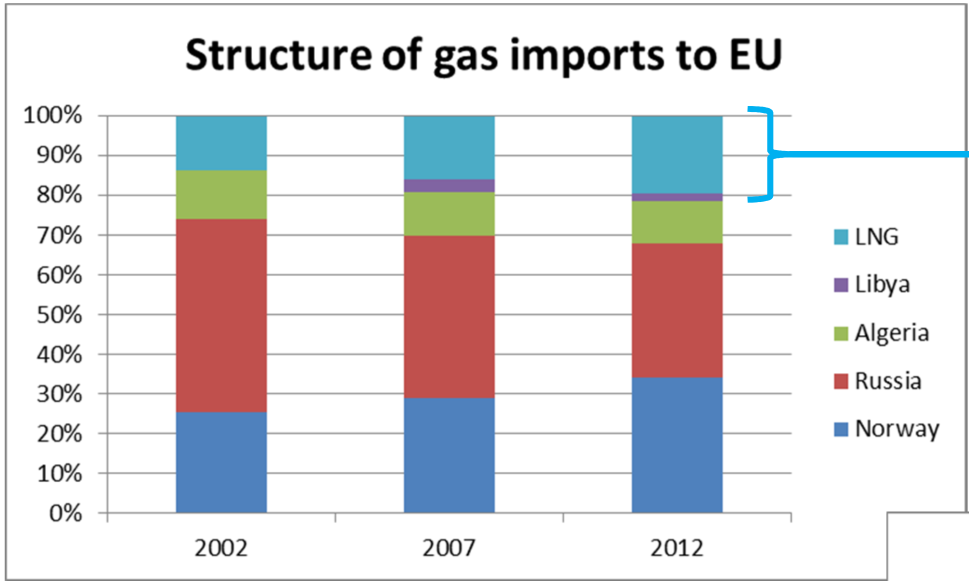
Source: ENTSOG, Winter Supply Outlook 2013/14, 28. November 2013, p. 22

Demand: replacement of gas by coal in EU electricity generation – decarbonisation?

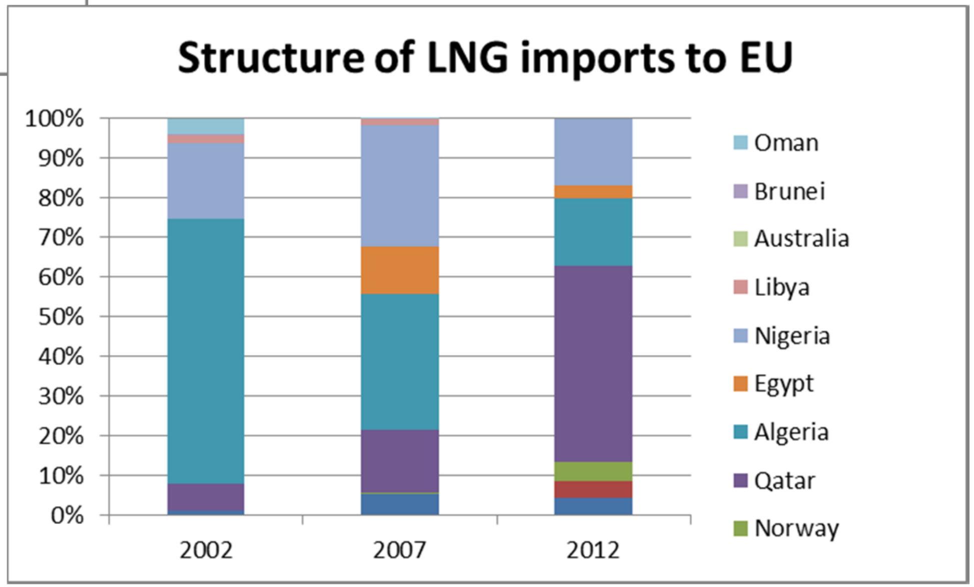


Source: ENTSO-E, statistics, data portal

Supply:
changing structure of imports to the EU



Increasing diversification of supply sources



Datasource: BP Statistical Review of World Energy, 2003, 2008, 2013

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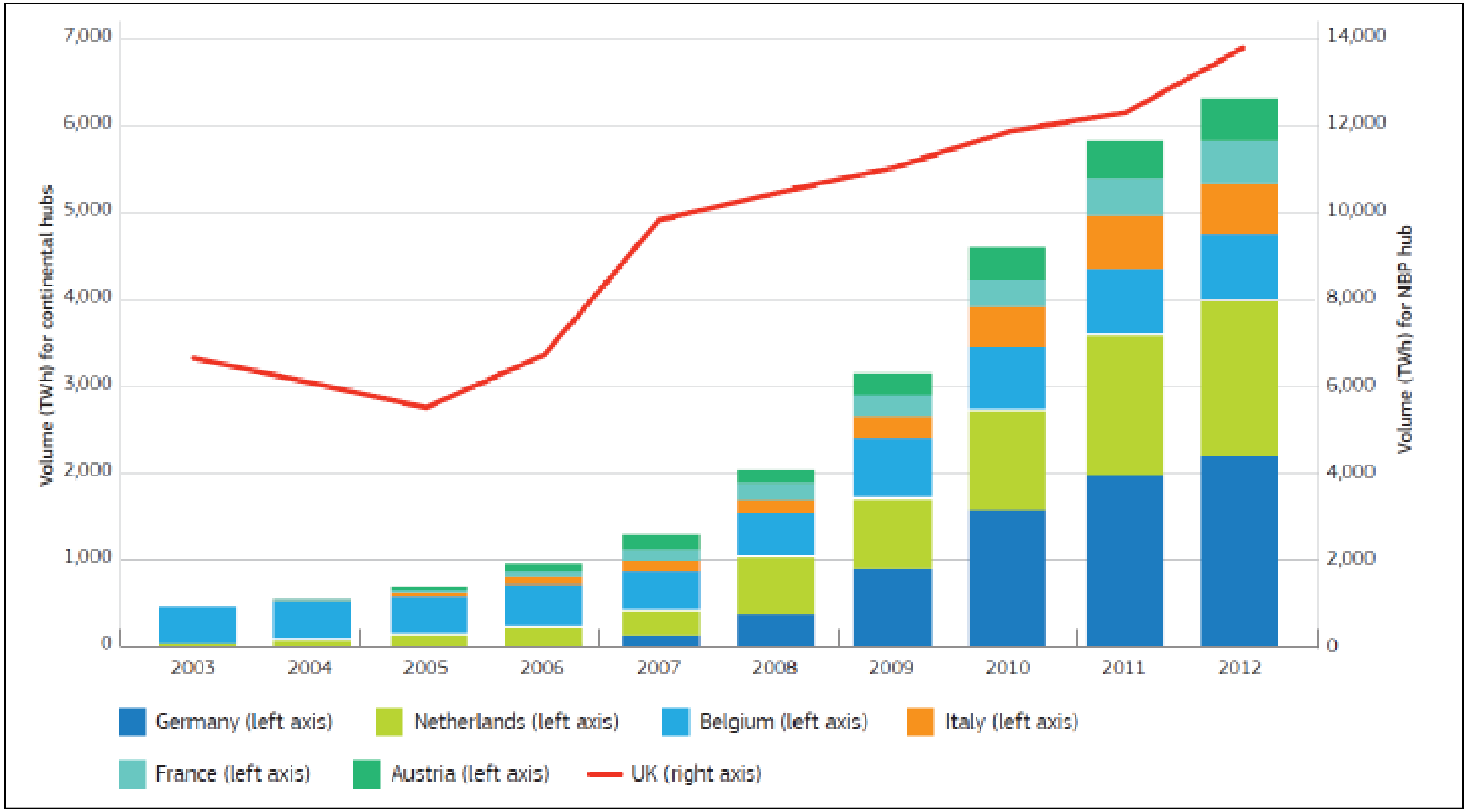
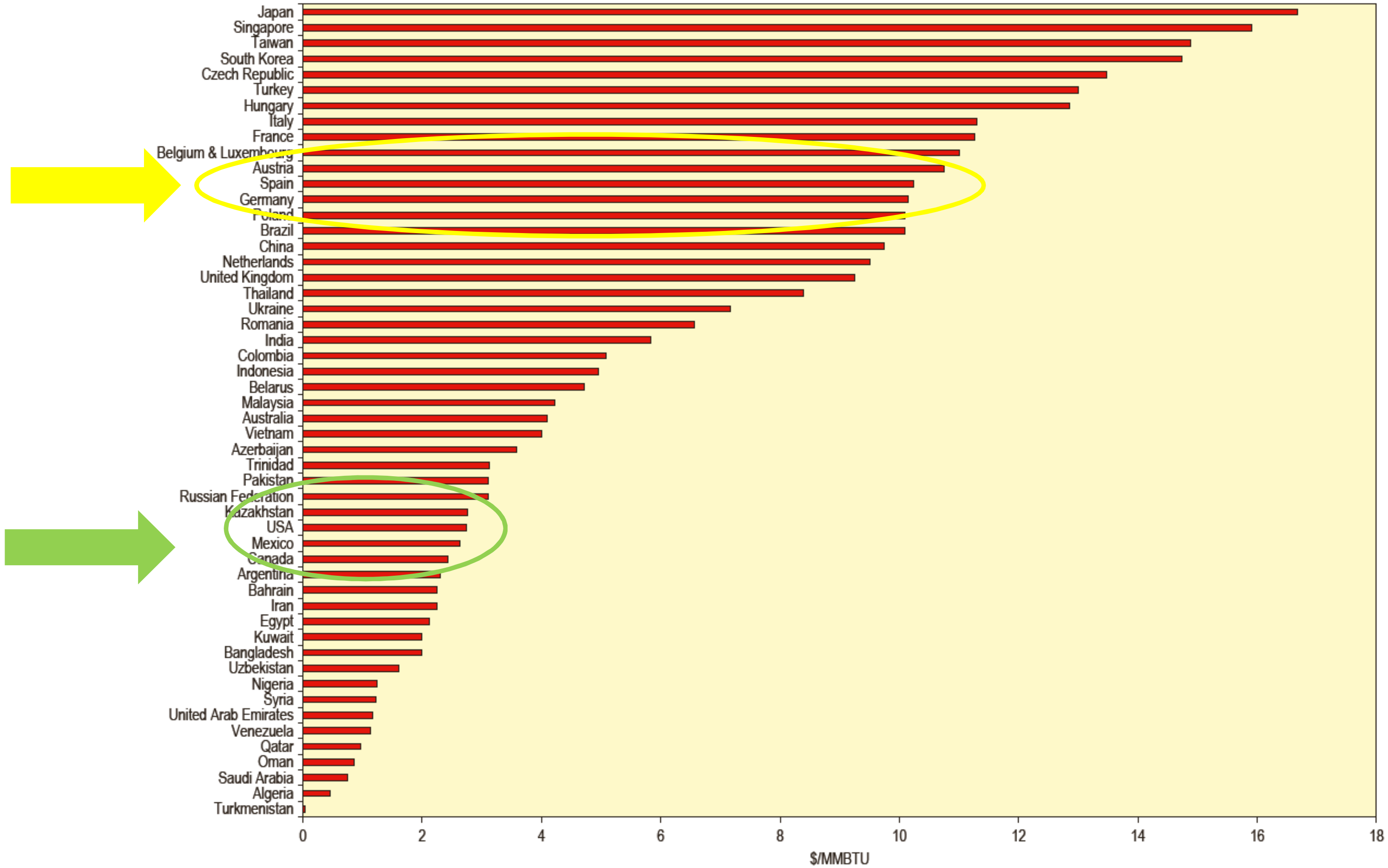
Trade:
development of gas trading on liquid hubs



Quelle: KEMA, Study on LT-ST Markets in Gas, Final Report for the EU-Commission, August 31, 2013, S. 33

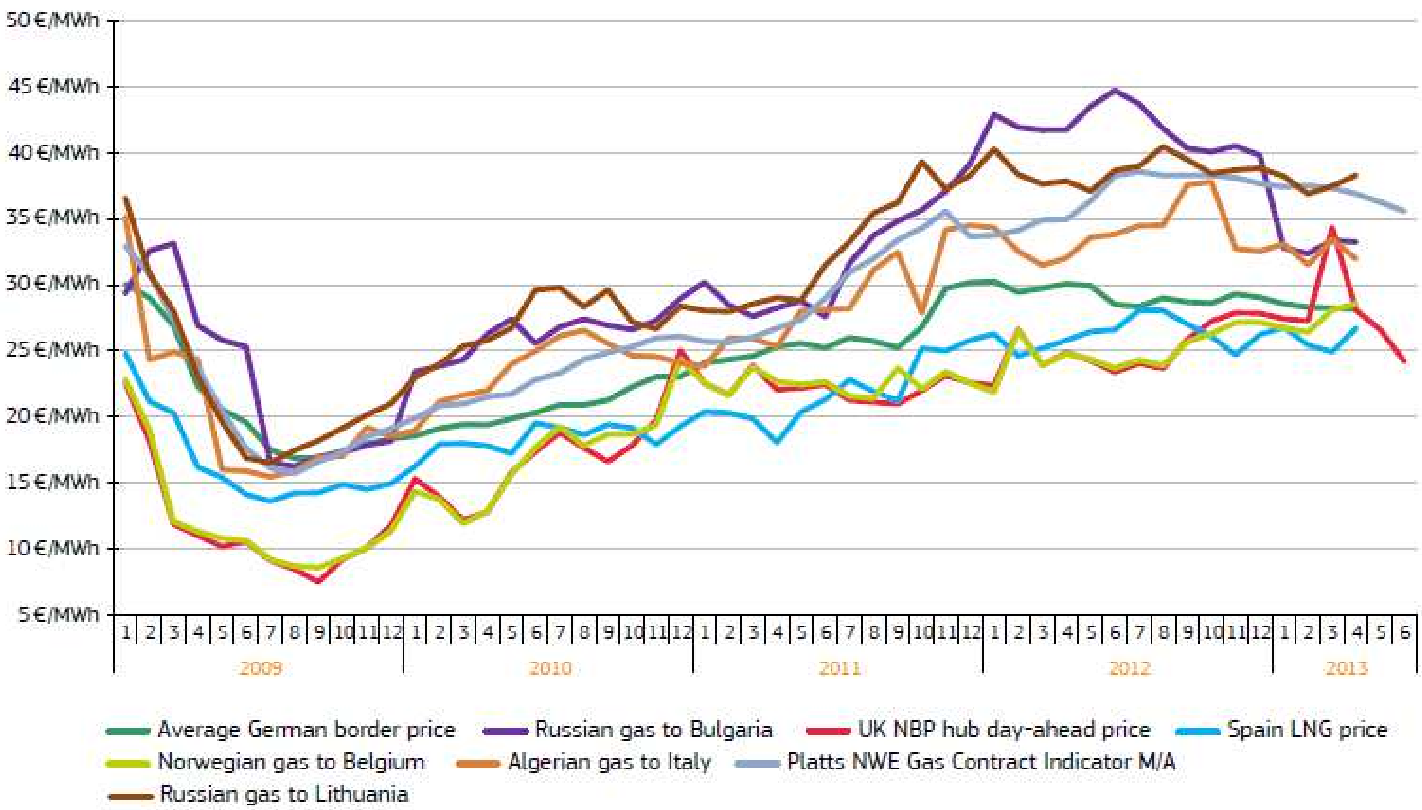
International gas prices in comparison



Quelle: International Gas Union, Wholesale Gas Price Survey – 2013 Edition, p. 20

Development of wholesale prices

FIGURE 19 – COMPARISON OF EU WHOLESALE GAS PRICE ESTIMATIONS



Source: Eurostat COMEXT, European Commission estimations.

Note : Border prices are estimations of prices of piped gas imports paid at the border, based on information collected by customs agencies, and is deemed to be representative of long-term oil-indexed gas contracts.

Long-term contracts with oil price indexsation are significantly more expensive compared to hub prices

Quelle: EU-Kommission, Market observatory & Statistics, Quarterly Report on European Gas Markets, Q1 2013

Relevance of oil price indexation in supply contracts

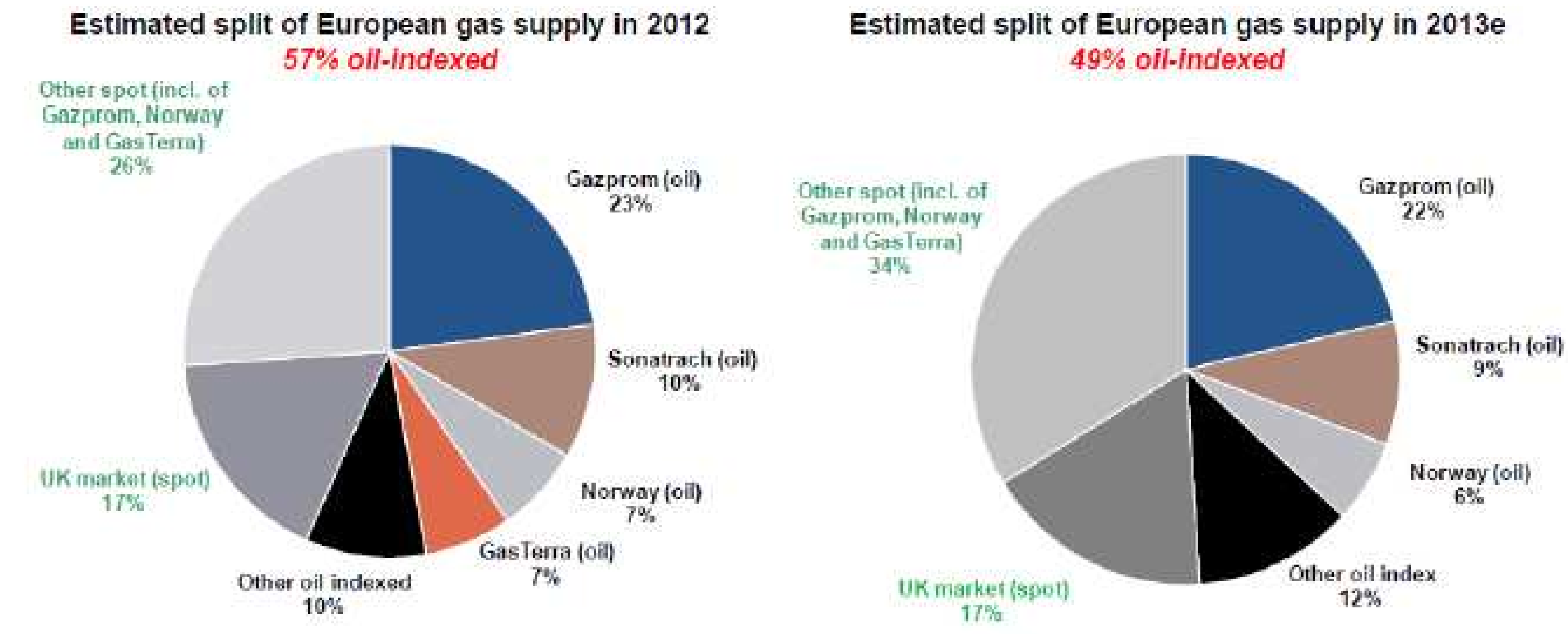
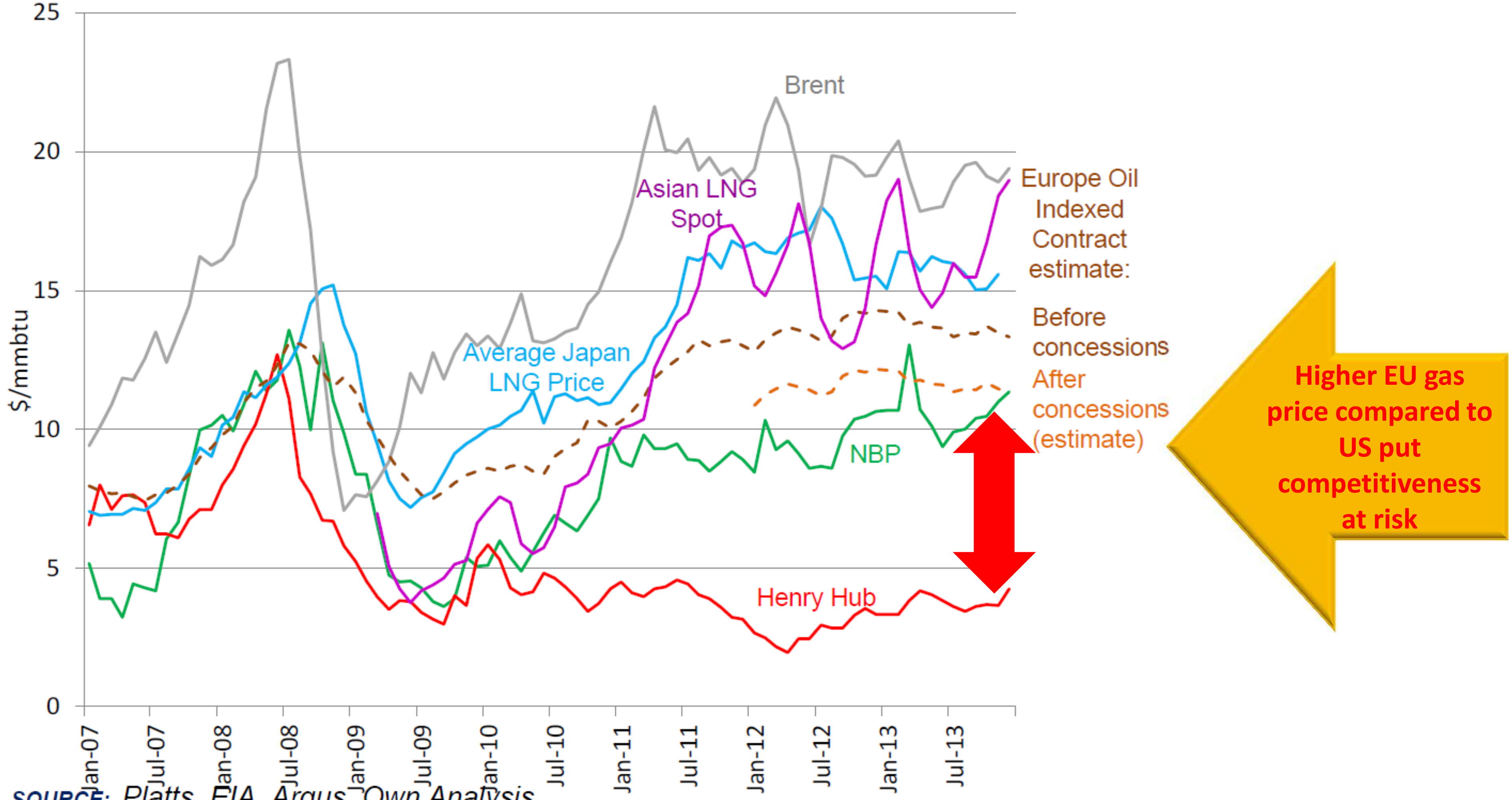


Figure 4: Pricing of European gas supplies

Source: Bros, Flame 2013

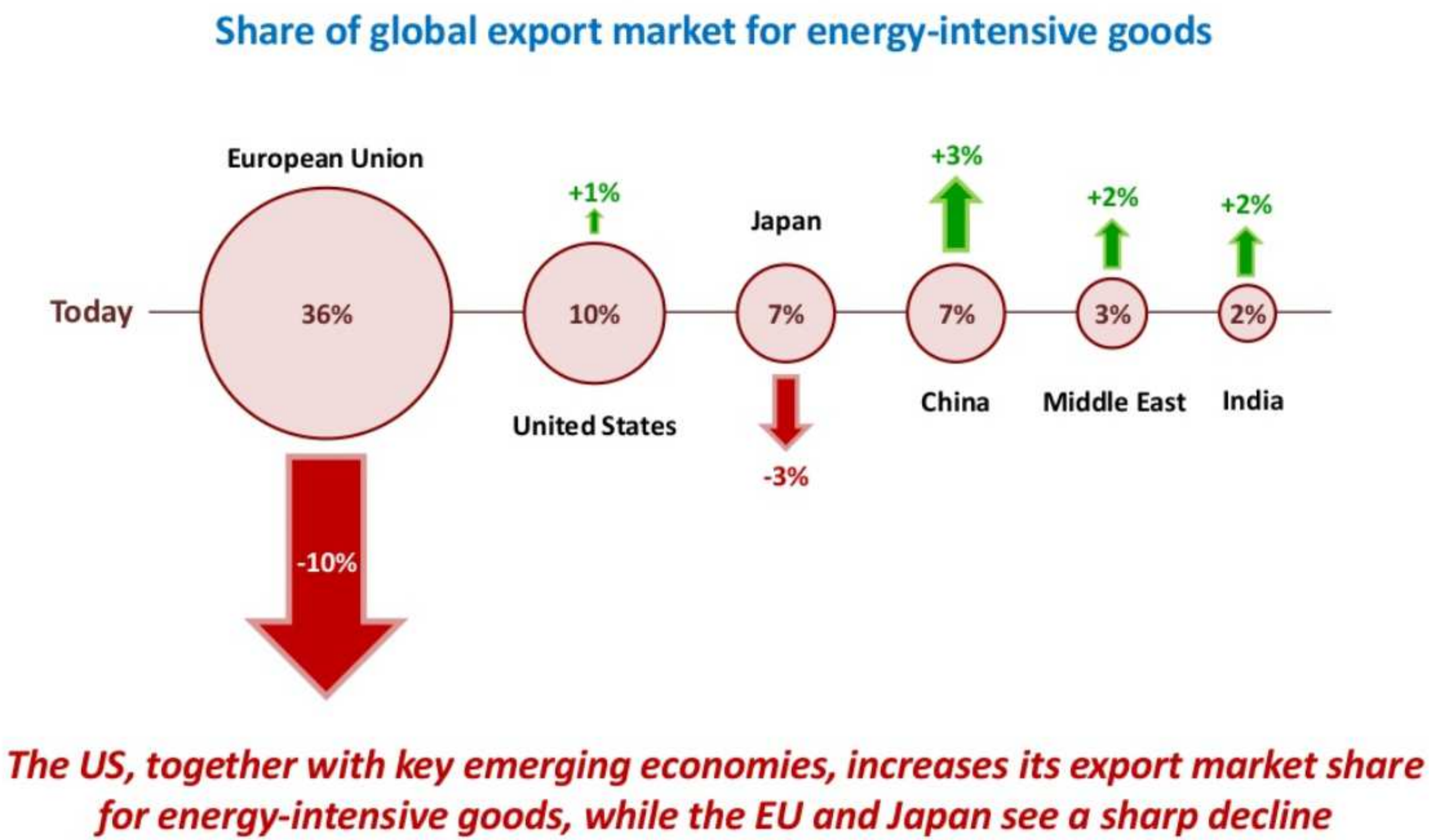
Quelle: KEMA, Study on LT-ST Markets in Gas, Final Report for the EU-Commission, August 31, 2013, S. 25

Development of international gas prices



SOURCE: *Platts, EIA, Argus, Own Analysis*

Impact of high energy prices



Quelle: IEA, World Energy Outlook 2013

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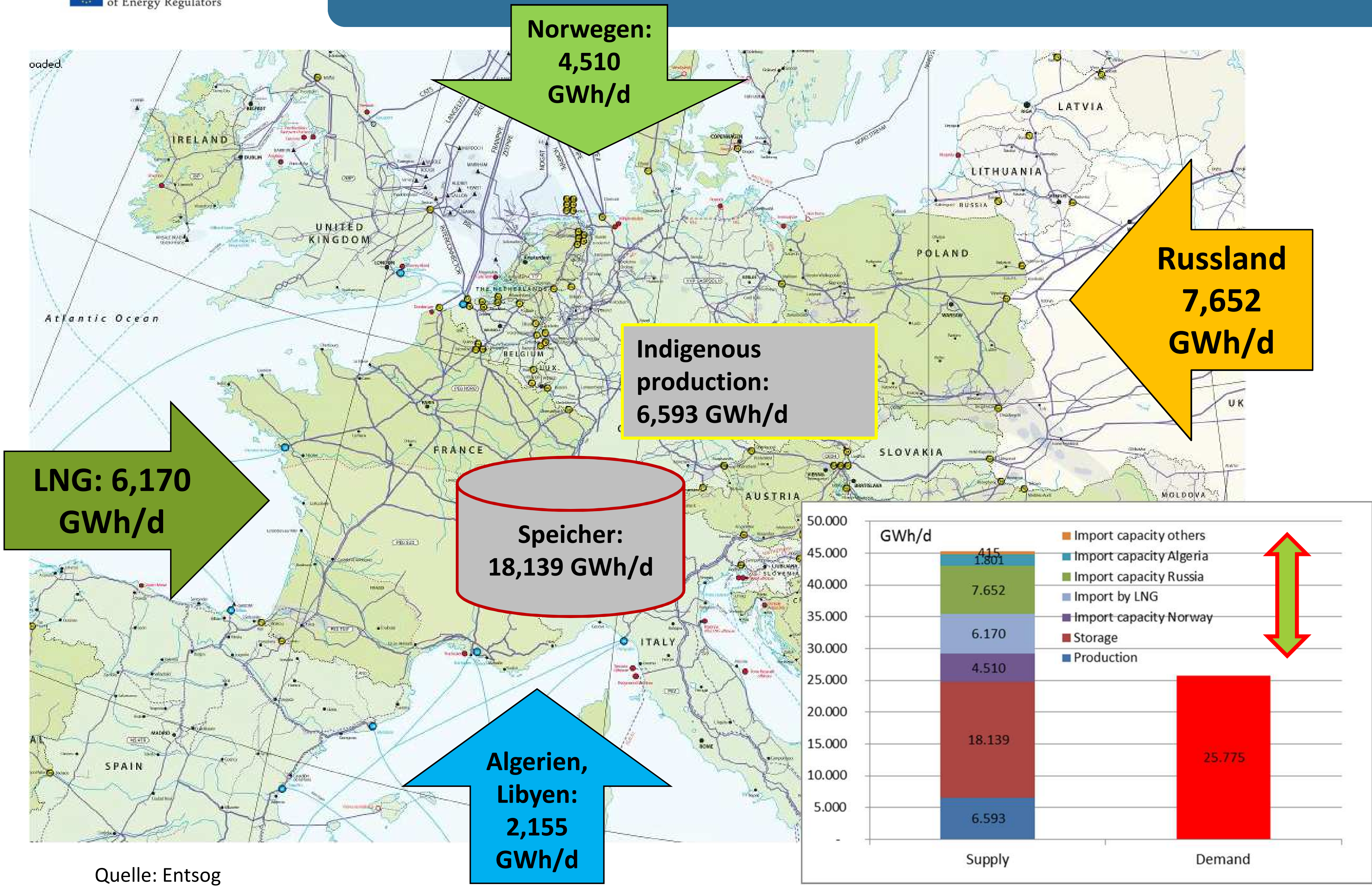
Sufficient import capacity…

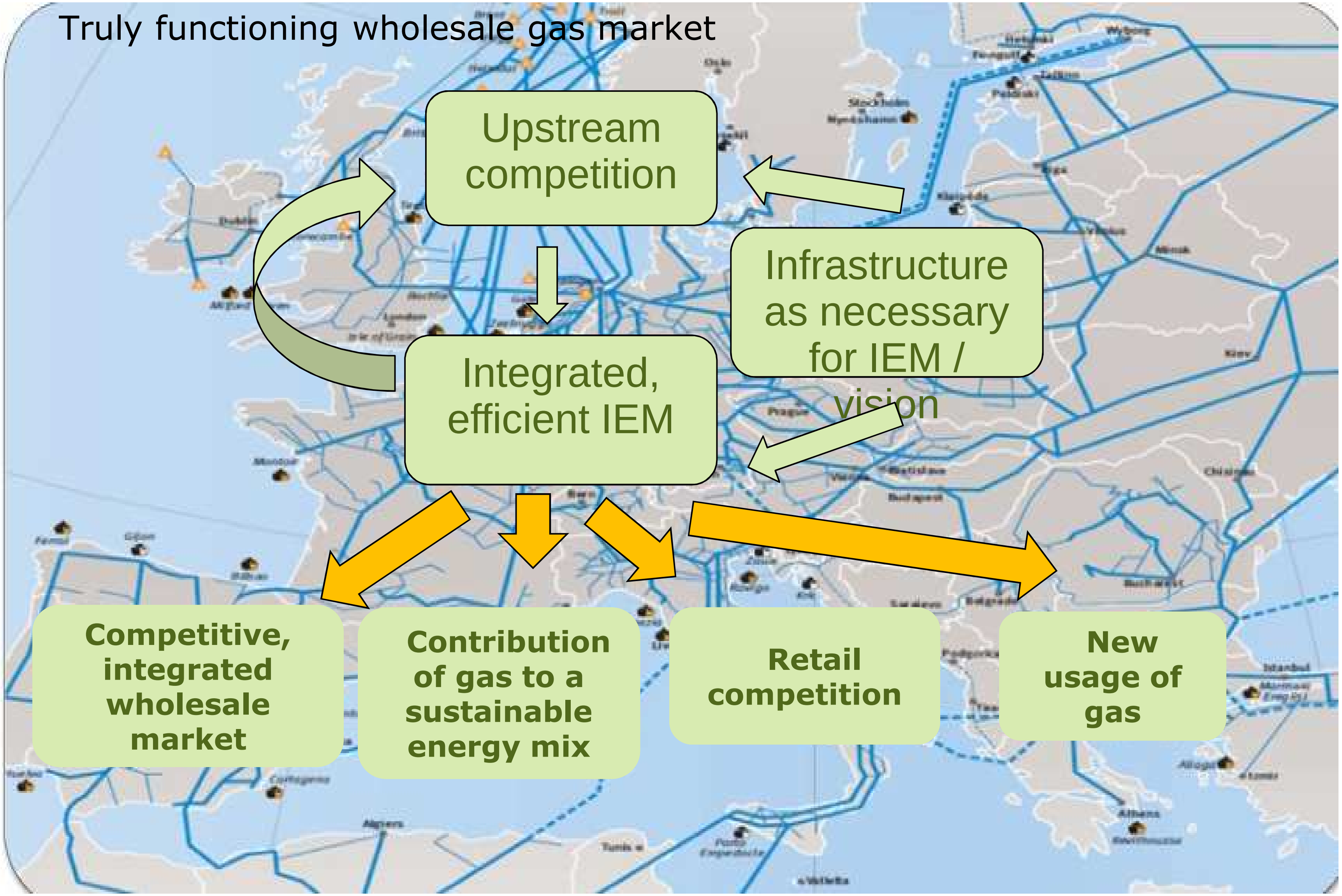


Quelle: Entsog

… need to enhance optionality?

Challanges for the future gas market(s)

Truly functioning wholesale gas market



Ongoing work

Ongoing detailed analysis of specific areas to underpin GTM update

Wholesale market functioning	GTM1 criteria analysis	• Market zone size > 20 bcm; churn rate > 8; Number of supply source ≥ 3; HHI < 2,000; RSI > 110% (detailed analysis for BG, FR, HU, PL, ES)
	Barriers to entry	• Functioning forward gas markets (which markets provide sufficient liquidity?) • Market entrance barriers for new participants to EU gas markets.
	Hub functioning	• Do the differences between European hubs create barriers to trade? E.g. organisational aspects, offered products, fees, legal status, etc.
	Congestion post CMP	• What problems might remain?
Sustainability		• Situation of gas fired power plants; interviews with a number of operators in selected MS (IT, ES, DE, CZ, AT).
Retail market competition		• Focus on gas specific issues; taking into account the outcome of the ACER/CEER MMR 2012

AGENDA

2nd ACER workshop on
Gas Target Model review and update

Ljubljana, Trg republike 3, 1000 Ljubljana, Slovenia

Wednesday, 19 March 2014, 09:30-16:00

Draft Agenda

09:00 – 09:30	**Registration and coffee**	
09:30 – 09:45	**1. Introduction**	
	Opening remarks and workshop organisation IEM in gas – regulators' strategic work	Mr Walter Boltz, Chair of ACER Gas Working Group
09:45 – 10:30	**2. Competitive and integrated wholesale markets I**	
	Wholesale market functioning State of play (GTM1 criteria) Q&A, discussion	Speaker: Stefan Lochner, Frontier economics
10:30 – 11:00	**Coffee break**	
11:00 – 12:00	**3. Competitive and integrated wholesale markets II**	
	Forward markets and hub trading How liquid are forward markets? Functioning of gas hubs Q&A, discussion	Speakers: Dr. Albrecht Wagner, Wagner, Elbling & Company CANCELLED (Aygul Avtakhova, EFET)
12:00 – 13:00	**4. Competitive and integrated wholesale markets III**	
	Congestion management ACER congestion monitoring CMP implementation Q&A, discussion	Speakers: Thomas Hölzer, ACER gas department Kristóf Kovács, European Commission
13:00 – 14:00	**Lunch**	
14:00 – 15:00	**5. Contribution to sustainability**	
	Gas fired power generation New challenges and obstacles Gas fired power plant operator's view Q&A, discussion	Speakers: Wynne Jones, Frontier economics Elisa Rondella, Edison spa, Regulatory Affairs Manager
15:00 – 15:45	**6. Retail market competition in gas**	
	State of play of retail competition in gas ACER / CEER market monitoring Gas consumer's view Q&A, discussion	Speakers: Antonio Santos, ACER Market Monitoring Dep. Dr. Philip Lewis, CEO, VaasaETT
15:45 – 16:00	**7. Conclusions and closing of the workshop**	
	Concluding remarks	Dennis Hesseling, Head of ACER Gas Department

Discussion questions

1. Besides the GTM 1 criteria, which other criteria are relevant in your view for the assessment of the functioning of wholesale gas markets?

2. What criteria are relevant and should be taken into account when assessing whether a market merger should be envisaged?

3. It is conceivable that a market with significantly less than 20 BCM total gas demand within the entry-exit zone would develop a liquidity to provide confidence for the market?

Discussion questions

4. Can the business requirements of gas market participants be adequately fulfilled by having only a few (e.g. NBP and TTF) functioning gas forward markets in Europe (next to functioning spot markets in every market)?

5. Is the diversity in the set-up of European gas hubs a barrier to trade? Which elements should be harmonised (e.g. products, type of regulatory oversight, etc.)?

Discussion questions

6. Do you think that the competitive situation of gas-fired power plants in comparison to coal will change in the coming years? Why?

7. What do you consider as the main difficulties / barriers for gas-fired power plants to fulfill their role as back up to intermittent renewables electricity generation?

8. Does a lack of coordination between (intraday) gas and electricity markets expose gas-fired generators to significant imbalance risks? How should coordination of gas and electricity markets (intraday) balancing markets be improved?

Discussion questions

9. What could be specifically done to improve retail market competition for gas besides addressing issues relating to end user price regulation and consumer switching behavior?
Should this be done at EU or national level?

General questions

10. What other issues should be considered in the process of updating the GTM?

11. Which regulatory actions are needed to ensure a well-functioning gas market, which should have the highest priority?

12. We witness uneven progress in the implementation of 3rd Package provisions and early Network Code implementation between EU Member States. In your opinion, what could be done to narrow the gap?