ACER
Agency for the Cooperation
of Energy Regulators

3rd ACER Gas Target Model Workshop

3rd ACER GTM workshop, Brussels, 15 May 2014

5. Market integration

Market integration tools

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Market integration

2 **Assessing status quo**

1 **Objectives**

Not feasible for hub to meet objectives by itself

3a **Market integration**

Available approaches:
1) **Full merger** with neighbouring markets (wholesale and retail)
2) **Partial merger (trading region)** with neighbouring wholesale markets
3) **Satellite market:** Substantially "attach" (pipeline capacity) to neighbouring functioning spot + forward traded market so that neighbouring hub can be co-used
4) Other?

Interconnection capacity as far as is efficiently required to jointly reach objectives

Market area model:
- Entry/exit zones that comprise a number of transmission and distribution systems in a single balancing zone

Trading region model:
- Entry/exit zones that comprise a number of transmissions systems in a single balancing zone which in turn is closely linked to one or several end user zones with their own balancing systems

Satellite market:
- Entry/exit zone (without functioning wholesale market) is substantially "attached" (pipeline capacity) to neighbouring entry-exit zone (which functioning spot + forward traded market) so that neighbouring hub can be co-used

Evaluating market integration options
For non-functioning markets which are further away from a functioning market and several entry-exit zone borders would have to be crossed by market players to engage in forward trading and hedging, market mergers should be the preferred option.

Cost-benefit analysis should contain at least the following elements:

- Costs
  - » Cost for additional infrastructure
  - » Additional administrative cost
- Benefits
  - » Integration benefits (i.e. creation of a single demand and supply curve),
  - » Competition benefits (i.e. more efficient gas prices)
  - » Trading benefits (e.g. lower bid/ask spreads, less cost for risk management for market players, less transaction cost)