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Key elements of the 2025 vision on Gas

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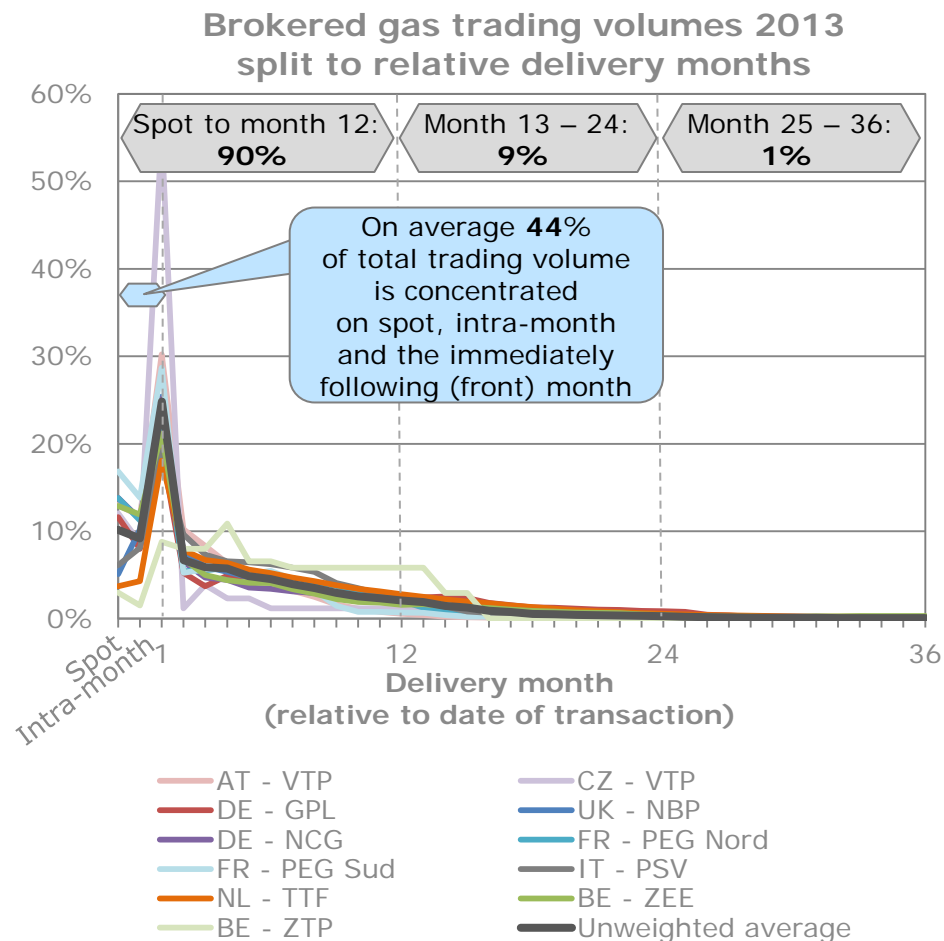
Launch event – Green Paper
“Energy Regulation: A Bridge to 2025”
Brussels, 29 April 2014

Two gas chapters describe

- Outline of impacts on the gas sector:
 - On gas demand and supply
 - On how the gas market serves the electricity market
- Impacts on the regulatory framework:
 - A flexible framework for a liquid pan-European gas market
 - Uncertain gas supply and demand – import dependency and security of supply aspects
 - Achieving liquid gas markets
 - Enabling more flexible electricity generation through gas

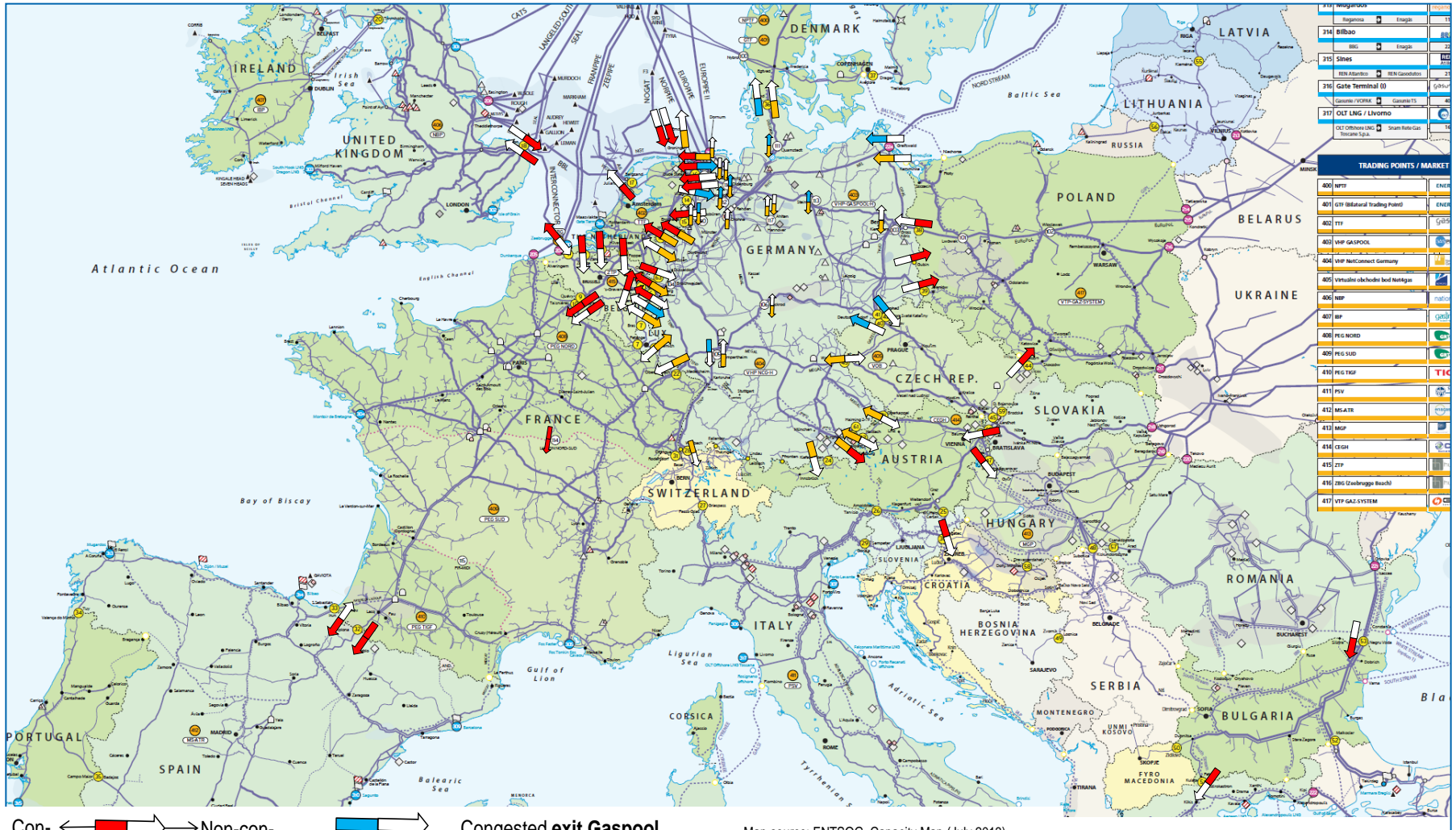
Quantitative analysis on the functioning of European gas wholesale markets in 2013

- Question: Did European brokered gas markets meet stakeholder requirements in 2013?
- Stakeholder requirements*:
 - Relevance of price discovery: ≥ 15 transactions per product/hub/day continuously for 36 months into the future
 - Availability of gas: ≥ 120 MW of gas offered continuously for 36 months into the future
- Lessons learned:
 - Gas trading is generally heavily concentrated on the short term
 - Stakeholder requirements were not met by any European hub in 2013
 - TTF and NBP score far better than all other hubs (but still fall short of stakeholders' requirements)



* Stakeholder requirements according to ACER questionnaire distributed to gas suppliers, traders, large end users etc. in February/March 2014

State of play - Contractual congestion according to CMP 2.2.3 (1) (TSOs answers + ENTSOG TP)



Map source: ENTSOG Capacity Map (July 2013)
<http://www.entsog.eu/maps/transmission-capacity-map>

Source: ACER congestion report 2014

A flexible framework for a liquid pan-European gas market

- Immediate priority: 3rd Package + NC implementation
- Continued development of deep and liquid wholesale gas markets and improved competition

Enhancing wholesale market functioning

Objectives

Every European final customer has the right to benefit from a functioning market (based on 3rd Package provision)

Criteria to assess status quo

- GTM1 criteria
- + GTM2 criteria (wholesale market functioning, hub functioning and design, possible additional criteria under development)

Evaluation

Not feasible for hub to meet objective by itself

Feasible for hub to meet objective by itself

Market integration: tools to deepen liquidity

- Full merger
- Market coupling
- Trading region
- Etc.

Market enhancement: Improving hub design and governance

- Products
- Legal status and oversight, etc.

Achieving liquid gas markets

- 3rd Energy Package: each consumer has the right to benefit from the IEM
- In some markets – beyond NC implementation – this could be reached by closely **integrating markets**

→ Work in the GTM update to examine possible tools of market integration; the form such market integration might take (trading region, zone merger, market coupling, etc.) will be considered further, on a case-by-case basis

- Measures to ensure that all market participants can access liquidity sufficiently far ahead of delivery and can properly manage risk exposure at a fair price

→ Ensure sufficient liquidity also in the forward timeframe

→ Current work on the review of the GTM will help ensure that developments are well focused, and that further necessary steps are identified and taken to create functioning wholesale markets

- Uncertainties on both demand and supply side
- In general increasing share of imported gas to Europe + in particular current Ukraine crisis
 - reinforces concerns about **dependence** on a limited number of **import** sources
 - highlights the need for a more flexible supply and transport infrastructure

- Change of perspective → stronger focus on security of supply
- Need to check priorities, e.g. **reverse flows**: ca. 25 exemptions in the EU → reconsider in the light of the crisis
- Diversity of supply sources as an objective (RSI)

- Significant consequences of uncertainties on both demand and supply side require **flexible regulatory framework**
 - Greater reliance on imports
 - Negative effects on EU **competitiveness** at the global scale
 - New investments to ensure new sources to Europe and to move gas efficiently across the Union
 - Balance between enhancing necessary investment vs. stranded assets
 - In some MS declining demand led to increased grid charges for remaining grid users (possible negative spiral)– challenge for regulators to reduce negative effects as far as possible
 - Flexible approach needed due to current uneven implementation of relevant EU legislation, divergent levels of gas market development across the EU

→ Work in the GTM-update to explore the development of a more flexible regulatory framework

Supporting a growing share for RES in the electricity generation mix through gas fired generation

- Enable gas-fired power generators to provide flexibility;
- Potentials to integrate / harmonize gas and electricity market regimes;
- E.g. electricity TSOs could provide gas TSOs with more granular information to allow a more precise within-day forecast of the off-takes from gas power plants
- Reinforcement in some gas networks to permit fast response required by flexible electricity generation (incl. improved access to storage and linepack)

→ Regulators will examine

- whether further changes and coordination measures are required to ensure compatibility between gas market arrangements and the needs of the electricity market.
- How to incentivise TSOs to maximise the amount of system flexibility to market participants
- Allocation of costs

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**Thank you for
your attention !**