

ACER launches updated Gas Target Model

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ACER published today its updated Gas Target Model, presenting its vision for a competitive and secure European gas market that benefits all consumers. The Gas Target Model follows up on the 'Bridge to 2025' Conclusions Paper presented by ACER and CEER in September 2014.

Why an updated Gas Target Model

The core principles that underpin our vision for a competitive and secure European gas market that benefits all consumers remain the same today as when the Gas Target Model (GTM) was first developed in 2011. However, over the past year, the European gas market and the uncertainties and challenges it faces have changed fundamentally, requiring a new mind set in order to adopt the correct regulatory approach when looking forward to the next decade. Functioning European gas markets which meet the needs of EU gas consumers are the exception rather than the rule in 2014, when the internal energy market was due to be completed. Security of gas supplies is again the focus for policymakers across the EU and the costs of dependence on a single supplier have again been made clear.

The Network Codes will bring Europe closer to our vision of a competitive European gas market. Implementing them in full and on schedule is the right priority and the focus for regulators today. However, the Network Codes alone are unlikely to deliver a well-functioning, transparent gas wholesale market that benefits consumers across Europe. Consequently, our updated GTM not only guides the coherent development and implementation of the Network Codes, but also specifies the steps required to realise liquid and dynamic gas markets enabling all European consumers to benefit from secure gas supplies and effective competition.

Our **updated Gas Target Model** covers the following aspects:

Competitive markets ensure Security of Supply

Security of Supply and competition work in concert: the more diverse upstream supply is in Europe, the less we will depend on one source of supply that may be subject to physical restrictions or political interference. The GTM strongly affirms that well-functioning gas markets remain essential providers of supply security. Building on the original GTM, we recommend further enhancements of market-based measures, in order to strengthen incentives for market participants to deliver supply security. In addition, we make proposals regarding gas storage and infrastructure investments for large, complex projects.

Wholesale market functioning

Facilitating the emergence of a well-functioning and transparent wholesale market requires a liquid spot market and, crucially, a liquid forward market, so that cost-effective wholesale market risk management is possible. However, we have found that forward trading is highly limited across the EU. Interconnections also have a key role to play. The current Network Codes and Guidelines represent a fundamental step forward, but are not sufficient in many cases. The updated GTM therefore envisages an assessment of the functioning of wholesale markets at national level, developing a revised series of criteria to assess whether a wholesale market is 'well-functioning'.

The self-evaluation process

All National Regulatory Authorities are invited to assess whether their markets are likely to meet these revised GTM criteria by 2017 in order to determine whether their market will be well functioning. If it will not, the GTM strongly suggests considering structural market reforms. Any reforms undertaken by Member States should be based on an appropriate cost-benefit analysis to ensure their economic viability.

The role of gas in complementing renewable energy source generation

More should be done to ensure that regulatory arrangements allow for more efficient use of gas-fired power plants. Significant gas-fired generating capacity is likely to be needed to provide flexible back up to renewable energy sources (RES). To optimise the electricity and gas sectors working together, we propose that gas and electricity Transmission System Operators should be obliged to cooperate more closely with one another.

New developments in the gas supply chain

New developments in the use of gas include the intensification of liquefied (LNG) and compressed natural gas (CNG) use in the transportation sector, small-scale applications of LNG and CNG, and pioneering technologies that facilitate the storage of electricity in the form of hydrogen or synthetic gas ("power to gas"). It is important that regulators facilitate the emergence of these new uses of gas through appropriate interventions.

Background

The Gas Target Model update renews the original Gas Target Model developed by CEER in 2011. The core principles that underpin our vision for European gas markets remain the same. This vision is of a competitive European gas market, comprising entry-exit zones with liquid virtual trading points, where market integration is served by appropriate levels of infrastructure, which is utilised efficiently and enables gas to move freely between market areas to the locations where it is most highly valued by gas market participants.

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