

TOWARDS A TARGET MODEL FOR THE EUROPEAN NATURAL GAS MARKET

The Academic View

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ERGEG Workshop

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Gas Market*

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THE EUROPEAN GAS TARGET MODEL

- ◆ A research project developed by
 - Florence School of Regulation
 - Clingendael International Energy Programme
 - Wagner, Elbling & Co.

- ◆ with support from:
 - *E-Control, Gmbh.*
 - *Bundesnetzagentur*
 - *Net4Gas,...*

WORKING METHOD (1)

Top-down approach: models first, then areas of integration

- **Capacity Allocation, Congestion Management, Balancing, Tariffs, Interoperability, Operational Procedures, Market transparency, Investment, Cross Border Services**

The European regulatory process usually follows a bottom up approach:

- **analyse each area in turn, then assess their interaction and interdependence (Madrid Conclusions)**
- **more suitable for political compromise**
- **lack of vision → higher risk of mismatching between regulation areas**

WORKING METHOD (2)

The projects adopts a Top-down approach:

- **providing a vision**
- **outlining its main consequences for integration areas**
- **exploring links and relationships between the areas**
- **considering principles of target model where already outlined by ERGEG Framework Guidelines (CA/CM, balancing)**
- **learning from other experiences (US gas market, electricity target model)**

A sample of system operators and other stakeholders act as discussants and may advance proposals

POLITICAL GOALS

to establish an internal market in natural gas
to deliver more cross border trade,
to ultimately achieve efficiency gains,
competitive prices
to contribute to security of supply and sustainability
eliminating restrictions on trade,
fostering market-integration
reaching an appropriate level of cross-border gas
interconnections capacity

POLITICAL GOALS: COMMENTS

***Not a single gas price, but
gas can effectively cross borders
technical, regulatory and financial conditions
CM, balancing affected***

LEGAL CONSTRAINTS

Entry-exit systems required

Cost-reflective tariffs providing incentives to invest or value-reflective auctions

Endeavour to harmonize balancing regimes, streamline structure & level of balancing charges

Promote coordinated allocation of cross border capacity

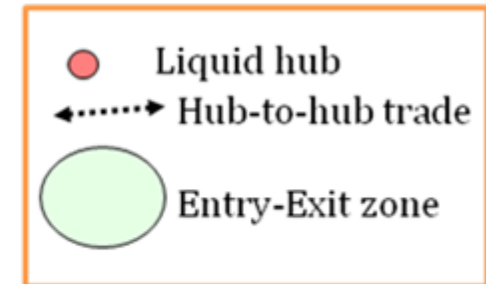
Mandatory market based CA/CM

Implicit auctioning explicitly allowed for short term allocation

GENERAL MODEL: ERGEG VIEW

“a set of entry/exit market zones with their own virtual hubs connected through a limited number of bundled capacity products identical all over the EU and allocated via auctions”

GENERAL MODEL: ERGEG VIEW



* Indicative map

AVAILABLE MODELS

American model at odds with some legal constraints and with European institutional structure

- no interstate pipelines in EU

CBT model:

- strengthened, streamlined CA/CM/trading arrangements
- separate places of price formation
- separate balancing accounts

Model requirements:

- compatible with regulated tariffs, explicit auctions
- ITC required but easier in principle than for power due to higher flow predictability

AVAILABLE MODELS (2)

CBB: same as before, but CB imbalances offset ex-post

- likely to enhance liquidity and price alignment

Market coupling: same as above, with a market operator (arbitrageur) acting to align market within available capacity limits

Market splitting: same as market coupling, but the arbitrageur would be the common market operator as well

- basically one market, split if interconnection capacity is congested

Model requirements. as above, with ITC and higher TSO/MO collaboration, single CA/CM algorithms,

AVAILABLE MODELS (3)

LMP: same as before, with single balancing accounts, single price excepts in case on congested interconnection(s)

- price alignment is the rule

In all cases, participating markets may be regions that have decided to merge balancing accounts, MO

Issue: should(could optimal participating regions be centrally decided?

Model requirements. as above, with ITC and higher TSO/MO collaboration, single CA/CM algorithms,



THANKS FOR YOUR ATTENTION!

**COMMENTS AND PROPOSALS
WELCOME TO:**

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