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Agency for the Cooperation  
of Energy Regulators

# **Problem identification - Recent changes in the legal framework, market dynamics and system requirements**

***Walter Boltz***

ACER Board of Regulators Vice Chair

**1<sup>st</sup> ACER GTM workshop, Vienna, 8 October 2013**

- Several components of the conceptual model were already codified in the **3rd Energy Package** (e.g. entry/exit models).
  - In addition, rules are currently laid down in legislation through the development of **FGs/NCs**.
- Priority: **complete the 3<sup>rd</sup> Package implementation process + FGs/NCs**
- In addition an updated GTM
- should give an overall guidance for the drafting of further FGs/NCs, which are in turn the ideal instruments to define detailed rules on specific matters and enable the integrated market.
- should define and analyse additional areas where possible (regulatory) measures are necessary
- should identify what building blocks might be missing to reach the IEM

# Why do we need a GTM review

**3<sup>rd</sup> package is  
not the end of  
the process**

- Gas sector has also evolved and further change can be predicted
  - Declining demand in general and especially in power generation
  - Global price effects of shale gas in US (EU?)
  - Growth of LNG trade will link Europe more closely to the global market
  - New usage of gas
- Some current weaknesses justify further action beyond measures in the 3<sup>rd</sup> Package (e.g. upstream competition not as effective as it could be)

**Timescales are  
long**

- New measures take a long time to conceive, develop and translate into legislation and be implemented – cannot wait until we know complete outcome of 3<sup>rd</sup> Package

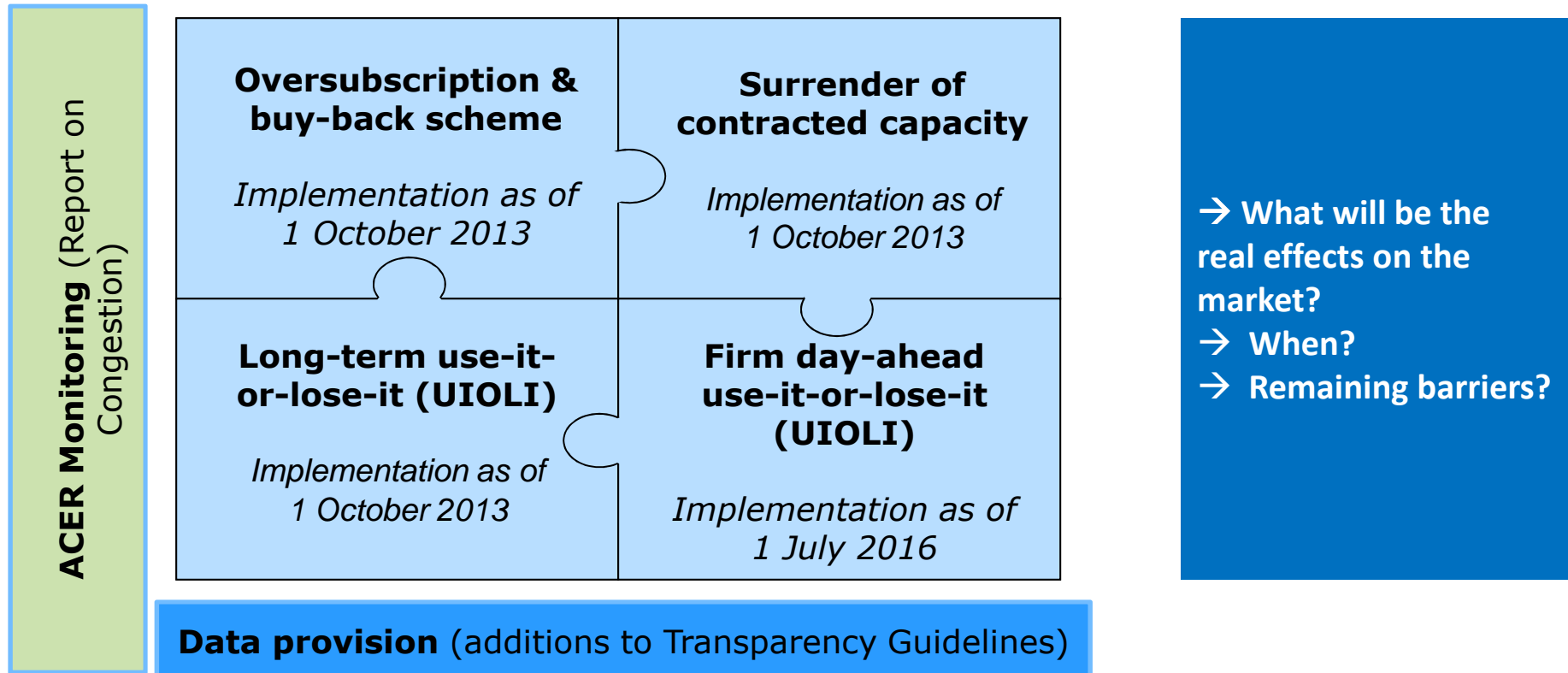
**Need for early  
start**

- We need to start work now
  - on measures that address predictable problems and weaknesses
  - on developing a concrete idea in which direction the gas market develops

# Overview of CMP obligations

Problem: at most European IPs capacities are fully booked (long-term), but the physical flows are much lower.

Objective: measures to free up unused capacities



→ What will be the real effects on the market?  
→ When?  
→ Remaining barriers?

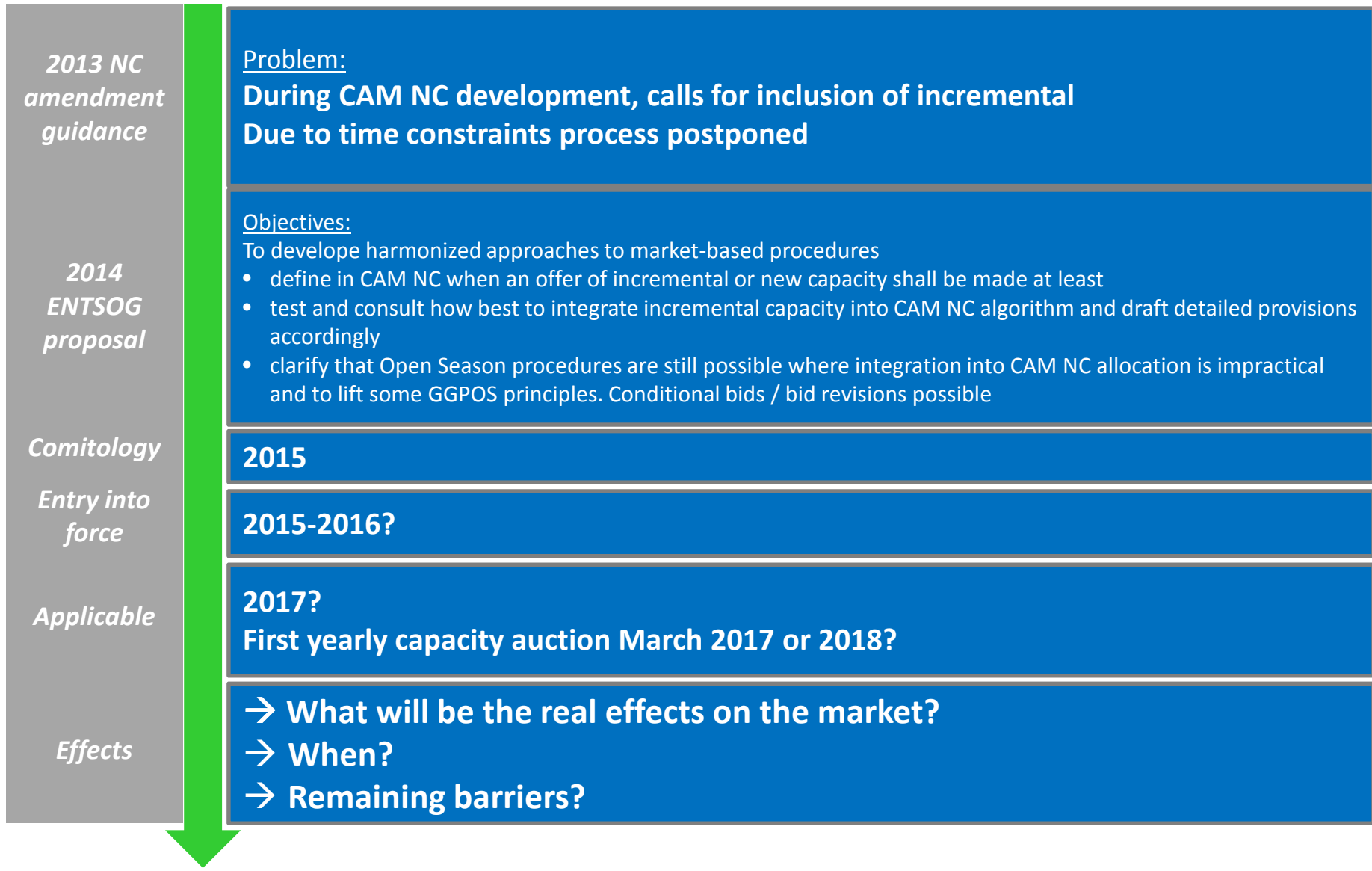
## Scope

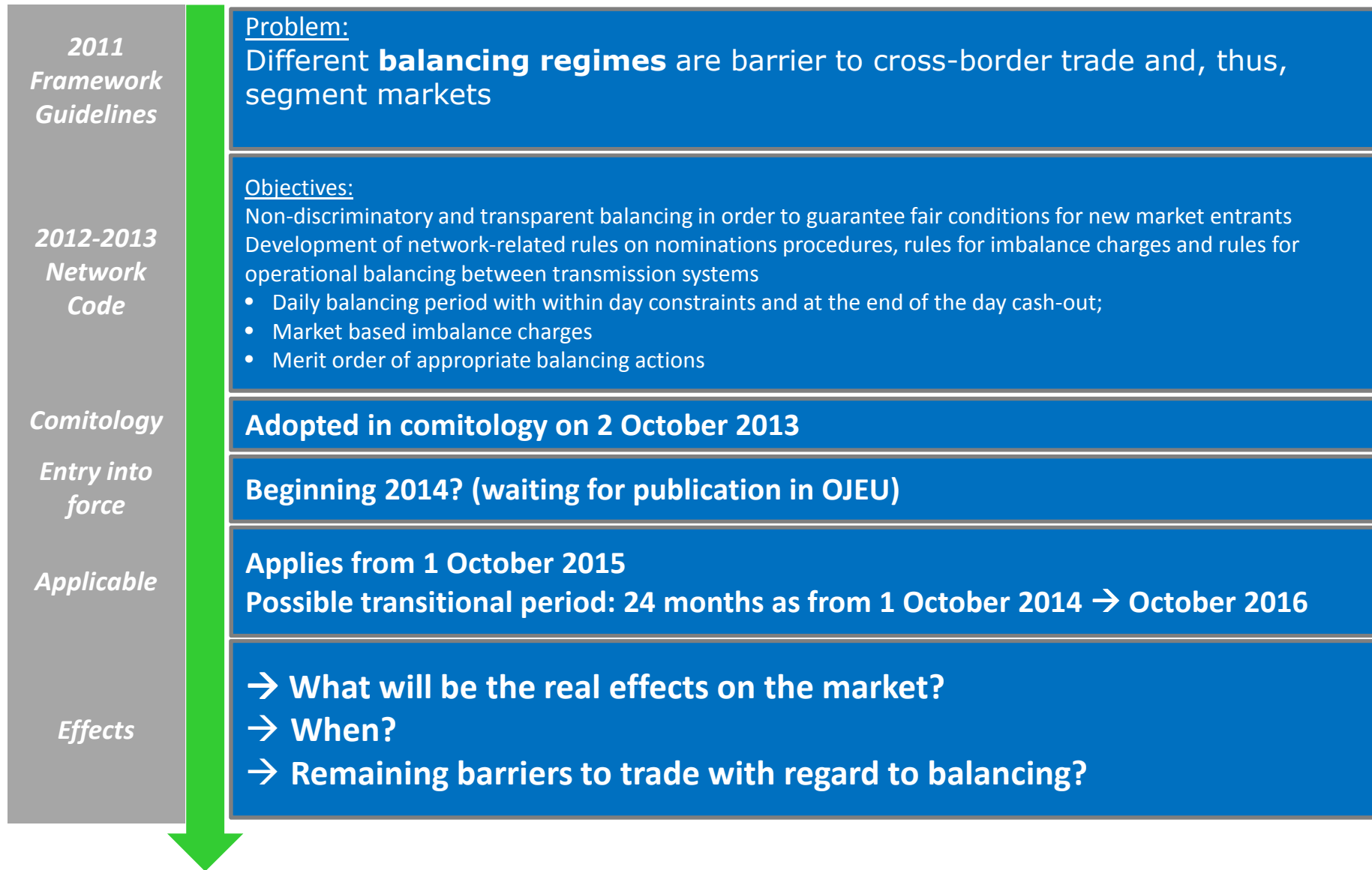
- CMP Guidelines apply at IPs between adjacent entry-exit systems
- Application to IPs with non-EU countries decided by the NRA

# Capacity allocation mechanisms

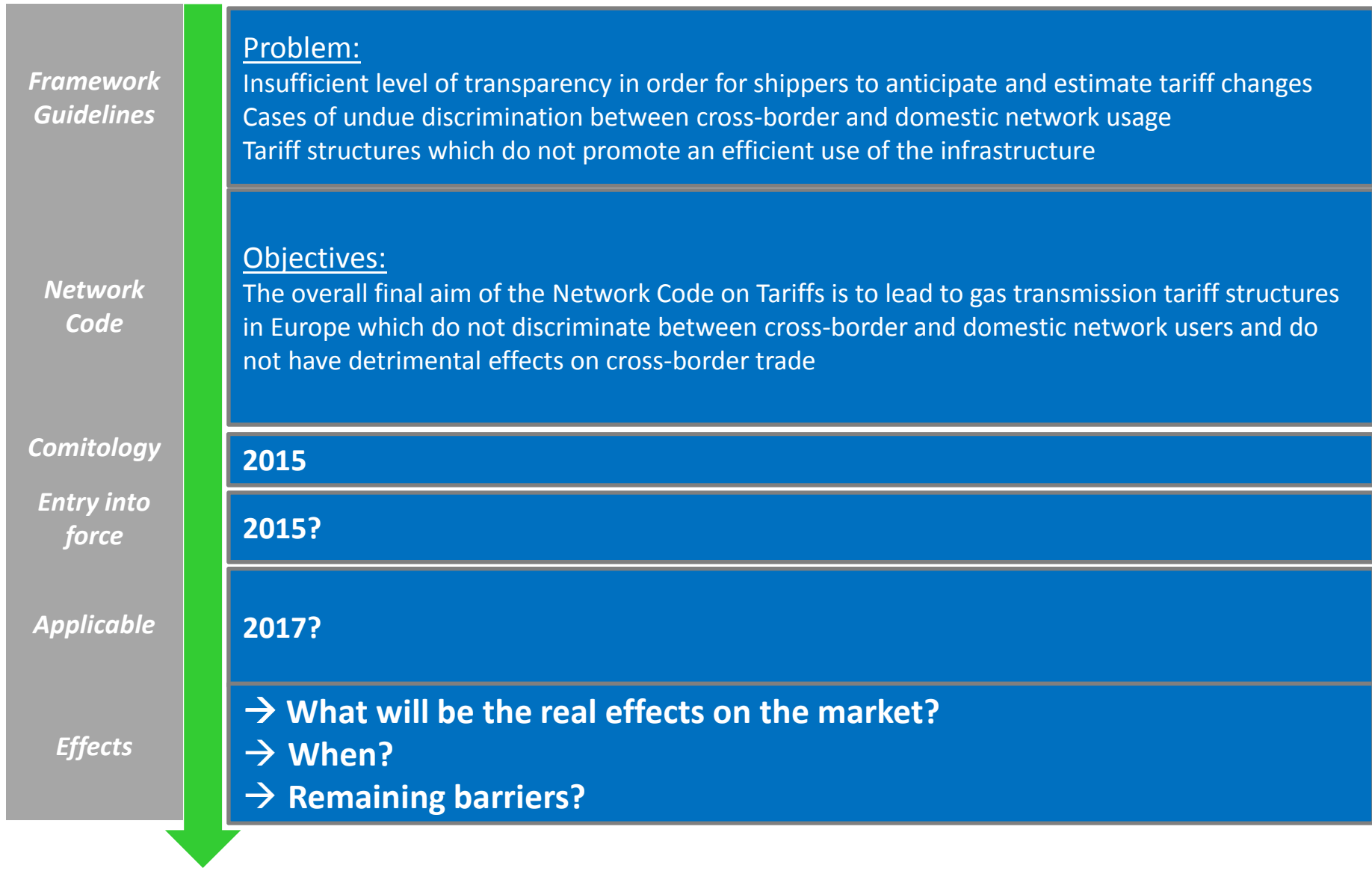
<p><i>2011 Framework Guidelines</i></p>	<p><u>Problem:</u> The <b>allocation of free capacities</b>, if available, is mostly done via First-Come-First-Served principle. Players who have an information lead get all the capacities.</p>
<p><i>2011-2011 Network Code</i></p>	<p><u>Objectives:</u> Promotion of harmonised capacity allocation mechanisms and products in order to facilitate gas transport and trading across the EU; Design of standardised auction procedures for IPs within Europe</p> <ul style="list-style-type: none"> <li>• Auctions</li> <li>• Bundled products</li> <li>• Virtual Interconnection Points</li> <li>• Capacity set-aside</li> </ul>
<p><i>Comitology</i></p>	<p><b>Adopted in comitology on 15 April 2013</b></p>
<p><i>Entry into force</i></p>	<p><b>November 2013? (waiting for publication in OJEU)</b></p>
<p><i>Applicable</i></p>	<p><b>Applies from 1 November 2015</b> <b>First yearly capacity auction March 2017</b> <b>Early implementation, e.g. PRISMA</b></p>
<p><i>Effects</i></p>	<p>→ <b>What will be the real effects on the market?</b> → <b>When?</b> → <b>Remaining barriers?</b></p>

# Incremental capacity





# Harmonised transmission tariffs





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# **Problem identification - Issues for the Gas Target Model update**

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**1<sup>st</sup> ACER GTM workshop, Vienna, 8 October 2013**

2014 deadline for the IEM completion is approaching

- need for strategy on post-2014 work and for a vision to serve as a bridge towards the future
- Overarching considerations on key factors, challenges and possible responses for the coming years to 2025, including the enhancement of the Gas Target Model

→ Following considerations are aiming at triggering discussion and do not represent an agreed ACER view at this stage.

## Strategic context

### Demand

- Industrial demand very dependent on competitive gas prices
- Use in power generation will continue but role will change and volumes will decline sharply
- Use of gas in heating likely to decline
- Potential for new demand in mobility
- Very likely gas demand will not surpass pre-crisis levels

### Supply

- Conventional EU production will decline
- Dependence on imported gas will grow
- LNG will continue to grow but fluctuate according to prices
- Uncertain potential for unconventional sources in Europe

### Sustainability

- Gas is the cleanest of the fossil fuels – should replace coal in electricity generation, industry and oil based transport fuels
- Gas will achieve this role only if the price is “right”
- Gas-fired power can complement growth of wind and solar energy – but again price is key

## Strategic context

### Gas market characteristics are changing

- Continuous growth in gas demand until 2008 → declining gas demand since then (wholesale and retail)
- Oil-price indexation → more than 50% of gas is priced according to hub prices, or other price baskets
- Long-term contracts → clear trend to more flexible and more short term oriented contracts

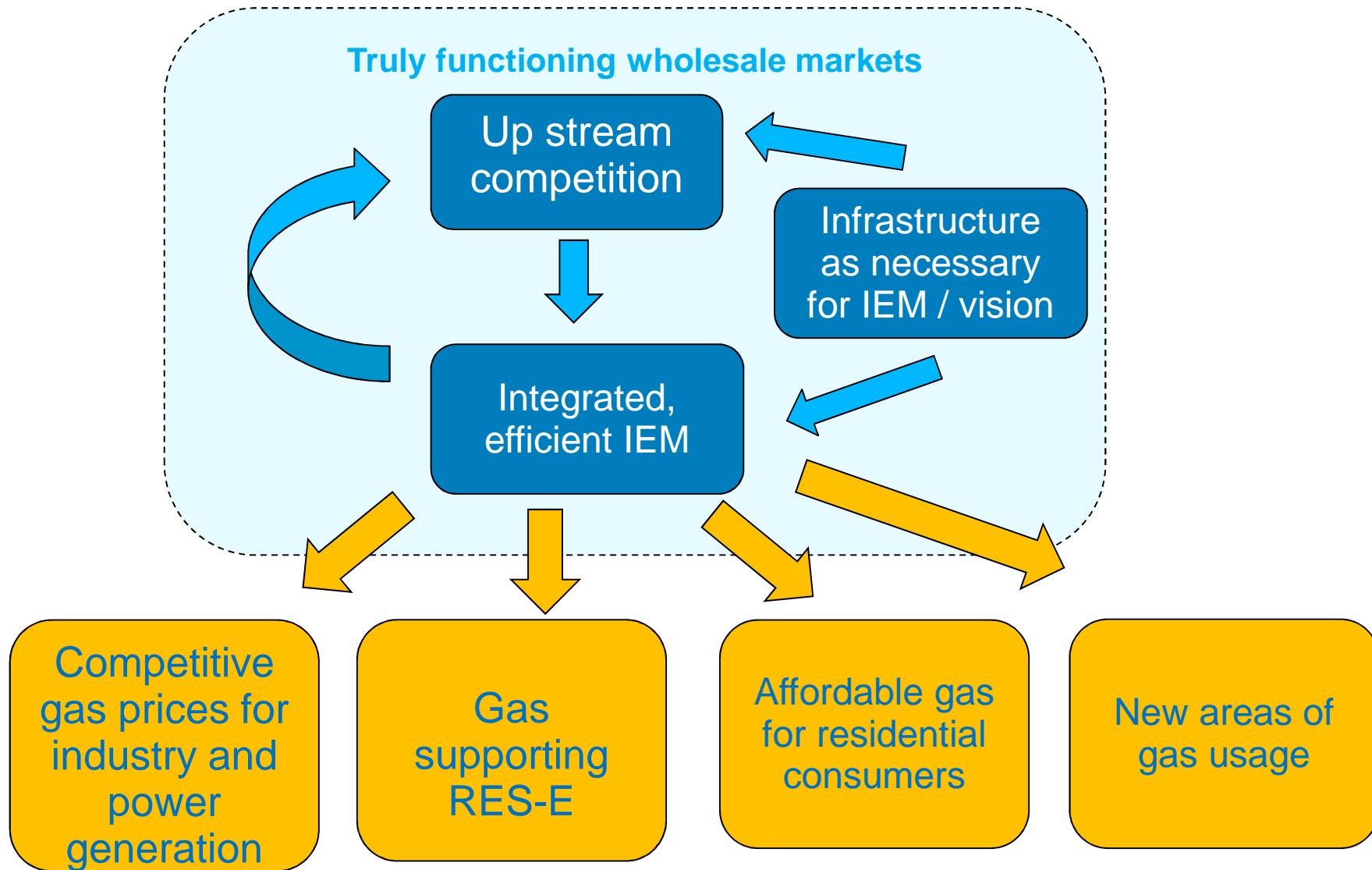
### New challenges

- Growing interrelations between electricity and gas
- Higher flexibility requirements to back-up intermittent renewable electricity generation
- Will gas be the fuel of choice for this?
- Changing role of gas storage and LNG

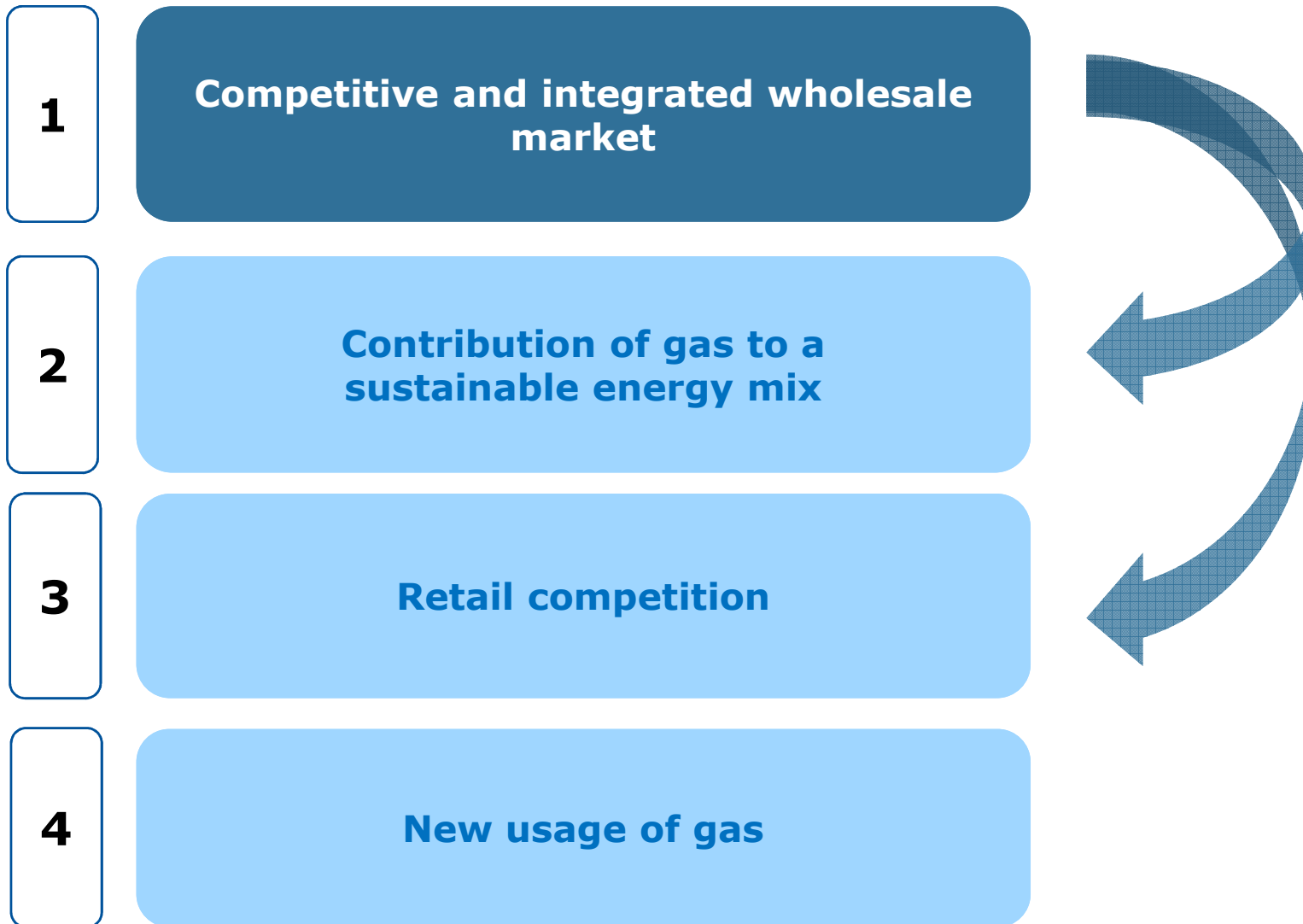
### Difficulties

- Declining gas demand
- Massive price spread between Europa and US
- Structural problem: need for gas fired power plant to back-up intermittent RES generation →← gas is priced out of electricity generation – will this change?
- Retail markets: Mixed level of competition across MS

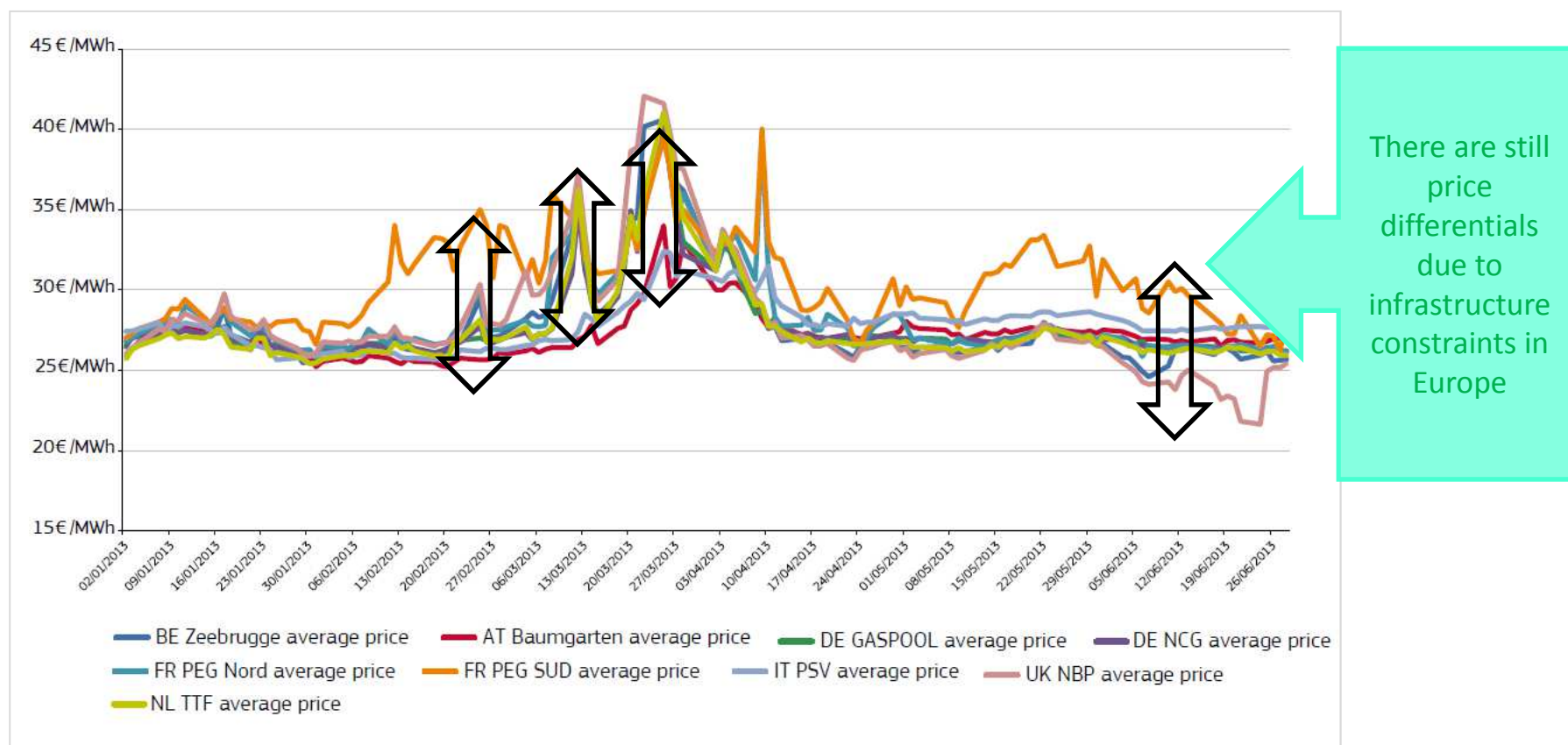
# Concept for the future of gas



# Challenges arise in four areas



## Gas prices show that we still don't have a European market, while...



Datasource: ICIS Heren

Source: Eu Commission,  
Quarterly Report on European Gas markets Q2 2013

## Evidence 2 - Criteria for competition

Measure	GTM* criteria	Status quo
Infrastructure RSI	RSI > 110% for more than 95% of the days	<i>Not yet assessed ?</i>
Size of Entry-Exit zones	≥ 20 BCM (215 TWh)	Only 6 national markets ≥ 20 bcm demand
Pluralism of sources of supply	≥ 3 significant sources	Importing entities < 3 in Baltic States, FI and SE
Market concentration	HHI < 2000	Problematic in most markets (except for UK and DE)
Liquidity of the market	Churn rates > 8	Only TTF and NBP achieve churn > 8 (ZEE close to 8)

**.....GTM criteria generally not yet met**

\*According to CEER (2011): Vision for a European gas target model.



# Possible areas for action

## Increasing diversity of gas sources

- Historically gas sources have been limited
- Need to encourage new sources
  - LNG, biogas, shale gas, pipelines from new areas

## Creating alternative infrastructure

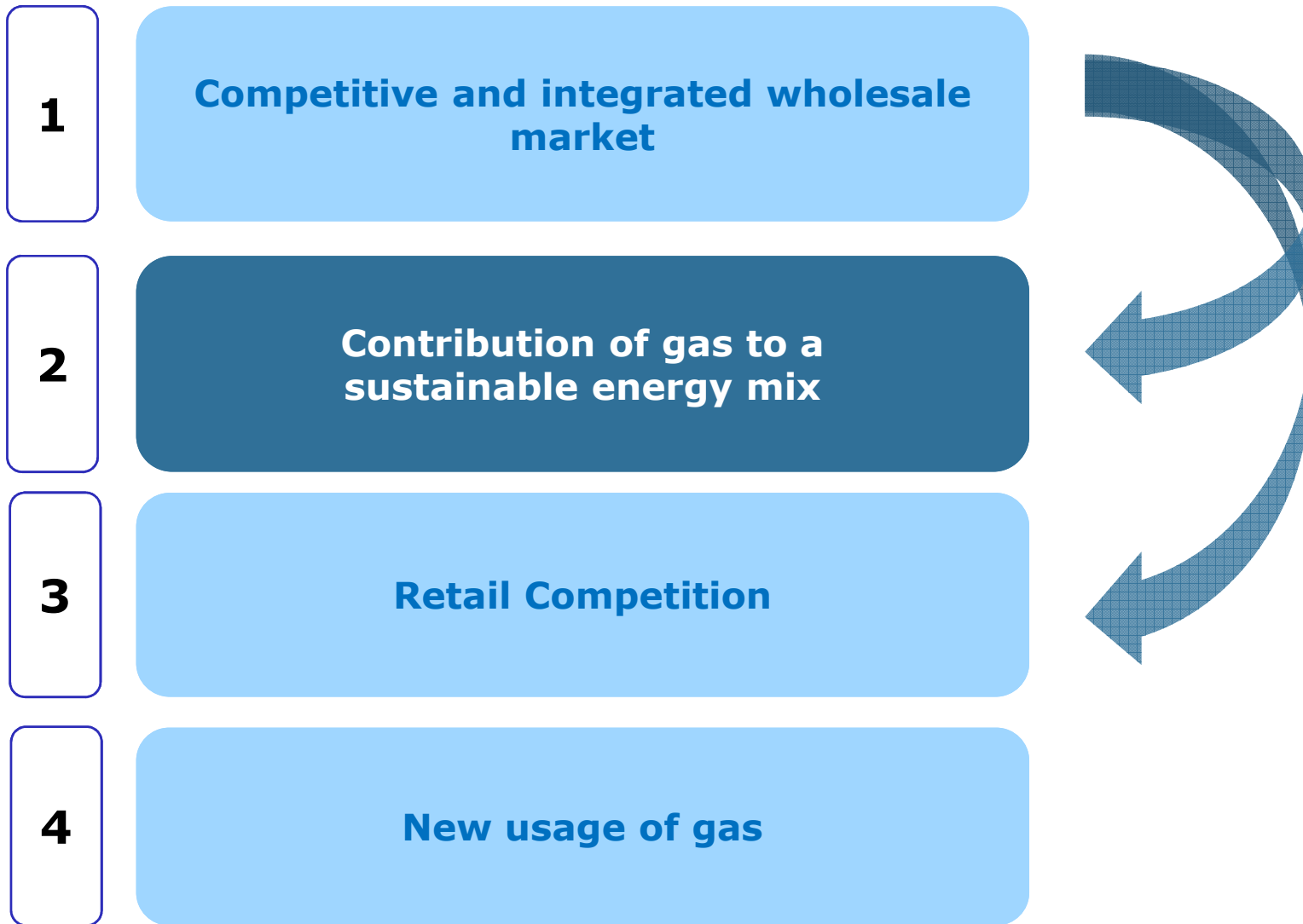
- Without alternatives in transportation capacity, sources of gas cannot compete
  - In markets with declining demand, TSOs need incentives to maintain redundancy in order to promote competition
- However, necessary to avoid redundant infrastructure that increase tariffs and do not provide additional benefits

## Access arrangements to facilitate competition

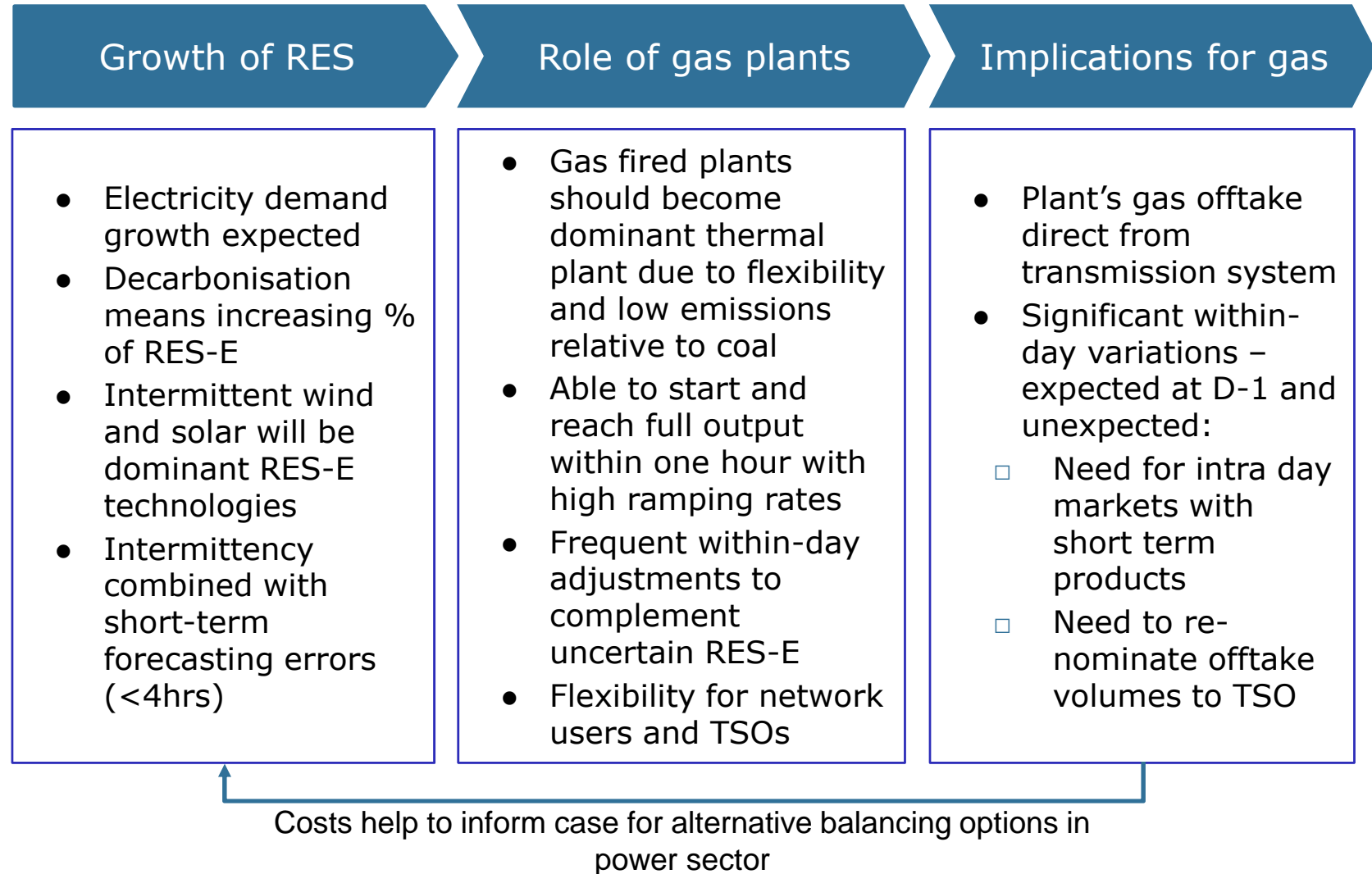
- Physical capacity needs to be complemented by tariff arrangements that facilitate competition

**..to complete vision of IEM**

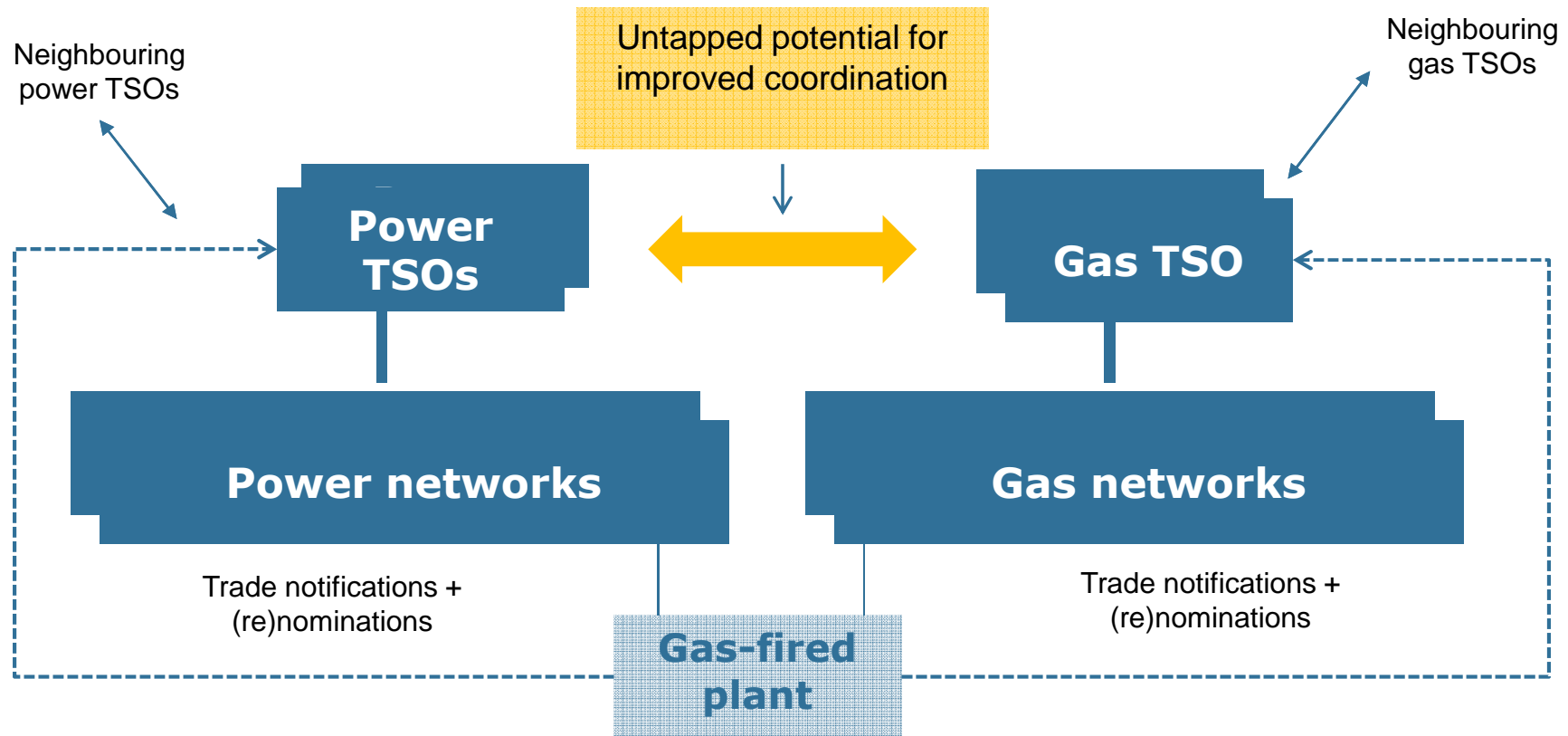
# Possible fields of action



# Nature of the problem

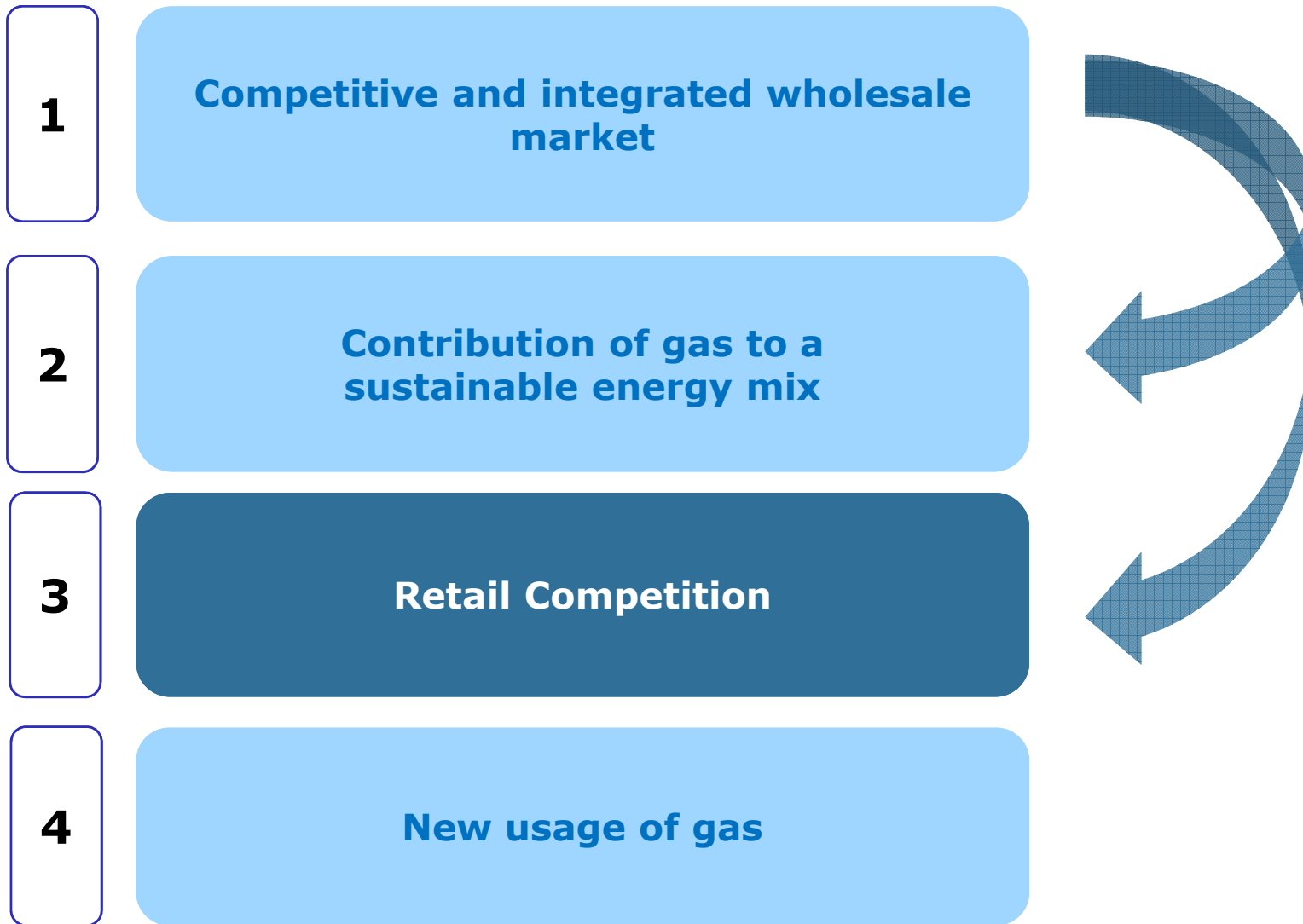


# Gas plants are link between sectors

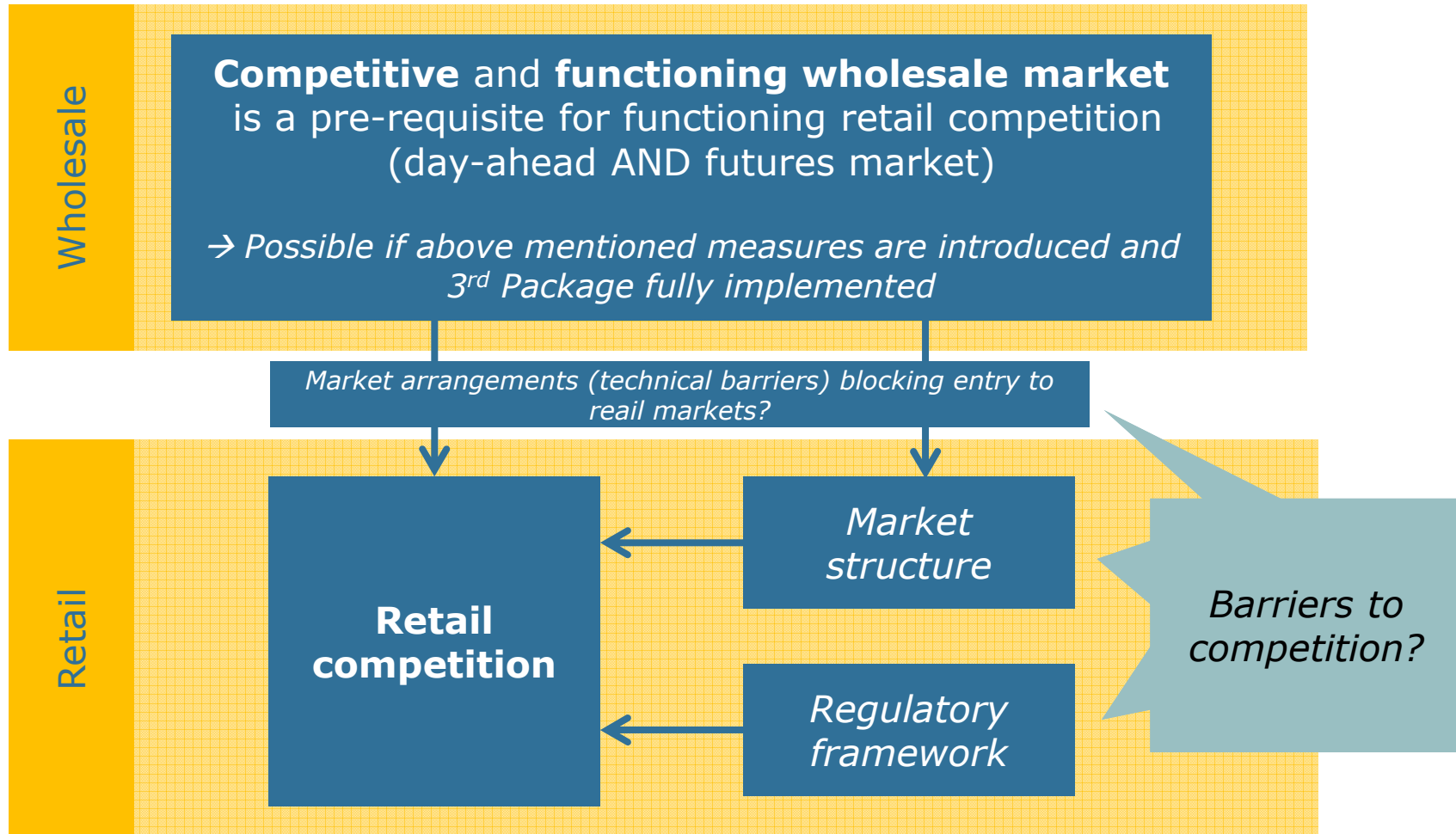


Under network codes, emphasis is on cooperation between TSOs for same energy type (e.g. for x-border balancing) and not between TSOs in gas and power within an area. Plant must operate within separate balancing arrangements of each sector.

# Possible fields of action



# Retail competition



... to be achieved through competitive wholesale markets

## Price regulation - is still reality!

- 15 MS in gas (and 18 in electricity) with end-user price regulation for household customers

## Price regulation - obstacle towards competitive markets

- IEM Communication: phase-out of regulated prices „taking into account universal service obligation and effective protection of vulnerable customers“
- Prevents suppliers from offering attractive services, tailor-made and dynamic pricing schemes
- In some countries even regulated at a level below market costs, threatening SoS
- Discourages new entrants
- No signal for efficient energy use
- Economically unsustainable

## Switching rates are still on a low level in most MS

# Possible areas for action

## Competition instead regulated prices

- Phase out price regulation at least on retail level
- Where price regulation exists it has to be in line with market conditions
- Price regulation for all household customers is no adequate means to help the poorest → improve the social security systems

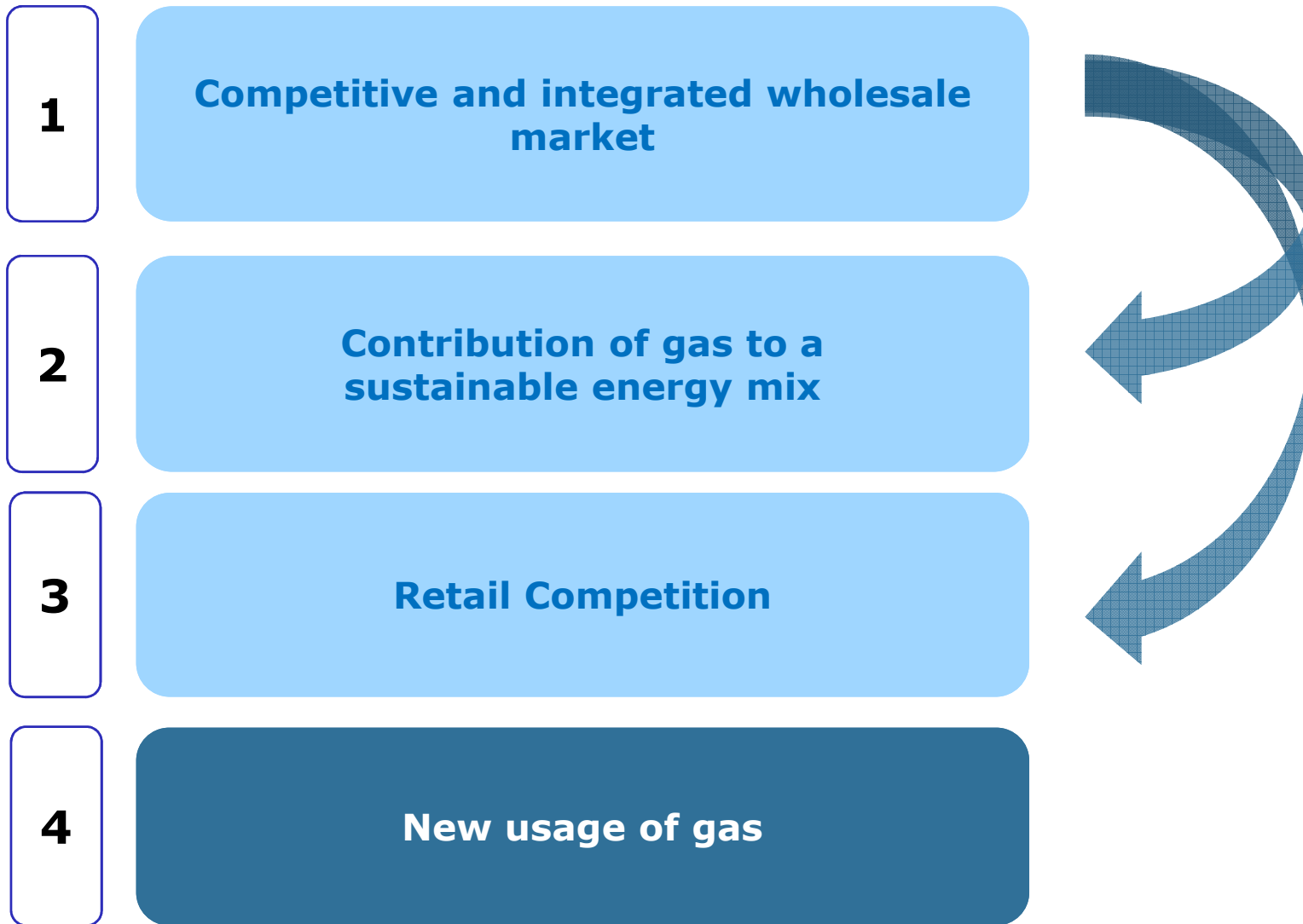
## Possible harmonisation

- Harmonised market arrangements and regulatory framework could facilitate market entry
- Further harmonisation arrangements for consumer switching?
- Integration of DSOs in balancing zone to facilitate retail competition?
- What do we mean with 'internal market' when we talk about retail markets?
  - Cross-border supply: great opportunity for small MS
  - Recognition of retail licenses from other MS?
  - A real Internal Retail Energy Market: political commitment necessary

**..to the benefit of customers**



# Possible fields of action



# Exploring new markets for gas

- Natural gas for vehicles
  - LNG
  - Compressed Natural Gas (CNG)
- Biogas
- Power to gas



**Thank you for your attention!**

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