

ACER's vision of the European gas market

WHAT'S THE ISSUE?

- Over the past year, the European gas market and the challenges it faces have undergone fundamental changes. For instance, due to a combination of the increase of renewables generation, the arrival of inexpensive coal from the United States, and the low carbon price, the role of gas in power generation has declined significantly. As a consequence, the appropriate regulatory approach for the next decade requires a new mind-set. Binding legislative rules (Network Codes), directly applicable throughout the European Union, will bring Europe closer to this vision. However, these rules alone are unlikely to deliver a well-functioning transparent gas wholesale market that benefits consumers across Europe.
- ACER's vision for a competitive and secure European gas market that benefits all consumers, the so-called Gas Target Model (GTM), was published in January 2015.

WHAT FINDINGS OF THIS REPORT ARE ESPECIALLY RELEVANT FOR CONSUMERS?

a. Competitive markets ensure Security of Supply

- The more companies supply gas to Europe, the less it 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. ACER recommends to further enhance market-based measures and to strengthen incentives for market participants to enhance security of supply. In addition, ACER proposes to fully unbundle storage products which are currently sold in one bundle and to set appropriate network tariffs for users of gas storage facilities.

b. Wholesale market functioning

- For a well-functioning and transparent wholesale market, both a liquid spot market (commodities market in which goods are sold and delivered immediately) and, crucially, a liquid wholesale forward and/or futures market is needed, so that risk management is possible. The updated GTM includes an assessment of the functioning of wholesale markets at national level. It develops a series of criteria to assess whether a wholesale market is 'well-functioning'. These criteria cover both the needs of market participants and an indication of whether the market as a whole is healthy.

c. The self-evaluation process

- All Member States should assess whether they are able to meet these revised GTM criteria by 2017. If they fail to meet this target, the GTM suggests considering structural market reforms, including a full market merger or a partial merger (trading region) with neighbouring jurisdictions. Any reform undertaken by Member States should be based on an appropriate cost-benefit analysis to ensure their economic viability.

d. 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. To optimise the joint working of the electricity and gas sectors, ACER proposes that gas and electricity transmission system operators (entities entrusted with transporting energy, using fixed infrastructure) should be legally obliged to cooperate with one another, for instance to improve information flows.

e. New developments in the gas supply chain

- New developments in the use of gas include the intensification of gas use in the transportation sector and small-scale applications of liquefied natural gas (LNG) and compressed natural gas (CNG), such as virtual pipelines. A virtual pipeline is a system of transporting gas by means of trucks or ships. It is important that regulators facilitate the emergence of these new uses of gas through appropriate intervention, for example by clarifying which of these activities require regulatory intervention and facilitating a level-playing field.

WHY SHOULD THIS MATTER TO ME AS A CITIZEN?

A well-functioning European gas market means competitive prices for all European consumers, regardless of where they are located, and a minimal risk of supply interruptions.

BACKGROUND TO THE GAS TARGET MODEL

The Gas Target Model update renews the original Gas Target Model developed by CEER (The Council of European Energy Regulators) 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.

USEFUL LINKS

<http://www.acer.europa.eu/Gas/Gas-Target-Model/Pages/default.aspx>

http://www.ceer.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Gas_Target_Model/CD/C11-GWG-82-03_GTM%20vision_Final.pdf