



EUROPEAN GAS MARKET BUILDING BLOCKS FOR FUTURE REFORMS

European Commission
DG Energy

- Europe to become the first climate-neutral continent
- European Green Deal in 100 days
- Enshrine the 2050 climate-neutrality target into law
- More ambitious than 40% in terms of CO2 reduction in 2030
- Carbon Border Tax to avoid carbon leakage
- New industrial strategy
- Just Transition Fund
- EBI into European Climate Bank supporting 1 Trillion EUR investments



A Union that strives for more

Decarbonisation needs to happen at least cost and ensuring SOS - only functioning markets assure least costs

The ECONOMIST (19/9):

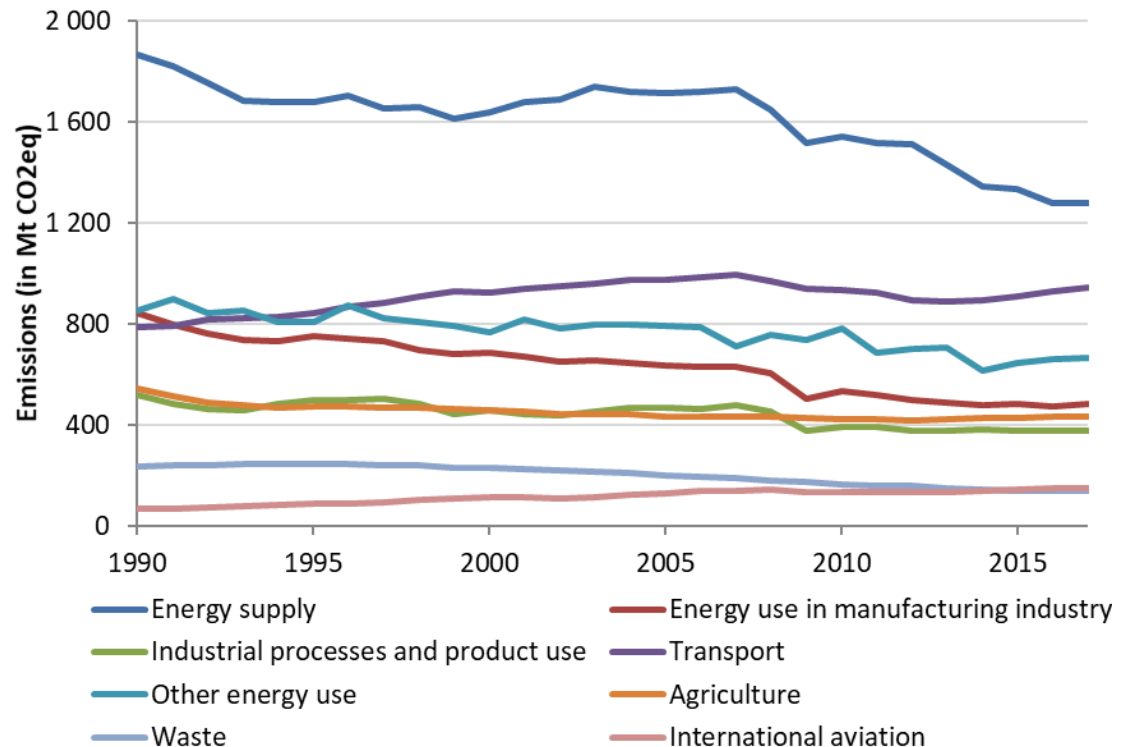
“Competitive markets properly incentivised, and politicians serving a genuine popular thirst for action, can do more than any other system to limit the warming that can be forestalled and cope with that which cannot”.

Mission letter to Kadri Simson, Commissioner designate:

- further developing an integrated, interconnected and properly functioning European energy market
- implementation of energy-efficiency and renewable-energy legislation (role of NECPs)
- sector integration
- scale up investment in clean energy
- support all regional cooperation efforts towards better integrated markets
- Gas: a role to play in the transition (CCS), diversification in particular LNG
- new Carbon Border Tax, the review of the Energy Taxation Directive, use of Euro
- Consumer's role, Just Transition Fund, Energy Poverty Observatory

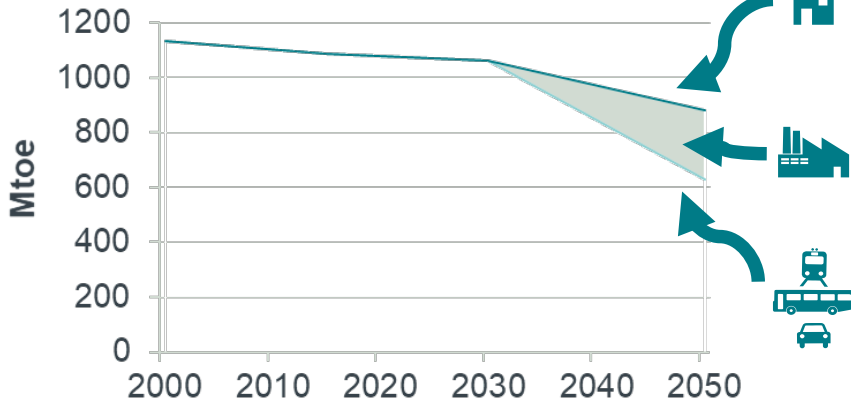
Europe Today

- The EU is about to achieve its 2020 targets
- Targets for 2030 are agreed in EU law
- Business as usual means -45% GHG emissions in 2030 (vs. 1990)
- Without increasing ambition: -60% emissions in 2050



Despite the uncertainties, scenario studies consistently find a long-term role for gases...

EU final energy demand is expected to fall



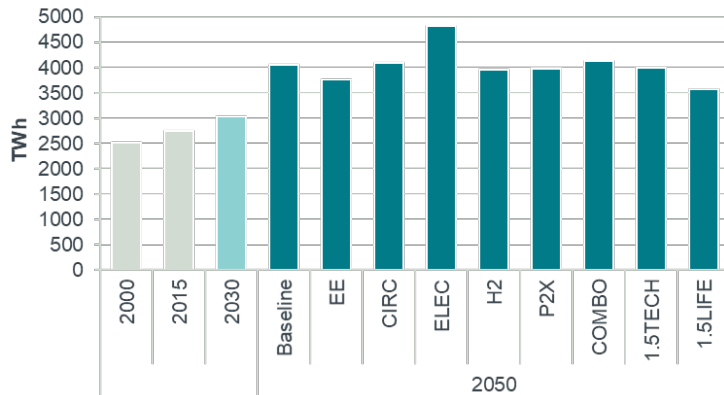
Source: Frontier Economics and CE Delft, based on EC (2018)

With renewable electricity accounting for a high share of the mix by 2050



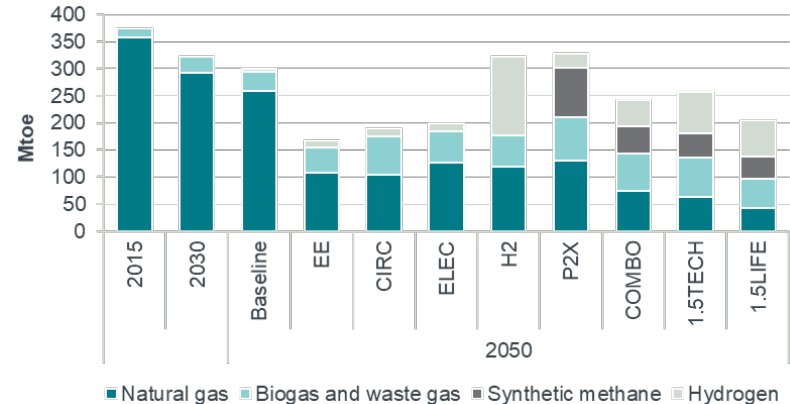
Source: Frontier Economics, based on sources indicated.

While electricity demand is expected to increase



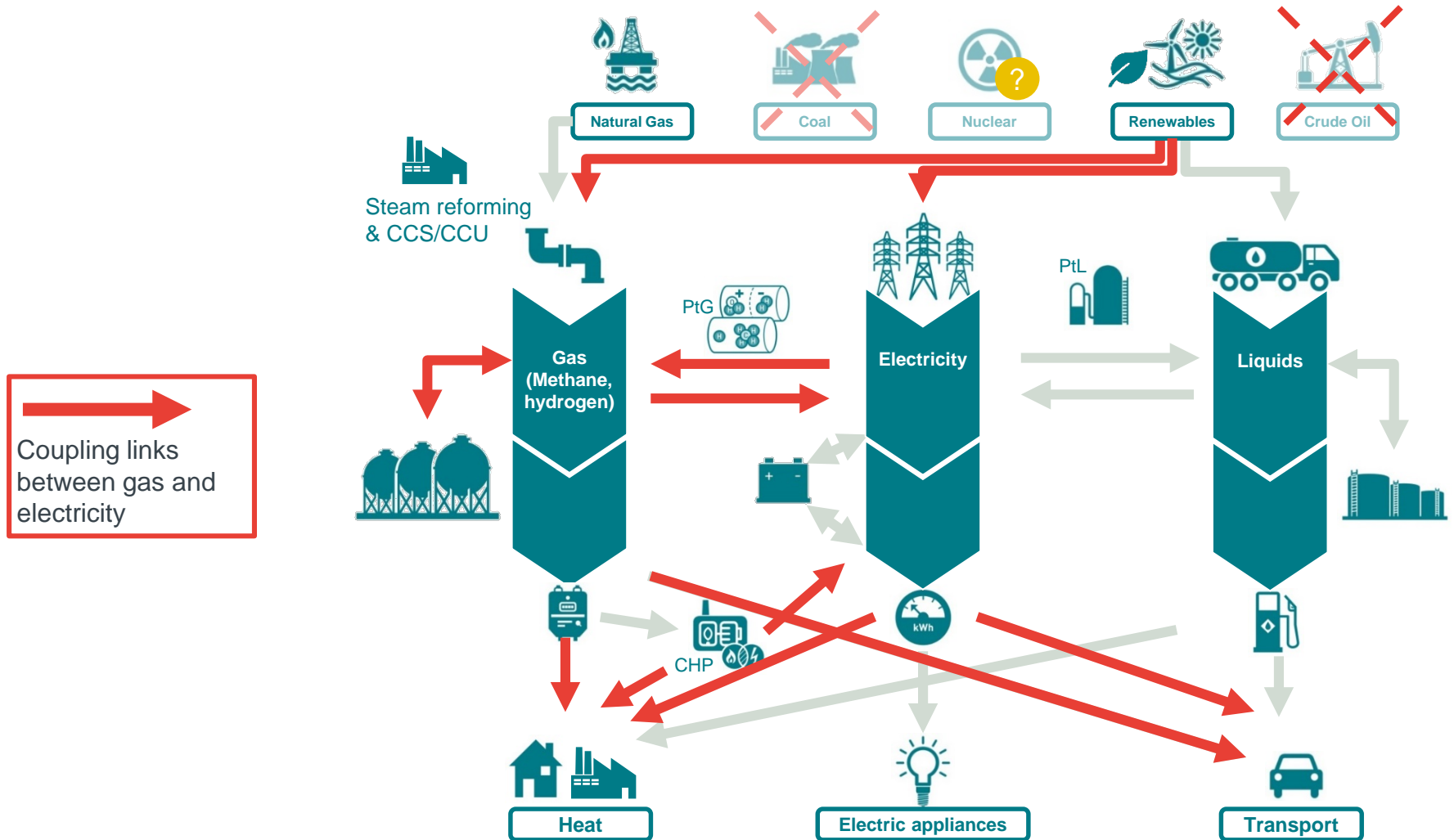
Source: Frontier Economics, based on EC (2018)

Gases help with transport / (seasonal) storage needs

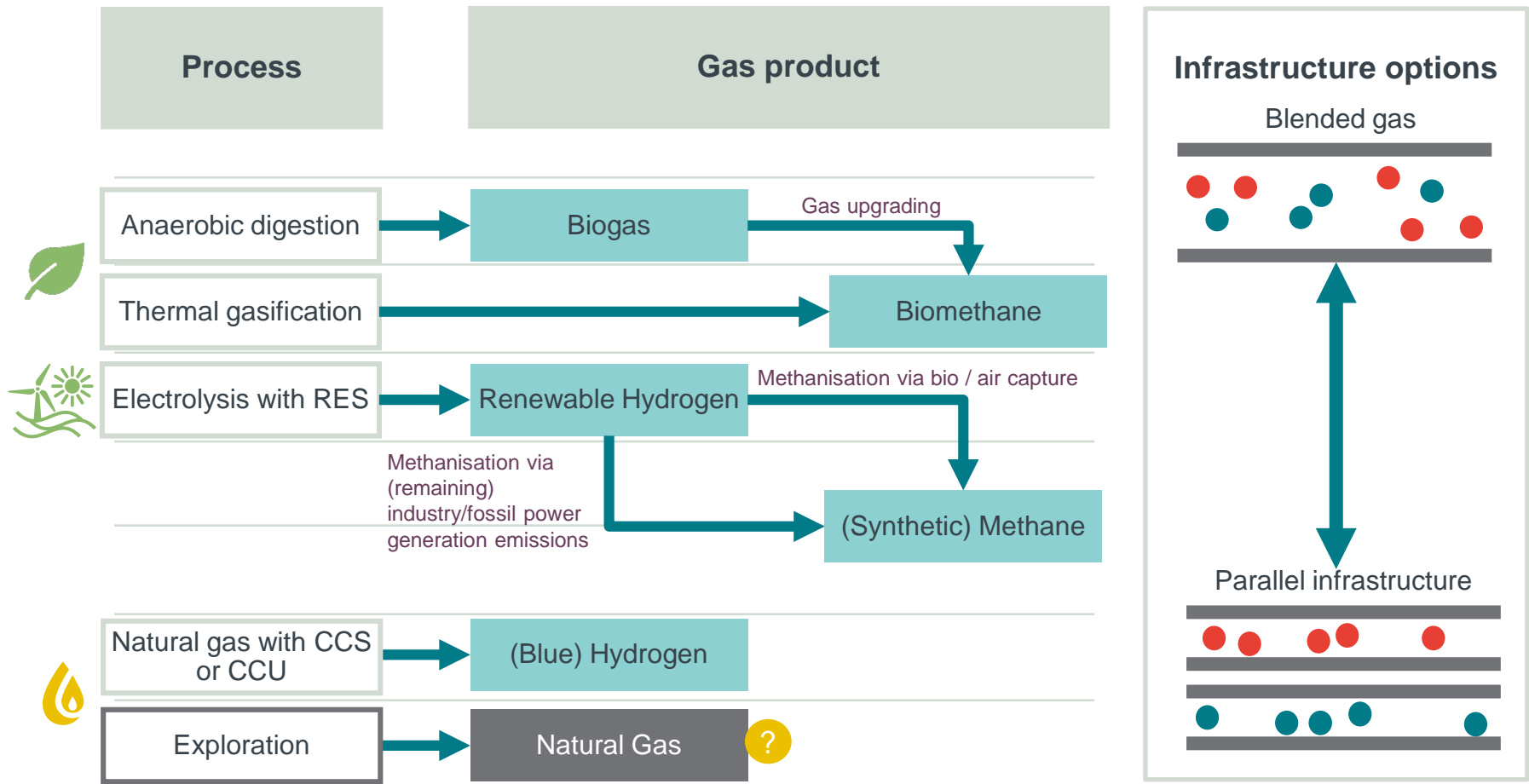


Source: Frontier Economics and CE Delft, based on EC (2018)

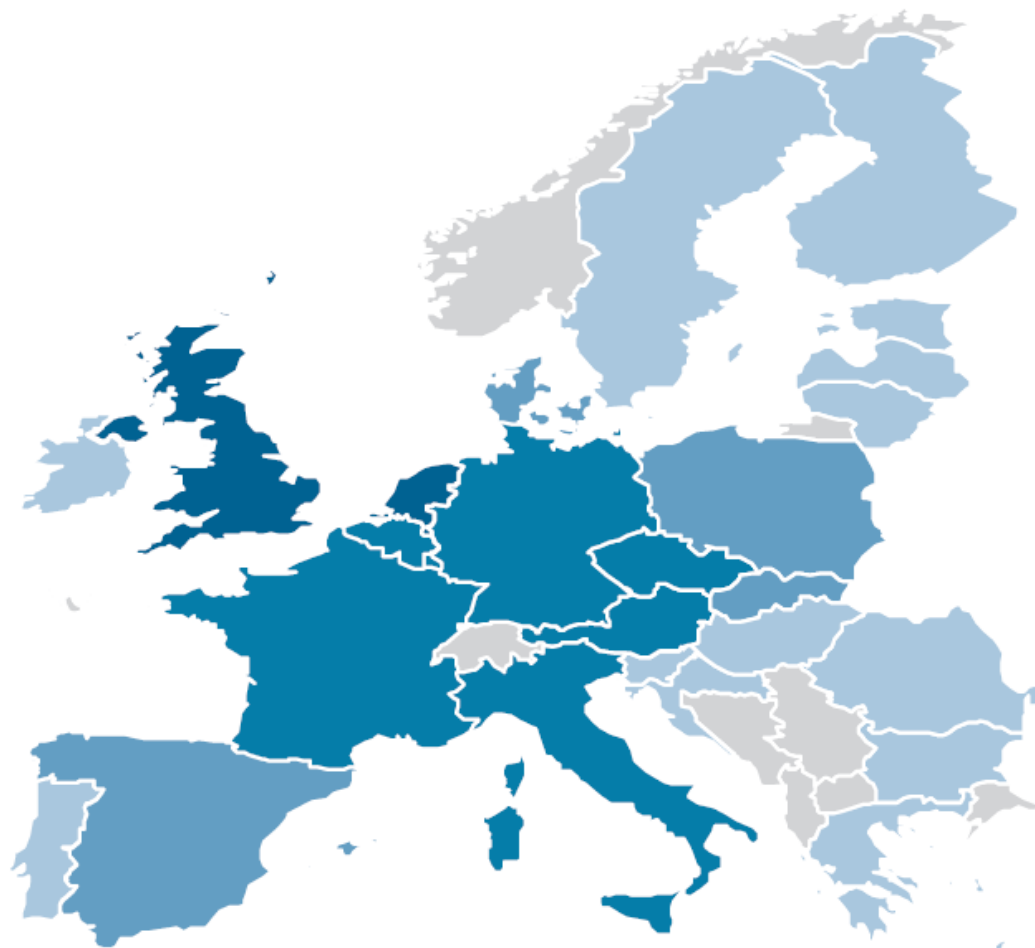
... and increasing interaction between electricity and gas, as well as between different types of gases



To enable this, gas supplies will need to be increasingly renewable / low-carbon – with natural gas potentially helping the ‘transition’



Ranking of EU hubs based on monitoring results - 2017



■ Established hubs

- Broad liquidity
- Sizeable forward markets which contribute to supply hedging
- Price reference for other EU hubs and for long-term contracts indexation

■ Advanced hubs

- High liquidity
- More reliant comparatively on spot products
- Progress on supply hedging role but relatively lower liquidity levels of longer-term products

■ Emerging hubs

- Improving liquidity from a lower base taking advantage of enhanced interconnectivity and regulatory interventions
- High reliance on long-term contracts and bilateral deals

■ Illiquid-incipient hubs

- Embryonic liquidity at a low level and mainly focused on spot
- Core reliance on long-term contracts and bilateral deals
- Diverse group with some jurisdictions having
 - organised markets in early stage
 - to develop entry-exit systems

Regulatory framework enabling the energy transition – Madrid Forum conclusions

- Flexible as far as possible
- Removing potential regulatory barriers
- Providing market-based solutions
- Full and correct implementation of the gas Network Codes in all Member States remains a priority

Gas Market upgrading and modernisation

Upgrading the regulatory framework

Implementation of basic market rules and principles

Implementation of Network Codes

STUDIES

Regulatory framework fit for decarbonisation

New products and services of TSOs

Technology innovation/new gases in supply

STUDY ON-GOING

Alignment of the gas legislation

Institutional framework – electricity market design

Streamlining the legislation

Legislative process (evaluation, impact assessment, ...)



Thank you for your attention!
<http://ec.europa.eu/energy/>

STUDY I: *Enhancing liquidity by combined gas and capacity release programmes*

ISSUE:

Illiquid hubs and market power

OBJECTIVES:

Elaborate and assess measures to reduce entrenched market power
by increasing the share of short-term capacity
by releasing gas at the virtual trading points within Europe

STUDY III: *Licensing and regulatory requirements*

ISSUE:

Need for stable and harmonised legal and regulatory framework open to cross-border trade and new entrants

OBJECTIVES:

- Provide an inventory of licensing and regulatory requirements, including for actors active only on wholesale markets
- Identify common principles underlying various regulatory regimes, and the rationale and scope for further harmonisation

STUDY IV: *Regulatory framework for LNG terminals*

ISSUE:

- *Diversity of regulatory regimes applying to LNG terminals in Europe*
- *Increasing competition between LNG terminals*

OBJECTIVES:

- Develop an assessment of regulatory regimes applicable to LNG terminals in MS
- Recommend concrete measures to upgrade them where necessary

Streamlining of the gas legislation

Institutional framework – alignment to the electricity market design (previous "mirroring")

Streamlining the legislation

Delegation/transfer of TSO tasks, question of oversight of 3rd parties taking up TSO tasks (capacity booking platforms, balancing responsible entities, etc.).

Promotion of regional cooperation: need to strengthen regional cooperation and in what areas (network operation, oversight of regional entities)?

Regulatory regime after exemptions expire (depreciation, transfer of assets into RAB)?

Gas quality harmonisation review