

Project plan

Assessment of market liquidity and market integration within GRI NW to develop a regional agenda



Gas Regional Initiative North West

The Hague, April 2013

1. Introduction

In the Gas Target Model, CEER has called upon each NRA – once the third package is implemented on a national level – to publish a review of the market liquidity and market integration regarding the national wholesale market by 31 December 2012. Next to that, it is recommended that each NRA explores whether additional measures are needed to improve the functioning of the wholesale market.¹ Member States, TSOs and other interested stakeholders shall be involved in this work, within the framework of the Gas Regional Initiatives. According to the Gas Target Model, NRAs shall explore – where necessary for creating functioning wholesale markets – measures to improve market liquidity and degree of market integration. The respective Member States, NRAs and TSOs must implement the identified measures in the framework of the Gas Regional Initiatives by September 2014.

Often for historical reasons, each national wholesale market within GRI NW has its specific (technical) characteristics and market design. As such, in order to review market liquidity and market integration on a national level, specific knowledge and know how is required of market liquidity of a national wholesale market. For this reason, a national NRA – in close cooperation with the national TSO(s) and exchange – is in the best position to perform such an analysis and determine whether any additional measures need to be launched to (further) improve the functioning of the national wholesale market.

2. Added value of assessing market liquidity and market integration at regional level

Based upon the above, GRI NW cannot (and should not) determine what national measures should be launched in each Member State to improve the functioning of the wholesale market. However, GRI NW can itself perform regional projects that contribute to improving the wholesale markets on a regional level². To ensure that GRI NW is most effective, the establishment of a regional agenda is needed that clearly identifies where the region can contribute the most to create functioning wholesale markets. The call upon NRAs in the Gas Target Model to review market liquidity and market integration provides a good opportunity to set this agenda.

In order to implement measures to improve the functioning of the national wholesale market, each Member State needs to review market liquidity and market integration. If regional consensus can be found on the type of indicators to be used (and a common definition of a functioning wholesale market), each Member State can perform such a review in a similar way. While this would provide a number of advantages for each Member State³, it provides GRI NW the opportunity to make a *regional snapshot* of the market liquidity and market integration in each wholesale market within the region. This snapshot, combined with a common regional interpretation of a functioning wholesale market, forms a good basis to identify GRI NW priorities to further connect wholesale markets.

¹ These measures may be of a national nature (such as mandatory release programmes), but could also include joint actions with neighbouring markets (improving the efficiency of interconnection arrangements or the creation of market areas or trading regions). A cost benefit analysis shall be carried out to assess the economic viability of any proposed measures.

² Technically speaking, there is no such thing as a regional wholesale market. The aim of regional projects that are identified in the regional agenda thus aim to resolve existing and/ or future (technical and/or regulatory) bottlenecks. As such, all national wholesale market can truly be connected and thus “act” as if one wholesale market existed.

³ Amongst other things, Member State can *benchmark* themselves with countries that are – e.g. in terms of market size – comparable and identify *best practices* that could help to further improve the functioning of their own wholesale market.

3. Goal of the project

(NRAs within) GRI NW will elaborate a regional agenda – in close cooperation with stakeholders and Member States – that identifies regional priorities (for the upcoming years) to improve market liquidity and further connect national wholesale markets on a regional level. This document will be based upon an assessment of market liquidity and degree of market integration of each national wholesale market in the region (market monitoring report) that shall include at least the following elements:

- A common vision of stakeholders how a functioning wholesale market is defined and what indicators are necessary to review market liquidity and market integration;
- A regional snapshot that provides a comprehensive picture of market liquidity and market integration in each wholesale market within the region;
- A comparison between the regional snapshot and common definition of a functioning wholesale market;⁴
- A list with regional priorities (and practical projects) that will enable GRI NW – considering the definition of a functioning wholesale market – to further help connecting wholesale markets (or improve market liquidity) on a regional level.

4. Involvement of stakeholders

Stakeholders play an important role in developing the regional agenda for GRI NW. Firstly, developing a common vision how a functioning wholesale market is defined is not an academic or merely an economic exercise. Instead, it should be ensured that the chosen definition is ambitious (but realistic) and measurable. Stakeholders, either in their role as network user (shippers, traders) or market facilitator (TSOs, exchanges) have relevant knowledge and expertise of the gas market that is necessary to determine what a functioning wholesale market is about. Secondly, due to their market experience, stakeholders are in the best position to identify what bottlenecks exist that hamper the creation of an internal market on a regional level.

For these reasons, a core project group will be formed that consists of one or more representatives of TSOs, shippers, exchanges and traders. This group will – under the leadership of one or more NRA(s) – define a common vision how a functioning wholesale market is defined and indicators to be used, the indicators, but also draft questionnaires, the monitoring report and – as an end result – the regional agenda. During RCC and IG meetings, progress will be discussed on a more regional level.

⁴ Based upon the regional snapshot, an overall picture emerges that helps to identify – when compared to the common definition of a functioning wholesale market – what specific actions GRI NW could perform (thus setting regional priorities) to further help connecting wholesale markets (or improve market liquidity) on a regional level

5. Approach and planning

1. Following the discussion in the IG meeting of **4 April 2013**, this draft project plan will be revised – if necessary – and stakeholders will be invited to indicate their willingness to participate in the core group;
2. Once the core group is established, it will develop (**starting at the beginning of May 2013**) a common vision on how to define a functioning wholesale market and determine which indicators are needed to monitor the status quo⁵;
3. Once a common vision has been found on the how to define a functioning wholesale market and relevant indicators chosen, a questionnaire will drafted by the core group (**mid June 2013**). This questionnaire contains all indicators – including any additional information needed – and is to completed by an NRA (in close cooperation with TSO(s) and exchange(s));⁶
4. Following the completion of the questionnaires, the core group will a) develop a practical monitoring report and b) – based upon the monitoring report – a first draft of the regional agenda (**starting mid July 2013**);
5. **Mid September 2013**, a (four week) written consultation procedure will be launched with the aim to provide stakeholders and Member States within the region the possibility to share their views on the monitoring report and especially the suggested regional agenda;
6. Based upon the responses received during the written consultation, the monitoring report and draft regional agenda will be revised – if proven necessary – and presented at the 11th Stakeholder Group meeting of GRI NW (**end of November 2013**).

⁵ On a European level, several monitoring reports have been published (most notably the ACER report that was published at the end of 2012). These reports already contain much data that can be used to review market liquidity and market integration of a national wholesale market. Such data can thus easily be used and data collection can therefore be quite straight forward, providing that the available data forms a thorough basis to review market liquidity and identify regional priorities. Should this not be the case, additional indicators (and responding data) should be identified.

⁶ As such, each Member State in the region (and not the core group) will review market liquidity and market integration in their own national wholesale market once the questionnaire is developed.