Comunicato Stampa

GME'S NEWSLETTER – New issue now on line

Rome, 9 August 2011 – The new issue of the Newsletter of Gestore dei Mercati Energetici (GME) is now downloadable at www.mercatoelettrico.org

The newsletter opens with a contribution by Sergio Ascari from REF about the European Gas Market Target Model. Ascari argues that *the implementation of the Third Liberalisation Package provides European electricity and gas markets with a unique opportunity: laying down European Network Codes in view of an effective integration of markets, still largely national. The European Network Code will define the features of the integrated market. To guide this process, European regulators - in consultation with stakeholders - are working out a vision of the market as it will result from completion of the current integration process: the so-called Target Model.* It is on the basis of this vision that *guidance will be given about the actual construction of the Network Code and of its chapters.*

The Target Model - explains the expert from REF - *arises from: i) decisions which have already been made and entrenched in legislative constraints; and ii) fundamental energy policy objectives. Given the legislative constraints of the Third Package, the European market will clearly consist of different market zones, each of which will generally be, at the same time, a virtual trading venue (hub), an entry-exit tariff system and a balancing zone, without internal congestions.*

The goals of the model originate from the key targets of the European energy policy: *market efficiency, environmental sustainability and security of supplies. They translate into criteria to be used for assessing the viability of the proposed model in terms of development of: i) liquid markets with an adequate availability of competitive sources; ii) the capacity needed to expand the use of gas so as, among others, to replace less sustainable energy sources and to support more sustainable ones; and iii) the capacity required to respond to emergencies, if any.*

The expert from REF then tackles the problem of *how many and which market zones (hubs) there will be in Europe. Zones with limited markets, few interconnections with primary sources of gas (including LNG) and poor competition will hardly become competitive hubs. The answer to this problem might lie in: i) strengthening interconnections, where justified by market demand; ii) partially merging multiple zones by defining interzone hubs (trading regions), while balancing would remain under the responsibility of each zone.*

As pointed out by Ascari, another major issue in the debate over the Target Model is how *to connect market zones. As regards gas, in most cases the problem lies in freeing interconnections from contractual congestion rather than increasing physical capacity. This stresses the importance of the pre-requisite of congestion management procedures, e.g. releasing the capacity which has remained unutilised on the day before its utilisation. Another method is to promote the sale of excess capacity (overbooking), while allowing network operator to repurchase capacity, where necessary, or to provide unsatisfied applicants with an adequate financial compensation. However* - concludes the export from REF - the *debate on these issues is still wide open. More agreement exists on the option of generalising the auctioning of transmission capacity at interconnection points between networks, overcoming the present confusion of methods, which often favours historical players. The auctions should be homogeneous and co-ordinated, in order to enable network users (shippers) to acquire capacity even for multiple adjacent connection points.*

The new issue also comes with: the usual technical commentaries on national and European power exchanges and environmental markets; the section dedicated to the analysis of Italian gas market trends; and the one focused on the trends of the main European commodity markets.

As usual, GME's new publication reports the **<u>summary data of the electricity market for the month of July.</u>**

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