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**“Vision Paper for a conceptual model for the EU gas market”
CEER Call for evidence**

By means of this non confidential document Eni Spa Gas & Power division (eni) replies to the CEER call for evidence on a conceptual model for the European gas market.

We welcome CEER initiative to seek stakeholders' views on the delineation of a gas target model since it can represent a guidance for the ongoing work on the development of Framework Guidelines and European Network codes. In fact it can address the major issues arising from the ongoing process of European networks' integration and at the same time evaluate and oversee their interdependences.

Eni's response:

Question 1: *What are in your view the main goals to be aimed at by the gas target model beneath the high-level policy goals set out by the Third Package?*

A gas target model should take into consideration all the high level policy provisions coming from the Third Energy Package, the Security of Supply Regulation and the general aims of enhancing competitiveness, transparency, integration, cooperation and security in the European market.



It shouldn't be either binding or a new regulatory provision, but it can be a further tool that contributes to a consistent implementation of the existing regulation.

It can be a steering instrument in the path to the harmonization and creation of an integrated European gas market. In particular, it can promote the main principles to be followed in the ongoing development of Framework Guidelines and Network Codes.

Question 2: *What are in your view the major developments and anticipated changes in the European gas market (on national and international level) and where would a target model bring added value? Including:*

- a. the role of long term capacity contracts in the future European gas markets;*
- b. the role of hubs / gas exchanges.*

The major developments and changes in the European gas market concern:

- the higher dependency on third-country supplies;
- the need of diversification of sources and routes;
- the effort to develop hubs in order to foster liquidity in the gas market;
- the implementation of the Third Energy Package to overcome the regulatory and technical barriers and reach more harmonization in order to effectively integrate the European energy market;
- the implementation of the Security of Supply Regulation that introduces the instruments to evaluate the security of supply level of a Member State or a region, to promptly react to a crisis when it happens, to promote cooperation and coordinated emergency interventions;
- the definition of the role of gas in the future energy policy.

Considering all these elements a gas target model should reach a balanced approach towards the need of long term contracts to grant a stable supply



to the system and, at the same time, the boost of liquidity in the market enhancing trading opportunities.

We welcome the development of gas hubs and we support a gradual process to implement them that should firstly pass through hubs conceived as Balancing Points. In fact, in our opinion, hubs conceived as Balancing Points and hubs conceived as an effective Gas Stock Exchange, although different, have to be considered consistent solutions and both suitable for achieving, in different ways, a more liquid market.

Considering the higher dependence on third-country producers, we deem long term contracts a fundamental tool not only to enhance European security of supply, but also to favor necessary investments in order to make possible also a diversification of routes and sources.

For these reasons we deem necessary that the principles followed in the redaction of the Framework Guidelines and the rules established in the Network Codes do not put at risk existing long term capacity contracts. We will discuss further this point in the answer to the next question.

Question 3: *What are in your view the key elements of a conceptual model for the European gas market to contribute to non-discrimination, effective competition, and the efficient functioning of the internal gas market? Please include views on the key aspects of market design such as, capacity allocation and congestion management procedures, network tariff arrangements, wholesale market pricing, balancing arrangements and, gas quality specifications? Please consider the interaction of these arrangements.*

In our opinion, a conceptual model can contribute to an efficient, non-discriminatory and competitive internal gas market, as a tool that oversees the development of FGs and NCs, evaluating the interconnections and interdependences of the relevant areas concerned and establishing the main criteria against which they should be assessed.

In being a reference for the FGs and NCs, the gas target model should grant consistency with the provisions set in the Security of Supply Regulation. In any case it should not be binding and it shouldn't entail further framework guidelines.



In the aims of harmonizing and integrating the European gas markets, enhancing their security and increasing the competition level without hampering to the stability of the system, we deem crucial that the key aspects of market design are defined according to the following principles.

First of all, the definition of the Framework Guidelines and the implementation of Network Codes shouldn't determine a sudden regulatory change in the existing system particularly for those areas that grant the necessary stability to the market. These regard the existing long term contractual arrangements contracted by shippers or third parties who have invested in new infrastructures. The existing contracts should be preserved and if specific clauses will be in contrast with the new network code, they can be amended step by step during a proper transition period. Otherwise, for shippers, the respect of upstream and downstream contractual obligations can be seriously compromised, generating unrecoverable costs and drawbacks for them and consequently for final customers. Relatively to investors, they should be hedged from a sudden regulatory change since this would result in a risk of an unsustainable financial commitment.

Secondly, a gas target model should oversee the efficiency and the effectiveness of the rules defined in the network codes and should support the principle that regulatory interventions should be aimed at creating the basis for an harmonized and transparent natural gas European market that should be driven by market forces.

Entering into some specific areas object of network codes, we would like to underline the following elements.

- Concerning CAMs, we welcome the introduction of standard products, but at the same time contractual freedom of shippers should be granted. In order to boost liquidity and flexibility in the market, the possibility to opt for both hubs to hubs and cross border-trading should be left to shippers.
- In relation to CMPs, an efficient use of capacity that does not harm the correct functioning of the market has to be promoted through the introduction of effective incentives for secondary trading and for UIOSI procedures, in addition to the introduction of UIOLI short term on day ahead and interruptible basis principle coherent with Regulation 715/2009.



In order to grant the security to the system and not to incur into unrecoverable costs that will be discharged on final customers, the capacity holders' right to manage capacity with adequate flexibility should be sufficiently granted.

- Furthermore a gas target model should support a transparent and cost reflective definition of network tariffs, whose structure should be homogeneously applied in all Member States.

Question 4: *What level of detail, e.g. level of harmonisation, do you expect from the CEER vision paper on a conceptual model for the European gas market? For example:*

- a. Do we need a definition of an EU-wide gas day? If yes, what should this definition be?*
- b. How deep should the "reach" of the EU gas market model be, i.e. should it encompass DSOs? Is there a trade-off between vertical depth (i.e. including all levels of national gas markets) and horizontal depth (i.e. integrating balancing zones cross border)?*

The removal of barriers related in particular to technical and regulatory matters is a necessary step to make possible an effective integration of the European market. Furthermore an enhancement of harmonization levels would boost liquidity and favor competition in the market.

- a) The definition of a common European time reference is a fundamental element in order to overcome some of the existing barriers, concerning in particular lead times, balancing period...
- b) The market model should be focused on cross border issues.

Question 5: *Which areas or aspects of the gas market should be affected by the target model and what are the constraints for such a model?*

As remarked in the previous answers, in our view the gas target model can be a useful non-binding tool in the implementation of the provisions set out in the Third Energy Package taking into consideration the application of the Security of Supply Regulation. It should affect the areas that the network codes refer to assessing, in general, the technical and economical feasibility of the solutions proposed and adopting firstly a market driven approach. The specific principles that, in our opinion, should be followed in the treatment of each area are reported in the answer to question number 3.



Question 6: *Which areas or aspects of the gas market should be excluded from the target model description and left to national/regional decision making.*

In the general aim of integrating the European gas market, as stated in the Regulation 715/CE, Network Codes and Framework Guidelines should address in particular cross border issues. Thus those matters that do not affect cross border issues should be left to national/regional decision making.

Question 7: *What are the options for integrating the currently fragmented European markets? Are there any existing models you would like to recommend? In case your answer is yes, we would be interested to learn about the features of this model and if there are also any draw-backs in this model in your view.*

- a. Should we merge balancing zones to create cross border or regional balancing zones or market areas? How many balancing zones does Europe need and how big should they be?*
- b. Is the coupling of market areas as it is being developed in European electricity markets appropriate for gas?*

We welcome European and regional actions taken with the agreement of relevant stakeholders when they contribute to the overcome of regulatory and technical barriers in the European gas system. These projects can certainly pave the way for an effective enhancement of the integration and a fair competition in the EU gas market, with consequent advantages in the conditions of supply to final customers.

Concerning the intention of merging balancing zones, on one side it is an important step to improve flexibility and efficiency in the transmission network system, on the other hand we think that the reduction of market areas should be firstly assessed in terms of technical and economical feasibility.