

**EUROGAS COMMENTS FOLLOWING THE 22<sup>ND</sup> FEBRUARY WORKSHOP**

A number of different, interesting ideas were presented in the 22<sup>nd</sup> February workshop, but it was not clear finally which parts of the work presented were to be regarded as target models and which as options to be explored, as forming parts of a target model. LECG presented three main options, Business as Usual, Merged Markets, and Coupled Markets (for short-term capacity), while Professor Glachant presented the Market Enabling and Connecting Model, which seemed to be a hybrid involving enlarged market zones and/or market coupling. It was a very complex model. Ms. Neveling meanwhile presented market coupling as a possible element of a target model. If Business as Usual is discounted which is a misnomer as the present situation is already overtaken by developments on Codes and Rules in line with the Third Package, then Eurogas understands the models to be discussed are

- Implementation of the Third Package focused on large Market/Balancing Zones
- Market Coupling, essentially based on bundled (hub to hub) products, with day-ahead limitation of renomination rights as envisaged in the current work on CAM and CMP
- MECO – Market Enabling and Connecting, as presented by the Florence School

As a matter of process, it is important for the organizers of the meeting in April to clarify what models participants are being asked to discuss, to make available material in time to allow Associations to consult their membership so that they can bring value-added feedback to the workshop, and for CEER to be able to respond to the key questions mentioned above on how the model(s) impact(s) on long-term gas industry needs, and increase(s) market liquidity.

Below Eurogas offers further comments/questions on the three options.

**Implementation of the Third Package focused on Larger Market/Balancing Zones?**

In principle, larger market zones based on larger balancing zones, when they are driven by market-based developments will bring benefits. Larger zones will bring price convergence and enhance market liquidity. Flexibility and efficiency in network access should also improve.

Imposing larger zones, however, in a prescriptive way, especially if they are not market-ready, could bring more problems than benefits.

In particular although balancing zones should be based on as large an area as possible that is economically viable, if balancing zones are merged prematurely, the cost/benefits relationship could be adverse, and problems of physical congestion may be obscured, weakening investment signals.

Therefore Eurogas thinks that, when appropriate, TSOs after consultation with stakeholders shall promote the merging of balancing zones across different neighbouring TSO networks, as envisaged under Article 12 of the Gas Directive. Merger, however, should not be mandatory, but develop as a consequence of improving market dynamics since market zones have to be sufficiently developed for a merger to be feasible. An overall aim of the model should be to enhance market progress and market liquidity, and this in turn will promote other market-driven developments, including larger, possibly regional, balancing zones. Moreover, the merging of balancing zones should first be promoted at national level.

**Market coupling with day ahead limitation of renomination rights, as envisaged in the current work on CAM and CMP**

Eurogas would agree with the view that market coupling is essentially a congestion management tool and could therefore only be part of a market model.

There are obviously benefits to be gained if the market model does lead to closer-operating markets, but clearly a lot more work is needed to determine if the introduction of a market coupling model, on the lines of the market coupling as established in the electricity market, would be suitable for gas. Implicit auctions underpin market coupling (also market-splitting), which in electricity terms, should in principle manage any contractual congestion between market areas by improving the usage of existing capacity, but it does not solve physical constraints. However, a prerequisite for market coupling is a very severe restriction of renomination rights, about which Eurogas has marked concerns, at least on a mandatory Europe-wide basis. To improve the availability of short-term firm capacity, procedures that involve some restrictions of existing renomination rights could develop in a fully liquid market but today when the flexibility to renominate is essential, any such solutions can only be envisaged at a limited number of interconnection points on a case by case basis, in a regional context, and therefore it would be premature to consider it as a Europe-wide approach.

Eurogas also recalls its concerns with regard to the proposed obligation to introduce bundled (hub to hub) products as the only capacity product available to system users.

As there are no experiences with market coupling in the gas market, Eurogas supports a thorough investigation of these instruments to determine possible benefits. It is important to bear in mind however that gas market operations differ very significantly from those applying in the electricity market, due to the physical differences in gas and electricity transmission. These differences should not be downplayed in developing a gas target model or when considering if market coupling represents an efficient solution for gas market integration across Europe.

Since there is already an ongoing process of improving congestion management procedures in the upcoming comitology process the effects of these procedures have to be assessed first to decide if there is any need for another congestion management instrument. This means a thorough cost/benefit analysis which would include:

- what are the requirements?
- what would the implementation of the system encompass?
- should 100% of the day ahead cross border capacity be made available for market coupling or should some relevant share still be dedicated to usual supply routes and what would be the impact on suppliers in markets lacking flexibility if they faced severe congestion management restrictions.
- what is a realistic time frame?
- what is the cost of implementation for all stakeholders?
- how will long-term investments in other transmission capacities be made if capacities are not fully booked through explicit auctions? How will investment risks be covered by implicit auctions instead of explicit auctions?

This investigation process should involve TSOs, exchanges, market players, regulators and Member States on an equal basis.

### **MECO Model**

At first sight this hybrid model seems very complex and it is not entirely clear how national markets with their own trading and balancing regimes would co-exist with the European trading level. For Eurogas to assess the model on a preliminary basis, more information (clear description of the model) and explanations are needed.

The market area model of pillar 1 of the MECO model includes market zone enlargement and pillar 2 introduces market coupling. The issues with regard to these elements would therefore need to be resolved in any case. The relationship between pillar 1 and pillar 2, that is apparently the connection of a wholesale market, also needs more explanations before Eurogas can assess it.

Other questions are:

- Can the two options of Market Areas and Trading be combined, should they eventually merge, or are they mutually exclusive?
- Will the MECO model, with its menu-like characteristics, bring adequate harmonization at European level?
- What will the role of the shipper be?
- In pillar 2, is the connection aspect, only an intermediary step, because it still seems to allow for the persistence of nationally specific end-user zones?
- What are the estimated costs of the several elements of the model?

## **ANNEX 1**

### **Summary of main perceived requirements in EU policy**

(The lists reflect members' exchanges but are clearly not exhaustive – another level at least could be identified from the existing legislation)

The Three Pillars of energy policy

- Competitive energy market
- Security of supply
- Sustainability

Competitive Energy Market (list reflects Third Energy Package)

- Integration of EU markets
- Harmonization of rules
- Easy access to markets – more market participants
- Competitive prices reflecting supply/demand
- Interoperability/gas quality
- Working institutional framework – ACER/NRAs/ENTSOG
- Customer interests
- Market integrity and transparency

Security of Supply (list reflects policy statements, Security of Supply Regulation)

- Diversification of supply and routes to Europe
- Upstream, mid stream and downstream investments
- Infrastructure development within EU – better cross-border interconnections
- Reduction of import dependency
- Solidarity and more transparency

Sustainability

- Improved energy efficiency
- Decarbonising the energy system
- Higher penetration of RES in the energy mix