

EUROGAS RESPONSE TO CEER VISION PAPER FOR A CONCEPTUAL MODEL FOR THE EUROPEAN GAS MARKET - CALL FOR EVIDENCE

Response by the System Users Committee of Eurogas

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?

European gas markets have developed substantially in recent years, and will be further strengthened by the implementation of the Third Energy Liberalization Package. Eurogas supports a more robust market shaped by growing market dynamics, and facilitated when necessary and appropriate by further EU wide rules.

In this context, Eurogas envisages a gas market model serving as a useful steer for work to be realized on the market and technical rules and codes required by the Third Package. Although it will necessarily be non-binding, the model should provide a coherent framework and criteria against which subsequent Framework Guidelines can be assessed.

The target model should also recognize the need for an effective process including stakeholder dialogue to arrive at a timely preparation of the rules and codes. The focus should be on issues relating to operational rules to facilitate access, but it should also reflect the need for a regulatory framework conducive to the development as well as the interoperability of a pan-European grid. The rules should be proportionate to the identified objectives.

Also, a non binding model should be consistent and coherent with the three pillars of the European Energy Policy: competitiveness, security of supply, and sustainable development. This model involves appropriate impact assessments on the costs/benefits of different approaches and its objective should be to optimize solutions which reduce the costs of the market. In any case, the model should not be inflexible, but be able to evolve as seems necessary to market players.

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 in the gas market are well known. As European indigenous supplies reduce, imports will necessarily increase from non-European sources, although additional unconventional European gas production may help balance declining European natural gas reserves. In the supplies that come from further afield, LNG will take a growing share, as in the interests of competitive and secure suppliers, companies aim for increased diversification of supply routes and sources in their portfolios.

Suppliers' portfolios will maintain an emphasis on long-term market arrangements, that should support the large investments that are essential for bringing gas to Europe, in complement to a growing spot market.

In the view of Eurogas, gas demand will continue to grow, as gas has an essential role to play in the strategy to reduce CO₂ emissions. Particularly gas-fired power production will

offer the most flexible and economic ways of backing up intermittent wind and solar power generation.

A target model will bring added value if it accelerates progress to a liquid market, in a way which respects both the importance of long-term commercial arrangements in continuing to underpin energy supplies. At the same time the model has to be complementary to the more active trading which is developing. A target model should also be coherent with the objective of making Europe an attractive market for gas supplies and for market players including investors.

Long-term capacity contracts have an important role in helping to secure the necessary investment transmission in new infrastructure, but of course should be managed in combination with robust secondary market possibilities, and UIOSI/UIOLI rules.

The role of hubs/gas exchanges should be reinforced by market players, but this should be facilitated by increased trading opportunities not trading restrictions. Eurogas supports the introduction of bundled (hub to hub) products as an option alongside other capacity products, but currently the proposal to introduce an obligation to allow only bundled (hub to hub) traded products after a fixed period of time is counter to this approach, and therefore Eurogas has opposed it.

In principle the market model should reflect what is set out in the current legislation, and be compatible with the objectives of the Third Package. Although non-binding, it should not go further unless there is broad support from all stakeholders on particular cases. Nor should a market model start from the assumptions that existing contracts will be changed. One of the basic aspects of the model should be certainty and respect for existing contracts. The introduction of rules requiring changes to existing contracts should be exceptional and in any event preceded by a robust impact assessment.

3. What are in your view the key elements of a conceptual model of 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.

Eurogas recalls its emphasis in response to Question I on the importance of market-driven developments supported where necessarily by proportionate EU rules. The items mentioned are relevant to the development of a conceptual model and all concern areas in which Framework Guidelines/Network Codes are or soon will be in preparation and will eventually be of a binding character. Already they should be planned to interact with each other in a coherent way. The market model, however, which will be non-binding, is a steering instrument, a framework into which progress on codes and rules fit and which may consist of elements that bring added value to rules and codes, in particular on the access regime to networks. Any regulation of wholesale market prices is contradictory to the aim of creating competitive markets.

Eurogas has submitted input and response to consultations on CAM and CMP, and balancing. The harmonization of the dynamic calculation of the capacities throughout the European networks should ensure optimization of available capacities for users.

The market model should also respect the different considerations applying to storage and LNG, and be coherent with the widespread recognition of the need for investment along the gas chain.

The market model should envisage the market-based determination of wholesale prices.

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 the 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 natural gas markets) and horizontal depth (i.e. integrating balancing zones cross-border)?**

Harmonization should not be an end in itself, but key principles and some practices need to be harmonized to the extent possible in support of a competitive pan-European gas market with a level of detail appropriate to the key elements.

- (a) Eurogas recommends that a common time zone reference for the definition of a common gas-day should be adopted as far as possible. This needs to be agreed among stakeholders.
- (b) The gas market model should be compatible with retail market developments, and in so far as it touches on balancing for example should refer to DSOs interests. There will be a trade-off between vertical and horizontal, and the market model should meet this challenge but focus on developing cross-border markets.

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?

A range of aspects can be expected to be affected, but within the existing legislative framework, and with due consideration for the imperatives of security of supply. Among priorities on which guidance is necessary, Eurogas identifies:

- capacity allocation methods, including auctioning of primary capacities as well as secondary capacity allocation, and a choice of a range of capacity products for trading at hubs or at the flange;
- well-designed balancing frameworks, essential for both competition and the secure operation of the European gas system, underpinned by an appropriate level of harmonization and a common understanding on the roles and responsibilities of shippers and operators;
- criteria for a potential integration of entry/exit zones across borders; also possible solutions for handling differences in gas quality;
- recognition of the importance of a regulatory framework conducive to investment;
- a market responsive congestion management system which does not cause problems for shippers in meeting their firm delivery contract.

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 principle all aspects of the market relevant to the achievement of the internal European market and covered by the Third Package relate in some way to the eventual model, but some aspects will be more appropriately covered in the EU rules and codes, and other aspects are better left to the responsibility of national decision-making and NRAs. The target model should focus on high-level steering through a framework in which more detailed aspects of Third Package implementation should fit. Consensus has to be found among stakeholders as discussions proceed.

Tariffs that are transparent, cost-reflective, non-discriminatory and set a fair return on the regulated asset basis for the TSOs are the responsibility of the NRAs in line with the requirements of the Third Package.

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?

(a) Eurogas does not agree that there should be a deliberate policy of merging balancing zones. Zones should be encouraged to develop to their optimal size, not forced beyond a level at which economic benefits cannot be identified. The merger of zones, when possible at reasonable cost should be done without putting at risk the safe running of the networks.

(b) It is not clear that market coupling is appropriate for gas. Essentially it was developed for electricity as a congestion management tool, and already different approaches are under consideration for congestion management for gas. Also there would be capacity allocation related considerations. Therefore Eurogas is cautious about the practicality of this approach. However, if in any region market participants are interested in carrying out a pilot, this might be useful.