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Dear Sirs

**CEER Vision Paper for a conceptual model for the European gas market: Call for Evidence**

Interconnector (UK) Limited ("IUK") welcomes the opportunity to respond to CEER's call for evidence on the conceptual model for the European gas market. Over the last year ERGEG and ENTSOG have made significant progress in developing the framework guidelines that will form the basis of future network codes. Developing an over-arching conceptual model may also assist in ensuring the compatibility of network codes, thereby delivering a more efficient European gas market. The Consultation also provides a welcomed opportunity to reflect on the issues raised from the work to date on formulating the various framework guidelines.

**Main Goal of the Gas Target Model**

The model should provide a framework for significant, realistic and achievable progress in the development of the internal market in a feasible timeframe. It should be targeted at those areas where there is an identified problem (of liquidity, transparency, barrier to entry etc.) and seek to avoid imposing potentially expensive and disruptive system re-engineering costs where, although there may be discrepancies, problems do not exist. It is imperative that any conceptual model does not limit flexibility products and services, thereby restricting the responsiveness of the gas market.

**Network Users and TSOs roles and responsibilities**

IUK believes that the most efficient role for a TSO in the European gas market is that of an enabler, who maximises the potential of its system in order to deliver to network users the tools required for efficient movement of gas between points of demand and supply, and/or between markets. This is most relevant when it comes to balancing regimes: it should be the responsibility of network users to maintain a balanced position, whilst the TSO should provide all the necessary information and nomination rights to enable them to do so.

**Role of hubs**

Whilst TSOs should maximise the offer of operating tools to the market, physical differences between systems need to be recognised. This problem needs to be considered before

merging balancing zones or market coupling as surplus gas in one system does not alleviate a deficit in another.

It is IUK's view that the target model should incorporate a transmission model that allows purely for transportation between hubs, especially where no domestic market is served. As a pipeline operating between two hubs, IUK's business rules have been specifically designed and developed to facilitate cross-border trade. In IUK's experience, maximum flexibility in nomination and re-nomination rights and use of line-pack, has enabled users to respond rapidly to changing market conditions to the mutual benefit of both neighbouring hubs. Provision of this flexibility should therefore be a core tenet of any enduring hub to hub transportation regime.

### **Scope of the Gas Target Model**

The framework guidelines and resulting network codes must be appropriate to all Transmission System Operators ("TSOs"). Whilst most TSOs are complex national network systems with significant domestic markets and guaranteed regulated revenues, IUK, as a merchant operator of infrastructure does not fit into the assumed model. It does not have any end-users, and faces direct competition from the BBL pipeline, LNG import terminals, storage facilities and Norwegian gas supplies, many of which will not be subject to the same regulatory scrutiny and network codes. Therefore, network codes should recognise that not all TSOs are the same and that those with very simple networks and market based arrangements should not necessarily be treated the same as national monopolies.

It is important to ensure that the regime utilises incentives as a way to promote innovation and efficiencies. Incentives have been shown to deliver significant benefits in Great Britain. The network codes should provide sufficient incentive for TSOs to innovate in the way they sell their services and manage their systems and ensure that all TSOs compete on a level playing field with their competitors where the TSO does not occupy a monopoly position. It is crucial that the target model creates a degree of contractual stability sufficient to ensure the investment necessary to satisfy security of supply considerations.

### **Conclusion**

Any changes to the European gas network are likely to require fundamental commercial, operational and potentially physical changes which will be challenging to implement for both TSOs and network users. Network codes should aim for broad harmonisation, rather than fundamental overhaul, to seek progress where there is a genuine need. Innovation and efficiency should be incentive led, and flexibility in products and services embraced to maximise the responsiveness of the internal market.

Yours faithfully



**Darren Reeve**  
Commercial Manager