

Vereniging
Energie-Nederland



Lange Houtstraat 2
2511 CW Den Haag

CEER Secretary General
Attn Mrs. Fay Geitona
Sent by email: gas_target_model@ergeg.org

T. 070 311 43 50
F. 070 311 43 51
info@energie-nederland.nl
www.energie-nederland.nl
KvK Den Haag 50816179

Ons Kenmerk E 2011-2774
Behandeld door ir. H.B. Schurink
Telefoon 070 - 311 43 71
E-mail hbschurink@energie-nederland.nl
Datum 14 januari 2011

Onderwerp Gas Target Model

Dear Mrs Geitona,

Please find enclosed the Energie-Nederland reaction on Call for Evidence 'Conceptual model for the European gas market' (E10-PC-59).

Yours sincerely,

Mr. H.B. Schurink
Manager Market Affairs Gas

Reaction Energie-Nederland on

E10-PC-59: Conceptual model for the European gas market – Call for Evidence

Energie-Nederland is the sector association representing the common interests of the energy producers, traders and retailers for gas, heat and power in the Netherlands. Energie Nederland welcomes the opportunity to participate in this public consultation.

Energie-Nederland believes a Gas Target Model (GTM) for a pan European transport system is essential to come to a converging process towards an integrated European gas market. The GTM is a non-binding model which should ensure consistency among the various network codes to be established pursuant to the Third Package. The GTM should identify potential conflicts between the various network codes and resolve these. The GTM should give the framework for the TSOs with their public service obligation of providing gas transport that gives the optimal structure for a competitive market. At the same time the GTM should facilitate an appropriate investment climate for gas.

This means:

- Within physical boundaries of networks, balancing regimes are harmonized throughout the EU.
- Joint optimization of use and investments of the transport system throughout Europe.
- Transport tariff methodologies are harmonized throughout the EU.
- TSO's are incentivized to offer as much firm capacity as possible (efficient congestion management process), value of interruption should be determined on the secondary market.
- Trade based on energy rather than different gas qualities.

Energie-Nederland only sees the need for a GTM for the natural monopoly part of the market. Storage and LNG are not natural monopolies and the model should not try to introduce more rigid regulation for storage and LNG. Price forming for natural gas should be left exclusively to the market.

Furthermore it is important to mention that the GTM cannot be implemented disregarding existing rights of market parties. A prudent implementation path should be drawn up taking also in account that some regions develop faster than others.

A GTM has to integrate the current functioning of the gas market and ensure a soft transition to another one (if any), and not threatening the way the security of supply of the continent is performed without having practically testified that the same level of reliability could be reached in another target model.

In order to be a success, the GTM should be based on a wide consensus among all stakeholders.

Answers to the questions

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 3rd Package?

GTM should be focused on transport issues. This means:

1. Clear distinction between activities that should be regulated / circumstances when regulation is needed and commercial activities, i.e. commercial activities should not be regulated.
2. Full TSO Transparency, e.g. harmonized information on cross-border entry and exit flows and real time insight in line-pack.
3. Harmonized allocation of capacity.
4. Harmonized rules for investments and regulatory regime for transport.
5. Optimization of investments and use of the network from a European perspective rather than a single TSO perspective.
6. Harmonized hub to hub congestion management.

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?

Several new pipelines will bring additional gas into the EU, e.g. North Stream, South Stream and Nabucco. Furthermore LNG and Storage are added to the value chain. It would be valuable if gas could be traded freely across the EU. Therefore the aim should be to minimize trade hurdles.

a. the role of long term capacity contracts in the future European gas markets;

Long term contracts are important to provide security of demand to producers and security of supply to the European market. To ensure this long term gas transport contracts should also be possible. Long-term transport contracts should be valued and respected but shouldn't lead towards closed markets. So a key role of the GTM is to find a model that facilitates both long term and short term transport contracts.

b. the role of hubs / gas exchanges.

Hubs are a key element of a well functioning gas market and a logical consequence of a development towards entry-exit systems. Gas prices will be increasingly based on the hub price in a certain market

area. Hub to hub trading could be stimulated by developing capacity products between hubs. A European gas market will exist of several hubs and price areas based on network topology and commodity prices. Regulators should not indentify or appoint the location of hubs and/or market areas. Fostering the development of the hubs, should not be unduly detrimental to freedom of trade.

c. Gas quality issues.

The TSO is responsible for the gas quality in the grid and the measures to safeguard this gas quality. This is a public service obligation. Gas trading should be based on energy (kWh) rather than volumes of gas (m³).

d. Open Seasons

In markets with a large number of shippers, the fragmented predictions of future capacity need is a disadvantage of the open season model. However, a 'gas copper plate' model copied from the power market would also have its disadvantages, specifically in member states where gas supply would never reach the status of a universal service.

Within the Open Season model the influence of network users in the investment decisions of the TSO should be enlarged. In several member states, the risk lies largely with the network users, while the rewards largely end up at the TSO.

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.

Capacity allocation:

This is a delicate issue. On the one hand we want to open up cross border points where all capacity is fully booked in long term contracts and ensure the optimal use of available cross border capacity . On the other hand we want to protect our long term capacity bookings and avoid that capacity that we bought in open seasons becomes (partially) stranded. This issue needs a careful process to avoid a huge negative impact on future investments.

Hub to hub transport rights should be sold as far ahead as possible to facilitate long term contracts as much as possible. Some capacity may be reserved for shorter term. TSO's may develop capacity products between different market areas including bundled products. So capacity allocation

mechanisms should allow short term and long term contracting of capacity blocks. The TSO could sell its capacity in different block sizes, e.g 10 years, 5 years, 1 year, quarters, months.

If no firm capacity is available anymore, interruptible capacity should be sold at market prices through an auctioning mechanism with a zero reserve price.

Congestion management:

Congestion management is necessary for cross border transmission pipelines only. For the cross border capacity we need an efficient secondary market and transparency about the available transport capacity (e.g. day-ahead after nomination). It is also important to keep the link between long term commodity contracts and long term capacity contracts for security of supply and legal purposes.

Efficient use of the network can be ensured by:

- Unlimited interruptible capacity with indication of probability of interruption. This will incentivize market parties with long term capacity bookings to offer obsolete capacity to the market.
- Full transparency. Full transparency is vital to estimate the chance on interruption. Information that should at least be made available is:
 - Detailed information of their methodologies for determining the amount of technical capacity at each interconnection point.
 - Detailed and updated information on the amount of available capacity on each interconnection point at each relevant timeframe.
 - Actual and historical flows.
 - Forecasted demand.
 - Probability of interruption based on historical data.
- Before the nomination timeframe: a liquid secondary market for firm capacity (and non firm capacity on an interim basis) where prices are market-based. A trading platform for anonymous trade helps this development, but bilateral deals should remain possible.
- Within the nomination timeframe: a UIOSI mechanism for not nominated day ahead capacity. This means that the TSO “buys” back the unused capacity of the original capacity holder and sells this capacity as interruptible capacity to other users, As the TSO position is not longer neutral the net received (re)selling revenues should be used to lower transport tariffs.
- Another means to ensure firm capacity are flow commitments.

Network tariffs:

Network tariffs should be restricted to the cost of transport and gas quality. Tariffs should be cost reflective, non-discriminatory, regulated and predictable (for the coming years).

Wholesale market pricing:

Result from market forces. GTM should only set boundaries for a wholesale market to function, but should not have an opinion about prices. The GTM should only be aimed at the natural monopoly functions: transport and quality conversion. The boundary conditions will result in the right preconditions to develop efficient pricing.

Balancing arrangements:

The balancing regime of an individual TSO is attuned to maintaining the system integrity of this TSO and reflects the characteristics of the corresponding transport system (length, diameter, network characteristics). In addition there is a need for a European balancing regime that is as unequivocal as possible, or a coherent system of balancing regimes that do not obstruct cross border trade.

This/these balancing regime(s) should give the right price signals for investments in flexible gas (i.e. gas storage) and facilitate the development of a liquid wholesale market. Also all network users -on the supply and demand side- should be able to participate in resolving TSO imbalance (market based balancing regime).

(See also our reaction on ERGEG public consultation on a 'draft pilot framework guideline on gas balancing', E10-PC-54). The TSO should be neutral to market prices and should not have a financial interest in the balancing market.

Gas quality specifications:

Gas quality has several aspects e.g. wobbe-index, variations in wobbe-index through time, speed of changes of wobbe-index, CO-content, Hydrogen-content, Methane-content, Sulphur-content, etc. As the European gas market makes increasingly use of different sources of gas, securing a constant and compatible gas quality at the end-users' connection points is more and more a challenge. Grid operators are primarily responsible for the gas quality that is delivered at the relevant (end-user) connection points. The required gas specifications should not be defined too narrow at the entry-side of the market to prevent "locking" of certain market areas. However, the quality of the gas delivered at the end-user connection points should be sufficiently constant over time and compatible with the end-users' installations in which the gas is consumed. The TSO should be obliged to provide customers who ask for it, to provide them with near real time information about the gas quality.

Products to be offered by TSO to facilitate market:

- Hub to hub transport rights (flange trading should also be possible).
- Facilitation of secondary and balancing market.
- Congestion management.
- Transparency, e.g.,
 - Detailed information of their methodologies for determining the amount of technical capacity at each interconnection point.
 - Detailed and updated information on the amount of available capacity on each interconnection point at each relevant timeframe.
 - Detailed information on balancing situation and balancing market.

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?

Yes, it would help if the gas day would start and end at the same time across the EU and renomination times were harmonized. This should also take into account the interaction between power and gas markets, i.e. after closure of the D-1 power market it should be still possible to renominate gas capacity. A gas day could be: 06:00 – 06:00 CET.

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 GTM should focus on hub to hub transport only. Since the GTM encompasses the right for transport and entry-exit hubs there is no need to go deeper.

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?

The GTM should draw the gas transport framework within which the market can operate and enable to speed up the pace of market integration and harmonization of rules, processes and procedures related to gas transport and gas quality. This will allow market forces to shape the market to the maximum extent possible.

Constraints for a model are:

- to integrate the current functioning of the gas market and ensure a soft transition to another one (if any),
- not threatening the security of supply,
- keep the link between long term commodity contracts and long term capacity contracts for security of supply and legal purposes.

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

See introduction.

The GTM should identify the issues which should be regulated at a regional or national level and not on a European level. The type of balancing regime is an example of an area which should be left to the level of the market zone, since every grid has its own characteristics that need to be taken into account.

Furthermore, with the exception of a recognized gas platform on which TSOs take balancing actions, the target model should not cover the products, platforms, credit security or terms and conditions by which trading is executed.

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 drawbacks in this model in your view.

Markets will automatically integrate if there is enough capacity to facilitate different options for sourcing and an adequate congestion management scheme is in place (see previous answers). Integration should take place naturally as a result of increasing harmonization of core aspects of market operation and greater regulatory coordination and cooperation.

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?

Size of balancing zones depends on the physical characteristics of the grid. The GTM should for example not force a particular number of balancing zones, but should create the conditions to enable bigger balancing zones to emerge, where economically reasonable. A balancing zone that is too large can be inefficient. The GTM should give the market the building blocks allowing the balancing zone to develop optimally, instead of prescribing end results.

b. Is the coupling of market areas as it is being developed in European electricity markets appropriate for gas?

This depends on the congestion management and allocation scheme chosen and with a change of the role of the TSO and the arrangement for transport rights of consumers. However, we are of the opinion that the power model of market coupling is not an optimal solution for gas, due the different technical and economic characteristics of gas markets, compared to power markets.

In the case of electricity market coupling was introduced in order to deal with congestion and highly diverging prices on neighboring markets. The prices on the gas markets in Northwest Europe have, on the other hand, been increasingly converging. More efficient use of existing transport capacity and investing in interconnection where there is (a risk of) physical congestion will be big step for markets to further integrate.

-o-O-o-