

CEER cover note to

CEER response to European Commission Consultation paper of the Revision of Regulation (EU) No 994/2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC

7 April 2015

The Council of European Energy Regulators (CEER) considers that a clear distinction between the “prevention phase” and the “mitigation phase” is crucial. These two dimensions have to be properly articulated to ensure the required level of security of supply at lowest cost.

In particular it is CEER’s opinion that the market based measures present in the prevention phase should be allowed to continue as long as possible before shifting to mitigating measures. The prevention phase consists in different kinds of actions (e.g. implementing the network codes) aiming at allowing the market to be as resilient as possible without interventions of authorities which may hamper market functioning. This process to move to more mature gas markets in Europe may require incentives and obligations on gas suppliers (and shippers) when there is a market failure. It will also require sufficient infrastructure to ensure access to markets, such as physical reverse flows, alternative patterns for sourcing and re-routing of flows, and sufficient tools (e.g. storage, (Liquefied Natural Gas) LNG facilities) to allow the market to meet Security of Supply (SoS) requirements. In other words, National Regulatory Authorities (NRAs) or any other competent authority need to ensure the market has the means to work for as long as possible and that market-based instruments are able to function as much as possible.

The European Commission Consultation Paper¹ (p.3) states that “Physical connection between production and consumption areas is a prerequisite for European security of supply. The Regulation contains two main elements that aim to ensure a sufficient degree of infrastructure: the N-1 infrastructure standard and the obligation to install physical reverse flow capabilities at interconnection points.” CEER agrees that delivering sufficient levels of security of supply requires the existence of sufficient gas infrastructure. Therefore, the development of bi-directional gas interconnectors between Member States in certain regions is of utmost importance.

Prevention

Full implementation of the Network Code on Gas Balancing in Transmission Networks provides a framework which is very appropriate to provide incentives to shippers (if clearly designed) to contract sufficient gas and flexibility. This allows shippers to balance between their gas injections into the system, and the gas off-takes by their customers. As long as the system is in balance, all consumers get their committed gas. CEER believes that this framework could incorporate the value of SoS in a market-based balancing regime. To achieve this, SoS standards need to be clear and transparent: if

¹ [European Commission Consultation paper of the Revision of Regulation \(EU\) No 994/2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC](#)

shippers know SoS standards upfront, they can plan accordingly. There should be incentives which penalise imbalances by suppliers/shippers. These incentives should be able to rise to the (marginal) cost of consumer interruption (cost of damages, individual as well as any related collective costs). Suppliers/shippers facing these potential imbalance costs will search for efficient solutions (e.g. storage, demand response, etc.) to avoid these costs and thus attempt to stay balanced. Monitoring of balancing behaviour of suppliers/shippers as well as the sourcing patterns and reservation levels of flexibility tools is important to assess possible risks over a longer time horizons to ensure that the incentives are working, also in case of severe circumstances. The balance position can therefore be a market indicator for SoS within a scheme alongside monitoring and plans (Risk Assessments (RA), Preventive Action Plans (PAP) and Emergency Plans (EP)). Obviously, these plans remain important to cope with SoS on a longer time horizon and to consider particular threats and incidents with collective impacts (e.g. a failure of a major gas sourcing corridor). These plans should be transparent (except confidential sections) and readily accessible for market participants (i.e. available in English). The plans may deliver evidence, for example through cost benefit analysis, for member states to choose for specific obligations for system operators as well as system users to have SoS tools in their portfolio (e.g. operational margins for Transmission System Operators (TSOs) and storage obligations for suppliers/shippers). As a general rule, these obligations should be designed so as not burden the local market functioning (e.g. create barriers for market access) nor negatively impact market functioning and security of supply elsewhere. Any obligation of efforts should respect a level-playing field from a European market perspective.

Mitigation

The mitigation phase starts when it becomes very likely that (or a situation happens where) the TSO will no longer be able to (residually) cover the difference between gas injections into the system and gas offtakes from the system using market-based instruments (which may include operational reserves in line pack or Underground Gas Storage (UGS)). In the worst case scenario, the system will move to a problem of system integrity which corresponds to the beginning of a crisis. This results in some customers being interrupted automatically because of the drop in system pressure (starting with the high pressure customers like power plants). This would happen in an uncontrolled (and unsafe) manner if no emergency plan exists.

Thus, the system balancing position is a good indicator for the level of continuity of gas supply. This indicator could potentially be used to define a trigger for emergency notification in a timely manner before affecting the system integrity in order to take precautionary actions. CEER notes that it is important to define the thresholds of system integrity which may trigger the emergency phase.

If there are insufficient injections, a number of market-based tools are available that allow to continue to meet contractual commitments. For example interruptible supply contracts which allow for various reduction levels (1 to 100%). Another tool is an auction-based approach where shut-off plans / supply reduction plans are elaborated according to an auction mechanism where customers reveal their willingness to accept a supply reduction (1 to 100%) in return for compensation. Where a market is well-functioning, it is likely that these tools will avoid having to move to an emergency situation.

However, if market-based tools are exhausted and the issue is not resolved, the emergency phase begins. This means that the markets do not function anymore and emergency plans have to be used.

Clear and transparent emergency plans are important to ensure that all can assess the information. Member states of the same region should have prepared beforehand coordinated plans and rules (incl. prioritisation of customers, cross-border solidarity, etc.).

CEER strongly recommends expansion of the prevention phase for as long as cost-efficiently possible. CEER notes that it is important to define the thresholds of system integrity which may trigger the emergency phase. CEER recognises that in mature, well-functioning market the prevention phase can remain in place longer than in other less well-functioning markets. In those regions where the market cannot deliver sufficient security of supply State interventions may be applied in the prevention phase, in accordance with the RA and PAP. In this way the use of non-market based measures should not impact the process of moving to well-functioning markets².

² The [GTM Review and Update](#) provides metrics to assess the performance of a wholesale gas market and whether it is 'well-functioning'. These metrics help to assess whether the following two key properties are in evidence:

1. It meets market participants' needs – products and liquidity are available such that effective management of wholesale market risk is possible.
2. It has "market health" – the wholesale market area is demonstrably competitive, resilient and has a high degree of Security of Supply.