

**“CEER Vision Paper for a conceptual model for the European gas market”**

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**Comments of OMV Gas & Power GmbH**

OMV Gas & Power welcomes the initiative of ERGEG in seeking the opinions of undertakings and various stakeholders regarding a conceptual Gas Model for the European gas market.

**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?**

- ▶ The implementation of the 3<sup>rd</sup> Energy Package is clearly a prerequisite for the success of the European Energy Strategy. Nevertheless it carries its own set of difficulties – from its implementation on a national level, to the functioning of markets and to the support for a strong energy industry working within a coherent internal energy market. Therefore, a Gas Target Model could provide useful yet non-binding guidance by describing the framework within which stakeholders should act in order to achieve a well functioning and cost-efficient internal gas market.
- ▶ As the Gas Target Model will be finished after the implementation of the 3rd energy package in the European member states, the purpose of this model should be clarified. Will the model seek to provide the basis for future legal frameworks? Regardless, the model must take into consideration and allow for the local market and network circumstances in each member state. Unfortunately, it seems that the model will be finished too late to give guidance to all European countries.
- ▶ As this Gas Target Model has no legal basis it is important that it receives broad and robust stakeholder support. For this to happen there should firstly be a suitable impact assessment for the chosen model and, secondly, be an agreement about the model's success called KPIs (Key Performance Indicators).
- ▶ We understand that the Gas Target Model as an additional tool should be build on the principles laid down in European Regulations and Directives/ The model should ensure the coherence of individual frameworks, guidelines and network codes, and define their interactions in order to prevent inconsistencies and gaps. However, the Target Model should not deal with individual network codes. The Model should effectively complement the high level policy goals of the 3rd Energy Package and thereby aim to improve the climate for infrastructure investment. A resilient and fully developed infrastructure is a precondition for achieving the goals set in the 3rd Energy Package.

**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;**

- ▶ Gas will play an increasingly important role in the European energy market and will develop as the back-up fuel for alternative electricity generation. Furthermore, major investment into gas infrastructure will be needed to not only ensure the prominent position of natural gas in the energy mix, but also to compensate for declining domestic production and increasing import needs.
- ▶ While the spot market has played an increasingly important role in the European gas markets, long term contracts continue to form the backbone of European gas supply. They remain essential elements within suppliers' portfolios and offer the market certainty, stability and foresight – all of which foster a good climate for major infrastructure investments.
- ▶ With regard to long distance transportation systems, these rely on destination market demand and ultimately have to be financed by those markets. As such, long term contracts provide the necessary security for both the infrastructure investors and the market suppliers. The IEM packages question this connection but have failed to provide a feasible alternative with respect to a proper risk allocation.
- ▶ Though the recession has reduced gas demand and led to a situation of over-supply, it has not modified the fundamental challenge that the gas industry will face in the next decades: providing Europe with sufficient natural gas in the context of rising consumption. Indeed, from 2020 onwards, Europe will experience a significant and potentially disruptive natural gas supply gap unless new infrastructure projects are put in place to provide the necessary supplies. The impact of a Gas Target Model on new investments should therefore be carefully considered.
- ▶ OMV is at the forefront of the Nabucco pipeline project, which seeks to transport gas from the promising and rapidly developing Caspian region. Nabucco will, in fact, be the fourth corridor to supply European markets with natural gas, and will act as a bridge between Europe and the major gas producing regions of the world (the Caspian and the Middle East).
- ▶ Therefore, the importance of long term contracts and their role in fostering new investment should be taken into account by the Target Model.

## **b. the role of hubs / gas exchanges.**

- ▶ Gas hubs and exchanges play an important role in increasing liquidity in the European gas market. They also naturally complement long term contracts, as they bridge the gap between long term infrastructure financing needs and short term flexibility requirements. Thus, gas hubs act along the same lines as stock exchanges.
- ▶ Among them, Austria's Central European Gas Hub (CEGH) continues to develop at a fast pace. In 2009, CEGH achieved a trade volume of 22.7 billion cubic meters (bcm) and established itself as one of the biggest gas hubs in continental Europe. In 2010, CEGH recorded a total trading volume of ca. 3 bcm per month. The current churn rate is about 3.2<sup>1</sup>. The highlight of 2010 was the opening of the derivative market in December. With this step, CEGH is now the only European gas hub to offer its customers a "one-stop shop" for a full range of gas trading services. It provides both over-the-counter and exchange trading services in cooperation with international partners.
- ▶ Austria, its private partners and its neighbours will all benefit from the vibrant trading activities of CEGH.
- ▶ OMV Gas & Power sees a negative impact on competitive trade if there is an obligation to introduce only bundled products at hubs. The product mix should be determined with the customers.
- ▶ A gas market model should be in line with the overall aim of supporting well functioning trading markets. From our point of view only a model on a very general and voluntary basis can support the development of these markets: let the market handle it. Furthermore, a common model facilitates country comparisons.

## **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.**

- ▶ Integration of balancing requirements with existing trading platforms will result in more liquidity and a reliable and pure market price (e.g. the National Balancing Point).

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<sup>1</sup> The counting methodology is not comparable to Entry/Exit Systems of other European countries since shipper to shipper transfers are not included in the statistics.

- ▶ OMV Gas & Power considers that the key aspects of market design listed above should be contained in detail in the relevant network codes. CAM, CMP tariff arrangements etc. are not a relevant scope for a Gas Target Model. A Target Model should instead specify the intersections between individual network codes and timelines. It should cover the market structure and not the content of network codes. It should focus on criteria for the application of network codes with their possible stepwise implementation.
  - ▶ The model is seen as a steering instrument and framework. It should therefore take into consideration the diversity of market players, such as network-operators, traders, shippers, storage-operators and hubs. The existence of varying needs must be integrated into the Target Model.
  - ▶ The successful interaction of all arrangements mentioned above is a precondition for a functioning gas market.
  - ▶ The Model should foster the efficient use of capacity and create a positive climate for necessary investments. Local requirements should be carefully considered, especially regarding balancing mechanisms and gas quality. On a detailed level, one model doesn't fit all.
- 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?**
- ▶ We support the harmonization of rules and procedures within the European gas market and beyond the European Union. In particular, cross border trade can only function efficiently when standardized products are compatible on both sides of the border. Nevertheless, as national specifics remain useful in a common energy market, a comprehensive analysis and consultation should be undertaken on this topic.
- 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)?**

- ▶ It seems most important that balancing can take place across borders and that market mechanisms are the basis for balancing procedures. This means that exchange platforms should be the main source for balancing provisions. The integration of pure trade with physical balancing activities in one marketplace will lead to increased liquidity.
- ▶ The level of detail of the Gas Target Model results from its position between the Commission's priority-setting and the drafting of individual framework guidelines by ACER. A master framework guideline should be less detailed than individual framework guidelines and should therefore leave space for further specification.
- ▶ The Model should not touch such issues as codes, gas day specifications – the latter will be covered by work on interoperability and should not be considered as an EU-wide priority – and distribution areas, due to local conditions. Regarding gas days, non-EU-countries are partly responsible and therefore an agreement solely between EU member states cannot be a solution.

**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?**

- ▶ As already stated in answers 3 and 4, the Gas Target Model should not cover any details of the network codes fixed in the Regulation 2009/715. It should neither harm existing legislation, nor affect competitive activities. It should, however, should take into account possible interactions with storage and LNG.
- ▶ As long as the Gas Target Model is not binding, all aspects and areas where comparisons are possible could be affected on a high level.

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

- ▶ If a Gas Target Model seeks to support all market participants, it should integrate all aspects of the 3rd Energy Package. While there are certain aspects and topics that should be covered on a European Level, others are better handled by their respective NRAs or Ministries.

**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?**

- ▶ The experience of other markets, for example the European electricity regimes, may document which points should be taken into consideration.
- ▶ For the time being, we are not in the position to offer a final answer to these questions. As the physical characteristics of natural gas and electricity transportation are so different, a thorough understanding of the workings of the electricity auction is required, but also of the respective background (contracts, bottleneck borders, imports in relation to production etc.)
- ▶ The coupling of markets will not solve any capacity contingencies. In any case, cross border trade should be implemented and developed in order to bridge markets from the trading perspective.
- ▶ The Austrian Model has functioned very well over the past years.