



CEER Vision for a European Gas Target Model

Summary of Responses

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1. Background

The objective of an integrated and competitive European gas market that is sustainable, offers choice to customers and promotes security of supply is enshrined in the 3rd Package. Furthermore, the 3rd Package includes a number of requirements such as the establishment of entry/exit zones, market-based balancing and the establishment of binding network codes. There are also future challenges through renewable and emissions targets. Discussions at the 18th Madrid forum in September 2010 highlighted that these issues cannot be considered in isolation and a consistent approach is needed to ensure the objectives of a liquid, efficient, competitive and sustainable European market. The forum agreed that there was a need for a vision of what the European gas market should look like in five to ten years time. The European Council in February 2011 confirmed its commitment to this objective and set 2014 as the deadline for the completion of the internal market.

European energy regulators have committed to produce, by the end of 2011, a vision paper on the gas target model. A Call for Evidence¹ on the conceptual model for the European gas market was launched on 5 November 2010 to understand stakeholders' initial views on what should be considered. A series of four dedicated workshops took place from December 2010 until June 2011 and a special workshop to discuss the gas target model with academia in September 2011. All presented material and video recordings of the workshops are available at the CEER website². The draft vision on the gas target model was published on 5 July 2011 for public consultation. The consultation period ended on 20 September 2011. This document summaries stakeholder views from the public consultation.

2. Received comments

The CEER public consultation aimed at gathering the view of stakeholders in general on the proposed recommendations and in particular on a list of 11 questions raised in the consultation document.

51 responses were received (1 confidential; 1 partly confidential), covering a broad spectrum of stakeholders. Individual non-confidential responses are available at the CEER website³. In general most responses came from stakeholders situated in the North-West and South-West of Europe.

¹ The Evaluation of Comments of the Call for Evidence as well as all non-confidential responses are available under http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/GTM_CfE/CD

² http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/GTM_CfE/BG

³ http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Gas_Target_Model/Results

Annex 1 provides a list of respondents to the public consultation.

2.1. Q 1: What are stakeholders' views on the definition of a “functioning wholesale market”?

Many stakeholders remarked that a functioning wholesale market should not be defined by only three parameters and moreover that the parameters specified were considered “arbitrary” or “theoretical”. Several respondents expressed that the parameters should be an indicator of the existence of a functioning wholesale market, rather than the definition of it.

On the other hand, several respondents outlined criteria according to which a wholesale market could be assessed. These included:

- market liquidity
- price building mechanism
- cooperation of market participants
- level of gas demand
- total volume traded
- market access
- freedom to trade
- transparency
- lack of restrictions to move gas in a balancing zone
- churn rate
- gas sources
- non-discriminatory access to storage facilities
- liquid trading hub
- number of sellers and buyers
- interdependency of gas from oil
- market price moving

In general respondents felt that parameters should only be used as indicators. Several stakeholders also felt that the definition should do more to account for different regional contexts.

2.2. Q 2: What are stakeholders' views on the three options identified to enable functioning wholesale markets, i.e. (i) creating market areas at national level for Member States able to meet the criteria of a functioning wholesale market; (ii) creating a trading region covering more than one country; or (iii) creating cross-border market areas?

The majority of stakeholders agreed that functioning wholesale markets would be best achieved through the creation of market areas at national level (Option i); ideally with only one national entry-exit system. One respondent however suggested that it made more sense, both physically and economically, to merge two zones between Member States rather than creating national market areas.

Many stakeholders expressed concerns that Options (ii) and (iii) were too complex, with some stating that they were unrealistic. Some felt that Option (ii) would result in the creation of two virtual trading points and should therefore be disregarded, while a number of respondents felt that further clarification over the concept was required before it could be considered as a viable option. Stakeholders also raised concerns that Option (iii) would risk increasing socialised costs and would result in a larger technical/legal burden. One stakeholder noted that there was no difference between the three options, and therefore the decision should be made following a lower cost criterion.

Two stakeholders highlighted that access to a well-functioning wholesale market is the fundamental requirement. The implication being that it is not necessary for every entry/exit system to become a functioning wholesale market provided that every EU gas consumer is within a local balancing market and that potential suppliers have easy access to at least one wholesale market where greater liquidity is available.

Generally a number of stakeholders highlighted both the importance of cost-benefit analysis and the need to harmonise the target model with network codes and with existing legislation. Some stakeholders noted the importance of tailoring the model to specific regional circumstances.

2.3. Q 3: What are stakeholders' views on the proposed steps until 2014 for enabling functioning wholesale markets?

Many stakeholders stated that the priority should be the implementation of the 3rd Package and the development of network codes. Two stakeholders however felt that the identification of trading zones should take place as soon as possible, before the network codes are implemented. Nearly all respondents expressed the importance of a thorough cost-benefit analysis, especially before the implementation of cross-border market areas. The general view was that while ACER and NRAs should define market areas, stakeholders should always be involved.

A number of stakeholders felt that the timeline proposed in the vision paper was overly ambitious and unrealistic.

2.4. Q 4: What are stakeholders' views on the full implementation of the CAM network code and the CMP guideline at all interconnection points by 2014 at the latest?

The majority of stakeholders agree with the aim to implement the CAM network code and the CMP guideline at all interconnection points by 2014. Nonetheless, many perceive this target to be very ambitious while others have reservations over some elements of the proposals.

A number of respondents state that achieving the 2014 target would depend on:

1. The timely delivery of the CAM network code by ENTSOG;
2. The clarity on the CMP guideline by the Commission (outcome of the comitology procedure);
3. whether there is enough time for TSOs to implement measures.

Several stakeholders are keen to implement both the CAM network code and the CMP guideline as soon as possible, noting that early pilot projects could help to reach this goal.

2.5. Q 5: What are stakeholders' views on the proposed pilot projects to design and trial an implicit capacity allocation mechanism between at least two entry-exit zones in different Member States by 2014?

A very large majority of stakeholders from all parts of the gas value chain welcomed the idea of carrying out pilot projects on an implicit capacity allocation mechanism. The support for this type of projects is however tied to the condition that projects are carried out in a transparent manner, involving all relevant market players and that results are communicated in an objective way.

A number of stakeholders suggested carrying out cost-benefit analyses prior to implementing pilot projects, whereas others stated that the results of pilot projects, together with a broader impact assessment and cost-benefit analysis should serve as the basis for decision on implicit allocation mechanisms.

The existing pilot project between GRTgaz Nord and GRTgaz Sud was repeatedly mentioned as a positive example. However, stakeholders are strongly in favour of implementing pilot projects between countries and involving different TSOs.

On the content of the pilot projects – implicit allocation mechanisms – stakeholders were less unanimous, with a number of critical voices on the possibility of implementing implicit capacity allocation mechanisms in the gas sector. About one fifth of the respondents explicitly mentioned the importance of continuous trading, whereas a clear majority said the specificities of gas as compared to electricity need to be taken into account when designing implicit capacity allocation mechanisms.

2.6. Q 6: What are stakeholders' views on the need for explicit long-term capacity allocation?

An overwhelming majority of respondents (all but three) are fully in support of explicit long-term capacity allocation. The main reasons put forward in favour of explicit long-term capacity allocation are a higher level of security of supply as well as the facilitation of cross-border infrastructure investments.

Among the few respondents who expressed a critical view, two underlined the importance of promoting and developing short term capacity markets and one stakeholder stated that capacity should be allocated for a maximum period of a few years.

Many respondents did not only express their view on the need for explicit long-term capacity allocation, but did also make clear that their preferred auction design option included annual (and not only quarterly) products as well as a multi round system.

Representatives of gas consumers and gas consuming industries underlined that in parallel to allowing long-term capacity booking, congestion management procedures ought to be strengthened. A few respondents warned that shippers could potentially be left with undesired capacity if auctions were carried out at non-congested points and therefore suggested coupling auctions at congested points with FCFS procedures at non-congested interconnection points.

2.7. Q 7: How should economically-viable projects for cross-border capacity investments be determined?

Almost all respondents agreed on a market based approach towards investment decisions. Only one respondent underlined the benefits of centralised planning compared to a market driven approach. In general, the majority of stakeholder was supporting auctions for this purpose; however, there was also support for Open Seasons. One respondent proposed a hybrid model consisting of a combination of Open Seasons and security of supply considerations. One respondent urged for an individual approach on a case-by-case basis for each cross-border point.

A number of respondents underlined the importance of the TYNDP as well as national investment plans for the determination of investment projects. Several stakeholders asked for considering security of supply and market integration issues as well as other externalities when developing a market test. Numerous respondents argued that for market integration, security of supply as well as environmental purposes a market test shall not be the only instrument to decide whether an investment shall take place or not. Furthermore, some respondents asked for the ex-ante definition and harmonisation of investment triggers all over Europe. However, other respondents explicitly argued in the opposite direction.

About 10% of respondents called for a benchmarking of investment costs by ACER and NRAs. Furthermore, some called for an evaluation of financing methods.

Several stakeholders stated that if a TSO is not willing to invest, tendering investments is a possibility to be considered.

In general, stakeholders underlined the importance of the ongoing Energy Infrastructure Package discussions.

2.8. Q 8: What are stakeholders' views on the proposed development of an economic test to trigger new capacity, based on market demand established through coordinated long-term auctions? If in favour, by whom and how often should such a test be conducted?

The overwhelming majority of respondents agreed with the need for, and are in favour of, an economic test to trigger new capacities. Only few respondents are opposing CEER's proposal. Some respondents questioned whether such an economic test is the right instrument if entirely new capacities shall be built. Furthermore, a number of stakeholders highlighted the need for an additional instrument for security of supply investments.

In general, stakeholders invite regulators to further develop their proposal in close cooperation with stakeholders. A number of stakeholders highlighted that both an Open Season approach as well as an incremental capacity auction process should be analysed in more detail, especially regarding the cross-border dimension.

From those who explicitly expressed their preferences, 13 respondents were in favour of an annual economic test and 7 respondents urged for a biannual assessment in line with the TYNDP elaboration process. Furthermore, several stakeholders did express their preference for a regular process but did not mention a specific rhythm. However, some argued that economic tests should also take place if for example a new LNG terminal goes online.

In general, stakeholders agreed that TSOs should conduct such test, however, monitored by regulators.

2.9. Q 9: What are stakeholders' views on the pricing of cross-border transmission capacity?

Respondents largely support the proposal for a reserve price to be set and for it to be based on the same cost-based allocation method as the regulated tariff. Though there was some support for prices to be entirely market-based, the majority of stakeholders agreed that some element of reserve pricing was necessary.

There was a broad consensus that a reserve price would be an appropriate approach for long-term capacity as outlined in the Gas Target Model. However, as expected there was less agreement over the approach for short term capacity, with a number of respondents arguing that no element of reserve pricing should be applied to short term capacity. The main concern being

that a non-zero reserve price for short term auctions would result in spare capacity.

However, other stakeholders were concerned that setting a zero reserve price on short term capacity (day-ahead and intraday) would result in cross-subsidisation and promote flight from long-term to short term capacity. They thus recommended that a reserve price should be applied to all capacity. Having taken this view, there was further disagreement in terms of whether a uniform reserve price should be applied to all capacity, or whether it should be prorated according to auction type in order to account for cost discrepancies.

Several respondents also noted that pricing should be in accordance with Regulation 715/2009.

2.10. Q 10: Do you think that the elements of the gas target model provide a good framework for the integration of renewable energy?

The majority of stakeholders felt that the framework provided by the Gas Target Model was largely sufficient with regard to the integration of renewables, though several highlighted that this was conditional on being adequately adapted to nuances of the gas sector.

Stakeholders widely embraced the Gas Target Model's objective to provide a framework for increased liquidity in the wholesale market and believe this liquidity will help facilitate the successful integration of renewable energy. However, a number of respondents pointed to the negative implications of an (excessive) limitation of renomination rights as proposed under the Gas Target Model. Renomination is seen to be an important balancing tool and stakeholders felt that restricting it could reduce the flexibility of the gas market and therefore the development of intermittent renewable energies.

Concerns were also raised about the lack of detail in the Gas Target Model regarding renewables. The suggestion being that more guidance was needed firstly in terms of who should bear the costs associated with the integration of renewable energy (particularly additional costs of balancing activities arising from greater off-take flow rate variations on the system); and secondly with regard to the provision for harmonisation of gas and electricity days across Europe.

Several respondents felt that more detailed consideration of how best to integrate renewable energy should be reserved for the development of binding network codes.

2.11. Q 11: Are there elements missing in the target model that are necessary for the integration of renewable energy at a European level, possibly with a view beyond 2014?

Expectations over the level of detail in the Gas Target Model varied; some stakeholders found the Gas Target Model to be a sufficient framework, suggesting that further details should be reserved for framework guidelines and network codes. Others, however, felt necessary elements were missing in the target model. Largely, those who answered negatively to Q10 were the same respondents that felt that the Gas Target Model was insufficient when considering a view beyond 2014.

Several respondents expressed the importance of flexibility in the model going forward, notably its ability to respond to commercial developments including the integration of biogas and the potential for methanation. Concerns were raised that the current framework set out in the Gas Target Model was not sufficiently flexible.

Stakeholders also felt more detail was needed regarding how to stimulate investment, specifically investment that would not discriminate against back-up power generators whose consumption patterns may be irregular and unpredictable. Several stakeholders also noted that there should be greater consideration of the great importance of, and future challenges for Distribution Service Operators.

Annex 1 – List of stakeholders responding to the consultation⁴

CEER received 51 responses (including 1 confidential and 1 partly confidential) covering a broad spectrum of stakeholders. Non-confidential responses were received from the following organisations:

Organisation
Association of Electricity Producers (AEP)
AFG – French Gas Association
Association of Gas and District Heating Companies
BDEW - German Association of Energy and Water Industries
CEDEC - European Federation of Local Energy Companies
CEFIC - European Chemical Industry Council
Centrica Plc
Cepsa Gas Comercializadora, S.A.
E.ON AG
EconGas GmbH
EDF SA - EDF Energy - EDF Trading - SPE LUMINUS
Edison Spa
EDP Gas (EDP Group)
EFET – European Federation of Energy Traders
Enagas, S.A.
EnBW Energie Baden-Wuerttemberg AG
Endesa Ireland
Energie-Nederland
Energy Networks Association
Eni S.p.a.
ENTSOG – European Network of Transmission System Operators for Gas
ESB International
Esso Nederland BV / ExxonMobil
EURELECTRIC

⁴ Stakeholders had the possibility to make confidential responses to specific questions. From 1 respondent a confidential response was received, from another a partially confidential response.

Organisation
EUROGAS
Eurogas Distribution Committee
EuroPEX
Gas Natural Fenosa
Gaslink
GasTerra B.V.
Gazprom Marketing and Trading
GDF Suez
GEODE
GIE - Gas Infrastructure Europe
IFIEC Europe
JP Morgan
National Grid
Naturgas Energia Comercializadora (EDP Group)
OGP
PGNiG
POWEO
RWE Supply & Trading GmbH
SEDIGAS
Sorgenia S.p.A.
Statoil
The Gas Forum
UPRIGAZ
Verband Kommunaler Unternehmen (VKU)
VERBUND AG
Wärtsilä

Annex 2 - CEER

The Council of European Energy Regulators (CEER) is the voice of Europe's national regulators of electricity and gas at EU and international level. Through CEER, a not-for-profit association, the national regulators cooperate and exchange best practice. A key objective of CEER is to facilitate the creation of a single, competitive, efficient and sustainable EU internal energy market that works in the public interest.

CEER works closely with (and supports) the [Agency for the Cooperation of Energy Regulators \(ACER\)](#). ACER, which has its seat in Ljubljana, is an EU Agency with its own staff and resources. CEER, based in Brussels, deals with many complementary (and not overlapping) issues to ACER's work such as international issues, smart grids, sustainability and customer issues.

The work of CEER is structured according to a number of working groups and task forces, composed of staff members of the national energy regulatory authorities, and supported by the CEER Secretariat.

This report was prepared by the Gas Working Group of CEER.