



EDF TRADING

80 Victoria Street
Cardinal Place, 3rd floor
London SW1E 5JL

T +44 (0)20 7061 4000
F +44 (0)20 7061 5000

Fay Geitona
CEER
28 Rue le Titien
1000 Bruxelles
Belgium

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Conceptual model for the European gas market: call for evidence

Introduction

EDF Trading supports the overall objectives of ERGEG and EC to develop a conceptual model for the EU gas market. A similar process in power has been successful in providing impetus towards further integration and better functioning of markets.

We agree the conceptual model should provide overarching guidance to the development of the framework guidelines and network codes under the 3rd Energy Package. A clear understanding of the direction and steps to establish a single EU gas market will help ensure the objectives of the 3rd Energy Package are achieved.

The conceptual model should not be overly complex or detailed as this will hinder implementation across Member States and undermine flexibility that may be needed to respond to changing market dynamics. We have commented on a few aspects of a possible target model under broad headings below.

Capacity utilisation needs solving

There is currently significant transmission capacity that is not utilised. This undermines the efficient operation of the EU gas market. The primary focus should be on ensuring that capacity on the EU's gas transmission networks is allocated and utilised efficiently for example by:

- ensuring there must be a high level of transparency on transmission capacity availability/utilisation/gas flows on a real time basis at all relevant points on the network
- requiring that TSOs utilise dynamic calculations of available capacity to maximise the capacity offered to the market.
- requiring TSOs to facilitate secondary capacity trading
- ensuring harmonised firm and interruptible capacity products are offered by TSOs through an auction with transport between interconnected balancing zones offered with a single contract, single nomination and a zero reserve price.

Ensuring effective transparency

There is a need to ensure effective transparency in the gas market. A key gap is the lack of any formal disclosure requirements in gas production. This corresponds with the current situation in power generation which will be further enhanced through ERGEG's proposed commitology guidelines.

Effective congestion management

Regulators should have a 'tool box' of mechanisms to help ensure effective congestion management which could include:

- incentives for TSOs for optimal selling of firm capacity through over-subscription and buy-back mechanisms
- capacity substitution arrangements to allow TSOs to exploit network flexibility and move spare capacity to more constrained parts
- some restriction of renomination rights at different timescales and remarketing of this capacity including as both interruptible and where appropriate firm capacity

In power the introduction of market coupling through implicit auctioning of capacity released at the day-ahead stage by restricting renomination rights has proved successful in integrating markets and ensuring network capacity is utilised efficiently. While the interactions between gas and power markets are increasing it is not clear whether a market coupling approach is the right way forward for gas at this point and we think further consideration is required. Nevertheless, as a minimum any capacity that is freed up must be released through a market based (auction) process. A harmonised explicit auction process should be relatively quick to implement for example.

The development of new capacity should be facilitated through a market based (open season) process for investment in EU gas transmission networks and other key infrastructure. This should include full coordination of open season processes across different TSOs. Regulatory authorities should develop greater levels of harmonisation in the investment framework including the triggers and economic tests for determining whether investments go ahead and cost recovery arrangements for TSOs.

Other barriers that must be removed

There is a need to remove restrictions that prevent market participants having equal and non-discriminatory access to storage and LNG facilities. For example, in some Member States it is not possible to access storage capacity or services unless you supply domestic customers.

We support TSOs being required to offer hub-hub bundled capacity products. However, this should not be at the exclusion of other capacity products that are necessary for trading gas at other locations. Otherwise trading flexibility and optimisation of assets could suffer with a negative impact on market liquidity.

Market based daily balancing must be fully transparent so firms can manage their commercial exposures. This means information must be provided on a within-day and preferably real time basis. Access to flexibility tools and services must be made available through a non-discriminatory, market based, process. This includes the removal of any restrictions on access to flexibility such as the need to supply domestic customers.

Consideration should be given to merging balancing zones (both within and across Member States) where this will help the development of the wholesale market. A key prerequisite to any merger will of course be consistency of balancing regime and an ability to operate the merged market areas as a single network.



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Each national market should be established on a hub based trading system – although as explained above flexibility to trade at other locations must be possible there is a commercial driver to do so. There should be no restrictions on the number of hubs that could be supported by a particular market as this should also be driven by commercial factors and the physical characteristics of the networks.

If you have any questions on this response please do not hesitate to contact me.

Yours sincerely

Jonas Törnquist
Head of Transmission & Regulatory Affairs

