

Colin Hamilton
European Policy Advisor (Gas)

colin.j.hamilton@uk.ngrid.com
Direct tel +44 (0)1962 65 34 23
Mobile +44 (0)7971 76 03 60

www.nationalgrid.com

14 January 2011

Dear Fay,

National Grid response to CEER Vision Paper for a conceptual model for the European gas market: C10-GWG-70-03

We welcome the opportunity to respond to the Call for Evidence for a conceptual model for the European gas market.

National Grid, through National Grid Gas plc ("NGG"), owns and operates the gas transmission system in Great Britain and four of eight gas distribution systems in England. National Grid is an active participant of ENTSOE and supports the response submitted by ENTSOE to this consultation. In addition, we would like to take the opportunity to submit a response on behalf of National Grid Gas plc.

In general we welcome the aims of the CEER Vision Paper in so far as they meet the over-arching objective of encouraging and facilitating gas trade across systems and the development of competition within the EU and the 3rd package objective of a pan-European gas market.

The development of a gas target model is highly desirable to help ensure the alignment of forthcoming Framework Guidelines and subsequent Codes as envisioned by the EU 3rd Energy legislative package. The primary goal of the target model should be the coordination and alignment of the network code development process to ensure coherence between the final approved codes. It is evident from the draft framework guidelines on CAM and balancing already produced that there are strong interactions between areas and that an overarching template is required to ensure alignment between code areas.

The Target Model should aim to facilitate the developments required in the European gas market to reflect a number of changes such as increased reliance on imported gas to compensate for the decline in indigenous production, more varied supply patterns as both new gas sources and supply routes are developed to meet European demand, and in changes in demand patterns, especially that associated with increasingly intermittent gas demand for generation required to support generation from renewable sources.

To achieve the aims of the 3rd Package one can anticipate greater gas market integration with increased hub to hub trading, the merger of balancing zones and a move towards more market based

approaches for balancing, access and investment. There is certainly merit in this but the Target Model has to reflect the underlying physical reality of gas transmission systems and whether markets are always the most effective mechanism to achieve the most efficient outcomes for system operations. It also has to consider the cost versus benefit for regimes changing towards a common operating model, and whether allowing for a degree of regional specificities is sometimes more appropriate.

The Target Model should take a measured approach in the level of detail it contains. Its aim should be to coordinate the guidelines rather than dictate contents. That said there may be some areas where the Target Model could deal with areas that have a strong impact on a number of guidelines and codes such as the definition of the gas day – the cost-benefit of an EU-wide gas day has to be considered. There should be a pragmatic approach taken on all such issues as to whether coordination can best be achieved through harmonisation or by agreeing common rules for handling difference at the interfaces of market areas.

One should be mindful that there should be no drive to maximise the alignment between any Target Model for gas markets with any counterpart for electricity markets. Although there is undoubtedly some value in seeking to learn from different regimes one should note that fundamental differences exist between them, not only in the physical fundamentals such as balancing timescales and rates of transmission but that gas will have considerably larger cross border energy flows and transit volumes such that the coupling of market areas and inter-TSO compensation schemes are dealing with a very different scale of total energy throughputs with gas than is the case with electricity.

It is essential that the Target Model be developed without undue delay to ensure it is able to both inform and streamline the individual framework guidelines and network codes. However, we should be guarded at being too prescriptive in this initial consultation; this phase should be one of defining the scope and aims of developing a Target Model. It should also be highlighted that although its development should be seen with some degree of urgency, it is essential that the Target Model development process is seen to be highly transparent, iterative and consultative. It is particularly important that ENTSOG is closely involved in the development of the model and that TSOs feel that they have been given the opportunity to fully contribute to a successful and agreed outcome.

Finally, it is important that all stakeholders have early sight of any prospective proposals for the Target Model prior to the Bonn meeting on 22 February in order to be fully able to participate in the model's development in a constructive and informed basis in order to achieve an effective and consensual result.

I hope that this response is helpful. If you need any clarification on the points made or have any questions please contact me on +44 1926 65 34 23, or email colin.j.hamilton@uk.ngrid.com.

Yours sincerely,

Colin Hamilton
European Policy Advisor (Gas)