



Ms Fay Geitona
ERGEG

via e-mail to: 10-year-plan@ergeg.org

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Dear Ms Geitona

Shell Energy Europe B.V.

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Re ERGEG recommendations on the 10-year gas network development plan – An ERGEG Public Consultation Paper (E08-GNM-04-03)

Thank you for the opportunity to respond to this consultation document on behalf of Shell Energy Europe (SEE) BV, a pan-European gas shipper and supplier. Our non-confidential answers are contained in Appendix 1 (these include references to the Brussels Workshop on 29th April 2009).

In broad terms:

- SEE supports the creation of a 10 Year Network Development Plan in expectation of benefits in terms of security of supply and competition. However, we support the creation of a non-binding Plan but, as we suggest, it is not clear that in reality the proposed Plan is not indirectly binding. Clarification on this point would be welcome.
- Notwithstanding this point, there are some practical difficulties with certain aspects of the Plan, eg. network modelling, that should not be underestimated;
- There appeared to be some confusion at the Brussels Workshop with parts of the consultation and references to infrastructure. It would be beneficial if ERGEG could be explicit that any powers to mandate investment refer to transmission capacity investment only;
- In a similar vein, information provided by import terminals, storage facilities and interconnectors should be limited to what is required to determine their call/impact on network capability/behaviour; and
- Allowing regulators to approve, mandate or prioritise transmission investment, unless the market has signalled it, is not without its difficulties, eg. meeting the costs of excess capacity, distorting non-TSO investment signals, etc.

I trust that you find our comments helpful. Please do not hesitate to contact me should you have any questions or require further clarification.

Yours sincerely,

Amrik Bal
UK Regulatory Affairs Manager, Shell Energy Europe

Appendix 1 - ERGEG recommendations on the 10-year gas network development plan – An ERGEG Public Consultation Paper (E08-GNM-04-03) – answers on behalf of Shell Energy Europe BV.

• **What would be for you the benefits of the 10-year gas network development plan?**

From our experience of the national versions of such a plan, the most immediate benefit would be the creation of a holistic view of pan-European grid development, which would help underpin the development of a single market and enhance Security of Supply. In particular, such a plan would:

- Provide for a common knowledge of major cross-border TSO investment projects;
- Help identify areas of inter-TSO congestion;
- Allow the market to understand how non-TSO investment in infrastructure, ie. storage, import terminals and interconnectors, is expected to have an impact on:
 - the demand for cross-border transportation capacity
 - gas flow patterns
- Focus TSO investment at such areas, thus helping to facilitate cross-border gas flows; and
- An assessment of the resilience of the network.

• **What is the most important information you expect from the 10-year gas network development plan?**

To a very large degree, the answer to this question is related to the above. From a shipper perspective, the most important information would be:

- the identification of inter-TSO congestion or capacity shortfalls; and
- how such limitations are expected to be addressed.

The above could be expected to help pan-European shippers and new entrants make more informed decisions with respect to the viability of one supply option over another.

• **Do you consider that the 10-year gas network development plan, as proposed by ERGEG, will be beneficial to security of supply?**

It is difficult to see how the proposed 10 Year Network Plan would harm security of supply. Indeed, it is probably wise to view security of supply, and not identifying TSO investment obligations, as being the primary aim of any plan.

We would suggest that a role for NRAs to approve investments could be somewhat problematic. Given that civil servants are essentially being asked to make decisions on TSO investment plans, it is reasonable to assume that such decisions will not be efficient ones. It is therefore important to recognise that such a proposal could result in the over-provision of capacity such that:

- The resulting transmission tariffs – depending on how they are set - paid by shippers to recover investment costs could end up having a distortionary effect on gas flows; and
- While on the one hand it is possible to take the view that security of supply would be enhanced, there needs to be an equal recognition that the costs of any over-provision of capacity will be ultimately met by consumers.

- **Do you consider that the scope proposed by ERGEG is appropriate? Should it be enlarged?**

Putting to one side that the scope of the 10-year Network Development Plan seems to go beyond the requirements of the draft Regulation of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, it seems appropriate insofar as it concentrates on TSO investment at interconnection points. At present, there seems no argument for extending it further in any way.

We understand and support the intention that the 10-Year Network Development Plan should be non-binding. However, the question of whether this is indeed the case is a moot one. The consultation document states that the Plan is non-binding and to the extent that it is not *directly* binding, this is true. However, given the need for the national plans to be consistent with the 10-Year Network Development Plan and the fact that NRAs can require action to remedy any differences, ie. force the TSO to make the necessary investment, the 10 Year Network Development Plan would appear to be *indirectly* binding.

- **Do you agree with the combined bottom up / top down methodology proposed in the document? What would be the most efficient process to achieve the top down approach?**

At first glance, this seems a logical approach if the top-down view from ENTSOG (in this case providing TSOs with information on cross-border projects to be resolved and priority projects identified in TEN) matches signals coming from the bottom-up view (where adjacent TSOs discuss investment needs with the market). If this happens, then fair enough but there is a possibility that this will not be the case.

In that instance, the most likely outcome is that the market will get investments that regulators or the Agency thinks are required, rather than what it, ie. the market, has signalled. In that case, there is a possibility that the requirements of the market are 'crowded-out'.

There is also a similar concern with regulators being able to prioritise one transmission investment over another. Regulators *may* inadvertently end up, admittedly indirectly, making one storage or import terminal or interconnector more commercial viable than another.

As such, while the bottom-up/top-down approach can be utilised, we think it appropriate that the bottom-up approach should prevail in the event of any conflict. The rationale for such a view is that the market should decide the priority for network investment, not regulators or TSOs prioritising potential projects outside of any transparent link to market needs.

- **Would you agree with putting an obligation on market participants to communicate all the relevant information about the future projects?**

At the Brussels Workshop there appeared to be a consensus that it was enough to rely on the relationship between shippers and TSOs to govern the provision of this information. SEE is happy to concur with this approach; if it proves unsuccessful or deficient, then there would always remain the option of introducing an obligation.

An issue we would urge ERGEG to address is the commercial sensitivity of information that may be provided by market participants. Such information could be in relation to proposed projects such as storage facilities or import terminals or to capacity holdings at interconnections points. Sufficient safeguards have to be developed to give market participants comfort on this point, eg. the publication of data at an aggregate and not shipper specific level.

- **What would the best way for ENTSOG (including its members) to collect data from stakeholders? Should it be carried out at national, regional or European level?**

In the final analysis, the basis on which the information is to be collected will be a matter for ENTSOG, although we would imagine that it would want to consult widely with market participants at a later stage on this point. Notwithstanding this point, however, given that TSOs will already have information gathering relationships / processes with shippers, the national approach might be the most efficient and least disruptive way forward, at least initially.

- **Are the scenarios mentioned appropriate? Would you have other proposals?**

In general, the scenarios seem appropriate. In particular, from our experience with national plans, we agree with the importance attached to understanding the changing interactions between the gas and power markets.

The one area, however, where we would welcome clarity is in relation to the issue of 'gas price dynamics'. This is a difficult enough issue to examine at a national level and would be doubly so at a pan-European level. While that is no reason not to attempt looking at this issue, it would be beneficial, if only to manage expectations, to understand what the Ten Year Network Development Plan would hope to achieve in this regard?

A final point relates to the broad topic of data requirements. These requirements need to be clearly defined in order to achieve consistency.

- **What are your views on the proposed EU network modelling and simulation of supply disruption?**

An obvious comment would be the extent to which such a network could be modelled? If such an exercise were limited to interconnection points – and that is one possible assumption given the subject of this consultation document – it may be achievable. However, in the absence of modelling flows within the networks, such an exercise would be of limited use at best.

In essence, therefore, what the proposed modelling exercise implies is an attempt to model the entire European network. While we do not suggest that an attempt should not be made to do this, we are unaware of a model that could do so and would welcome further comment from ERGEG on this point.

Finally, a peak demand assessment is crucial in relation to problems associated with short-term supply/demand changes. We would, therefore, also suggest that ERGEG considers how DG TREN's long term energy scenarios or *Primes* could be adapted / developed to take into account peak demand.

- **Do you consider the drafting methodology and content relevant? In your view, should ERGEG be more or less prescriptive?**

This question appears to be a repeat of those above regarding the top-down/bottom-up approach and the supply scenarios. To that degree, we would refer to our previous answers but also comment that the following appear to cover the areas that would be expected in such a report:

- Scenario Development: a picture of worldwide and EU gas supply/demand trends;
- A description and analysis of the functioning of the integrated network;
- A technical and economic description of the projects; and
- An implementation report

Additionally, we welcome the proposal for a monitoring exercise; it is important that the market has confidence in the effectiveness of the EU Plan. The degree of flexibility that the proposals intend giving

TSOs to suggest alternative solutions for satisfying market needs should also be supported *providing* that:

- it results in demonstrable cost benefits; and
- shippers get the opportunity to verify that they are not getting an inferior capacity product.

The document refers to a technical and economic description of potential and planned projects, focussing on technical aspects, cost components, expansion costs, etc, etc. We assume that this can only be is a reference to transmission projects and not to non-TSO investments in storage, import terminals and interconnectors?

At the Brussels Workshop there seemed to be an element of confusion on this point, so it might be beneficial for ERGEG to be more explicit in this regard.

- **Do you consider it important to have a monitoring report assessing and explaining deviations from the previous plan?**

See our answer to the question above.

- **Is the consultation procedure for the EU-wide 10-year gas network development plan proposed in section 3.5 appropriate?**

Ultimately, ENTSOG will be the owners of the 10-year network development plan, so they will remain responsible for ensuring that there is an adequate consultation and dialogue process. As became apparent in the Brussels Workshop, there was a view, and one with which we agree, that while the 10-year gas network development plan should be based on the national plans, it should be more than an amalgamation of its constituent parts. In that context, we would refer to our comments above on the 10-year gas network plan providing an opportunity for a holistic view of pan-European grid development.