FLUXYS

EXCELLENCE IN GAS TRANSPORT

Council of European Energy Regulators
Rue le Titien 28
1000 BRUXELLES

Your message dated	Your reference	Our reference	Date
3/11/2010	C10-GWG-70-03	RVB-CEER-001	7 January 2011

Append(ix)(es)

Subject CEER Vision Paper for a conceptual model for the European gas market

Dear Madam and Sir,

Referring to the Conceptual model for the European gas market, Fluxys is very supportive to the further development of a real European natural gas market. However, Fluxys would like to draw the attention to the stakeholders on some concerns with regard to such target model for the European gas market as proposed today.

Fluxys, the Belgian TSO, plays an important role in the development of the NW European gas market, as its grid is connecting diversified upstream sources and the biggest consumer markets in Europe and therefore the further development of its transmission infrastructure, combined with the harmonisation of operational rules and gas quality parameters with the adjacent TSOs is of significant importance for the further development of the internal gas market. For the same reasons and to be actively involved in this development, Fluxys is a founding member of GTE, GIE and ENTSOG and was also amongst the first members of EASEE-gas. In all these organisations, Fluxys has always taken a very active and constructive role, both at the level of the expert working groups as within the controlling bodies of these organisations.

As a first response Fluxys would like to give you its initial view on some of the questions that are raised in the Vision Paper:

- Main goals of the target model

The target model should define a blueprint for the single European gas market, however taking into account the specificities and roles of each TSO and of its infrastructure within this market. Therefore it should foster the development of individual framework guidelines and network codes, whereby it must provide clear objectives, ensure coherence and avoid inconsistencies and inefficiencies between codes as well as facilitating the definition of scope of each code development. Also, it should at least take into account achievements that have already been made in the past, and more particularly with regard to the work already done by the industry, for example by EASEE-gas, in the area of interoperability.

Chief Executive Officer
Phone +32 (0)2 282 74 64
Fax +32 (0)2 230 02 39
walter.peeraer@fluxys.com

Fluxys SA
Avenue des Arts 31
B-1040 Brussels
Phone +32 (0)2 282 72 11
Fax +32 (0)2 230 02 39

www.fluxys.com
Accreditation number 16772
VAT BE 0402 954 628
RPR Brussels
Fortis 001-3639537-76
IBAN BE91 0013 6395 3776
BIC GEBABEBB

At the same time the target model should take into account the challenging and uncertain business environment whereby investments will have to be made to add flexibility to the networks and to allow for imports as a compensation for declining indigenous production. Financing of these new investments might require a review of the current investment framework.

- Fit with the Third Package

While the concept of a 'target model' does not exist in the Third Package, we think it should be considered as a high level guideline to define the context within which the framework guidelines and network codes can be developed.

- Timing

As the target model would interfere with the development of framework guidelines and network codes it should be developed rather quickly in order not to disrupt framework guideline/network code developments that are already progressing.

- Investment

The Third Package, SoS regulation and Energy Infrastructure Package all indicate a requirement for network investment in an increasingly challenging and uncertain business environment. Gas will have a changing role, also as a flexible complement to intermittent but sustainable electricity generation. Load factors might be expected to be reduced with the value of network capacity being determined by the shorter term option values. This is especially of major concern for a company like Fluxys, which is operating an important border-to-border infrastructure in NW Europe for which investments are based on long-term capacities for downstream markets rather than on domestic market growth assessment, in competition with alternative routes.
It is not clear that the current cost/benefit balance and the current risk distributions between system users and TSOs, inherent with today's investment framework, will deliver infrastructure required to satisfy the political aspirations.
The approach to market-based investment and its interaction with centrally planned or assisted developments must be addressed as a priority. The target model must at least provide clear principles that could inform other activities including the funding and cost recovery of asset investment.

- Key elements for effective competition and efficient functioning of the market

Fluxys is in favour of a commercial framework that is supportive of trading and the movement of gas across Europe determined by market signals. Commercial rules should enable easy access to the system and optimisation of gas flows within Europe. It is clear that interoperability, which includes amongst others rules on nomination and matching, allocation, interconnection agreements, data exchange protocols as well as gas quality, is important for

the well functioning of the internal gas market. For this reason Fluxys has always been very active within EASEE-gas where it helped, together with the other members, developing so-called 'Common Business Practices" (CBPs). The CBPs intend to simplify and harmonise business processes between stakeholders constituting a set of recommendations in regard to process handling, messages exchange and technology standards.
As far as balancing and capacity handling is concerned, the target model should not prescribe a specific approach to the size of balancing zones. Efficient non-discriminatory, transparent and either market-based or cost-reflective access arrangements will enable efficient gas market operation without a requirement to pre-determine capacity and balancing zone sizes.

- Scope of the target model

The Commission's Third package guidelines and codes paper provides an analytical framework that could be used to define the scope of the Target Model.
It might also be helpful to define the scope of a single European network code (covering all aspects envisaged in the Third Package) but which could be populated progressively as the network codes (and subsequent binding guidelines) are delivered. Or in alternative the Target Model could be presented as overarching paper, containing the scope of every other network code. This could enable early network codes to be developed that are self-contained but which can then be complemented by later developments as progress is made to towards a coherent and comprehensive framework

- Level of detail in the target model

It is not possible to prescribe the level of detail necessary in the Target Model before any work is done. The scoping phase should therefore be used to better inform an assessment. However, Fluxys is of the opinion that the work of EASEE-gas should be recognized as it provides some basic building blocs for the creation of a European gas market. These building blocs could be easily fitted into the target model. One example, which also refers to the 4th question in the Call for Evidence, is the harmonisation of the gas day, which has already been defined in CBP 2003-002/02 ("Harmonisation of the Nomination and Matching Process) and which has already been implemented in several European countries. It is clear that changes with regard to already common business practices would be counter-productive as they will lead to additional costs, mainly in the area of IT applications, while at the same time it will further delay the creation of an integrated gas market.
With regard to the 3rd question we also would like to highlight the importance of gas quality specifications for which a CBP has already been approved in 2005
The Target Model needs to meet the goals of providing a blueprint, avoiding inconsistencies, ensuring coherence and facilitating a sufficiently tight definition of scope for each separate framework guideline / network code development.

- Use of other existing models

Fluxys is of the opinion that a gas Target Model needs to take account of the fundamental differences in physics, market environment, network access arrangements, supply/demand (particularly scale of cross-border energy flows) positions between gas and electricity.

Fluxys, both as a member of ENTSOG and EASEE-gas, is looking forward to further support the work on a conceptual model for the European gas market, especially in the area of cross-border investments and interoperability (including gas quality and ICT standards and protocols). Should you require more information or in case you would like to further discuss some of the issues, please feel free to contact us.

Sincerely,

Walter Peeraer
Chairman of the Executive Board
Chief Executive Officer