

CEER Call for Evidence - Vision paper for a conceptual model for the European Gas Market

EDF Response

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Who we are

EDF SA is a French corporation involved in generation of electricity and supply of electricity, gas and associated services to nearly 28 million customers in France. In 2009, it generated €34 billion sales, representing 400.4 TWh of electricity and 18.5 TWh of natural gas in France. With an installed electricity capacity of 98.7 GW, mainly nuclear and hydro, EDF SA is the leading provider of efficient and low-carbon energy solutions, with an average 40.8 g of CO₂ per kWh generated.

EDF SA is a new entrant on the French gas market. In addition to its gas supply activity, EDF is currently developing infrastructure projects in France and all over Europe: new storage facilities and new LNG terminals. EDF is also involved in the development of new combined cycle gas turbine (CCGT) and is thus concerned by the development of the EU Gas Market.

Introduction

EDF welcomes the call for evidence initiated by CEER on the main features of a target model in gas. Indeed a vision of a target model in gas is missing so far. There has not been such a work carried out in gas comparable to what the PCG and AHAG have delivered in electricity. The 3rd Energy Package delivers some principles but the starting works on Framework Guidelines - and the deriving Network Codes - have already shown the numerous interactions between the various possible rules that could apply to the market. EDF therefore welcomes the opportunity given by CEER to present its global view on a conceptual model for the European gas market, addressing the issues dealt in the consultation.

EDF wants to underline that all the mechanisms envisaged in the target model should enhance transparency and equality of treatment between players. It is indeed of major importance that the implementation of those mechanisms does not impact only some market players or discriminate between them.

Here are EDF's views on the key features of a gas target model and the means for its implementation.

General views on market integration

As regards market integration, the main goal should remain the creation of a European-wide gas market that would be attractive and liquid for market players.

- 1) As a first step, in order to achieve this goal, each country should have, at national level, a unique gas market place, with a single national balancing zone. This first step is supported by:
 - o The existence of a single national balancing zone in electricity and the increasing use of natural gas to produce electricity with CCGTs, so that electricity and gas markets will be more and more correlated at national level;
 - o The need of coherence in the price structure for end-users: the national level is indeed also coherent regarding the downstream market, for a matter of homogeneity in terms of price structure (taxes for examples are defined on a national basis) and commercial offers (dual energy offers for example);

- The development of competition: national balancing zones will allow for the development of competition with more visibility for new entrants;
 - The development of market liquidity: the merger of all balancing zones at national level should enhance the global liquidity of the wholesale gas market. This is a prerequisite to any further step involving other market places. Indeed, the trend in Europe is the creation of a single balancing zone at national level: it is already the case in the United-Kingdom and Italy and it is under way in Germany. In France, EDF and the other shippers have been asking for a single zone for many years and have proposed principles to achieve it (geographical balancing based on market mechanisms). The recognition, at European level, of the benefits of this evolution for the French market and the adjacent ones or, at least, setting a target time frame, would be really appreciated.
- 2) EDF considers that cross border balancing zones at European level may be technically difficult to implement and that the management of such merged zones would likely cost much more than the sum of benefits/earnings deriving from such a merger. The market coupling mechanism has been evaluated as an efficient tool on the European electricity market allowing:
- Price convergence on a larger scale in Europe;
 - The optimization of capacity allocation.

So, provided that market coupling mechanism meets also the specificities of the gas market, it could be envisaged and tested as one of the tools for a better functioning market so as:

- To improve capacity allocation procedures by seeking harmonization between the different markets concerned: in this way, it could be considered as a tool for congestion management;
 - To optimize the use of the existing capacities.
- 3) Nevertheless, EDF would like to remind that congestion management, access to capacity and optimized use of capacity are among the main issues of market integration. Market coupling could be one of the solutions, even if it will not solve all the issues related to physical or contractual congestions such as the lack of available capacity for new entrants.

The experience on the electricity market shows that market coupling implies some prerequisites:

- Efficient mechanisms to free unused capacity;
- A high level of cooperation between National Regulatory Authorities (NRAs), TSOs and market places in order to harmonize the rules (for example, harmonization of the gas day definition, of the balancing timeframe, of capacity products, of gas quality, etc).

Therefore, making the implementation of market coupling compatible with the gas market design implies a process with different stages:

- An impact assessment analysis;
- A comparison to other potential solutions in terms of costs, practical implementation, efficiency and benefits for the gas market;
- A test at regional level before any generalization.

EDF considers that a theoretical unique approach may not be the optimal solution.

Capacity allocation and congestion management on gas transmission network

Concerning capacity allocation and, assuming that the auction mechanism would be part of the target model, EDF believes that a given number of prerequisites have to be taken into account while defining the implementation of this mechanism:

- The gas market bears many specificities, beginning with the location of the production which is mainly outside the EU; the allocation rules of this market cannot be then just copied on the existing ones for the electricity market;

- Security of supply should remain a top concern while defining the target model;
- In all cases, incumbents and new entrants should be treated equally.

This being said, the target allocation mechanism for existing capacity could be the following one:

- Progressive decrease of the volumes of long term capacity contracts in order to prevent any issue of security of supply;
- Implementation of an auction mechanism with a floor price in order to ensure the coverage of the network operators' costs;
- Immediate alignment of the price of long term capacity contracts on the price revealed by auctions in order to ensure the equality of treatment of gas suppliers.

Alongside with this capacity allocation target model, open season procedures should be generalized for the creation of new medium and long term capacities.

Regarding congestion management principles, EDF considers that optimizing the use of the capacity is one of the major objectives in order to achieve the integration of European markets. However, reaching this goal cannot be obtained through a top-down approach but by defining a set of tools (a tool-box) aimed at reducing capacity hoarding and incentivizing capacity release. First of all, increasing transparency, with a more frequent publication of the capacity volume used and of the capacity volume booked is of crucial importance. Then, considering the importance of incentivizing the TSO and/or the capacity holder to participate in the capacity release and the fact that the UIOLI mechanism has not demonstrated good results so far, other mechanisms have to be considered. In this respect, congestion management tools such as restriction of renomination rights (paying attention to the impact on imbalance charges in case of unbalanced shippers who would have liked to renominate capacities), UIOSI or incentives for voluntary release of capacity at different timescales have to be discussed.

EDF supports progressive decrease of historical long term capacity contracts volumes to make room for new entrants, but is not in favour of any further withdrawal of underutilized long term capacity unless capacity hoarding practices are demonstrated. Network users should indeed remain free to implement arbitrage schemes covering few years on its long term capacity without being forced to free up a capacity that has been underused during a certain time.

Long-term supply contracts

An important part of the gas market is based on long term supply contracts and the principle of non-discrimination implies that any stakeholder should be able to conclude that kind of long-term contracts.

The optimal market design should therefore be characterized by a diversified toolbox, allowing stakeholders to use, without any discrimination, what suits them the most regarding, in particular, their risk aversion. Thus, the market will be able to reach equilibrium between actors preferring to buy on the spot market and those who prefer to mitigate the risk, using long-term contracts.

Cooperation between TSOs and hub to hub trading

Implementing and strengthening cross-border cooperation is of great importance.

EDF is in favour of harmonising allocation procedures including conditions of access to capacity. The European Network Code on capacity allocation would be the best way to define general stable and predictable rules to be applied, and ensure harmonisation between upstream and downstream access. However, it should not be too detailed in order to allow specific situations to be dealt with. Such an approach would be consistent with the stepwise approach chosen by ERGEG (due to current

gaps existing between countries and TSOs) as well as with the proposal to keep room for tailor-made contracts adapted to specific situations.

EDF considers cooperation between TSOs as of great importance, in particular for evaluating the new needs of the market, launching coordinated open seasons and allocating the capacity resulting from these open seasons through harmonized procedures.

In this respect, EDF believes that:

- A harmonized set of standardized capacity products is required at every interconnection point across Europe. This set of capacity products should cover various timeframes (annual, quarterly, monthly, etc.) and those products should be defined in accordance with the network users' requirements via consultation;
- Bundles are extremely important and have to be offered by TSOs at each interconnection point. However, they should not be the exclusive solution.
- Capacity at two or more points connecting the two same adjacent entry-exit systems should be integrated into one single capacity product representing one single contractual interconnection point only if the products are exactly the same in both systems concerned.
- Hub to hub trading could be a good way to enhance liquidity on the European gas markets and should be promoted. Shippers should however keep the possibility to trade through different mechanisms.

At last, EDF underlines that cooperation between NRAs is necessary while approving TSOs' investment programmes dealing with interconnectors. Likewise, the EU support is very important for European-wide projects.

Capacity allocation and congestion management on storage

In order to facilitate the development of competition, storage capacity allocation mechanisms and congestion management procedures shall ensure the maximum availability and the most efficient use under economic and non discriminatory conditions of technical storage capacity. Therefore, it should not create undue barriers to market entry and not prevent market participants, including new entrants, from competing effectively. Storage System Operators (SSOs) shall provide the services needed by storage users on a fair and non-discriminatory basis.

Regarding the capacity allocation mechanism, EDF considers that such a mechanism must be chosen and designed carefully, taking into account the characteristics of each Member State.

Indeed, auctions are a market-based mechanism which ideally favors transparency and non discrimination, and can give the adequate economic signal. However, EDF considers that auctions require a liquid market with a large number of participants to work efficiently. That will not be the case in all EU countries in the coming years due, on one hand, to the limited number of storage infrastructure and the difficulty to find appropriate geological sites to develop new storage capacities and, on the other hand, to the lack of competition on storage activities leading to high reserve prices.

The "capacity goes with the customer" (CGWC) mechanism currently applied in France is not devoid of interest especially for shippers who have to fulfill public service obligations and security of supply requirements. This mechanism ensures that each supplier has sufficient access to storage capacity to supply its customers and therefore enables new entrants to access capacity as long as they develop their customers' portfolio. This induces a positive effect on competition.

Third party access to network infrastructures

EDF fully supports the non discriminatory access to any gas infrastructure for third parties.

Coming along with third party access, EDF is in favor of keeping the possibility of exemptions in order to promote the development of new infrastructure (such as LNG terminals, storage facilities and import pipelines).

Such investments would not be possible without giving investors an exemption, i.e. the possibility to choose in a first phase the conditions of selling the service and doing so, better know the profitability of its project. Besides, exemptions give investors the medium to long term visibility and stability they need in order to undertake such investments.

Gas balancing

EDF supports the market-based balancing target model provided its rules be:

- Coherent: if the TSOs are not in a position to deliver the available flexibility requested by the network users, the rules should provide for tolerance to market participants;
- Appropriate to local situations : a dialogue between the local market participants and the NRA is required;
- Fully designed : intra-day and day-ahead flexibility shortage situations should be dealt with;
- Non discriminatory: no differences between network users (especially regarding CCGTs). In particular, EDF strongly opposes any kind of hybrid regime that would lead to hourly balancing for some specific network users and daily balancing for the others;
- Transparent : the quality and quantity of information provided by TSOs should be improved;
- Economically balanced: they should reflect the true value of the network constraints.

In addition, EDF would like to highlight that the target gas balancing market should be implemented coherently with the electricity balancing market regime. Moreover, the harmonisation of the balancing regimes of the market zones across Europe should only be targeted if it is a cost effective solution.

In any case, the target model proposed by ERGEG in its draft Framework Guideline should be further explained. EDF considers that the documentation provided at this stage does not enable a complete understanding of the targeted balancing market-based rules.

Then, EDF supports the definition of an EU-wide gas day and believes that the possibility to align it on the definition of the electricity day (which is 0-24) has to be considered in order to allow an optimized management of the constraints of both systems.

Network tariff structure

EDF supports the following general features for the network tariff structure:

- Entry/exit capacity;
- Transparent, objective and non-discriminatory tariffs;
- Reserve price for incentivizing investment in coherence with cost covering policy;
- Visibility given to stakeholders regarding tariffs structure and level.

Transparency

Transparency is an essential element for improving stakeholder's confidence in the market. Therefore, EDF welcomes the decision of the EU Commission that modifies Chapter 3 of the Annex 1 of the Regulation 715/2009 and sets up new transparency rules for the European gas market.

EDF is in favour of making transparency requirements binding for transmission, storage and LNG system operators (as it is proposed by ERGEG in its last consultation on transparency). EDF considers that these requirements satisfy most of the needs of market participants despite sometimes necessary improvements at local level. EDF would also recommend to include all areas along the gas value chain and thus to introduce requirements for DSOs to cooperate with TSOs as well as requirements for gas production.

EDF would like to draw the attention on the fact that, in addition to the transparency provisions codified by the 3rd Package, the target model should also consider introducing binding requirements regarding important information necessary for a market-based mechanism to work.

EDF would also insist on the fact that transparency requirements should clearly distinguish the infrastructures whose capacity has been granted an exemption from TPA from the other ones. Indeed these requirements should not lead, in case of exempted facilities, to the disclosure of commercially sensitive information or information that could hinder the value of the exempted investments.

Level of detail and harmonization expected from the CEER vision paper

EDF expects the CEER to provide clear principles and goals on its vision of the gas market target model, addressing the different key features discussed above. However, the interim steps as well as the implementation details of the target model should be decided later, at national level. NRAs should guarantee the coherence between national situations and European harmonization. Indeed, the way to reach the target model has to be decided at national level in consultation with the national regulator and the market players.

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