



**CEER Vision Paper
for a conceptual model for the
European gas market
Call for Evidence**

**Ref: C10-GWG-70-03
3 November 2010**

INFORMATION PAGE

Abstract

On 5 November 2010, European Energy Regulators launched a call for evidence on a conceptual model for the European gas market, C10-GWG-70-03.

The 18th Madrid Forum called for a target model for the European gas market and invited the Commission and Regulators to explore the interaction and interdependence of all relevant areas for network codes and to initiate a process establishing a common view of a future gas market target model.

Target Audience

Energy suppliers, traders, gas / electricity customers, gas / electricity industry, consumer representative groups, network operators, Member States, academics and other interested parties.

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How to respond to this consultation

Deadline: **7 January 2011**

Comments should be sent by e-mail to gas_target_model@ergeg.org

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All responses except confidential material will be published on the website www.energy-regulators.eu.

Treatment of Confidential Responses

In the interest of transparency, CEER/ERGEG

- i) will list the names of all respondents (whether confidential or not) or, alternatively, make public the number (but not the names) of confidential responses received;

- ii) requests that any respondent requesting confidentiality submit those confidential aspects of their response in a “confidential appendix”. CEER/ERGEG will publish all parts of responses that are not marked confidential.

For further information on ERGEG’s rules, see ERGEG Guidelines on Consultation Practices.

Related Documents

CEER/ERGEG documents

- “Final pilot framework guideline on capacity allocation on European Gas Transmission networks”, ERGEG, June 2010, Ref. E10-GWG-66-03,
- “Gas Balancing Rules on European Gas Transmission Networks - Draft Pilot Framework Guideline”, ERGEG, August 2010, Ref. E10-GNM-13-03,
- “ERGEG revised recommendations on Congestion Management Procedures comitology guidelines”, ERGEG, September 2010, Ref. E10-GWG-67-04,

External documents

- “Which regions do we need and what should they do? “Presentation given at 4th Regional Initiative Annual Conference, DG Energy, July 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Regional_Initiativ es/2010%20RI%20Conference/Presentations
- Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005
- Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC
- Congestion management procedures / Commission proposal for guidelines to be adopted via a comitology procedure, http://ec.europa.eu/energy/gas_electricity/doc/forum_madrid_gas/meeting_018_08_con gestion_management_procedures.zip

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1. Introduction

The 18th Madrid Forum invited the European Commission and regulators to explore, in close cooperation with system operators and other stakeholders, the interaction and interdependence of all relevant areas for network codes and to initiate a process establishing a gas target model. Regulators expressed their readiness to chair and coordinate this process, and to present by the end of 2010 an outline on the definition and the scope of the gas target model to be developed.

European Energy Regulators have foreseen in their Work Programme 2011 to prepare a CEER Vision Paper for a conceptual model for the European gas market. Due to the urgency of the issue it was decided to launch work already in 2010 to be able to deliver to the European Commission and the Madrid Forum a first vision by the end of the year. However, due to the complexity of the task all relevant work will continue in 2011 as outlined in the CEER Work Programme 2011.

Based on the results of this call for evidence, the outcome of a public workshop, to be held on 3 December 2010, further workshops and bilateral discussions with stakeholders, CEER will work further on a vision for a conceptual model for the European gas market.

2. Background

The aim of the internal market is to deliver real choice for all customers of the European Union, so as to achieve efficiency gains, competitive prices, and higher standards of service, and to contribute to security of supply and sustainability¹. According to the Directive 2009/73/EC (Gas Directive) the internal market in natural gas suffers from a lack of liquidity and transparency hindering the efficient allocation of resources, risk hedging and new entry.²

Under the Gas Directive different types of market organisation will exist in the internal market in natural gas.³ Furthermore, the measures that Member States could take in order to ensure a level playing field should be based on overriding requirements of general interest. The Gas Directive outlines that with a view to creating an internal market in natural gas, Member States should foster the integration of their national markets and the cooperation of system operators at Community and regional level [...].⁴

¹ Recital 1 Directive 2009/73/EC (Gas Directive)

² Recital 36 Gas Directive

³ Recital 19 Gas Directive

⁴ Recital 56 Gas Directive

The 3rd Package⁵ codifies already some of the corner stones of a conceptual model for the European gas market, i.e. the establishment of Entry / Exit (E/E) zones for transmission systems⁶, market-based balancing⁷, Third Party Access (TPA) to transmission systems⁸, as well as TPA to storage and LNG facilities⁹, regional cooperation of transmission system operators (TSO)¹⁰ and transparency¹¹.

The Gas Regulation aims at:

- (a) *“setting non-discriminatory rules for access conditions to natural gas transmission systems taking into account the special characteristics of national and regional markets with a view to ensuring the proper functioning of the internal market in gas;*
- (b) *setting non-discriminatory rules for access conditions to LNG facilities and storage facilities taking into account the special characteristics of national and regional markets; and*
- (c) *facilitating the emergence of a well-functioning and transparent wholesale market with a high level of security of supply in gas and providing mechanisms to harmonise the network access rules for cross-border exchanges in gas.”¹²*

The European Commission first introduced the concept of possible market coupling between all Member States by 2015 during the 4th Regional Initiative Annual Conference in Brussels earlier this year. This is just one aspect of a future EU wide gas market and European Energy Regulators see the need for a coherent description of all relevant aspects of a future EU gas market model.

While European Energy Regulators have already based their work on Framework Guidelines (FG) and other advice in the past on a conceptual model for the gas market, there is a need to discuss this model more widely with all stakeholders and to reach a broad agreement on the relevant aspects. Such a conceptual model for the European gas market should give an overall guidance for the ongoing and future drafting of FGs and Network Codes (NC), which are in turn the ideal instrument to define detailed rules on specific matters and enable the integrated market.

ERGEG, as predecessor of ACER, is already in the process of preparing FGs on several issues and furthermore ERGEG prepared recommendations for relevant comitology guidelines (e.g. on congestion management procedures). To ensure that all these work streams fit together, a vision of how the European gas market should look like in five years is needed.

⁵ For gas this includes the Gas Directive and Regulation (EC) 715/2009 (Gas Regulation).

⁶ Article 13 Gas Regulation

⁷ Article 21 Gas Regulation

⁸ Article 14 Gas Regulation

⁹ Article 15 Gas Regulation

¹⁰ Article 12 Gas Regulation

¹¹ Article 18 and Article 19 Gas Regulation

¹² Article 1 Gas Regulation

A conceptual model and even more the discussion process to reach such a common conceptual model will contribute to the future work of all involved stakeholders and will help to ensure that the work of various stakeholders is better aligned.

3. Initial ideas for a conceptual model for the European gas market

In a context where the EU is increasingly becoming dependent on gas imports, the organisation of the downstream gas market has to both enable an efficient allocation of resources in the short term, and provide the conditions for a good investment climate in the longer term, namely delivering sound market signals and enough visibility to project developers. Short term and long term perspectives should be articulated properly to ensure a convergence between competition development and security of supply. For this purpose, market organisation should serve the development of credible wholesale gas prices while offering shippers fair conditions to develop their business.

In the framework of the pilot FG on capacity allocation, European Energy Regulators started developing a conceptual model for the European gas market. For further work, they consider that the overall goals of the model should include:

- Effective implementation of entry/exit systems;
- Facilitating cross border market integration into an efficient and effective competitive gas market at the Community level;
- Efficient capacity allocation procedures including market based mechanisms when demand exceeds the offer;
- Efficient usage of pipeline capacity, especially for cross-border flows of gas between trading points in Europe, with the aim to integrate national gas markets, including limiting (physical and contractual) congestions;
- Improving the integration of trading points leading to a convergence of market prices between neighbouring markets, reflecting market risks and supply/demand imbalances; and
- Improving security of supply by fostering the appropriate network, storage and LNG re-gasification capacity enhancement as well as upstream investments aimed at supplying the European gas market.

As ERGEG further developed its work on the framework guidelines on gas balancing, it became clear that there were further questions on how to integrate European gas markets and ensure consistency between the different framework guidelines. The Commission's sector inquiry identified the fragmentation of the European gas markets as one of the key issues. This raises the question as to whether balancing zones should be merged and if so, what is the appropriate size of regional or cross-border balancing zones. A debate is emerging about whether the integration of European markets should lead to the creation of larger balancing zones or whether the focus should be on 'coupling' of market areas (balancing zones).

4. Call for Evidence

European Energy Regulators are seeking views and visions of stakeholders for a target model for the European gas market to facilitate the achievement of the internal gas market by 2015. Where possible, we ask respondents to evidence their views with objective analysis and examples.

European Energy Regulators do not want to be prescriptive in terms of the detailed issues that we would like stakeholders to consider and welcome responses on any aspect of gas market development related to the scope of the target model.

In addition to inviting relevant stakeholders and market participants to respond generally and participate in the discussions and the hearing on this issue, European Energy Regulators seek the opinion of the stakeholders on a number of questions.

Stakeholders are therefore invited to reply and provide comments on the following list of questions which is not exhaustive:

1. What are in your view the main goals to be aimed at by the gas target model beneath the high-level policy goals set out by the 3rd Package?
2. What are in your view the major developments and anticipated changes in the European gas market (on national and international level) and where would a target model bring added value? Including:
 - a. the role of long term capacity contracts in the future European gas markets;
 - b. the role of hubs / gas exchanges.
3. What are in your view the key elements of a conceptual model for the European gas market to contribute to non-discrimination, effective competition, and the efficient functioning of the internal gas market? Please include views on the key aspects of market design such as, capacity allocation and congestion management procedures, network tariff arrangements, wholesale market pricing, balancing arrangements and, gas quality specifications? Please consider the interaction of these arrangements.
4. What level of detail, e.g. level of harmonisation, do you expect from the CEER vision paper on a conceptual model for the European gas market? For example:
 - a. Do we need a definition of an EU-wide gas day? If yes, what should this definition be?
 - b. How deep should the "reach" of the EU gas market model be, i.e. should it encompass DSOs? Is there a trade-off between vertical depth (i.e. including all levels of national gas markets) and horizontal depth (i.e. integrating balancing zones cross border)?

5. Which areas or aspects of the gas market should be affected by the target model and what are the constraints for such a model?
6. Which areas or aspects of the gas market should be excluded from the target model description and left to national/regional decision making
7. What are the options for integrating the currently fragmented European markets?
Are there any existing models you would like to recommend? In case your answer is yes, we would be interested to learn about the features of this model and if there are also any draw-backs in this model in your view.
 - a. Should we merge balancing zones to create cross border or regional balancing zones or market areas? How many balancing zones does Europe need and how big should they be?
 - b. Is the coupling of market areas as it is being developed in European electricity markets appropriate for gas?

Annex 1 – CEER

In 2000, ten national energy regulatory authorities signed the "Memorandum of Understanding for the establishment of the Council of European Energy Regulators" (CEER). They had voluntarily formed the council to facilitate cooperation in their common interests for the promotion of the internal electricity and gas market. In order to cope with a growing number of issues and to improve cooperation at the operational level, the regulators decided in 2003 to formally establish themselves as a not-for-profit association under Belgian law and to set up a small secretariat in Brussels. The Statutes (English version, Statutes amendment) were published in the annex of the Belgian State Gazette on October 21st, 2003. The CEER now has 29 members - the energy regulators from the 27 EU-Member States plus Iceland and Norway. CEER and the European Regulators Group for Electricity and Gas (EREG) share similar objectives and the work and achievements of the CEER and EREG are intrinsically linked.

The work of the CEER and EREG is structured according to a number of working groups, composed of staff members of the national energy regulatory authorities. These working groups deal with different topics, according to their members' fields of expertise.

This report was prepared by the Gas Working Group.

Annex 2 – List of abbreviations

CEER	Council of European Energy Regulators
ERGEG	European Regulators Group for Electricity and Gas
ACER	Agency for the Cooperation of Energy Regulators
EC	European Commission
ENTSOG	European Network of Transmission System Operators for Gas
TSO	Transmission System Operators
FG	Framework Guideline
NC	Network Code
TPA	Third-Party Access
CAM	Capacity Allocation Mechanism
CMP	Congestion Management Procedures
E / E	Entry / Exit

Table 1 – List of Abbreviations