



European Federation of Local Energy Companies  
Confédération Européenne des Entreprises Locales d'Énergie

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

Brussels, 14 January 2011

CEDEC defends, at European level, the interests of local and regional energy companies.

CEDEC represents 1500 companies with a total turnover of about 100 billion Euros, and more than 250.000 employees. Together, they serve 75 million electricity and gas customers (connections).

These predominantly medium-sized local and regional energy companies have developed activities as electricity and heat generators, electricity and gas distribution grid operators and suppliers.

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### **GENERAL COMMENTS**

The use of a standard market model will (due to the transparency it will bring) strengthen the trust in the markets and will cause more market participants to become active. This will increase liquidity, which in turn will stimulate market action.

Therefore CEDEC welcomes the initiative of CEER regarding the development of more transparency in the gas market. It is to be expected that this measure will contribute to the strengthening of internal energy market, as is the goal of the European Union.

CEDEC is grateful for the opportunity to participate in the call for evidence on the target model for the gas market. However we would like to point out that the development of such a model requires besides a sound understanding of the gas market itself, accuracy, a clear vision and the necessary time for completion.

By setting a date for implementation already at this early stage, it is tempting to find short-cuts and copy/paste-solutions if, during the development of the model, the expected timeline is exceeded. Therefore CEDEC advocates a thorough study and enough time for straightening out any wrinkles in the model. Not only to create a model that meets the

expectations but also to create a model where the expenditures of implementation is not an excessive burden for the small and medium sized companies.

## **REGARDING THE QUESTIONS MENTIONED IN THE CONSULTATION.**

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?

To our view there is a need for a good and common understanding of the roles and responsibilities for each of the participants inside the target model. Also we would like to stress that for the small and medium-sized local energy companies the expenditures of implementation of the model should be appropriate and related to their size.

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.

We would like to point out that not all national markets are being served by nationally operating suppliers only. Enough liquidity in the gas market is not only defined by the presence of nationally or even internationally operating companies; on the contrary local players are required to achieve enough liquidity in the market. Therefore a major development and sensible anticipation of the model should be that it can differentiate between local level (on the one side) and national or European level (on the other side).

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.

As stated in our answer to question 2, liquidity in the gas market is not only defined by the presence of nationally or even internationally operating companies. For example there is an interaction between the design of a good wholesale market with clear roles and responsibilities and the retail markets. A "handshake" between (international, national and local) players operating at the wholesale- and retail-levels is necessary. The "handshake" stresses the compatibility of processes, roles and responsibilities between the market players in order to have a seamless process.

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)?

CEDEC believes in a single European model on wholesale level. However we have some remarks on the level of detail of the target model:

- a. An EU-wide gas day is in our view by nature an international trading problem and not necessarily a local issue.
- b. At local level there are large physical, legal and regulatory differences between local players across the EU. A “one size does not fit all” strategy is the best insurance for liquidity inside these markets. Copy-paste solutions from one retail market to another do not work; flexibility and transparency at local level are therefore a necessity.

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?

TSO-DSO relations are of interest in the design of this model; also some aspects of market facilitation by the local companies could be affected by the target model.

As an example on a local level we foresee that there will be a need for low-carbon gas initiatives. Most promising in this development is the feed-in of biogas, which may require a need for local/regional balancing and market facilitation of associated processes. Associated with the feed-in of biogas might be a reverse flow between DSO and TSO and settlement issues.

As already mentioned in our answer at 4b the local situation might require a different market design, the target model should take into account these differences.

6. Which areas or aspects of the gas market should be excluded from the target model description and left to national/regional decision making?

A healthy local market requires some degrees of freedom on market facilitation processes. Settlement, switching and trading rules and associated information exchanges should be left out of the target model. Of course an alignment has to be achieved regarding the obligation to inform.

Furthermore the issue of the legal framework and liability in a European context has to be considered. If a European platform is established, it seems to be much more complex, and local companies expect higher expenditures.

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 drawbacks 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?

The fragmentation of the European markets are in itself not an obstacle, it is the lack of transparency between the markets. Therefore we are in favour of more transparency and

more flexibility between the markets. It has to be taken into account that especially small companies should not be burdened excessively. Small and medium-size companies must have the possibility to be active participants on the market, despite small resources in personnel, since they ensure competition at the local market. The danger does exist that a "lock-in" by stringent rules would at the very end reduce the much desired liquidity.

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