

GTE comments on the ERGEG consultation “ERGEG recommendations on the 10-year gas network development plan”

Executive Summary

ERGEG published a consultation document on “ERGEG recommendations on the 10-year gas network development plan in March 2009. GTE considers the ERGEG consultation as a helpful element in the European efforts to improve the investment climate, welcomes the opportunity to contribute to the consultation with these comments and offers to explain them in further communications.

GTE considers the Ten Year Network Development Plan as a valuable tool to facilitate the communication between ENTSOG and stakeholders on investments into the European gas transmission grid. Other elements including EU definitions of the objectives that a European gas infrastructure should be seeking to achieve and the provision of appropriate regulatory frameworks on the national and European level are required for the further development of the European gas transmission infrastructure.

GTE favours a stepwise development of the processes for the production of the European Ten Year Network Development Plan based on experiences gained. This will enable focussing the resources of stakeholders and TSOs most efficiently on those tasks considered as most important. GTE thinks that as much freedom as possible should be given in the distribution of tasks between ENTSOG and national TSOs in order to reach the most efficient outcome.

GTE looks forward to fruitful work on European investments with European stakeholders and ERGEG to the benefit of the European gas market.

Background

The Third European Energy Internal Market Legislative Package (Third European Energy Package) has been adopted by the European Parliament in the second reading on 22.04.2009. It is generally expected that the parliament texts will be approved by the EU Council during summer 2009.

The Third European Energy Package provides for the introduction of an Agency for Energy Regulation (ACER) and of European Networks for Transmission System Operators for Electricity and Gas (ENTSOE and ENTSOG). One of the tasks of ENTSOG is the development of a non-binding European Ten Year Network Development Plan every two years as well as the development of non-binding regional investment plans every two years. ACER is to give its opinion on the European Ten Year Network Development Plan.

ERGEG published its consultation document “ERGEG recommendations on the 10-year gas network development plan”, ref. E08-GNM-04-03 in March 2009 asking for responses until 29 May 2009. GTE welcomes the opportunity to provide its response to the consultation document and the

acknowledgement of ERGEG that ACER will not have a formal role to develop framework guidelines for the European Ten Year Network Development Plan.

GTE defined investment as one of its priorities and welcomes that ERGEG did the same in its 2009 work programme. GTE considers the Ten Year Network Development Plan (subsequently referred to as TYDP) to be developed by ENTSOG as a valuable tool to facilitate the communication with stakeholders on investments into the European gas transmission grid.

Acknowledging the importance of such document, European TSOs already started under the current legislative framework to work on the GTE+ European Ten Year Network Development Statement 2009. First results were published in a Capacity Development Report by the end of 2008 as a basis for the currently ongoing dialogue with European stakeholders. European supply and demand scenarios are being developed in the 2009 stakeholder dialogue and will be analysed against capacity evolution in the final GTE+ European Ten Year Network Development Statement by the end of 2009.

Chapter 1 of the consultation document provide descriptions of the background and justification while chapter 2 provides an ERGEG view on factors driving investment planning. ERGEG recommendations on the EU 10-year gas network development plan are given in chapter 3 followed by roadmap, timing and milestones in chapter 4. The questions for stakeholders are given in the annex.

While the consultation is on ERGEG recommendations on the 10-year network development plan and the questions seem to relate more or less to chapter 3, GTE would like to first provide general comments on investments into the European gas transmission grid, broadly reacting on the contents of chapter 1 and 2 followed by more specific comments on the ERGEG recommendations on the 10-year network development plan and answers to the consultation questions.

General Comments

In response to the Second Strategic European Energy Review (SEER2) and the EU Commission consultation on the Green Paper towards a secure, sustainable and competitive European Energy Network, GIE representing European gas infrastructure operators provided its views on the further development of European energy infrastructure to support the European gas market, security of supply and sustainability on 30 March 2009¹. The following aspects of the further development of the European gas transmission system are considered relevant in the context of the ERGEG consultation.

Regulatory Framework

A European gas network already exists and overall gas is successfully transported from source to consumer as required in accordance with the various objectives set for it (generally at member state level). However, sources of gas are changing and the consumer market is evolving meaning that greater capacity and improved flexibility is required from the network. Currently the regulatory framework in some member states and across the EU is not adequate to provide this flexibility – a pan-European approach is necessary.

¹ GIE Response to SEER 2 and the Green Paper towards a secure, sustainable and competitive European Energy Network (30th March 2009, ref. 09GIE090)

Network Development Objectives

In order to successfully develop any network the objectives for the development need to be clearly defined. GTE believe that these objectives should have three main themes, these are to provide infrastructure to:

- Attract imported gas from non EU sources;
- Provide sufficient optionality and flexibility to enable freedom of choice for market players and consumers, and;
- Enable security of supply to be assured.

The EU should have a major role in defining the objectives that a European gas infrastructure should be seeking to achieve. This top down approach should be supplemented by national objectives which would address specific member state issues but complement the overall European objectives.

Cost Recovery

In a parallel process to developing European objectives the EU need to lead a debate about how the costs borne for networks built to meet European objectives will be recovered. It should also be noted throughout that developing the network to meet new security of supply priorities may be more difficult to finance than a traditional commercial venture and that some form of special incentive, financing support or underwriting may be required. Given that the individual national frameworks might not deliver this, the EU may have a role in providing or facilitating this support.

Regulatory Uncertainties

One of the key barriers to new investments in the gas networks is the regulatory uncertainty that currently exists. GIE have previously stated that, “a stable, predictable and compatible regulatory regime across member states is essential in order to facilitate a positive investment climate into the future²” and this remains the case into the future.

EU Gas Infrastructure Market

There are a number of important activities where the EU could usefully add value however probably the most important are helping to ensure a sound investment climate and clearly stating the objectives required for a European gas network. If the objectives are clear and agreed, and the investment climate is sound then the market will deliver the most efficient solutions.

Level Playing Field

As EU funded projects could potentially disturb the normal development of commercial projects, the EU should ensure that a level playing field is maintained between any projects that it “facilitates” and normal commercial projects.

EU Support Areas

The greatest impact that the EU can provide to project developers is to ensure that a sound investment climate is achieved throughout all member states. This can be achieved by creating clear guidelines for ACER or NRAs (both may have important roles) and then ensuring that the guidelines are implemented. Where the EU has identified priority projects additional commercial incentives may be appropriate for developers. Where projects are developed for non-commercial reasons (e.g. to

² GTE Investment Principles (March 2007)

meet a security of supply objective) then the majority of the returns for the investment may need to come from, or be underwritten by, non-commercial sources (e.g. EU or member states).

Priority Setting

GTE is not currently able to suggest that any projects have a higher priority than any other. However if the objectives, for European gas infrastructure (i.e. network and connected facilities), are clearly defined then the projects that best facilitate those objectives should become more apparent.

Investment Drivers

In general, the market should be the leading driver for investments. One of the tools to determine the market needs are Open Seasons.

Competition of Gas Infrastructure Projects

In many cases, different investment projects competing on the European level may fulfil the objectives of European gas transmission infrastructure development. GTE welcomes that this is explicitly acknowledged in the ERGEG consultation document.

Role of ACER

GTE sees the role of ACER as a body to facilitate investments. ACER should seek for making regulatory frameworks compatible to stimulate investments and thereby support the development of the European gas market. This of course includes the formal ACER task to decide in case two regulators can not agree on a cross-border investment.

Probability of investment projects

The consultation document mentions that ENTSOG should assess the probability of investment projects. GTE does not consider this an appropriate task as many elements that can not be judged by ENTSOG may influence the probability of an investment project. It should be left to the project sponsor to develop his view and take his decisions on the project.

Costs Estimates

The consultation document proposes that ENTSOG should provide cost estimates for projects. GTE thinks that this is possible if the project sponsor provides such cost estimates to ENTSOG. Several reasons may withhold the project sponsor to provide ENTSOG with such cost estimate. Among these may be business and competition reasons (see section "Competition of Gas Infrastructure Projects" above).

Coherence

GTE confirms that coherence between national, regional and European network development plans should be sought. In case such network development plans are not published at the same time, the newest plan should have the possibility to include most up-to-date information. Differences resulting from more up-to-date information should not be misinterpreted as incoherence. The same applies if national legal and regulatory obligations force TSOs to apply differing rules.

Different investment processes within EU-27

An illustration of the current differences in investment processes between EU Member States has been given in chapter 2.5 of the consultation document. GTE welcomes that ERGEG acknowledges that a broad range of different processes currently exists. GTE asks legislators and regulators to make compatible the national legal and regulatory treatment of cross-border investments as far as they hamper the development of the European gas market.

Distribution of tasks between ENTSOG and national TSOs

GTE looks forward to an efficient distribution of tasks between ENTSOG and the national TSOs. Therefore GTE would consider the tasks attributed to ENTSOG in the consultation document rather to be understood as joint tasks for ENTSOG and national TSOs. ENTSOG and national TSOs are committed to conduct this work including significant dialogue with stakeholders on all levels.

Stakeholder interaction

European, regional and national layers of stakeholder interaction are to be considered. Existing interactions need to be further developed and new interactions need to be started. In order to find the most efficient way of managing these interactions, sufficient flexibility is required to enable the most appropriate priority setting as well as amending the priorities over time. Such priority setting should include adding tasks at the appropriate point in time as well as removing tasks if it turned out that they are not needed any more.

Consistent terminology

ERGEG consults on recommendations on the 10-year gas network development plan. GTE notes that within the consultation document other terms, e.g. the term “guidelines”, are used instead of the term “recommendations”. GTE would consider it advisable to use the term recommendations consistently throughout the consultation document in order to avoid possible misunderstandings on the nature of the document. The same applies to a consistent use of the term “scenarios” replacing terms like “forecasts” or “estimations”.

Answers to consultation questions

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

GTE is of the opinion that the TYDP provides a useful general overview of the European gas network development. GTE sees the TYDP as a communication tool to further develop co-ordination between TSOs and stakeholders.

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

GTE thinks that important overviews in two areas will be provided by the TYDP. The TYDP will provide an overview of European gas transmission network development and it will support the development of a shared view into future European supply / demand scenarios and capacity requirements.

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

GTE shares the view that the TYDP will be beneficial with respect to European security of supply (SoS) and thinks that the TYDP has the potential to highlight possible European SoS issues.

Of course the TYDP is not the only element relevant in this context. Other important issues to be further worked on are the development of the European SoS framework, the provision of appropriate investment conditions and the development of solutions to support investments in one country to the benefit of SoS in another country.

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

As described in the above sections “Distribution of tasks between ENTSOG and national TSOs” and “Stakeholder interaction”, GTE thinks that sufficient flexibility in the development of the TYDP is needed to provide the most efficient results. Such flexibility should include the possibility to add in

dialogue with stakeholders new elements that are considered helpful as well as to remove in dialogue with stakeholders elements for which priority/efficiency turned out to be low. The ERGEG recommendations should therefore be limited to overriding principles describing objectives without specifying in too much detail how ENTSOG and the TSOs reach these details (“output based approach”).

Three examples might serve to illustrate the above:

- GTE confirms that the TSO investment plans are to be co-ordinated to facilitate comparisons and synthesis at the European level but doubts whether an obligation to have the same structure would provide the most appropriate and efficient results.
- The TYDP should of course contain infrastructure maps of existing and decided infrastructure. It is however unclear whether it will be practicable to include one map containing all existing and decided infrastructure, as proposed in chapter 3.6, in a DIN A4 sized report or whether other means to publish this information would be more appropriate.
- Similarly it should be carefully considered whether the TYDP would be the appropriate platform to publish rates of use on an annual and monthly basis for all European interconnection points.

Furthermore, GTE would like to make aware that the usage of the term “regional transmission networks” in chapter 3.1 might lead to ambiguous interpretations as it does not seem to be clear whether it refers high pressure transmission systems or to “secondary transmission networks” as defined in footnote 11 of the consultation document. To the understanding of GTE, the regional investment plans should refer to high pressure transmission systems.

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?

GTE considers both elements as vital to produce a useful report. As described in the above section “Network Development Objectives”, the EU should have a major role in defining the objectives that a European gas transmission infrastructure should be seeking to achieve. This top down approach should be supplemented by national objectives which would address specific member state issues but complement the overall European objectives. The most appropriate combination of both approaches need to be developed stepwise based on the experiences gained.

Examples for top-down elements to be taken into account are the EU Commission work on Trans European Energy Networks (TEN-E) and the development of harmonized SoS definitions on the European level.

Examples for bottom-up elements to be taken into account are national SoS definitions, national investment processes, investment projects developed on a national or regional level and stakeholder consultations on a national or regional level.

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

GTE considers that a good relationship with shippers and producers based on trust and understanding is more important than a formal obligation.

GTE would like to highlight that the development of gas transmission networks is influenced by other basic gas infrastructure like storage and LNG facilities. GTE expects a close cooperation with these operators when drafting the TYDP to be able to discuss scenarios and exchange views with them.

Although the TYDP mainly refers to the European gas transmission network including connections to other basic gas infrastructure like storage and LNG facilities, information about such projects could be included in the TYDP provided that the respective operators ask for it.

The current GTE idea is that mainly information on projects actively provided by the respective project sponsor will be included in the TYDP.

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

GTE thinks that local knowledge and relationships are very important for a good quality result and would like to seek for an efficient distribution of tasks between national, regional and European levels. The distribution of tasks is expected to vary over time as communication processes and communication means evolve. Further details on this issue can be found in the above section "Distribution of tasks between ENTSOG and national TSOs".

It seems for example necessary to first gain experiences to find out whether the preparation of a questionnaire by ENTSOG to be completed by all stakeholders (chapter 3.5 of the consultation document) is the most efficient option.

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

The scenarios proposed describe one possible approach. Suitable approaches taking information availability and resource requirements need to be found and are expected to evolve over time.

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

Under the Third European Energy Package ENTSOG will have the obligation to conduct network modelling of the European gas transmission grid. GTE already applied network modelling and will continue doing so. Examples for network modelling by GTE are the development of past and future Winter Outlooks, the reverse flow study in the context of the Russia-Ukraine gas crisis in January 2009, the ongoing contributions to the foreseen revision of the European SoS Directive, the development of the Demand Scenarios vs. Capacity Report to be published in July 2009 and the GTE+ European Ten Year Network Development Statement to be published by December 2009.

As modelling can take many forms and include many possible combinations of technical and economical parameters and algorithms, GTE does not consider it appropriate to specify these parameters already now. Instead, the modelling should be stepwise further developed by GTE+/ENTSOG in consultation with stakeholders. Duplication of work should be avoided and information and modelling results of other acknowledged sources should to be included.

The comments given in the above sections "Distribution of tasks between ENTSOG and national TSOs" and "Stakeholder interaction" apply of course also for this ENTSOG task.

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

The answer given to the fourth question above also applies to this question.

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

GTE considers including explanations on deviations from the previous plan as a natural element of a TYDP. The appropriate extend of such explanations needs to be developed in co-operation with



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stakeholders. This subject could probably best be included in the TYDP, thereby avoiding the need for a separate report.

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

The answer given to the fourth question above also applies to this question.