



STATEMENT
on a Target Model for the European Gas Market

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?

GEODE agrees with CEER that a conceptual model should give an overall guidance for the ongoing and future drafting of Framework Guidelines (FGs) and Netcodes (NCs), which are the ideal instruments to define detailed rules on specific matters and enable market integration.

Such a conceptual model – or target model - should in any case provide a clear outlook of the European gas market in five years, respectively in 2015. Furthermore, this model should contain a clear path for the further market development and be open for further developments, e.g. for suggestions from the Commission's recent consultation on energy roadmap 2050.

The target model must initially apply to the fields for which FGs / NCs are or must be developed (cf. Art 8 para. 6 of the EU Regulation No 715/2009 on conditions for access to the natural gas transmission networks). These would include in particular the implementation of entry/exit systems, the facilitating of cross border market integration, capacity allocation procedures and congestion management, balancing and integration of European trading points as well as further areas such as data transfer, interoperability and common principles of tariffication.

In addition, it is very important in **GEODE**'s view that the conceptual model refers to the entire European gas market and does not exclude individual areas or network levels. This concerns in particular the inclusion of the distribution level, as an integrated European market would be indispensable without considering the interests of the distribution system operators and above all the needs of the end-users (see 4. below).

Furthermore, the target model should not be limited to the mentioned aspects. In line with the concept of a single gas market, it should also include aspects of the network expansion and network investments at TSO and DSO level; it should outline the further development of gas grids to smart grids and take into consideration the security of supply. Otherwise, the security



of supply (SoS) requirements and the ideas of the Commission's Infrastructure Package would threaten to exist in parallel.

The experience shows that the further development of the gas market to a common integrated marketplace, the modernisation of the system to smart grids as well as the strategic areas of security of supply require investments at all levels of the network system. This does not only affect the large strategic projects and the expansion of the transmission system but also the network expansion at local level (by smart grids and the integration of renewables, e.g. further promoting biogas feed-in) and investments in the IT systems. In order to secure such investments, it must be explicitly stated in the target model that the system operators may refinance these investments with network charges.

Such a target model can (and need) not be legally binding. However, the current and future market conditions should be mainly based on this model and not deviate from it substantially. Only in this way can the system operators and shippers make long-term reliable plans.

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

The gas market conditions, at least in the North-West region, have rapidly changed and considerably improved in the few past years.

Market areas have been established, which according to their definition and function go far beyond the "usual" entry/exit systems. Even though these market areas are still limited to the respective country borders in the North West Region, it is already foreseeable that European market areas will be established.

The effects of this development are remarkable. Based on their ever-increasing sales or liquidity, the gas exchanges in Europe, such as the National Balancing Point (NBP) in Great Britain, the Title Transfer Facility (TTF) in the Netherlands, the EEX in Germany, but also the single trading points in the German market areas have increasingly developed to liquid market places at which gas quantities can be purchased or sold at reliable price benchmarks in the short or medium term.

Besides, an excess supply of gas can be currently identified in the market, which results among others from the increasing availability of LNG and can be maintained also in the future based on the further availability of unconventional gas. In addition, there are the right and important efforts of the Commission and the Member States to increase the energy



efficiency and to encourage the use of renewable energies that will reduce the gas demand in the future, especially in the heating sector.

This roughly outlined development affects in practice the conclusion of long term supply contracts and the price formation therein. Due to the liquidity and the price signals from the gas exchange, more contracts with a short term of less than one year up to five years will be concluded. According to the experience of the **GEODE** members, the price formation in these contracts is no longer based only on the oil price but also and increasingly on the exchange and the trading prices in the market areas. Despite this trend though, there is still the need for a long-term security of the gas quantities, as can be reached by long-term supply contracts. This need is of strategic nature and ensures a reasonable, long-term planning for gas power plants that will play a key role in the future energy supply with a view to the integration of renewable energies.

These developments must be taken into consideration in the target model and must be promoted by targeted measures to lead to a single, integrated European gas market. Otherwise there is the danger that the market development is unstable, which would be to the detriment of all.

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.

The key elements of the target model are:

- A close cooperation between TSOs and DSOs.
- Creation of European regional market areas, including one entry/exit system and one balancing zone. The goal should be that only three market areas are established in Europe in the medium term corresponding to the current regions (North-West, South-Southeast, South).

Basically no capacity congestions in a market area; after implementation of efficient capacity allocation mechanism and congestions management procedures no contractual capacity bookings are necessary in the future. Congestion management should be focused (only) on physical congestions.

- Connection of (European) regional areas by market coupling.



- Further development of gas hubs and gas exchanges with a view to the creation of a few trading points in Europe.
- Expansion and further development of the gas grids to smart grids especially at distribution level and the development of energy concepts for the future use of natural gas taking into account renewable energy sources and energy efficiency.
- Basic harmonisation of tariff structures and rules. However, sufficient room should remain to take into consideration certain structural features of individual regions or Member States.
- Enabling and ensuring the relevant investments not only at transmission level and for pipeline projects but also and above all for the distribution system.

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?

The target model must include a description and clarification of the key elements of the market-area system and the overlapping aspects, e. g. gas smart grids and investments / tariffication (see above under 3.).

In principle, the target model should not get lost in details of the individual areas. Otherwise, the relation to the respective guidelines and net codes in such areas would become unclear and too specific, premature decisions would be made, at least on issues that are not discussed about such as tariffication.

Nevertheless, it is necessary that the target model describes specifically the future market design of the integrated European gas market and outlines in detail the elements mentioned under 3. above. It should also contain clarifications of definitions and concepts concerning, in particular, issues that apply in general to all areas mentioned, including a uniform definition of the gas day.

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)?

The gas target model affects all system operators, TSOs and DSOs. Neither an entry/exit system nor a balancing zones system can show the complete picture if the DSOs are not included.



The role of distribution system operators is insufficiently described in the concept of the FGs and NCs according to the EU regulation on conditions for access to the natural gas transmission networks. Distribution system operators are involved in the consultation processes only as normal stakeholders. But this is not enough; distribution system operators, unlike e.g. shippers, are directly affected by the FGs and NCs because, depending on the system, the DSOs are more necessary for the TSOs in many aspects.

This is particularly evident in the current discussion about framework guidelines on gas balancing. The distribution system operators hold a fundamental function in the handling of the balancing system. The distribution system operator is particularly in charge of the collection and transmission of measured and forecast data. This includes in particular the collection and transmission of measured data of load-measured customers as well as the allocation and forecast data of non-measured SLP customers in addition to the relevant temperature forecast. Furthermore, the DSOs play an important role in the final accounting between allocated quantities and the actual gas quantities consumed by load-measured and non-load measured customers.

In addition, distribution system operators must make sure that shippers are transmitted as soon as possible the relevant information about the consumption behaviour of their customers or up-to-date forecasts of this behaviour.

The DSOs are directly affected also in relation to the data transmission processes, which is inherent to the system. For the implementation of data transmission processes, **GEODE** for the development of uniform requirements and standards for TSOs and DSOs – where efficient, appropriate and reasonable. This would also require relevant technical standards and clear guidelines in relation to the medium- and long-term transmission frequency and to the data and message formats to be used. It should be noted that particularly in the area of IT system implementation the respective guidelines and net codes must consider a sufficient period of time for the technical implementation.

Another example for the important role of the DSOs is the supply of control energy. Not only the TSOs but also the regional and local distribution system operators have a considerable buffer potential that the responsible TSOs must make use of, to reduce the physical control energy needed. Prerequisite is, however, that the relevant buffering services provided by the DSOs are recorded accordingly so that the DSOs are adequately refunded their personnel and material expenses.

These examples show that a European target model for gas without a clear description of the tasks and the role of the DSOs would be insufficient and incomplete. Particularly problematic in this context is the fact that the DSOs are not directly involved in the guidelines/network codes but can „only“ express their position in a general consultation. This is unsatisfactory



above all because fundamental obligations to implement and apply the upcoming balancing rules will directly affect the DSOs.

Therefore, **GEODE** asks to reinforce the role of DSOs in the process of developing FGs and NCs. It is necessary that the DSOs are directly involved when provisions are drafted which affect the operation of distribution networks and/or DSOs interest. **GEODE** proposes that the gas target model suggests setting up a permanent working group with ENTSOG and ACER / ERGEG.

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?

Please see our reply to the above questions.

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

It is especially important that the gas target model is supported by all market players and in particular by all Members States and that all parties are given enough opportunity to submit their opinion, which in **GEODE**'s view is guaranteed at the moment.

The target model should not contain any areas or aspects left to national/regional decision making.

The FGs / NCs could provide for such in exceptional cases. These decisions, however, must be restricted to absolute exceptional cases and must not call into question fundamental principles of the target model or the FGs / NCs. The most problematic aspect of the separate, national decision making is that it is difficult to ensure uniform rules to apply to the future European market areas going beyond national borders.

This does not mean though that the advanced rules can apply to all European market areas at the same time. Against the background of the current development stage of individual European regions this would be far from reality. However, **GEODE** still believes that the regional particularities should be considered by stipulating special decision making powers of the Member States in the FGs / NCs, but they should be clarified and described in line with the Regional Initiatives on which the European Commission is currently carrying out a consultation procedure. In this procedure it must, of course, be ensured that Member States are sufficiently involved in the regional processes, which is in accordance with the guiding principle of Article 7 Gas Directive. **GEODE** will also submit a detailed statement to the ongoing consultation procedure on Regional Initiatives.



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?**

In **GEODE's** view there are no other alternatives to the above outlined. Insufficient market regulation can hinder but not prevent the development of the worldwide gas market.

As already explained above, there are successful examples and approaches for the creation of market areas (especially in the North-West Region) which already meet **GEODE's** market view in many aspects, but which need to be further expanded in others. In **GEODE's** opinion, these concepts, especially in Great Britain, the Netherlands, Belgium, and Germany, aim at creating possibly large market areas with a liquid access to the exchange market. Now it is necessary to combine these experiences in such way that the national market areas are merged to a large North-West market area. This means, in **GEODE's** view, the creation of a European entry/exit system and of a uniform balancing zone. The already achievable progress in the North-West area must be taken into consideration in the target model. For the other regions, a specific time schedule should be outlined to catch up on this development.

The then existing European market areas must be connected with each other, while aspects of market coupling from the electricity market could be also applied to the gas market. However, system related differences can and must, of course, be considered. In our opinion, the special advantage of market coupling is the fact that it does no longer happen on the basis of contractual congestions, but it enables only a connection to the physical network congestions. In this way, markets are connected and price signals are given to encourage network investments.

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