



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

**Call for Evidence
Evaluation of comments**

**Ref: C11-GWG-74-03
2 March 2011**

INFORMATION PAGE

Abstract

This document C11-GWG-74-03 is a CEER document on Evaluation of Comments of the public consultation on the CEER vision paper for a conceptual model for the European gas market

European regulators have committed to produce, by the end of 2011, a vision paper on the gas target model. A Call for Evidence on the conceptual model for European gas market was launched on 5 November 2010 to understand stakeholders' initial views on what should be considered. The consultation period ended on 14th January 2011. This paper summarises stakeholder views from the Call for Evidence.

Target Audience

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

If you have any queries relating to this paper please contact:

Mrs. Fay Geitona

Tel. +32 (0)2 788 73 32

Email: fay.geitona@ceer.eu

Related Documents

CEER/ERGEG documents

- “CEER Vision Paper for a conceptual model for the European gas market” - Call for Evidence, November 2010, Ref: C10-GWG-70-03
- “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.energyregulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Regional_Initiatives_Conferences/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_congestion_management_procedures.zip

Table of Contents

1. BACKGROUND	5
2. RECEIVED COMMENTS	5
3. CONSIDERATION OF RESPONSES	5
3.0. General remarks	5
3.1. Q1: 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?	6
3.2. Q2: 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?	6
3.2.1. a) Including the role of long term capacity contracts in the future European gas markets 6	
3.2.2. b) Including the role of hubs / gas exchanges.....	7
3.3. Q3: 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 efficient functioning of the internal gas market?	7
3.4. Q4: 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?	8
3.4.1. a) Do we need a definition of an EU-wide gas day? If yes, what should this definition be?.....	9
3.4.2. 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)?	9
3.5. Q5: Which areas or aspects of the gas market should be affected by the target model and what are the constraints for such a model?.....	10
3.6. Q6: Which areas or aspects of the gas market should be excluded from the target model description and left to national/regional decision making?.....	10
3.7. Q7: 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.	11
3.7.1. 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?	11
3.7.2. b) Is the coupling of market areas as it is being developed in European electricity markets appropriate for gas?.....	12
4. ANNEX 1: LIST OF STAKEHOLDERS RESPONDING TO THE CONSULTATION	13

1. Background

The 3rd Package includes a number of requirements such as the establishment of entry/exit zones, market based balancing and the establishment of binding network codes. There are also future challenges through renewable and emissions targets. Discussions at the 18th Madrid forum in September 2010 highlighted that these issues cannot be considered in isolation and a consistent approach is needed to ensure the objectives of a liquid, efficient, competitive and sustainable European market. The forum agreed that there was a need for a vision of what the European gas market should look like in five to ten years time.

European regulators have committed to produce, by the end of 2011, a vision paper on the gas target model. A Call for Evidence on the conceptual model for European gas market was launched on 5 November 2010 to understand stakeholders' initial views on what should be considered. The consultation period ended on 14th January 2011. This paper summaries stakeholder views from the Call for Evidence.

These views, together with the feedback from a series of public workshops (the first one took place on 3rd December 2010 in Vienna, the second on 22nd February 2011) help inform the large public about the CEER's vision for a conceptual model for the European gas market.

2. Received Comments

42 responses were received (two confidential), covering a broad spectrum of stakeholders. Individual non-confidential responses can be seen and downloaded from the CEER website¹.

Table 1 in Annex 1 provides a list of those who responded to the Call for Evidence.

3. Consideration of responses

3.0. General remarks

Respondents to the consultation overwhelmingly welcomed the development of a gas target model. The majority wish to see the gas target model as a non binding overarching high level vision which can guide the development of the various work required under European legislation.

There was a concern that too much time should not be spent in establishing the vision, given the implications it could have for the work that is already going on framework guidelines under the 3rd Package requirements. Therefore, stakeholders expressed the need for a quick conclusion to this work, though agreeing that the gas target model should be flexible enough to accommodate future developments in the gas market.

¹http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Gas%20target%20model/RR

Several respondents suggested a good basis for the target model would be the consideration of EASEE-gas common business practices.

Many stakeholders stressed the importance of any target model assessing options, with both benefits and costs considered to ensure an informed policy decision is made.

3.1. Q1: 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?

The majority of stakeholders see the main aim of the gas target model to ensure a consistent approach in the development of the framework guidelines and network codes required by the 3rd Package.

It should aim to ensure non discrimination, fair access and transparency, creating a liquid, competitive, efficient and sustainable internal European market. It must ensure interoperability, security of supply and ensure European perspective of investments.

3.2. Q2: 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?

A number of challenges to the European gas market were identified by stakeholders.

Demand for gas is expected to be driven by demand growth and power generation. The requirement to meet renewable and carbon targets will increase the use of gas as back up generation fuel. This will pose challenges to the network as it will need to react and accommodate swings in demand.

On the supply side, indigenous production will decline (though this could be partly offset by shale gas) increasing the demand from imports (LNG and pipeline to access global sources). The challenge will be to warrant appropriate investments and to ensure that gas can be channelled from these varied sources.

An effectively functioning internal market is important to tackle these challenges by ensuring gas is delivered where it is demanded by ensuring the correct signals are in place and barriers to cross border trade are removed.

3.2.1. a) Including the role of long term capacity contracts in the future European gas markets

The majority of respondents see long term contracts continuing to be important. This is important primarily to ensure and encourage investment but also for security of supply.

A number of respondents said existing long term contracts must be respected. However a number of other respondents argued that legacy contracts should be eliminated as they block competition. It has to be mentioned that however Regulation (EC) 1775/2005 abolished the separate treatment of domestic transport and “transit” by introducing only one category of transport, i.e. “transmission”. It is clear that under Regulation (EC) 715/2009, entry and exit tariffs may not differ on the basis of where the gas is coming from or where it will be transported to.

Of key importance to stakeholders was to ensure long term contracts were available to all through open and fair access arrangements (i.e. transparent open seasons).

Many supported the need to ensure short term capacity is also made available and effective congestion management procedures are in place to prevent hoarding.

3.2.2. b) Including the role of hubs / gas exchanges

Hubs/exchanges are seen by stakeholders as increasingly important for market participants to access short term gas and increase liquidity in the market. A number of stakeholders felt the development of local hubs would make price signals more reliable and transparent.

The development of hubs/exchanges should be facilitated through the development of a gas target model however a number of stakeholders felt regulators should not prescribe where the hubs should be located, nor should it be mandatory for shippers/ traders to use them. These stakeholders felt it should be left up to the market where hubs develop and if the market wants to use them or alternative sources. Despite this, a number of stakeholders however welcomed the development of capacity products such as bundled products between hubs believing that would encourage cross border trade and welcomed more choice in the market. Some stakeholders did express the view that market transparency and liquidity would be aided by forcing TSOs to use hubs/gas exchanges as well as for imports into the EU.

3.3. Q3: 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 efficient functioning of the internal gas market?

Stakeholders expressed the importance of having compatibility of processes and clearly defined roles and responsibilities of the market players. With respect to the key elements highlighted in the consultation document:

Capacity allocation mechanisms (CAM):

Stakeholders emphasised the need for effective implementation of entry/exit systems at all cross border interconnection points and the need to have consistent rules. The majority supported the use of auctions, open seasons and many supported the development of bundled cross-border products.

Stakeholders highlighted the importance of ensuring there is a mix of long term, medium term and short term products. Many support abolishing legacy contracts but many argue they should be respected.

Congestion management procedures (CMP): A consistent market based approach to CMP was supported. The majority of respondents supported requiring the transmission system operators to oversell and buy back. Whereas some respondents argue that renomination rights should not be restricted, some others support the restriction as part of a short term UIOLI mechanism to provide the market with firm day-ahead capacity.

Network tariff arrangements: Stakeholders emphasised the need to ensure cost reflective tariffs. There needs to be transparency in how tariffs are calculated and a consistent approach to methodologies across Europe.

Wholesale market pricing: Most stakeholders felt this should be left to the market. However it is important that secondary trading is facilitated and that there is adequate transparency.

Balancing arrangements: The majority of respondents supported harmonised market based daily balancing. The emphasis should be on market participants to balance their portfolio with the TSO having a residual role. Consistent rules are important to enable effective cross border trade. The importance of cost reflective imbalance charges was stressed. Some were against restrictions on re-nominations within day but agreed that this was an important issue to clarify.

Gas quality: A number of stakeholders felt that there should be a broad specification of gas quality to ensure security of supply. Most felt that the details should not to be specified in the target model but was better to be considered elsewhere, for example in interoperability rules under the network codes.

Transparency: Stakeholders supported the need for transparency on all parts of the value chain.

3.4. Q4: 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?

Expectations towards the level of detail of the gas target model differ among stakeholders. Many stakeholders asked for developing a high-level vision, one asked for the same level of details as in the existing framework guidelines and several asked for not having too much detail leaving it to the framework guidelines and network codes.

Several stakeholders asked for keeping flexibility in the gas target model and to allow for national discretion. Stakeholders stressed the different stages of development of the different regions in Europe and that this should not be used as an excuse why the development in e.g. the North-West region shall be slowed down until the other regions catch up. In general stakeholders expressed that there will be a need for interim steps and a toolbox approach. A one-size-fits-all solution seems to be not the preferred path to go. However, stakeholders agreed that the overall target shall be the same all over Europe.

3.4.1. a) Do we need a definition of an EU-wide gas day? If yes, what should this definition be?

Almost all respondents agreed that there is a need for a common gas day in Europe which deals also with the issue of different time zones. However, about 50% of respondents asked for using the existing EASEE-gas standard (6.00 CET - 6.00 CET) which is implemented by several Member States and the other 50% asked for aligning the gas day with the electricity day. Alignment with the electricity day is especially an issue where combined cycle gas turbine power plants (CCGTs) play an important role. Several respondents asked for analysing the impacts of aligning the gas day with the electricity day. One respondent explained that a common gas day might not be necessary if the rules which apply to the interfaces between different gas days are properly defined.

Some stakeholders also pointed out that common nomination and re-nomination times would benefit the development of the internal gas market. The use of consistent energy units was also mentioned as an area where a definition would be beneficial on an European basis.

3.4.2. 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)?

In general there was consensus that the gas target model should focus on the wholesale level. However, several stakeholders asked for considering DSOs where this is necessary, i.e. with respect to balancing issues. Only a few stakeholders asked for a focus on DSOs and their interfaces with TSOs in general. Furthermore, the interaction with LNG, storages and the upstream segment shall be sought in the view of some respondents – however, these areas should not be key.

Most stakeholders asked for focusing on horizontal issues in first place and of vertical issues in second place. In view of respondents the regulation of distribution systems should be mainly driven by national rules and not European rules. However, one respondent pointed out that it would be helpful at a European level to discuss rules on how to deal with extreme climatic conditions under which normal market conditions do not apply. One stakeholder pointed out that the role of DSOs is insufficiently described in the concept of framework guidelines and network codes and this is an issue of concern especially regarding balancing. Thus, DSOs should be better involved.

It was also pointed out that national/regional conditions have an impact on the functioning of retail markets and that for retail markets it is very important to consider those conditions and to avoid a one-fits-all solution.

3.5. Q5: Which areas or aspects of the gas market should be affected by the target model and what are the constraints for such a model?

The vast majority responded that the areas listed in the 3rd Package for the development of framework guidelines and network codes should be affected by the gas target model. Respondents prioritised capacity allocation mechanisms, congestion management, balancing rules, transmission tariff structures, transparency and interoperability. For all these issues, except transparency, ACER will develop framework guidelines within the coming months. Regarding transparency, Chapter 3 of Annex I of Regulation (EC) 715/2009 was amended in 2010 and the measures will apply from 3 March 2011 onwards. However, the responses of stakeholders indicate that there is further need for discussion of transparency requirements and/or the compliance with the existing requirements. The design of entry/exit zones was also mentioned as one issue which should be discussed on a general scale of the European discussion.

Most of the respondents asked for focusing on the activities of TSOs. However, several stakeholders asked for considering LNG and storages as well as the upstream segment in the development. The interface with DSO activities shall be considered where this is necessary, e.g. in case of balancing and data collection. The relevance of the new Security of Supply Regulation for the discussions was underlined by four respondents as well.

Furthermore, several stakeholders asked for considering investments in infrastructure and the need for appropriate incentives. This has to be seen in the light of the current discussions on the Energy Infrastructure Package.

3.6. Q6: Which areas or aspects of the gas market should be excluded from the target model description and left to national/regional decision making?

In general the spectrum of responses with respect to areas that should be excluded from the target model description is on one hand very broad and on the other hand very concrete.

Most of the respondents consider that the level of tariffs should be excluded from the target model description, due to the complexity and often political sensitivity of this issue. Furthermore capacity aspects such as the market for secondary transportation capacity, use-it-or-lose-it rules, bundling of entry and exit capacities and capacity allocation within a country are mentioned frequently to be also excluded from the target model description. Four respondents want trading rules, especially products, platforms, credit security or terms and conditions by which trading is executed, to be left out of the gas target model. Several comments are related to entire parts of the supply chain like retail activities, non wholesale markets, upstream activities and non-regulated activities that shall be out of focus.

Other individual exclusion proposals were on details of balancing regime, security of supply, public service obligations, control energy products, IT specifics about information exchanges, safety rules, physical connection specifications, smart metering and smart grid specifications, network investment, available line-pack, storage, available sources, TSOs regulated rate of return, allowed revenue and price control, TSOs credit arrangements and performance standards and non settlement market facilitation processes, e.g. switching, metering, customer movements, new connections.

3.7. Q7: 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.

The responses to this question were very diverse while most of the respondents did not explicitly name options for integrating European markets or models they would like to recommend. A number of respondents propose as possible measures/options, explicit day-ahead auctions, hub-to-hub products and merging of market areas/balancing zones. Some respondents also include market coupling as a possible option.

One respondent mentioned that before defining methods and options, the objectives to integrate the currently fragmented European gas markets should be defined under consideration of aspects like price convergence, efficient utilisation of existing infrastructure, portfolio effects, ease of handling for shippers and synergy effects with other markets. Based on those objectives the implementation of potential measures should be discussed and their costs and benefits should be assessed with all stakeholders. One respondent comments that the reason for the fragmentation is based on the fact that there have not been proper capacity allocation methods, tariff, balancing or congestion management arrangements in place in most of the EU Member States. These arrangements are considered by the respondents as the key elements for the European market integration.

3.7.1. 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?

The reaction to this question is quite uniform. Most of the respondents highlight that a reduction of the number of the balancing zones can lead to an improvement in trading and competition. However, market design should not force a particular number of balancing zones, but should create the conditions to enable such zones to emerge organically. In any cases the costs of any potential merger has to be carefully assessed and weighed against the benefits of a greater and more liquid market area. Therefore zones should be merged whenever it is technically feasible at reasonable costs, without any deterioration of the products offered.

However, one respondent proposes to merge the existing well developed market areas of UK, Germany, Netherlands and Belgium to a large North-West market area. This would mean, from the view of the respondent, a European entry/exit system and uniform balancing zone.

3.7.2. b) Is the coupling of market areas as it is being developed in European electricity markets appropriate for gas?

Nearly all respondents say that – for the time being - it is not clear if market coupling is also appropriate for gas. They propose to analyse further the possible concepts and consequences of market coupling and to develop a joint understanding of what market coupling means in gas. Market coupling is, regarded by several respondents as a highly effective CMP measure but further feasibility studies are proposed to be undertaken in order to analyse the transfer of the concept in detail. One respondent underlines the advantages of market coupling and proposes to include market coupling in the target model. Market coupling should be used to connect European regional areas instead of merging them.

Many respondents are very sceptical that the power model can be lifted directly into gas. It cannot be automatically assumed that the same benefits will arise in the gas markets like we have seen in the power markets. The respondents argue that there are fundamental differences like physical and economic characteristics, geographical distances between production and markets and the structure of the pre-existing long term supply contracts. One respondent comments that these important differences between gas and power markets should not be ignored simply to assuage the EC's pressing desire to have a clear vision of what a single EU gas market will look like in 2015.

Furthermore, some argue that the effect of both CMP and CAM framework guidelines should be studied first, before suggesting another congestion management measure. One respondent highlights that gas is traded in a continuous manner and the liquidity is not sufficiently deep enough which is a difficulty for market coupling in gas.

One respondent criticises that it is not clear enough what market coupling precisely means. At this stage there had been insufficient explanations of what proponents of such an approach mean at a practical level to make further comments. According to him it is far from clear that such an approach is a panacea or which problems it is trying to solve.

Nevertheless, some respondents believe that it might be useful, if in any region market participants are interested in carrying out a pilot. Another respondent is in general quite positive on market coupling for gas and believes that it is an appropriate measure to deal efficiently with congestion in the gas market.

4. Annex 1: List of stakeholders responding to the consultation²

BDEW	Bergen Energi
CEDEC	Centrica
EASEE-gas	EDF
EDF –Energy	Edison
EDP Gas Naturgas	EFET
Energie-Nederland	ENI GP
ENSTO-G	EON
Eurelectric	Eurogas DIST
Eurogas STUC	EuroPex
FEDEC	Fluxys
Gaslink	Gazprom Market & Trading
GIE	GDF Suez
GRT gaz	IFIEC & CEFIC
Interconnector	National Grid
Paul Hunt	RWE Supply and Trading
Statoil	WINGAS
EnBw	BP
GEODE	Shell
POWEO	OMV Gas & Power
OGP	EDF Trading

² Two confidential responses were received.