



GIE Response to CEER's Call for Evidence on a "Vision for a conceptual model for the European gas market"

Introduction

Regarding the implementation of the 3rd Energy Package, point 4 of the conclusions of Madrid Forum XVIII states: *"The Forum invites the Commission and the 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 market target model. The regulators are ready to chair this process, and to present by end 2010 an outline on the definition and the scope of the model to be developed"*.

As starting point of this process CEER has launched a "call for evidence", accompanied by a first workshop on 3 December 2010.¹

At the CEER workshop, GIE has provided preliminary comments. This document intends to provide further input to the process of establishment of the Target Model. As stated in the conclusions of Madrid Forum XVIII, the Target Model should be established in close cooperation with system operators. GIE wishes to contribute effectively to the process.

Who is GIE?

Gas Infrastructure Europe (GIE) is an association representing the sole interest of the infrastructure industry in the natural gas business such as Transmission System Operators, Storage System Operators and LNG Terminal Operators. GIE has currently 66 members in 26 European countries.

One of the objectives of GIE is to voice the views of its members vis-à-vis the European Commission, the regulators and other stakeholders. Its mission is to actively contribute to the construction of a single, sustainable and competitive gas market in Europe underpinned by a stable and predictable regulatory framework as well as by a sound investment climate.

¹ CEER Vision Paper for a conceptual model for the European gas market – Call for Evidence, Ref: C10-GWG-70-03, 3 November 2010. Information on the consultation process can be found at : http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Gas%20target%20model/BG.

General considerations regarding the Target Model

1. Gas is different from electricity

Some elements of a Target Model for the electricity market have already been defined, among others market coupling through implicit auctions. Following these developments, it has been proposed to design the future gas market using the same principles as in electricity.

However electricity and gas have fundamentally different characteristics, which should be taken into account when speaking of the gas market design, such as:

- gas can be stored, contrary to electricity;
- the compressibility of gas allows to use linepack as a tool to buffer small supply/demand imbalances;
- gas takes longer to transport through the network;
- security of supply is more pertinent and sensitive for gas than for electricity; there is a lack of competition in gas supply; gas is mainly produced outside the EU while electricity is produced indigenously;
- gas has to be transported on long distances from production to consumption area; therefore cross-border and transit flows are huge and used primarily to *supply* markets rather than to *balance* between markets as is the case for electricity, and tariff structures for cross-border and transit capacity are important in the gas business.

These aspects should be considered in the context of the Target Model design, as the direct application of some elements of the electricity market integration concepts may have negative impact on cross-border gas flows, security of gas supply and investments in infrastructure.

2. Policy choices and timing for the Target Model

Article 6 of Regulation 715/2009/EC describes the process for the establishment of Network Codes by the ENTSO for Gas, following Framework Guidelines designed by ACER upon request by the European Commission. Article 8 further defines the scope of the 12 Network Codes which have to be established by the ENTSO for Gas.

The current experience regarding pilot Framework Guidelines on CAM and Balancing, and the Comitology process on CMP, indicates a strong interaction of several topics across pilot Framework Guidelines. Consistency should be ensured in the process to achieve a coherent result, i.e. by defining a Target Model.

It should be noted that the concept of a Target Model is not defined in the 3rd Energy Package: it has thus no legal basis. However, a Target Model could serve as guidance for establishing of Framework Guidelines and Network Codes. It is a tool aimed at facilitating the implementation of the 3rd Energy Package. Such a Target Model necessitates a broad acceptance of all concerned stakeholders.

The Target Model should contribute to the objectives of the 3rd Energy Package and aim at the development of trading hubs (leading to better and more efficient gas flows and trading across Europe); efficient measures for contractual and physical congestion; an easy access to capacity in all markets through a step-wise harmonisation of rules and procedures, using accurate and timely

information from operators. It ought to be noted, however, that harmonisation should not be understood as unification.

There are two aspects to the Target Model: structure and scope. The structure is about defining the following elements:

- *which* Framework Guidelines/Network Codes are needed;
- the *scope* of those Framework Guidelines/Network Codes;
- the *order* in which they should be written;
- the *interactions* between the Framework Guidelines/Network Codes;
- the *transition plan*, i.e. realistic timing for Framework Guidelines/Network Codes and expected intermediate steps and results in the mid and long term.

The scope of the Target Model consists of *policy choices* (i.e. what should the gas market look like in the future). Within the scope of the Target Model several possible gas market models can be defined. In the Target Model, fundamental *policy choices* will need to be made which are broader than access to gas infrastructure : several possible gas market models may actually achieve the goal, but policy makers, in close cooperation with stakeholders, will need to choose one and the intermediate steps how to achieve that model,. If later experience is inconclusive for some choices, these *policy choices* should be adapted, and the Target Model should enable such changes.

The level of detail of the Target Model should be high enough to provide for coherent Framework Guidelines and Network Codes and, if necessary, to allow for regional market specificities. The Target Model should also be detailed enough to clearly define the *scope* of each Framework Guideline and the *interactions* between them.

3. LNG and Storage facilities

The 3rd Energy Package has introduced the concepts of Framework Guidelines and Network Codes to progressively harmonise access conditions to transport gas across Europe. There is no such process for storage, which is often subject to negotiated TPA, nor for LNG terminals.

As access to the transport side of the interconnection points with storage or LNG terminals has to comply with the provisions of the Network Codes, the Target Model may indirectly impact on the access to storage or LNG facilities. For example, if congestion management principles are applicable on the transport side (i.e. UIOLI), they could impact storage or LNG terminal contracts because they modify the economic value of these facilities.

Given the above, the Target Model should not affect competitive activities which are key elements for the development of the internal gas market and for the provision of security of supply in Europe. The future gas supply of Europe will require many new investments in upstream production and infrastructure, LNG terminals and storage. The Target Model should consistently take into account possible interaction with storage and LNG terminalling but should not impact on non-regulated activities. The Target Model should leave full freedom to LNG activities for defining and implementing access rules that are be consistent with the access rules on the transmission side.

4. Impact of Target Model on investments

The new Regulation 994/2010/EU on Security of Supply and the future Energy Infrastructure Package – aiming among others at new energy infrastructure to help achieve the climate goals of Europe – will likely require huge investments.

Moreover, the fulfilment of the Target Model will also entail additional expenditures: new infrastructure, IT investments, trading markets, could be needed, i.e. to increase the size of balancing areas, to support hub-to-hub trading, etc.

The Target Model should foresee an impact assessment analysing the costs and benefits of the proposed measures, taking into account the European *policy objectives* of competitiveness, security of supply and sustainability. Benefits should exceed costs significantly in order for measures to enjoy a broad acceptance by stakeholders.

The achievement of the Target Model will not be possible without a sound investment climate. This aspect has to be reflected in the Target Model and thus in the Framework Guidelines and Network Codes. GIE welcomes the statement of CEER that harmonisation of transmission tariff structures should “*provid[e] incentives for efficient investments*”.²

5. Different options are possible

The achievement of the internal gas market will require some harmonisation of rules and procedures, but harmonisation should not be understood as a complete unification of those rules and procedures.

The European model evolves using the experience of the already existing third-party access rules in some countries, spreading the best practices and the most effective and efficient measures to wider markets zones. Therefore the Target Model should allow for alternative developments that may be more effective in certain market zones or provide better results in future market conditions.

Competition among options should therefore be allowed: the Target Model will likely evolve over time and if different options exist, it should be possible to choose the most appropriate ones depending on the evolution of the market and the regional context, for the benefit of the market.

² “CEER vision for European gas target model”, presentation at CEER workshop of 3 December 2010, p.14.

GIE answers to the “Call for Evidence” questionnaire

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?

See point 2 of the “General considerations”.

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 major developments and anticipated changes in the European gas market will come from the new trends of the European energy policy, in particular regarding climate change and the evolution towards a low-carbon economy, and regarding security of gas supply. There is an increased need for gas infrastructure. Therefore investments will become more challenging and appropriate financial instruments may be needed. This problem is addressed in the recent communication of the European Commission on Energy Infrastructure.³

Long-term capacity contracts will continue to play an important role in the European gas market, as recognised in the Third Gas Directive.⁴ Long-term contracts allow for an adequate risk sharing between operators and users. A stable and predictable legal and regulatory regime fosters investments by reducing risks on operators and users. See also point 4 of the “General considerations”.

The role of hubs and gas exchanges is expected to grow. However liquidity is created by market participants as a whole and not by infrastructure operators alone. The Target Model should aim at the development of trading hubs, leading to better and more efficient gas flows and trading across Europe.

It has also to be pointed out that the outcomes from research in new energy technology developments concerning gas will make a major contribution to achieve low-carbon targets. In this sense, new technologies, such as the regenerative production of gas (“power to gas”) among others, will assist defining gas as an essential component in the future low-carbon economy framework by using existing and new gas infrastructure and the available technology developments.

³ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Energy infrastructure priorities for 2020 and beyond – A Blueprint for an integrated European energy network, {SEC(2010) 1395 final}, COM(2010) 677 final, 17 November 2010.

⁴ Recital 42 of Directive 2009/73/EC: “Long-term contracts will continue to be an important part of the gas supply of Member States and should be maintained as an option for gas supply undertakings in so far as they do not undermine the objective of this Directive and are compatible with the Treaty, including the competition rules. It is therefore necessary to take into account long-term contracts in the planning of supply and transport capacity of natural gas undertakings.”

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 a Target Model are those necessary to achieve its goal: capacity allocation and congestion management procedures, network tariff arrangements, balancing arrangements, interoperability rules. See also point 2 of the “General considerations”.

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)?

See point 2 of the “General considerations”.

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?

The Target Model may cover the scope of the Network Codes as described in Article 8(6) of Regulation 715/2009/EC, although on a high level, leaving room for Framework Guidelines and Network Codes. There is also added value in including some areas which are not explicitly covered by those network codes, i.e. incentives for investments and security of supply. See also point 2 of the “General considerations”.

The Target Model should not affect competitive activities which are key elements for the development of the internal gas market and for the provision of security of supply in Europe. The future gas supply of Europe will require many new investments in upstream production and infrastructure, LNG terminals and storage. The Target Model should consistently take into account possible interaction with storage and LNG terminalling but should not impact on non-regulated activities. See also point 3 of the “General considerations”.

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

Some national/regional elements of third-party access have to be designed at national/regional level in accordance with the subsidiarity principle. Development of specific tools to further integrate markets should be part of the competing models approach advocated by GIE. See also answer to question 5.

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?

Currently several third-party access models for transport exist in Europe. All have advantages and drawbacks. On the one hand, third-party access rules should be designed to take into account infrastructure development requirements, on the other hand, they should be simple and clear enough to offer good capacity and flexibility services for the market.

The Target Model should choose among existing rules – or propose new rules – in order to achieve better the goal stated in section 2 of “General considerations”. While it should consistently take into account that storage and LNG facilities are part of the natural gas system, it should not affect competitive activities.

The appropriateness of market coupling as it is being developed in European electricity markets should be assessed taking into account of the major differences between the electricity and gas markets. See also point 1 of the “General Considerations”.

Conclusions

For GIE the Target Model should be a vision and a tool unified into one. It should facilitate a consistent design of Framework Guidelines and Network Code.

The following aspects have to be taken into account when designing the Target Model :

- gas is different from electricity;
- the Target Model should guide the development of Framework Guidelines and Network Codes;
- the Target Model on transport should not impact on competitive activities;
- a sound investment climate is required to implement the Target Model;
- competition of options will lead to a better gas market.

Most importantly, a wide consensus amongst stakeholders for the Target Model will be key to its success.