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EREGG's Recommendations on
the 10-year gas network
development plan**

WG Gas



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EURELECTRIC comments on ERGEG's Recommendations on the 10-year gas network development plan

This paper has been prepared by the WG Gas.

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EURELECTRIC has reviewed the document from ERGEG and, overall, we find it to be a valuable input in the process to set the criteria and targets for the work with investment plans to be done by the new organisation ENTSOG to be created during the implementation of the third package.

EURELECTRIC fully agrees that the 10-year gas network development plan is a key tool to improve market functioning and security of supply. Therefore, while it goes without saying, the development plan should ensure that the objectives of non-discrimination, effective competition and efficient functioning of the market are adhered-to.

In terms of scope, although the whole gas transmission network (including other infrastructure such as storage sites and LNG terminals)) should be included in the development plan, it is wise to concentrate the work towards investments that would have an impact on congestion at cross-border entry-exit points and on internal bottlenecks that have a cross-border impact. This prioritisation leads to a need for a broad analysis of gas dynamics in Europe and information on possible investment projects. In other words, **it is not sufficient just to create a consolidated version of all national plans provided by all individual TSOs.** The co-operation and co-ordination between TSOs should be considered and the importance of this reflected in the development plan as well as regional development of the gas market.

Furthermore, long-term investments should not hide the need to find effective short-to-medium term solutions to reduce existing congestion – especially contractual congestion - for instance, those identified by ERGEG in the recent Capacity Allocation and Congestion Management Procedures consultation.

In general, EURELECTRIC finds that the recommendations provided by ERGEG in the document published on 11th March 2009 are well-suited to be seen as a guiding document for the process of creating 10-year gas network development plans, to be published every two years. However, the ERGEG document needs to be updated with the latest news regarding the recently agreed content in the 3rd package. For example the role of the new Agency is now decided and the text in the ERGEG can be adjusted accordingly.

In the ERGEG document there is a list of specific questions and below will follow the short answers from EURELECTRIC:

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

EURELECTRIC can see many benefits of the 10-year gas network development plan in our role as buyer of natural gas as well for the gas market in general. Some of the benefits for the whole gas market are obvious such as offering a tool to assess and enhance security of supply, improve development of the internal market, increase co-operation and co-ordination between TSOs and to eliminate physical bottlenecks.

Some other benefits include the following:

- Higher visibility for gas projects;
- More (cross-border) transparent planning processes;
- Harmonised common approach to planning and more consistency between development plans of different TSOs;
- Potential for harmonisation ‘spillover’ effects on terminology used, system operation etc;
- Facilitate and possibly shorten permitting procedures for new infrastructure
- Assurance for Russia and other exporters that they will have a market.

It is important to facilitate more import of natural gas as domestic production (within EU) is expected to decline and must be replaced by imported natural gas. This could be in the form of LNG or through pipelines. Regardless of what method is chosen to transport gas, it is necessary to give investment signals with the help of the gas network development plan and make the market trends and needs visible. To have a well-developed long-term gas network development plan could facilitate the permitting process and will assure the stakeholders that a reliable gas infrastructure is a high priority for EU. For the electricity industry **investments in new gas-fired power plants could be considered as less risky if the development plan can contribute to a more reliable gas market.**

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

The 10-year investment plan is an invaluable tool for gas users as it provides information on the prospective development of gas market infrastructure. This information is essential for forecasting the possible evolution of the European gas market in terms of sources of gas, location of markets, liquidity of different areas and eventually gas prices per area. This is needed to allow electricity companies to plan their investments. In addition, future changes in the gas infrastructure will affect the operation, reliability and life time of existing gas-fired power plants.

Therefore, we expect the 10-year gas network development plan to contain data that will help electricity producers to identify sites which are suitable (from a gas sourcing perspective) for the installation of new gas-power plants, to identify possible new possibilities for sourcing power plants, and to identify and estimate risks of rupture of gas supply to power plants.

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

Yes, if implemented correctly the gas network development plan can definitely have a positive influence on security of supply. This will be done by using relevant scenarios, identifying possible bottlenecks, suggesting new investments and contributing to the creation of a fully-liberalised internal market for gas. The latter in combination with clear price signals might be the most important action for improving security of supply.

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

In general while the scope proposed by ERGEG seems to be appropriate, it should nonetheless include the whole gas transmission network and other relevant infrastructure, not just trans-European investment projects (even if the focus should be on that). Internal bottlenecks have to be identified as well and actions to remove them need to be suggested. **The 10-year plan should be a proactive document.** That said, it is still ‘early-days’ and there is still time to precisely define the scope.

Concerning the elimination of congestion (and therefore the promotion of competition), there would be a need to identify the nature of the congestion (contractual, physical or a mix) before deciding on any investment. It could then be beneficial to include proposals, wherever applicable, for solutions based on allocation system remodelling (as studied within the framework of a previous ERGEG consultation paper “Capacity Allocation Management and Congestion Management Procedures” (CAM&CMP)) in parallel with the investments for physical enhancements on incriminated points, as described in paragraph 2.4. Contractual solutions could, indeed, constitute a temporary (short to medium term), partial but timely answer to a bottleneck, while awaiting the adequate investments to completely remove the latter.

Therefore, along with the publication of information about capacities at all the interconnection points (paragraph 3.6.2), details on the mechanisms used on the identified bottlenecks could be provided and the CAM&CMP reflections could see their results applied accordingly through effective proposals in the 10-year plan.

Regarding what information should be left out, only those secondary networks affect cross-border supply should be included.

5. *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?*

Yes, in principle we agree with the combined bottom-up/top-down methodology proposed.

However, perhaps the top-down methodology could be more rigorous. For instance, on paper the regulators refer to use of the TEN-E project format, while in reality few of the projects sited in the TEN-E since 1997 have been built. While there are many excuses which could be used to explain this, again we would emphasise the need for the project plan to be proactive i.e. it should not only identify bottlenecks, it should also identify how these could be removed.

A final principle is that any top-down methodology should work with the market.

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

Market information is of course crucial to elaborate the 10-year gas network development plan. However, while there is a need to have certain level of disclosure of relevant information, the commercial interests of the market participants should be respected.

Market participants will in general, be reluctant to reveal commercially-sensitive information and just want to release officially-available information. It could also be noted that the sensitivity in different projects could vary. In other words, the relevant information to be included in the 10 year development plan cannot result from market participant own investment strategies. Apart from being sensitive, this data is quite often not reliable, as projects can be easily changed and/or cancelled. In practice forecasts based on these data may well envisage a future market that will never be actually realised, thus providing unreliable (and distorted) information to market participant.

Therefore, the 10-year development plan should be based on data provided by public authorities based on official information collected in the (long) authorisation process. Market participant could provide information on their own projects, on a voluntary base.

In practical terms, perhaps the best way would be to separately identify projects which:

- (i) have been planned;
- (ii) (i) and have regulatory/legal approval/authorisation; and
- (iii) (ii) and have been supported by some form of bond or guarantee

7. *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?*

At the very least, the data needs to be collected at national level using a common EU format, according to common definitions and methodologies.

The national plans could be the base and then combined with data from other sources on national, regional and European level.

The stakeholder consultation process could be a suitable way to collect more detailed information providing that most stakeholders participate.

8. *Are the **scenarios** mentioned appropriate? Would you have other proposals?*

At first glance, the scenarios put forward seem to cover a wide range of items which would affect the development of investments in gas infrastructures. Nevertheless, more attention should be paid to the impact which national energy and environmental policies have on the development of gas markets within the EU. For this reason, national competent authorities (e.g. the ministry of Energy and/or Environment) should be involved in the draft of the scenarios, giving an overview of the trends that will define their policies in the following years.

Moreover, consistent scenarios are already provided by recognised international organisations such as IEA. Any new scenario proposed should take into account this information which is already available and used by market participants. Where scenarios differ, the reasons for the differences should be explained.

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

Network modelling and SoS simulation is a must but should start at regional-level, and then later-on at EU level. The dynamics of the European network are very complex so this will not be an easy task.

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

At the moment we have no substantial comments on this.

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

Yes. We consider that to be important in order to early detect changes in trends, demand patterns, changed conditions for investments, discover bottlenecks and make an appropriate revision of the gas network development plan. To issue this monitoring report every two years seems to be useful – even yearly reporting may be required in some cases. This monitoring report should also identify why planned investments are not undertaken in time and suggest clear resolution mechanisms.

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

Important gas buyers such as EURELECTRIC's members should be invited, to participate in the consultation procedure. We understand that there will be different forms of consultation so there seems to be some flexibility concerning when and where electricity producers could and should participate. A clear involvement of power producers is necessary in two phases of the development plan:

- i. to provide input on new plans for gas fired power plants and on the evolution of the gas demand for power generation
- ii. to provide advice on the investments proposed by ENTSOG.

The development plan should be evaluated and formally approved by ACER, taking into account the opinion of the different market parties and its contribution to enhanced security of supply and optimised market functioning at European level.