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By E-mail: gas_target_model@ergeg.org

Dear Sir/Madam

CEER Vision Paper for a conceptual model for the European gas market: Call for Evidence

Centrica welcomes the opportunity to respond to the CEER call for evidence on a conceptual model for the European gas market, C10-GWG-70-03. As a supplier and shipper in the EU networks, with gas production, wholesale trading and energy retail activities, we have a close interest in any measures that would help support the development and maintenance of robust liquid wholesale markets throughout the EU, including the optimal use of gas transmission capacities.

This response is on behalf of the Centrica Group of companies excluding Centrica Storage Ltd.

In response to the questions to stakeholders in the consultation, Centrica has the following comments:

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?

The main objective of the gas target model should be to ensure that the European network code development process results in a well functioning EU gas transmission system, that allows all network users to transport their gas seamlessly across several national markets and supports the development of robust liquid wholesale energy markets. This scope of this objective should also include the guidelines that are annexed to the Gas Regulation and developed via comitology e.g. on transparency and congestion management principles.

As EU network codes are separately being developed for different topics such as, balancing, tariffs and capacity allocation, the gas target model should aim to ensure that the individual network codes/guidelines are compatible with each other and implemented on a consistent basis across the EU. For example, we are concerned that proposals to restrict re-nomination rights day ahead would conflict with system users' ability to manage their balancing positions and participate in market-based balancing markets.

The gas target model could give guidance to the Commission, regulators and system operators in designing arrangements at transmission points that may fall outside of the sometimes narrow scope of the guidelines and codes. It could also identify where there may need to be a more flexible approach to the application of EU network codes/guidelines e.g. at dedicated gas interconnector pipelines.

The model should include a cost benefit analysis of the policies considered, noting that the costs users incur in operating in a market naturally have a significant impact on whether they decide to engage in cross-border activities.

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:

- **The role of long term capacity contracts in the future European gas markets;**
- **The role of hubs/gas exchanges.**

Long term capacity contracts will continue to play a role in underpinning long term investments in gas transmission capacity, power generation assets and new gas supplies (i.e. production and import contracts.) The consistent application of appropriate congestion management measures should allow the continuation of long term capacity products, without undermining the integrity of these contracts whilst at the same time freeing up unused capacity for short term products.

For example, we believe the gas target model could help identify measures, such as the mandatory restriction of re-nomination rights, which could in fact have an adverse impact of the gas market. For existing capacity, proper implementation of improved network modelling, overselling and capacity buybacks, could be sufficient to address issues of contractual congestion and would not undermine users' existing capacity rights.

The target model could add value by creating a consistent approach to capacity allocation and congestion management across a) both existing and new capacity and to b) Relevant Points that fall outside the scope of the guidelines/codes.

The gas target model should support the development of **hubs**, in particular by ensuring that TSO access and usage rules support efficient hub trading. The model could also set an objective for any applicable EU commodity trading legislation to be

developed with regard to the target model goal of developing liquid, traded wholesale gas markets across the EU. However, market participants should in general have the choice of how and where to trade.

3. What are in your view the key elements of a conceptual model for the European gas markets 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 subjects on which Network Codes are due to be developed under the 3rd Package and/or guidelines developed as annexes to the Gas Regulation should be the focus of the target model. Gas quality specifications should also be considered, especially if these are not expected to fall within the scope of the code on interoperability rules.

Wholesale pricing itself should be a matter for the market, but consideration should be given to how the model can contribute to liquid wholesale markets by improving network access where needed and avoid any measures that could unduly distort markets. The model should also consider the access that users have to commodity and flexibility in European gas markets when considering if its proposed measures would work in practise.

We would like to take the opportunity to outline our high-level views on some of the key aspects of market design:

- **Capacity allocation** - auctions are the preferred method for implementing a common approach to capacity allocation across Europe. TSOs should jointly offer combined capacity products, with bundled products being considered as a longer term objective. However, we believe it is unnecessary and undesirable to eliminate completely the possibility to sell or transfer primary or secondary unbundled entry and exit. Equally we would like to see increased hub trading, but market participants should retain the possibility to transact at cross-border points.
- **Open seasons** – the principles in the existing Guidelines for Good Practice (GGP) should be made binding, subject to being adapted to be compatible with the capacity allocation Framework Guidelines.
- **Congestion management** – dynamic capacity modelling by TSOs, combined with incentives for TSOs to over-sell and buy back capacity could help to free up a significant amount of firm capacity. We do not support the mandatory restriction of re-nomination rights across the EU.
- **Market-based balancing** – we support a target model of daily balancing, with end-of-day cash out and cost-reflective imbalance prices generated by efficient TSO buy/sell actions in a liquid within day wholesale market that network users can also access to manage their balancing position.

- **TSO transparency** is vital to facilitate market liquidity and for market participants to contribute to system security, in particular by ensuring that shippers have sufficient within-day information on both their own balancing status and that of the overall system. Capacity and flow information is required for all relevant points.
- **Gas storage** – the key elements of the GGP for gas storage should be binding and shippers should be able to access storage services across national borders.

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:

In general the level of detail in the CEER vision paper should match the level of detail that has been set out in the draft Framework Guidelines that have already been published.

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

ERGEG should undertake an impact assessment looking at moving to a standard EU-wide gas day using the EASEE-gas definition of 06:00hrs-06:00hrs CET. A detailed consultation of the affected market participants should look at potential implementation costs for network operators and shippers and consider the time needed for implementation.

- **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 focus should be primarily be on the gas transmission system, but should include DSOs, in particular where this is necessary to support gas transmission activities. A good example of this is gas balancing, where both TSOs and network users rely on timely and accurate information from DSOs, but DSOs do not fall within the scope of the Framework Guidelines.

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 model should focus primarily on the activities of TSOs, in particular those areas where ENTSOG is developing network codes and/or where guidelines are being developed by the Commission as direct annexes to the Gas Regulation. DSO activities should also be included to the extent that these are needed to support the obligations of connected TSOs or DSO customers' transmission activities e.g. for balancing.

We believe that this scope would be widely supported by stakeholders and minimise potential constraints. The model will have to allow for the fact that gas markets in the wider EU will be at differing stages of development and will have individual physical characteristics. The current draft Framework Guidelines on Gas Balancing show that it is possible to allow for this, but setting a target model and allowing for interim steps.

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

It is easier to describe the areas that should be covered by the target model, rather than listing the ones that should be excluded. Please see our response to question 5. The target model should however consider the interaction of other gas systems (i.e. LNG, storage, production entry points), focussing primarily on the measures implemented by TSOs at such points which may fall outside the scope of the Framework Guidelines.

- 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 to your view.**
- **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?**
 - **Is the coupling of market areas as it is being developed in European electricity markets appropriate for gas?**

We agree that balancing zones should be as large as practicable; noting that balancing zones are often ineffective if there is a major transmission constraint within them. Ideally we would like to see no more than one single balancing zone per Member State and welcome the reductions in the number of zones that we have seen in several EU regions to date. Zones should be encouraged to develop to their optimum size. This could include an area covering more than one Member State, but these decisions should be made on a national/regional level and not set by the target model.

Market coupling is not appropriate for the EU-wide gas market, in particular in the timescale that will be covered by the target model. This is one area where the gas and electricity markets are non-comparable, for example due to the reliance on long term access to cross-border transmission to meet gas security of supply objectives. Market coupling also requires a level of market liquidity that is lacking in the EU, even in the most developed markets.

The best approach to both these issues would be for the target model to allow for the local development of cross-border balancing zones and/or market coupling as options, where and if regulators agree, in close consultation with stakeholders, that these would

bring real improvements to certain market regions and provided they remain compatible with the wider target models.

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We hope that this response has been helpful. If you would like any further clarification please do not hesitate to contact me on +44 7979 567785 or helen.stack@centrica.com

Yours sincerely,

Helen Stack
Commercial Manager