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Response to issues raised in the Third ACER Gas Target Model Workshop: 15 May 2014

Eurogas has responded to the consultations after the previous two workshops, and this final input for the most part reaffirms our existing positions as no new points were raised in the third workshop.

Eurogas is also replying to the consultation on the Bridge to 2025, and will annex this paper to that response.

Since this consultation process opened, events have led to reinforced interest in security of supply. The Commission's Communication will raise a number of broad questions, and ask about possible new measures. A main aspect of the Communication will be on improving the functioning of the market. The GTM 2 should advance that objective, with due attention to the security of supply considerations.

WHOLESALE MARKETS

General

Eurogas considers that the main focus of ACER's work should be on ensuring the robust implementation of the Third Package. Eurogas favours the clear identification of remaining problems and then, where these lie within regulatory competence, the development of practical solutions to tackle these that may not need a new regulatory approach. This should be the plan for GTM 2, and therefore Eurogas is concerned about the implications in workshop presentations that ACER is still minded to impose some sort of formal architecture in the regions, determined by the criteria based approach, instead of fostering bottom-up market efficiency. Work on the criteria has been useful to stimulate debate but they should not be the fundamentals to determine liquid markets. Eurogas urges ACER to act, especially through national NRAs and by promoting more co-operation among TSOs, to remove remaining barriers and ensure thorough robust implementation of the current and awaited Codes as the basis for functioning markets, in this way facilitating the market dynamics. Furthermore shippers should be actively involved in future market design.

Market Integration

The starting points therefore of Eurogas are:

- Eurogas maintains the view that in determining the right approach, undue weight should not be placed on the criteria suggested as essential for a functioning market. The recent analyses suggest that these involve too arbitrary and rigid assessments. The criteria instead should concern progress on compatibility/convergence of price and the physical and operational aspects of TSOs activities, (capacity calculation and management, product availability, balancing regimes, etc.). Therefore ACER's thoughts on GTM 2 should not be wedded too closely to the criteria.

- Market integration, underpinned by improved cross-border connections and flows, should build on the foundations of a robust implementation of the Third Package and the associated codes and rules, which will boost market dynamics. Market Integration should be market-driven including determination of the relevant hub as a national market place, and not be imposed artificially or involve more cost than benefits.

- The design must not be so rigid that it cannot evolve to reflect market and economic development as well as local conditions.

- While harmonization of the operational rules will facilitate converging approaches to market integration, and adoption of best practices should speed up the process, it should not be pursued on a fixed or formulaic basis, and different regions can develop differently, provided that their path is in line with progress to a European internal market. The biggest problem at present is that the speed of internal market development varies across Europe, because implementation is not equally vigorous in all Member States. Also, there seems not yet enough cross-border cooperation.

- Based on sound cost-benefit analyses, priority should be given to solutions with low implementation costs rather than [theoretical] solutions that may not be market-driven or have the support of all market participants.

- ACER and the NRAs have the responsibility to ensure that current legislation and future codes are correctly implemented, with the objective of achieving European market objectives. This requires not only cooperation between TSOs but also between NRAs.

- Therefore where price convergence or market integration is not happening or happening too slowly, it makes sense to analyse closely the reasons why and adopt tailor made solutions.

- Since GTM1, progress has been achieved on codes that are important to underpinning market progress. A main change is the acceptance of a model based on bundled products and entry –exit zones with virtual hubs. The bundled products will take time to bed-in, to avoid too much disruption to existing contracts but the elements of this model, supported by an appropriate tariff regime, should when they are fully up and running lead to more market integration.

Eurogas identifies the following as salient to a revised GTM, while underlining that the status of the model should remain non-binding.

Best practice approaches to entry-exit

The KEMA study has demonstrated how there are very different entry-exit systems across Europe. While Eurogas recognizes that there may be some practical reasons why fully fledged entry-exit is not found in all Member States, a minimum should be a VTP in each system, even if in some systems there may be initial trade-offs. This will make it easier for shippers to adjust their trading portfolios and settle their imbalances, at the same time making it easier for new entrants to have access to the market. Trade, moreover, will not be limited to physical locations.

If all national markets can improve their liquidity, with lowered transaction costs, provided that there is an adequate cross-border infrastructure and the necessary cooperation between TSOs and NRAs, prices should converge and become correlated. A cross-border market zone should also develop if this adds significant value for market participants.

Cost-reflective Hubs across Europe

Eurogas considers that the most practical way forward should result in different hubs providing liquidity, similar to the market-driven model that has evolved in north-west Europe. A prerequisite other than the underlying infrastructure is the transparency of tariffs capacities and flows, and the availability of appropriately harmonised products, all of which should improve in line with the Codes, further stimulating liquidity. Sufficient, well-timed and reliable information is also essential. Functioning hubs should allow hub prices to align in a cost-reflective way, also necessarily reflecting the costs of supply, and most of the time they will be correlated. Trying to set up an alternative model based on one major hub plus transportation costs would run counter to the evolution in part of the market that is so far most robust. Eurogas does not favour over concentration of liquidity provision. Eurogas could envisage a market-driven approach in which hubs will offer different services, e.g. not all hubs need to deal in forwards, but ultimately this should depend on market choice.

Well-functioning hubs

To increase the liquidity at the hubs, it is necessary to attract additional diversified gas volumes, thereby also increasing supply security. Transaction costs should be driven by an efficient market.

Requirements for interaction between hubs are:

- Price-discovery and clear market signals
- Transparency and ease of access
- Well-functioning balancing regimes
- Cross-border flows facilitated by IP tariffs set in a balanced way
- Standardised contracts

The price level differentials between the hubs should stimulate arbitrage. Transparency and standardization of customer services should also help liquidity.

Where hubs are developed, it should be with a view to facilitating regional and not only national trading. A hub without market activity is not a hub. The hub should function to provide market transparency on current prices and price expectations. Gas trading and market opening are complementary and should develop, with the hub offering market conducive traded products. Liquid and transparent markets will generate reliable price information.

Removal of trading obstacles

Varying trading regimes and national requirements constitute a barrier to market entry and create unwarranted costs. The aim should be to remove trading obstacles, not to increase bureaucratic supervision. We would therefore welcome more detailed and frequent information on the outcome of various relevant pilot projects, especially those aiming at analysis of various licensing regimes across the EU (e.g. new pilot projects under GRI SSE to analyse regimes in the Visegrad Group).

REMIT has defined rules for market monitoring and reporting and should therefore facilitate a simple registration process in each Member State sufficient to inform NRAs about the presence of a market player in a given national wholesale energy market.

Updated Views on the three models in GTM 1

Aware that the earlier models considered in GTM 1 may still be on the table for renewed discussion, Eurogas offers updated views on these:

Eurogas remains sceptical about the **market coupling approach**, and endorses the cautious stance in the NW GRI report that any added-value has to be clarified, and that can only be properly assessed after full implementation of CMP and CAM.

Eurogas also observes that little progress has been achieved in the work on the **trading region** within the framework of GRI SSE. Various factors make it difficult to establish a new market model within CEE region (e.g. through Austria-Czech Republic-Slovakia pooling), among others differences in regulatory regimes and market structures in countries of the region, and different levels of progress in implementing network codes. Furthermore, the requirement for a well-functioning area hub and robust retail markets across the region should not be overlooked. Also within Eurogas there is some concern that the model so-far discussed relies on ex ante hourly balancing restrictions, and fails to include all entry and exit points of the system within the entry-exit zone. The overall goal and benefits of a more liquid regional market have to be shared to underpin progress. A bigger market area will not necessarily result in greater liquidity and any pilot project should not be undertaken without a full cost-benefit analysis.

With regard **to cross-border market** zones, it is important that each Member States complies with the Balancing Code as a first step, and then cross-border balancing zones can be considered as a next step, if they offer a positive cost-benefit analysis.

Eurogas, therefore, still supports cross-border pilot projects, and these can be further developed when they are seen to offer feasible and practicable progress, but implementation has to be realistic.

Role of Gas-Fired Power Plant in low carbon electricity markets

The third GTM 2 workshop also addressed initiatives to ensure that gas-fired plant can make their full cost-effective contribution to sustainable energy. Eurogas supports this objective, and has called for removal of any barriers to non-discriminatory access to storage and transport capacities, and flexibility services, coupled with development of tailored products by TSOs and no undue restriction of renomination rights. We have not, however, at this stage, identified any need to change current or planned codes, at least until we see how they work. Eurogas notes the emphasis on alignment of the gas day and clearing, but notes that this "misalignment" is also a source of flexibility. Therefore no regulatory changes should be considered before the current and planned Codes are in place, and without rigorous cost benefit analysis, as well as a check on the impacts on the wider market and the need to avoid discriminatory approaches affecting other end-user categories.

RETAIL MARKETS

Eurogas supports the ongoing work in DG ENER and of ACER/CEER's Bridge to address the retail markets. Retail markets vary greatly across Europe, and a one-size fits all approach to address remaining problems would not be the right way forward. Therefore Eurogas would propose the following step by step approach.

- Remove barriers to progress and/or market distorting approaches. Regulated prices should be phased out, especially when they are below cost.

- ACER/NRAs to contribute to DG ENER's work on the retail market their knowledge and understanding of how the retail market is developing, and improve further the data used for monitoring progress.

- Improvements in the liquid wholesale market once achieved will make the markets more attractive for new players, increasing the competitive base in turn leading to improvements in the retail market.

- Continue to build on the principles set out in the CEER/BEUC 2020 Customer Vision, to make it easier for customers to engage in the market.

- Work on the understanding that sound competition offers the best means of protecting customers' interests including the most vulnerable.

- Suppliers look to DSOs to offer cost-efficient services. Benchmarking may be appropriate but this would have to be approached with circumspection in view of the very different set-ups in Member States.

- Cross-border competition can be a longer term objective, but this will require not just harmonisation of rules, but also harmonisation of information technology, and data systems, entailing significant costs. Therefore thorough cost benefit analyses are needed, and more should be achieved in a number of national markets before this is considered.

Further views are given on retail issues, especially future market design, in the response to the Bridge. Eurogas very much hopes that ACER/CEER will assess all the inputs on a coherent basis, in the same spirit in which Eurogas has endeavoured to meet two parallel consultations. The Gas Target Model consultation in particular has been sometimes difficult to follow, with the capacity to inputs oriented around workshop presentations and questions. It is still not clear if there will be a final draft document on which we can comment or simply a final document. Therefore Eurogas asks that the GTM work takes into consideration the remarks made in our response to the Bridge. The GTM should be consistent with the Bridge.

ACER

Agency for the Cooperation of Energy Regulators

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