

## *GIE answer to ACER consultation*

# **“Gas Target Model review and update”**

---

## **1 General comments**

In parallel to the revision of the Gas Target Model, ACER is working on the ‘Bridge to 2025’ concerning the general energy market as well as thematic papers on consumers, electricity and gas. GIE responded to the informal consultation conducted by ACER on the ‘Bridge to 2025’ on 19 December 2013.<sup>1</sup> The questions on which ACER now seeks input reflect to a large extent the questions which were already addressed in the GIE response in December. In the meantime GIE remains of the same opinion, therefore the responses given in December have been incorporated in this paper.

GIE would like to recall the conclusions of the CEER Vision for a European Gas Target Model which stated that: “the model should be evaluated and if necessary further developed after the implementation of the network codes on capacity allocation mechanisms, gas balancing, harmonised transmission tariffs and gas interoperability in 2013 as well as in the light of the work on incremental capacities in 2012 and their practical implementation [...]”.<sup>2</sup>

GIE agrees with the above-mentioned conclusions, and wishes to underline the successful joint efforts which are being taken by stakeholders to ensure the (early) implementation of the above-mentioned framework. Apart from the CMP guidelines, partially implemented in October 2013, work on the implementation of Network Codes (CAM, Balancing) has just started or will commence soon. A review of the Gas Target Model before the adoption and full implementation of the Network Codes seems therefore premature. The focus should be on implementing the agreed rules, with significant progress expected to be achieved in a short term period. The need for additional measures should be considered after two to three years based on the experiences with the new market rules.

In addition to the above comments, GIE would like to provide additional information on these issues.

## **2 Who is GIE?**

Gas Infrastructure Europe (GIE) is an association representing the interests of European natural gas infrastructure operators active in natural gas transmission, storage and LNG regasification. GIE is a trusted partner of European institutions, regulatory bodies and industry stakeholders. It is based in Brussels, the heart of European policymaking.

GIE currently represents 69 member companies from 25 countries. Its internal structure has three columns corresponding to the three types of infrastructure activities represented: GTE (Gas Transmission Europe), GSE (Gas Storage Europe) and GLE (Gas LNG Europe), all of which fall under the umbrella of GIE. This structure allows member companies to speak with one voice on infrastructure topics as well as to build positions on column-specific issues.

---

<sup>1</sup> See on the GIE website : <http://www.gie.eu/index.php/publications/gie>.

<sup>2</sup> *CEER Vision for a European Gas Target Model*, Ref. C11-GWG-82-03, 11 December 2011, p.12.

### 3 Answers to consultation

#### Concerning the wholesale market functioning GIE would like to raise the following issues:

A recent OIES study<sup>3</sup> concluded that Europe already has substantial gas price convergence amongst the major hubs along a spine in Europe. This conclusion also seems to be underwritten by ACER's own Market Monitoring.<sup>4</sup> The conclusions from a Booz & Co. study from last year<sup>5</sup> also confirm the considerable progress which has been made in enabling the internal energy market. These studies indicate that Europe is making substantial progress towards creating an internal energy market. It should be taken into account that further progress is expected as a result of the implementation of the Network Codes, as already mentioned above.

Furthermore, it should be noted that the appropriateness of the criteria of the Gas Target Model have not been rigorously established. For example they would imply that many of Europe's current entry/exit zones would be required to merge to meet the criteria. Additionally, there are definitional issues that mean that data will not always be strictly comparable (for example there is no accepted definition of churn). Also a zonal demand of less than 20 billion m<sup>3</sup> or churn of 8 represents somewhat arbitrary values for the assessment.

Whereas merging market zones may enhance liquidity there are important factors which should be taken into account, such as the need to redistribute tariffs among the remaining entry and exit points, which reduces cost reflectivity. A study conducted by KEMA last year on behalf of the European Commission<sup>6</sup> also indicated that merging market zones is not so straightforward and that benefits might actually not be as large as expected. The criteria of the existing Gas Target Model should therefore be regarded as indicators only, and any consideration on merging market zones should include a proper cost-benefit analysis. Furthermore, specific characteristics of each market (such as access to a diversified portfolio of sources and level of market integration) should also be taken into account.

GIE considers that liquidity at all hubs is not an objective *per se*. We already observe a relevant level of correlation among a number of hubs in Europe which is a very good signal, as confirmed by the OIES study and ACER's own market monitoring. It is sufficient that some hubs are liquid, and that the others are priced with a basis differential, unless there is inadequate capacity.

When price differences between adjacent market zones are lower than the transportation cost between those market zones, and when gas flows follow price signals, these market zones should be considered as integrated. In this case, the criteria have to be applied on the integrated market and not on each market zone.

Enhanced market functioning in Central and Eastern Europe should be one of the main priorities of the European Commission and regulators. Attention should be paid to the remaining lack of upstream competition and insufficient interconnections to Western Europe and within the systems in the CEE region. It should be noted that adequate interconnection between markets will help reduce regional variation in prices as well as improve the security of supply.

---

<sup>3</sup> *European gas hubs : how strong is price correlation*, Beatrice Petrovich, OIES, October 2013.

<sup>4</sup> *ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2012*, November 2013.

<sup>5</sup> *Booz & Co Benefits of an integrated European Energy Market, July 2013*

<sup>6</sup> *KEMA Study on Entry-Exit Regimes in Gas, July 2013*

### **Concerning Sustainability**

Current ETS prices give no incentive for investments in efficient gas-fired power plants. On the contrary they have led to increased use of coal-fired power generation offsetting the reduction of GHG emissions through investments in renewable electricity generation. The current proposals for the review of the ETS will not change this balance significantly. Therefore, a more comprehensive review is needed. Also the disparity between GHG emission reduction costs inside ETS (around €6/t) and outside through for example subsidies (up to €500/t) should be addressed.

In any conceivable scenario the share of intermittent renewable electricity generation will increase. This creates challenges, mainly for balancing and guaranteeing security of supply of the electricity networks. Gas infrastructure and gas-fired power plants can contribute in meeting these challenges. A more integrated evaluation of planned investments in gas and electricity infrastructure seems appropriate in this respect and could lead to more optimal solutions for transporting energy through the internal market.

Gas-fired plants need to be very flexible. The impact of their sudden gas offtakes also has implications on the management of gas transmission networks. GIE considers that the coordination of intra-day balancing gas and electricity markets should be improved in order to ensure that the integrity of the system is ensured, that the security of supply is warranted, and that there is no cross-subsidy between network users. In this respect, special attention should be paid to possible regulatory barriers hampering the interaction between the electricity and gas markets before introducing new regulatory measures.

### **In regard to Retail Market Competition**

Sufficient liquidity of the short-term gas market within Entry-Exit systems is a pre-requisite to improve retail market competition. By implementing the existing Network Codes, liquidity at the virtual trading points will increase. Therefore, additional regulatory measures on the European and national level which are counter-productive to this implementation process should be avoided.

Finally GIE would like to conclude and say the following:

*Considering that significant improvement is expected through the implementation of Network Codes, GIE is of the opinion that the scope of the Gas Target Model review should primarily be limited to the following areas:*

- better coordination between ACER and European Commission initiatives in order to design a better investment climate;
- transparent and coordinated process between regulators in investigating the costs and benefits and progress of a cross border market integration;
- inclusion of renewable gas in the market model;
- better coordination between gas and electricity markets;
- search for price convergence and correlation among hubs at reasonable costs;
- recognise that long term contracts will remain an essential element in ensuring investments and maintaining existing capacities;
- solutions on how to ensure that investments are made where they are the most needed while maintaining gas competitive and avoiding the risk of stranded assets.