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## Draft Vision for a European Gas Target A CEER Public Consultation Paper

IFIEC Europe / CEFIC response to this CEER consultation paper  
Ref: C11-GWG-77-03

### Enabling functioning wholesale markets

**Question 1:** What are stakeholders' views on the definition of a "functioning wholesale market"?

IFIEC and CEFIC generally support the suggested criteria to define whether a wholesale market is functioning. Nevertheless we believe that the criteria may not be sufficient enough. For example a Hirschmann-Herfindahl Index of 2000 could also characterise a market situation, where 5 market participants have an equal market share. If three of the participants are also connected to the import sources of that market, there is no real competition, although the criteria match the definition of a functioning market. IFIEC and CEFIC believe that more criteria are needed to solve that problem.

In our view a liquidity measure is required, generally regarded as a standard to define the strength of competition in a market. For example a minimum churn rate could be used. The PSI and the RSI could be used as further possibilities. The PSI-indicator (Pivotal Supplier Index) presents the amount of time the market cannot be supplied without the dominant player(s). The RSI-indicator is the Residual Supply Index. The RSI is defined as the total capacity of the other market players (other than the dominant player) divided by the overall load. This indicator is related to the Pivotal Supplier Index (PSI). The further the RSI-value is below one (1), the higher the extend to which the dominant supplier is necessary to supply the market (the more you cannot meet demand without his supply).

**Question 2:** What are stakeholders' views on the three options identified to enable functioning wholesale markets, i.e. (i) creating market areas at national level for Member States able to meet the criteria of a functioning wholesale market; (ii) creating a trading region covering more than one country; or (iii) creating cross-border market areas?

IFIEC and CEFIC are concerned, how the gas target model will harmonize with the new harmonized balancing system currently being developed. According to ENTSOE the work on the network code will start soon. It is our understanding, that the Network Code on

balancing will provide harmonized binding rules for all member states. Since the gas target model is not legally binding (i.e. GTM is not included in Third Package), we would like to have some clarification, how the two processes will work together.

Jean-Michel Glachant for example states in the description for the MECO-S MODEL (RSCAS 2011/38 ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES / Florence School of Regulation) on page 5 that the 3rd energy market package does not specify whether the TSO balancing system will include distribution networks. From this point of view, there must be a basic harmonisation of the balancing rules at least at the TSO level, which points in the direction of the trading region model. From the actual perspective IFIEC and CEFIC would prefer to go forward with the trading region approach, since it might be the more cost efficient way to merge gas markets. Of course many details, like possible congestions in a trading region and needed investments in new entry/exit capacities must be discussed upfront. If the trading region model is successful, a full market area could be established afterwards.

**Question 3:** What are stakeholders views on the proposed steps until 2014 for enabling functioning wholesale markets?

IFIEC and CEFIC generally agree on the proposed steps. As a second step it is proposed that European regulators and TSOs shall cooperate to identify the zones. Since this is a crucial step in the process all stakeholders, including industrial consumers, should cooperate to identify the zones which should be the basis for a trading region.

Also a cost-benefit analysis should be carried out, calculating the cost of merging balancing zones. . Again, it is very important that all stakeholders have a fair chance to be part of the development process and therefore should also be included in that process.

**Question 4:** What are stakeholders views on the full implementation of the CAM network code and the CMP guideline at all interconnection points by 2014 at the latest?

IFIEC and CEFIC fully support the quick implementation of the CAM network code and the CMP guideline by 2014 at the latest. Although we prefer a quick implementation, it remains important that the CMP rules are designed carefully in regard to the restriction of renomination rights. In relation to the huge incumbent portfolios, industrial portfolios are much smaller and would be hit harder (portfolioeffect), if their renomination rights were restricted.

**Question 5:** What are stakeholders views on the proposed pilot projects to design and trial an implicit capacity allocation mechanism between at least two entry-exit zones in different Member States by 2014?

IFIEC and CEFIC fully support the pilot projects to test implicit auctions.

## Ensuring secure supply and economic investment

**Question 6:** What are stakeholders views on the need for explicit long-term capacity allocation?

In the view of IFIEC and CEFIC, explicit long-term capacity allocation should be possible. It is very important for industrial consumers to secure their energy supply. At present, there are long term bookings by incumbents which lead to contractual congestion and effectively remove the incentive for new players to enter the market. Therefore strong CMP rules need to be established, which put unused capacity back to the market.

**Question 7:** How should economically-viable projects for cross-border capacity investments be determined?

In our view these projects should be determined when creating and periodically reviewing the 10-year-network-development-plan.

**Question 8:** What are stakeholders views on the proposed development of an economic test to trigger new capacity, based on market demand established through coordinated long-term auctions? If in favour, by whom and how often should such a test be conducted?

IFIEC and CEFIC are in favour of such an economic test. It is an option where market constant market signals lead to needed investments. Such a test should be integrated in the auctioning process.

## Pricing of transmission capacity

**Question 9:** What are stakeholders views on the pricing of cross-border transmission capacity?

As a general rule network prices should be non-discriminatory and cost-reflective. Therefore Ifiec and Cefic are strongly against a possible option for cross subsidisation between long term and short term products. This option may arise, if there is no cost based reserve price for day-ahead and intraday products. In the worst case there is no reserve price for these products at all. The effect of this price policy will be a shift from long term to more and more short term bookings. If the TSOs cannot then recover their costs the prices of long term products will rise up to that level, until they do.. The cost will be borne mainly by end consumers, especially industrial consumers directly or passed through by their suppliers. Industrial consumers need rather long-term capacity bookings than short-term.

## Renewable Integration and future challenges

IFIEC and CEFIC recognise the Importance of renewables , so question whether it is adequate to deal with one aspect of this in this consultation. We believe it better to deal with all the factors affecting renewables efficiency within that context and as part of a review of the Renewables Directive.-