securing competitive energy for industry

POSITION ON THE ACER GAS TARGET MODEL

EII Europe position

The European manufacturing industry accounts for over 80 percent of Europe's export and 80 percent of private funded research and innovation goes into industry. Since the 1990s, the industrial basis of Europe has been continuously declining: the share in Europe's GDP is down to 15.1 percent and since 2008 some 3.5 million jobs have been lost. The increasing cost gap between Europe and other regions is - and tends to keep on being – a serious threat for European competitiveness, growth and employment. For the energy intensive industry (EII), energy, and in particular gas, is the most important cost driver. The European gas consumers pay 2 – 4 times more than their North American competitors. This situation is not sustainable and actions are urgently needed. IFIEC urges EU leaders to take all necessary steps to enable a competitive gas market where the price is set by gas supply and demand instead of oil indexation.

EII Europe requirements

IFIEC welcomed the Energy Sector Inquiry and its outcome, leading to the establishment of the Third Energy Package for Gas. This package became law in 2011 and has vowed to achieve its goal by 2014, when non-binding Framework Guidelines and pan-European Network Codes with regard to the key building blocks capacity allocation (CAM), gas balancing (BAL), harmonised transmission tariffs (TAR) and interoperability of networks (INTEROP) would be in place.

Is this regulatory system in place and does it help the Gas End Users? Unfortunately, the answer is: no! We learned from the ACER GTM Workshop, held March 19th 2014 in Ljubljana that:

- Only 1 market area (UK) has a hub (NBP) that fullfills all 5 criteria of the GTM[1]. A second market (Dutch TTF) only misses one criterium (RSI) and 4 more market areas (GER, IT, SP, FR) have a liquidity issue;
- There are only 5 markets where counterparts can easily be found: NL, UK, GER being the best;
- There is sufficient infrastructure to the IEM for supplying that market. Also within the IEM, there is sufficient infrastructure except for some specific bottlenecks (pipelines, storages);

ACER concluded that "there is still plenty room for improvement". IFIEC concludes that there is a reasonable functioning market only in Northwest Europe, where the rest of EU-28 lacks a market. IFIEC questions whether and to what extend an IEM will be realised in 2014, 2016 or even 2020. This is a very serious problem as our members in the EII are facing a competitive disadvantage

[1] Churn rate > 8, HHI < 2,000, gas from at least 3 sources, volume > 20 bcm, RSI > 110% for >95% of days per year

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for a number of years already, leading to new investments in other regions but Europe. This situation is not sustainable and actions are urgently needed. IFIEC recommends that the EU starts a new Sector Inquiry after implementation of Third Energy Package in 2015.

Model: hub-to-hub competition

IFIEC believes in the model of hub-to-hub trade, where:

- Entry capacity is allocated separately from exit capacity;
- Hubs are the trading point, not Interconnection Points (IP) nor exit points;
- national MS borders are not necessarily the gas market zone frontier;
- Gas prices are truly a result of a balance of supply and demand of gas;
- Transparency and predictability are key success factors to create confidence in market results;
- Bottlenecks (both administrative and physical) in infrastructure are taken care of so prices between hubs can converge.

Upstream limited number of players

IFIEC believes that in Northwest Europe the gas market is becoming liquid. Nevertheless we must conclude, based on evidence since 2010, that the market outcome is not a result of a balance of supply and demand of gas. IFIEC concludes that the oligopolistic upstream market shows a great deal of price formation discipline. Although the main two suppliers (Statoil and Gazprom) are in dialogue with the European Commission, ACER and ENTSOG, the EU is lacking legal, economic and political power to change the attitude, behaviour and outcome of these oligopolists. Nevertheless IFIEC supports the investigation by DG Comp on Gazprom. It is important to avoid that dominant players in the gas market abuse their position. Even if the IEM would be established by 2014, this market would still not give efficient outcomes due to the fact that the upstream players are not regulated: the regulation starts only at the EU-borders.

In order to create more competition on the supply side, and increase the security of supply, the EU should encourage exploration and production of shale gas as long as this takes place in an environmental acceptable way.

Number of functioning gas markets

IFIEC concludes that there is a reasonable functioning market only in Northwest Europe in 5 MSs, where the rest of EU-28 lacks a market. The fact that so many Member States lack well functioning gas markets has a negative impact also on the more developed gas markets in Northwest Europe. Example: From time to time the Italian gas market is oversupplied. In a more competitive environment, a compression for reserve flow would have been installed in Italy to supply the Netherlands with gas through TENP.

Infrastructure (gas pipelines and access)

As ACER concludes, there is sufficient infrastructure to the IEM for supplying that market. Also within the IEM, there is sufficient infrastructure except for some specific bottlenecks (pipelines, storages).

IFIEC has some issues with regard to tariffication and the investments in incremental & new capacity:

- IFIEC is convinced that if there is a market, market players will go for the business opportunities and the required infrastructure will be realised as a consequence and prerequisite;
- The TSO is and should be a provider of both capacity and competitiveness, the latter in debottlenecking infrastructure issues by investments and procedures;
- Allowed revenues for TSOs are not a part of the Incremental proposals (Network Code). Since End Users always pay the bill at the end, directly or indirectly, the underlying costs that are being reimbursed through network tariffs, should be efficient costs only;
- IFIEC strongly opposes proposals leading to exemptions from Third Party Access and creating new TSOs for realizing a single dedicated large cross-border project between two market areas to make the project financeable and provide tariff certainty, as it will lead to higher dependence and lower competition. This is not a contribution to realizing an IEM. Hence, such a project should be realised with the existing TSOs being the regulated gas transmission monopolists in the involved market areas;
- Third Package Network Code proposals tend to enhance the dependence and interests of the major and pivotal suppliers, which will not lead to more efficient prices. The fittest network users should be stimulated by the proposals, not the strongest.

Third Package requirements and rules

IFIEC urges that the Third Package requirements and rules are strictly followed and preserved:

- The GTM must be applied in a strict way: delivering gas at hubs is an obligation!
- Destination clauses must be strictly forbidden!
- Gas prices should be a result of supply and demand of gas on a hub;
- Realisation and usage of incremental and new capacity within the borders of the EU-28 must be fully and strictly compliant with unbundling obligations as required by the Third Energy Package.

IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.

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