Europex
Association of European Energy Exchanges

- Position Paper -

Europex reactions to the CEER study on the Future Role of Gas

Brussels, 25 June 2018 | Europex welcomes the initiative from the Council of European Energy Regulators (CEER) to explore the Future Role of Gas (FROG) as well as its implications for the regulatory framework and infrastructure requirements. We share the view that gas plays a very significant role in Europe's energy mix today and will continue to do so in the mid- and long-term. A variety of energy sources, including natural and renewable gas, will be required to meet the EU's long-term objectives of secure, affordable and clean energy for all Europeans.

Natural gas offers many advantages as a flexible and reliable energy source compared to renewables or carbon-intensive fossil fuels such as coal or oil. In Europe today we can benefit from an already well-established transmission and distribution infrastructure. Gas provides a reliable source of energy that can be flexibly transported, easily stored and conveniently complements intermittent RES. This helps to secure uninterrupted energy supply for households and industries. Natural gas also offers clear environmental benefits compared to more carbon-intensive fossil fuels.

In light of the 2017 UNFCCC Paris Agreement and Europe's efforts to tackle climate change, we fully support the progressive decarbonisation of the energy sector in the most effective and cost-efficient way. As the gas sector evolves, efficient and transparent markets remain of vital importance in this endeavour, providing clear market price signals, supporting security of supply and ultimately benefitting European consumers. Gas trading is an embedded part of commodity trading in the EU, which leads to clear market prices for traders and consumers as a decision basis for the composition of their energy mix and consumption portfolio.

In its assessment of the various gas commodity markets, the FROG study highlights several aspects related to the wholesale gas market where it is suggested that the existing regulatory framework could be amended and further developed. While this paper primarily reacts to this discussion, Europex takes this opportunity to also comment on several other aspects of an ever-evolving and vibrant gas sector.

Wholesale gas market functioning

CEER's FROG study acknowledges the importance of efficient and transparent gas wholesale markets in Europe, and the wider welfare benefits that energy markets are delivering. European gas markets are functioning well today and continue to grow and evolve. Where the existing framework has been vigorously applied, and where there is a well-functioning structure in place that follows clear rules, well-functioning traded gas markets have been established. While highly liquid hubs such as TTF and NBP have emerged in North-Western Europe, other hubs especially in the CEE and SEE regions need more time to develop. If these conditions are met, the markets can deliver their proven benefits of fair and transparent price signals as well as sourcing opportunities to consumers.

Liquid and well-connected markets develop as a result of a "bottom-up" process driven by the market, rather than any regulatory design that is imposed from the top down. In this respect, the existing regulatory framework and market mechanisms already provide efficient tools for the connection of European gas markets towards a single European Energy Market. Efforts should be focused on the full implementation of the Third Energy Package across Europe. We believe that markets also need the freedom to develop in line with market forces, keeping regulatory intervention at the necessary minimum. In this context, the stability of today's regulatory framework should be further strengthened so that market participants gain further trust in these markets. This ultimately allows for investments which are needed to make the energy transition a success.

We therefore do not see the need for major regulatory interventions in the current set-up. This applies for instance to the suggested scenario to further integrate the existing gas market areas. The merging of markets should not be seen as a goal in itself. While larger gas market zones can indeed bring advantages, for example with regard to increased liquidity in forward/futures markets, such mergers also imply significant changes in terms of market functioning and costs for stakeholders. Also, when merging market zones, costs might be reallocated rather than resulting in an increase of general welfare. Smaller market areas enable prices to reflect existing bottlenecks in the most efficient way and thus can incentivise the best investment decisions. The goal should be to design the market in such a way that an efficient equilibrium is reached.

These trade-offs are acknowledged in the revised ACER Gas Target Model, which does not unconditionally advocate larger market zones, but has provided for an assessment of the market based on a number of metrics. Market mergers are proposed as just one of a wide variety of possible measures towards further integration and should only follow other measures such as the full implementation of Network Codes.

Gas transportation tariffs

The FROG study recognises the risk that the current design of network tariffs for transmission system operators can, in some cases, discourage the efficient use of gas-fired power plants

by creating excessive costs for such plants when accessing the gas network and gas supplies. We support regulatory efforts not to disincentivise gas-fired power plants from operating when it is efficient and reasonable to do so, including by increasing the offering of shorter-term capacity products and by tailoring a framework for G2P (gas-to-power) that clearly recognises the needs of these highly flexible power plants. In this context but also more generally, it must be ensured that cross-border trade is not hampered when designing gas tariffs. Measures to improve the ability of gas-fired power plants to recover their investment costs and secure viable run times subject to market price signals and to provide flexible generation, would be positive steps forward. These measures should be taken in the context of a wider effort to improve overall system flexibility.

Coordination between gas and electricity sectors

Against the backdrop of increasing interaction between the gas and electricity sectors, we fully support efforts to improve coordination of operational decisions, as well as a more coordinated approach to the long-term planning of new gas and electricity infrastructure. Gas-fired power plants will continue to play a significant role in power generation in the different demand scenarios as they are well-suited to balance intermittent renewable generation. The low carbon intensity of natural gas and the increasing share of renewable gas also makes it an attractive option for power generation in a decarbonised energy future.

The coordination between the gas and electricity sectors should be reflected in a wider sector coupling strategy. This refers to aspects such as flexibility markets, gas-to-power and power-to-gas, storage, tariffs, levies and taxes, coordination and integration of infrastructure, the further development of the Guarantees of Origin system – to only name a few.

Infrastructure development

Efficient use of infrastructure is vital in order to minimise system costs and maximise consumer welfare. We therefore welcome the study's clear call to avoid stranded or inefficient infrastructure investments. It is important that natural gas infrastructure is smartly regulated to address the evolving needs of the gas sector while keeping an eye on the costs. At the same time, it is important to ensure that gas markets enable competition and can deliver the right price signals to achieve a cost-efficient energy transition.

Use of LNG and CNG in transportation

Given the environmentally friendly characteristics of natural gas, we are convinced that the use of LNG and CNG in the transport sector, as a fuel for land, maritime and air transportation, can help to achieve decarbonisation objectives more efficiently. In this respect, we welcome appropriate measures to incentivise its use, such as ensuring adequate fuel availability and the development of the necessary fuelling infrastructure.

Use of renewable gases and existing infrastructure

The use of renewable gases, including biogases like biomethane, is clearly gaining momentum, particularly when renewable gases can effectively substitute natural gas for several applications. However, any policy incentives to support the use of these gases (feed-in tariffs, tax breaks, investment support, etc.) should be clearly visible and in line with the EU state aid rules and should also not distort gas-to-gas competition, nor the gas market as such. This also applies for incentives to support the use of power-to-gas and the production of hydrogen.

Certificates to track the renewable nature of renewable gas would be valuable tools to increase transparency around the use of this gas and increase consumer participation in the energy transition. Such a scheme could draw lessons from the well-established Guarantees of Origin (GO) system for renewable electricity.

We support the efficient use of existing gas infrastructure to transport renewable gases, where appropriate. Clear arrangements for the connection to and use of the network must be developed (e.g. charges, technical connection requirements, responsibilities for setting and maintaining the relevant product quality norms, metering, compression, etc.). Technical challenges remain, for example, as higher hydrogen quantities are blended in the gas networks. In this respect, caution should be exercised when using or converting natural gas infrastructure so as not to put at risk the functioning of current transportation networks and storages as well as traded markets.

General methodological considerations

The demand scenarios are built on existing reports and scenarios, which include numerous assumptions and drivers of change. Demand scenarios in long-term frames to 2040 and 2050 inherently have high levels of uncertainty. Adequate caution should therefore be exercised when deriving regulatory implications from these scenarios.

Appropriate impact assessments and comprehensive consultation of all involved stakeholders remain an important and necessary step before the introduction of any regulatory changes.

As the gas sector evolves, as renewable gas is integrated into the market and as gas begins to play an increasingly important role in multiple sectors, it is important that efficient and transparent European gas markets, enabling open and fair competition, are in place to continue to support this transition. Clear market prices will help to orchestrate these important changes, and play a vital role in achieving affordability, security of supply and decarbonisation objectives.

About

Europex is a not-for-profit association of European energy exchanges with 26 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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