

# **ACER pre-consultation on “Energy Regulation: A bridge to 2025”: Gas Paper**

## **Contribution by Enel**

**1. Do stakeholders agree with our view of the gas specific strategic context and in particular with our views on:**

- **Declining demand for gas, and in which sectors such decline is seen;**
- **Increasing role of imported gas and uncertainty surrounding unconventional gas supplies in Europe;**
- **Increasing role for a flexible gas supply to support growth of renewable electricity generation**

Yes, we agree with the strategic context overview as described by ACER.

**2. Are concerns about competition in gas markets and concerns that liquidity at most hubs is insufficient to achieve functioning wholesale markets sufficient to warrant some form of intervention?**

**3. Should increased market integration be sought to address issues of non-competitive markets and a lack of liquidity? Are there other more effective measures to be sought in this respect?**

**ANSWERS 2-3:** At national level, some countries are already making progresses to create gas markets and to improve liquidity. In parallel, at regional level ACER, TSO and EU associations are progressing towards the completion of regional markets through the setting and implementation of common network codes and pilot project initiatives. According to ACER annual report<sup>1</sup>, liquidity in organized markets generally increased in 2012. Indeed, Member States and EU institutions are already carrying through several actions to address issues of non-competitive markets and a lack of liquidity whose effects will result in the short-medium term.

Enel agrees with ACER considerations about European dependency from long term import contracts, that in part are enhancing liquidity on the hubs and wholesale markets. In order to grant, also in the future, liquidity and integration to the wholesale markets, Enel recommends to avoid situation of over-regulation. More specifically, Enel suggests to

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<sup>1</sup> ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2012

exploit, at a national level, typical market tools such as the definition of “market makers” whom are in charge of granting liquidity in any market situation.

- 4. Would efficient use of existing infrastructure and the building of efficient new infrastructure facilitate competition between gas producers?**
- 5. Can upstream competition be improved with physical infrastructure redundancy or is it an issue of market structure (oligopoly)?**
- 6. Should regulatory incentives be placed on TSOs to improve the efficient use of existing gas infrastructure?**

**ANSWERS 4-6:** From Enel point of view, an efficient and competitive framework, should be based on (i) the efficient use of the existing infrastructures (that we think is already happening), (ii) investments in new infrastructures, mainly for interconnection and reverse flows between countries/regions, and (iii) the development of new infrastructures that can enhance flexibility, diversification and security of supply, like LNG regasification terminals. Nevertheless, we consider very relevant the issue of the market structure; in a situation in which the EU dependence on few producers (Russia, Norway, Algeria) increases, we think that long term contracts should play a fundamental role also in the future.

Concerning the use of gas pipelines, we believe that existing gas infrastructures are already managed in an efficient way by TSOs, in accordance with the current regulatory framework. Furthermore, the upcoming implementation of CAM and CMP measures will further improve the efficiency of existing infrastructures. Therefore we do not see any needs of regulatory incentives to be put in place. Regarding infrastructure redundancy, it is of the utmost importance to build the new capacity that the market really needs. Otherwise, building capacity which is not efficient or not necessary will increase the costs and will make the gas system less competitive.

- 7. What are your views on the future investment climate for new gas infrastructure in Europe? What are the major challenges ahead?**

We think that the investment climate for new gas infrastructure in the EU is not positive and most likely it will not be in the next few years. In particular, given the current economic situation and the many uncertainties in the gas sector (both on the supply and on the demand side), we expect that only a small share of the planned infrastructural projects will be built.

- 8. Should regulatory frameworks recognise externalities in order to improve investment decision making?**

In general, we think that all positive externalities, if any, should be recognized. Therefore, investments in new infrastructures, such as LNG plants or pipelines from new countries, should be supported creating a favorable regulatory and market framework as they play a crucial role in diversifying gas supply routes and, consequently, in ensuring security of supply.

**9. Are cross-border market zones or regional trading zones practical ways to integrate market zones?**

**10. Are there other ways one may envisage to enhance the liquidity of European markets?**

**11. What actions could be taken to further integrate market zones, given the uncertainty regarding costs and benefits of integrating market zones?**

**ANSWERS 9-11:** We consider that the full implementation of the current regulatory framework (e.g. network codes) should be sufficient to integrate market zones. In particular we believe that harmonising the way that pipeline tariffs are set could ensure the efficiency and sustainability of the short-term and long-term markets; the reduction/removal of “pancaking effect” could also help to improve the liquidity. In addition to that, Enel considers useful also the development of the above mentioned measures: interconnection and reverse flow infrastructures, as well as market tools like “market makers”.

**12. Does a lack of coordination between intra-day gas and electricity markets expose gas-fired generators to significant imbalance risks?**

**13. Does the level of risk exposure create sufficient concern that it could hamper efficient market operation to warrant intervention?**

**14. How should coordination of intra-day / balancing gas and electricity markets be improved?**

**15. What concrete possibilities for demand response in gas do you envisage?**

**ANSWERS 12-15:** For the electricity sector, flexibility is a key issue and will be more so in the near future, given the progressive increase of intermittent sources and the back-up role that CCGTs will have to play. In this perspective an important role will be assumed for instance by gas storages, as flexibility providers. Gas storage (also provided by LNG terminal plants) regulatory framework should be probably reconsidered to recognize their positive contribution to face unforeseeable peak demand (due to sudden decrease in RES generation but also weather conditions). A recent study by CEER provides some evidence of the changing usage of storage. A deep analysis of different solutions and regulatory proposals on gas storage allocation and utilization will be welcomed.

Furthermore, within the current context gas-fired generators could be exposed to significant imbalance risks if flexibility required by the electricity market is not compatible or is higher than the flexibility of the balancing obligations in the gas sector. As said in the document, gas-fired generators have no way to make re-nominations 2 hours or less before real time, but the balance in the gas sector is performed on a daily basis. However, we consider that a potential increasing role of the TSO for inter-zonal exchange of gas balancing services in interconnected Member States could be detrimental if that means that TSOs will compete with other market players. Those services and products should be market-based and provided by market operators.

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