



Publishing date: 22/09/2014

Document title:

We appreciate your feedback



Please click on the icon to take a 5' online survey
and provide your feedback about this document

ANNEX:

ENTSOGs Specific Comments to ACERs Bridge to 2025 document

ENTSOGs specific comments to ACERs Bridge to 2025 Consultation Document (dated April 29, 2014) is listed below, following the structure of the ACER document.

Section 2 ENERGY SECTOR TRENDS

Electricity Wholesale Markets

2.6 It is ENTSOGs view that natural gas should have a key role in providing flexibility and backup to the electricity sector – and with a potential to contribute even more to the sustainability agenda due to the low carbon content of natural gas. ENTSOG will engage constructively in the discussions on how to align the electricity and gas sectors in order to materialize such key role, taking into account that the gas system will need to be properly remunerated for delivering flexibility/balancing and backup capacity to the electricity sector.

However, ENTSOG finds the present commercial situation for gas fired power plants – even for the most modern plants – to be extremely difficult. This situation is caused by a number of factors e.g. low coal prices, low CO₂ prices, reduced electricity demand as well as electricity markets distorted by the subsidies to renewable energy sources. A continuation of this situation might lead to mothballing or decommissioning of gas-fired power plants – and might therefore be a threat to have flexible gas-fired generation available in the future.

2.7 Capacity remuneration mechanisms for gas-fired power plants might be considered as means to establish longer term incentives for security of supply and flexible, low-carbon generation in the electricity sector. Such mechanisms should aim at not distorting the functioning of neither the electricity nor the gas markets - and should as such be coordinated across the member states. However, ENTSOG is concerned that such coordination requirements might lead to postponements of decisions and therefore a further aggravation of the situation for the gas fired power plants. Furthermore, ENTSOG suggests also addressing how to ensure a level playing field in the market place between renewables and other energy sources - and to reduce the severe market distortions caused by the present subsidy schemes.

Gas Wholesale Markets

2.11 It is ENTSOGs view that the key role and focus attributed to the network codes and the implementation of these in relation to the realization of the Internal Gas Market is of utmost importance.

It is ENTSOGs view that it is the concrete initiatives on network codes etc. that has delivered and will deliver the results for realizing the Internal Gas Market. It is ENTSOGs view that the Gas Target Model represents a number of indicators of the present state of the gas market.

ENTSOG suggests to keep the strong focus on this implementation process and to evaluate the upcoming results of these initiatives. It should be avoided that the discussions on the Gas Target Model review distract the network code implementation and that the analyses of the market situation today will not properly take into account the progress which will be delivered by the network code implementation in the coming years.

2.14 ENTSOG is concerned on the declining gas markets - including the consequences for the unit costs in the gas system. In particular in relation to the carbon abatement potential of an increased gas usage, ENTSOG finds that the present trends in fuel switching to more carbon emitting fuels than gas, should be of great concern in the European context.

2.18 ENTSOG supports the aim to make gas fired power plants the major source of flexibility for the electricity sector – but is concerned that the present commercial situation for such plants might hinder that such scenario can materialize.

Infrastructure Investment

2.19-2.22 ENTSOG shares the view on the challenges for infrastructure investments, including the uncertainty on demand and supply – and would in particular like to emphasize the need for efficient coordination and alignment between national authorities cross-border, including the NRAs, which is already foreseen in the existing legislation, but which is not yet fully utilized.

Furthermore, there is a need to ensure the appropriate economic and regulatory incentives for the TSOs to invest, while the current focus on short term bookings, low and not guaranteed rate of returns, cross-border regulatory issues and declining gas markets might weaken such incentives.

On-going changes and instability in the regulatory framework should also be mentioned as challenges for the decision making on new investments – and as even reflected by the financial rating agencies. New regulatory initiatives on the gas wholesale market should await and be based on evaluations of the effects of the on-going network code implementations.

Consumer Concerns

2.23 The concerns on increasing energy costs for the consumers should include all relevant parameters including the increasing costs of renewables being allocated as public service obligation costs to other energy sources. Besides contributing to the increased costs, it is at the same time distorting the energy markets.

Furthermore, in ENTSGs view that the competition in the market is the main factor in delivering the benefits to the consumers in the form of efficient consumer prices. Transmission costs should of course be kept efficient, but it is worth noting that transmission cost only represents a small percentage of the total energy costs of the consumers.

Section 3 ACTIONS FOR EUROPE'S REGULATORS - REGULATORY IMPACTS

Electricity Wholesale Markets

3.6 ENTSG supports the aim to reduce market distortions, including those caused by the subsidy schemes for renewable energy as well as aiming at a coordinated development and application of capacity mechanisms. ENTSG is however concerned on the possible timing of such establishment of a level market playing field in relation to the acute and severe commercial situation for gas-fired power stations European-wide, which calls for urgent action.

Gas Wholesale Markets

3.11-3.14 ENTSG fully agrees to priority given to the full implementation of the network codes to complete the Internal Gas Market – and ENTSG is dedicated to fulfil its role in this process. It is worth mentioning that other factors than network codes influence the development of the markets, including development of liquidity and competition. The roles of governments, NRAs – nationally and across borders - as well as market structures both on the supply and demand side should be taken into account. More

regulatory measures will probably not be efficient or sufficient if basic market structures are not fully supporting a well-functioning internal gas market.

Regarding market integration/market zone mergers the cost and benefits should be carefully evaluated – and the various options of improving the market functioning should be taken into account. In particular the challenges in coordinating and aligning the corresponding regulatory systems across borders should not be underestimated.

ENTSOG on Appropriate Regulatory Response on Gas Wholesale Markets:

- Existing legislation provides a sound basis – the 3rd Energy Package and the network codes will within the next 2-3 years contribute to meet the goals on well-functioning gas markets.
- Consolidate a stable regulatory framework - new initiatives, including Gas Target Model Update, should include assessment of the effects in the gas market, when the network codes have been implemented.

3.15 ENTSOG supports ACERs considerations of minimizing the risk of stranded assets – and to find a balance between necessary investments and appropriate remuneration during the technical-economic lifetime of the assets.

3.16 It is ENTSOGs view point that a ‘one size fits all’ approach might not fit all market areas and regions, and therefore ENTSOG welcomes a more flexible approach addressing national/regional situations - with the aim to ensure a more even implementation of the Internal Gas Market across Europe. ENTSOG finds that such flexible approach is already possible within the existing legislation, mainly the 3rd energy package.

3.17 ENTSOG is not convinced of the claimed relations between the Gas Target Model and a development of liquidity across gas markets in Europe. And it is worth noting that GTM criteria are indicators only – not mandatory goals for the development of the Internal Gas Market. ENTSOG believes that the drivers for the development of the Internal Gas Market are the concrete initiatives such as the network codes, the implementation of these as well as the competition in the market place. It is of course vital to ensure that the basic elements of the 3rd energy package such as effective unbundling, independent regulators etc. have been implemented properly and that the market structure allows the competition to take place. If that is not the case in some market areas, then the regulatory initiatives should prioritize the handling of these issues.

ENTSOG on Appropriate Regulatory Response on Gas Target Model Update:

- Existing legislation – mainly the 3rd Energy Package including the network codes – is a sound framework for the gas market development in the coming years.
- GTM represents useful indicators on the development of the wholesale gas market – but should not be established as a ‘baseline’ for assessing the network codes – thereby introducing a new layer of legislation.
- Considering to add more criteria to the GTM should be based on an assessment of the effects of network codes, and should include a key indicator : the price convergence development between market areas.
- Suggests maintaining the present role and form of GTM criteria as indicators of gas market development.
- Include the ‘main hub/satellite hub’ concept in the GTM update as a feasible way forward for the gas market development.
- Consider a ‘hub development roadmap’ building on the basic ideas of EFET’s hub development presentation.

3.19 ENTSOG is positive to look into how the electricity and gas markets can be coordinated and aligned – provided that the concrete proposals are targeted and efficient and represent a balanced approach between the two sectors. This will include that the gas sector and the gas-fired power plants will be properly remunerated for the services – flexibility, backup etc. – being delivered to the electricity markets.

3.20 ENTSOG do not think a goal to ‘ensure that gas market meet the needs of the electricity market’ can represent a balanced view of how the two sectors should operate together. And furthermore, such a one-sided goal might have the impact that other users of the gas system will be paying for such services or changes provided to accommodate the electricity system.

ENTSOG on Appropriate Regulatory Response on Power and Gas Cooperation:

- To facilitate workshop process with ENTSOs and TSOs to identify potential alignments of access conditions between electricity and gas – and including potential regulatory barriers as well.
- To explore further the potential of and technological solutions for power-to-gas.

Infrastructure Development

3.21-3.24 ENTSOG supports the promotion of market based investments, creating transparent tariff structures, implementing the network codes and improving cross border coordination. In promoting incentives for investments, ENTSOG finds that the

apparent regulatory focus on promoting short terms markets and perspectives, might have detrimental effects on developing market based investments, since investments in the energy sector and in particular gas infrastructure is based on long time horizons. ENTSOG strongly supports initiatives to enhance coordination between authorities, in particular across borders.

ENTSOG on Appropriate Regulatory Response on Infrastructure Development:

- To ensure NRA cooperation and alignment on cross-border investment projects.
- To ensure that longer term capacity booking incentives for shippers are well reflected in the upcoming tariff network code.

Improved Coordination

3.36 The realization of the Internal Energy Market requires close cooperation between TSOs and DSOs – a cooperation which should have a robust foundation at the national level.

Section 4 IMPLICATIONS FOR GOVERNANCE

4.1-4.3 To ENTSOG it is obvious that the gas market has gone through a substantial development – and will continue to do so – because of the decisions on the basic regulation, the 3rd energy package and the subsequent development and implementation of the network codes. ENTSOG supports to deepen the cooperation and coordination between NRAs – as already foreseen by the existing legislation.

Fit-for-purpose processes for the implementation and enforcement of market rules

4.4 ENTSOG agrees in the focus on implementing the network codes. ENTSOG finds it most relevant to focus on continuing to apply and improve the successful processes which have been applied for the gas sector. Regarding monitoring, ENTSOG finds it most relevant to utilize the existing framework, including setting up constructive dialogue processes in order to develop the most relevant forms for such monitoring. Other considerations in relation to the implementation of the network codes could be that ‘one size does not fit all’ which calls for a flexible approach and that ‘quick’ implementation should be balanced with ‘robust’ implementation.

4.5 ENTSOG is of the opinion that the fundamental roles of the entities are well defined in the 3rd package. ENTSOG welcomes sharing a common practical understanding of these roles between EC, ACER, ENTSOG, NRAs, TSOs etc. in relation to governing, monitoring and enforcement of market rules within the framework of the 3rd energy package. ENTSOG does

not think that further legislation regarding the role of ACER as well as the roles of other entities is needed.

4.6 There will be a need to develop ways to amend and modify network codes – and taking into account that such amendments and modifications can be done in an efficient and timely manner and with a strong stakeholder involvement. It is ENTSOGs view that it is necessary to finalize the implementation of the network codes and evaluate the functioning before initiating changes – maybe with exception of technical adjustments and other necessary changes. ENTSOG considers such amendments and modifications to be an integrated part of ENTSOGs ways of working – including the assurance of a strong and engaged stakeholder involvement, which has already been demonstrated in practice.

ENTSOG wants to stress that the EU legislation – mainly the 3rd Energy Package – is the baseline and ENTSOG does not support the inclusion of a new layer of legislation or binding rules as proposed by ACER.

4.7 It is the view of ENTSOG, that the enforcement of the network codes is already well founded in the 3rd Energy Package. It is ENTSOGs opinion that the governance process in the gas sector, including the involvement of stakeholders is a vital part of a successful enforcement process. ENTSOG do not agree with ACER that there is a need for further legislation regarding the enforcement of the network codes.

4.8 ENTSOG holds the view that the 3rd Energy package forms the legislative platform which is now being implemented. The implementation of the network codes will further increase the cooperation between all involved parties, EC, ACER, ENTSOG, NRAs TSOs etc. The target models could seek to represent some indicators for the market development – but is not to be implemented as such. ENTSOG supports an approach on the implementation accepting that a ‘one size fits all’ approach might not fit all market areas. A flexible approach addressing national/regional situations - with the aim to ensure a more even implementation of the Internal Gas Market across Europe – might be relevant to consider.

ENTSOG on Appropriate Regulatory Response on Implementation and Enforcement:

- Supports enhancements of cross-border NRA cooperation and alignment.
- Apply flexible, targeted implementation approach to expand the ‘price convergence spine’ towards the more Eastern and Western parts of Europe.

The role of the ENTSOs

4.9 Sharing a common understanding of the role and the form of the ENTSOs in line with the existing legislation are natural steps now the first network codes are being implemented. ENTSOG finds that the allocation of national/regional vs. centralised/coordinated tasks should be carefully evaluated – taking into account that harmonization across borders does not mean centralizing.

ENTSOG finds that the existing list of tasks for ENTSOG is rather clear and well defined – and the understanding of the tasks and roles of the entities will evolve through the cooperation and dialogue with the relevant stakeholders.

4.10 ENTSOG finds that the present structure and governance of ENTSOG is a vital part of the functioning of the association and of the successful network code developments ENTSOG has performed. This includes achieving a proper priority to the EU-dimension vis-a-vis TSOs interests. ENTSOG do not agree in the need for further ACER oversight and control. ENTSOG welcomes the opportunity to discuss with ACER on the issues where ACER finds that the governance of ENTSOG and the gas sector is not working properly.

ENTSOG on Appropriate Regulatory Response:

- A dialogue process to share the understanding of roles and responsibilities for initiating, implementing, monitoring, enforcing and adapting the 3rd Energy Package – in particular in relation to the monitoring tasks of ACER and ENTSOs.

Appropriate regulatory oversight of new entities

4.11–4.13 The governance of ENTSOG is already in place – and in ENTSOGs view no changes is relevant or has been justified. In general ENTSOG and the TSOs find that the existing legislation – mainly the 3rd Energy Package - is already well-covering the raised issues and further regulation is not needed.

ACER's role in an expanding market & Regulatory capacity building

4.14-4.15 ENTSOG is supportive of deepening the relations and cooperation – and ENTSOG is already working together - with countries beyond the EU borders such as the ECT and EEA countries – including developing ways of building competences and ways of cooperating.



Publishing date: 22/09/2014

Document title:

We appreciate your feedback



Please click on the icon to take a 5' online survey
and provide your feedback about this document