

## EUROGAS COMMENTS ON THE KEMA STUDY

Eurogas largely welcomes the outcome of KEMA's study on Methodologies for gas transmission network tariffs and gas balancing fees in Europe.

### General Comments

The results of the study provide a very good overview of the tariff- as well as balancing methodologies in various Member States. At the same time it addresses current issues requiring improvement such as harmonization where possible and feasible, as well as allocation and of cross border capacities via market based mechanisms such as auctioning.

Eurogas supports the recommendations for harmonisation and Improvements of the Market and Regulatory Framework. We believe that TSOs and regulators should promote the establishment of regional marketplaces/platforms and recognize this as the medium term goal.

Concerning transparency of tariffs, Eurogas agrees that despite significant improvements in the European gas market there is still a lack of price transparency. Price harmonization could only be envisaged along similar physical gas flow routes. In general, however, this topic raises a number of complex issues. Different prices are a major prerequisite of a functioning and competitive market and providing other improvements are achieved, notably in the area of capacity allocation and congestion management, tariff evaluation should be left to market dynamics.

### Concerning network access and transmission tariffs

- *Harmonization of transmission tariffs is closely related to capacity allocation and congestion management. KEMA supports bundling of entry- and exit capacities at the same borders between 2 different market areas. Non physical backhaul capacities shall be provided by the TSOs at the internal borders.*

Eurogas supports that TSOs should offer combined capacity products in addition to separate entry/exit products as an option so that shippers have the right to trade at the border or at the hub, but we are concerned at the presumption of benefits in a market model involving an exclusive and compulsory offer of combined/ bundled products. This would limit the opportunities of shippers to manage their portfolios efficiently and result for shippers in sub-optimal capacity management because of lack of trading options. In its response to ERGEG's consultation on the pilot Code for Capacity Allocation Management, Eurogas has expressed concern that the implications of this approach have not been fully addressed.

Also there would be concerns if any concept of compulsory bundling of cross-border capacity were to lead to the abrogation or undermining of existing contractual rights to use the network. Maintaining existing contractual rights contributes to a stable framework for investment and supply security. In the event that historic rules and procedures are inconsistent with the desired future model, system operators should work with shippers and Regulators to ensure an appropriate and acceptable path for reflecting the economic rights enjoyed under the historic contracts in the new arrangements.

- *Prices for short term capacities should not create a barrier to entry; cross border short term capacities shall gradually be made available in accordance with market based mechanisms.*

Eurogas supports market based allocation mechanisms, as this is the best method to allocate capacity on an efficient and non-discriminatory basis.

- *KEMA proposes to replace separate entry- and exit tariffs at each administrative border by an inter-TSO compensation mechanism, subject to additional analysis.*

This is an idea worth exploring further, as some sort of viable compensation mechanism will be needed if the system is to involve the auctioning of combined and separate Entry/Exit capacity products in the same auction.

#### KEMA on network planning and investment into new infrastructure

- *Infrastructure investments still lack coordination. Further harmonization, therefore, is recommended including approval and financing of investments into new network infrastructure with a regional scope.*

Eurogas supports the idea of harmonization of investment plans as stated in the 3<sup>rd</sup> Energy Package/ TYNDP, etc. However, it is utmost importance that investment planning remains market based and at the discretion of the market players involved.

- *KEMA proposes continuing efforts by TSOs and regulators to introduce a more coordinated planning and expansion of the European gas networks. Coordinated Open Season procedures, for example.*

In general Eurogas supports this, subject to the conditions mentioned above. The markets not the regulators should steer the investment approach.

- *European regulators should develop mechanisms for a coordinated approval of investments with a regional scope, including exchange of information and joint assessments of relevant projects.*

Eurogas supports the idea of increased co-ordination among regulatory authorities. KEMA's broad recommendations moreover are in line with the provisions of the 3<sup>rd</sup> Energy Package. It is not certain, however, that the way KEMA envisages the process working in more detail will yield the objectives. The exchange of information and joint assessment of projects might impede the projects itself and could even lead to market distortion.

- *National regulation shall not conflict with prior decisions made on approval of investments at a regional level.*

Eurogas fully supports this point. Stable regulatory regimes on a regional level are the basis for cross regional investment decisions.

- *There should be compensation mechanisms for cross border investments which do not directly benefit the MS where the investment originates from.*

Eurogas underlines the importance of cross-border investments, and this will include cases when the investment originates from operators from neighbouring regulatory regimes. Any compensation mechanism should be subject to consultation among the market parties involved, as well as stakeholders and NRAs.

Adequate compensation reflected in tariff structure requires further investigation, recognizing also its role in contributing to supply security.

- *KEMA recommends that the future development of the gas network should take place on a European-, whereas planning and allocation procedures should be on a regional- level. TSOs and regulators should work closer together to realize any coordination of investment proposals.*

Eurogas supports these recommendations by KEMA recalling that planning as well as investment decisions need to be triggered and thoroughly assessed by the market before regulatory authorities step in.

#### KEMA on residual balancing and imbalance settlements

- *Different balancing regimes are not obstacles for non-discriminatory market access. Yet, a regional more harmonized balancing approach could result in lower costs to customers.*

Eurogas fully supports these views by KEMA and the responses of market participants reflected in their study.

- *KEMA supports ERGEG's initiatives on CAM/ CMP and regards increased short term trading and better utilization of available capacities in an improved use of the network and more efficient contribution of market participants to the system balancing.*

Eurogas supports KEMA's views but stresses the importance of an in-depth analysis in order to find the most efficient solutions with the least damage to network operators as well as system users.

- *Operators and regulators should find solutions to promote cross-border trading-oriented balancing.*

Eurogas fully supports these proposals.

- *As a medium-to long term goal, after achieving compatible balancing regimes, procurement of residual balancing gas should move towards a regional level. TSOs, regulators, with users should establish regional market places, subject to fulfilment of pre-conditions.*

Eurogas supports this idea but prefers this to be a medium term goal rather than long-term endeavours.

- *A harmonization of cross-balancing charges can be difficult as markets differ widely. Therefore, KEMA promotes different balancing intervals. Compatibility rather than harmonization at least as the first steps.*

Eurogas supports this idea but stresses the importance of harmonization as the primary goal.