



- Consultation response -

Europex response to the ACER Public Consultation on the Bridge Beyond 2025

Brussels, 9 September 2019 | Europex welcomes the opportunity to contribute to the present consultation. Below, we provide comments on selected aspects thereof. To facilitate the discussion, we use the same topic headings as proposed in the consultation document.

Targeted regulation and market functioning

- 1. Is the proposed response set out above appropriate to address the challenges the sector faces? What should be done differently and why?***

In particular:

1a. For monitoring the GTM metrics and prompting action, should the threshold values be set out at EU level? What should they be? Who should set these values?

1b. Should there be new principles for tariff and allowed revenue methodologies in legislation – e.g. ensuring a level playing field between the gas and electricity sectors? What principles would be crucial?

Market monitoring as a basis for action

Monitoring of the metrics of the 2014 Gas Target Model (GTM) provides an indication of the state of evolution of specific market characteristics. However, using these threshold values, assessed against TTF and NBP performance, as a formal basis to trigger targeted regulatory action is inappropriate. The indicators/metrics of the market ‘success’ or ‘health’ of markets which may be relevant when applied to regions such as North West Europe (NWE), may not be suitable to assess market performance in Central Eastern Europe (CEE) and South East Europe (SEE). Given these limitations and the fact that the screening approach does not constitute a robust basis for action, we advise against enshrining this into EU legislation.

Furthermore, a self-evaluation against the GTM metrics is at present foreseen in the current GTM, and targeted measures in the regulatory toolkit are already available. If a problem is confirmed following detailed analysis, tailored solutions to local issues should be explored and put in place using a bottom up approach. A detailed cost benefit analysis (detailing projected costs, benefits and responsibilities) should always accompany any such proposal.

Liquid and well-connected markets develop as a result of a “bottom-up” process stemming from market participants’ trust in the market environment and in trading venues, rather than any regulatory design that is imposed “top-down”. Regulatory action to artificially increase market liquidity can only be a second-best solution and should only be taken in case of clear and evidenced market failure. The existing regulatory framework and market mechanisms already provide efficient tools for the connection of European gas markets towards a single Internal Gas Market. Efforts should therefore be focused on the full and comprehensive implementation of the Third Energy Package across Europe.

Liquidity on balancing platforms

Liquidity problems in certain gas markets / balancing platforms are frequently linked to the non- or partial implementation of the Third Energy Package, including exemptions, delays and so on. In principle, we would support the proposed measures, as foreseen in the Gas Balancing Network Code. Nevertheless, more clarity needs to be provided on the requirement for ‘sufficient liquidity’ and how this will be assessed.

The European Commission and ACER ought to intervene if the Network Codes and Guidelines are not properly implemented. EU-level decision-making and enforcement powers should be given in case the NRAs are unable to enforce the full and comprehensive implementation of the Network Codes and Guidelines.

Administrative and legal requirements

Europex strongly supports the proposed measures to ensure robust licensing and registration processes across the EU, including ex-ante checks by the respective TSO and/or NRA and an EU-wide blacklist of companies convicted of fraud, designed to ensure that fraudulent operators are denied access to the market.

Facilitating market access for market participants is an important aspect of efficient and well-functioning energy markets, and unreasonable licensing requirements must not constitute an entry barrier. However, care should be applied when prematurely considering the introduction of a system of mutual recognition of licenses, before market operation and practices reach a certain level of harmonisation. The current variation and differences in requirements, e.g. physical links of market participants to the grid etc, mean that an automatic mutual recognition is not suitable for the time being.

The full and comprehensive implementation of the Third Energy Package in all Member States, which would in itself ensure an increased level of harmonised market and market access rules, should be given priority before considering standardised licensing requirements.

Transmission tariffs and cross-border capacity allocation

As recognised in the CEER study on the Future Role of Gas (FROG), there is a risk that the current design of TSO network tariffs 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 therefore 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. Gas tariffs should indeed take into account the cross-border spread market in terms of prices but also in terms of the trading calendar. Tariffs should of course take the spread value component into account, but they should also especially make sure that capacities can be available for sale when the cross-border spread value is above the tariff, and not just follow an auctioning calendar that was fixed ex-ante and which may not always allow TSOs to capture the spread value. Measures to improve the ability of gas-fired power plants to recover their investment costs and secure viable running times subject to market price signals, while providing flexible generation, would be positive steps forward. These measures should be taken in the context of a wider effort to improve the overall system flexibility.

Institutional and governance arrangements

Europex supports aligning defined aspects of the governance arrangements in the gas sector with those in the electricity sector (mirroring), following the recent comprehensive review by the Clean Energy for All Europeans package. Against the backdrop of increasing interaction between the gas and electricity sectors, we fully support efforts to take a more coordinated approach to governance arrangements as well as to the long-term planning of gas and electricity infrastructure.

However, it is of great importance that any changes to the regulatory framework for gas take into account the reality of physics and traded gas markets which can and do differ from the characteristics of the electricity market. Therefore, not all principles applied in the Clean Energy Package are necessarily applicable to the gas sector and should be carefully assessed before being 'mirrored'.

2. Should the Agency develop a joint Electricity and Gas Target Model in view of sector coupling and what key features should this model have?

Sector coupling and sector integration, i.e. the extension to other sectors like heating, cooling, mobility, etc., must go hand in hand. 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.

In this context, a joint electricity and gas target model would add limited value, whilst at the same time requiring significant resources to develop it. However, a more coordinated approach to selected governance and institutional arrangements, including for example, the long-term planning of new infrastructure, would help to release more system and grid flexibility.

The stepwise liberalisation of the European gas and electricity markets over the past twenty+ years has brought great benefits for European consumers. The well-functioning of the established wholesale gas and electricity markets must be maintained, and existing rules should be fully and consistently implemented before changes to the market design are considered.

Enabling new products and enhancing infrastructure governance

3. Is the proposed response set out above appropriate to address the challenges the sector faces? What should be done differently and why?

In particular:

3a. Who should provide data on the availability of decarbonised gases by location so as to enable assessment of changes of gas system needs and flows, in parallel to greater availability of decarbonised gases? At what frequency should this data be provided to the Agency?

3b. Do TSOs face a conflict of interest in the future in planning gas and electricity infrastructure? If so, would stronger regulatory oversight resolve the problem? Which powers are needed and at which level (European, regional, national)? Would transparency requirements on TSOs/ENTSOs mitigate this problem and if yes, what shall be done?

Europex understands that a key driver for an update to the current regulatory framework is to enable growth in power-to-x technologies which can add flexibility to power systems based on Renewable Energy Sources (RES). One approach, among many others, is to transform electricity from RES whenever there is a surplus, and return it whenever there is a deficit as reflected in power prices. Europex supports this vision as a means to achieve the objective of a carbon neutral energy system by 2050. In this context it is vital, however, that the decarbonisation objective remains the focus of possible regulatory reforms, rather than the promotion of any specific technology.

Sector coupling is already a reality in the energy system. Gas-to-power assets operate extensively across the EU. Operators of Combined Cycle Gas Turbines (CCGT) transform gas into electricity whenever the market price for electricity covers the cost of fuel plus the marginal cost of production of the power generation asset, providing valuable flexibility to power supply. In this sense, CCGT operators intrinsically couple gas and power. In 2016, gas-to-power represented nearly 20% of all electricity generated in the EU-28, according to the IEA. This figure shows the extent to which the power and gas sectors are already interacting in the EU.

Sector coupling is also a reality in energy trading, especially on exchange markets. Traders use dedicated tools and products to value and hedge multiple combinations of fuel/energy conversions. Here we refer notably to spark spreads (in the case of fuel-to-power), disaggregated in a number of more specific products like dark, clean and green spark spreads, depending on the carbon content of the fuel. These products, although little known outside the industry, are very common and have been in use for decades to hedge the price risks on both sides of a power plant.

Europex believes that two reliable, separate price signals (i.e. independent variables) coming from the wholesale power and gas markets allow operators of conversion assets to make efficient economic decisions of where to invest and when to run the plants. We trust that reliable and transparent price signals are indispensable for the sound functioning of the energy system. For this reason, sector coupling measures that may be undertaken must not harm the functioning of those markets and the quality of the price signals and especially on what makes the natural gas market a reliable and flexible arbitrage tool (real-time continuous trading, renomination flexibilities of transport and storage, etc).

Moreover, we would like to emphasise that the demand for energy commodities, except for the portions that are directly used as feedstock in industrial processes, is linked to secondary demand. This means that the end-goal is not to consume methane, hydrogen or biopropane, but rather to use appliances and create energy, heating or cooling, etc. Against this backdrop, Europex believes that an imprecise market design when setting the stage for new products to be included can lead to unintended negative consequences. For instance, if blending hydrogen becomes a goal in and of itself, without any considerations as to its origin, there is a risk that the market will react by introducing more “blue hydrogen” (created from methane or other fossil fuels) rather than “green hydrogen” (created from water using RES).

Likewise, it is important to consider the end-use of these alternative gas products. The EU wholesale gas market serves primarily importers, utilities, industrials, retailers and consumers. New products could be developed to be used in the transport sector, in which case the production chain and marketing channels escape the scope of the existing wholesale gas market prices. This is for example the case of LNG for trucking and bunkering fuel which competes with petroleum refined products.

Europex strongly supports maintaining the integrity of an efficient, transparent and liquid EU gas market. Alternative gases can contribute to the further growth of natural gas market liquidity for the benefit of all consumers, while their extrinsic value can be monetised via the Guarantees of Origin (GO) mechanism. Europex believes that a harmonised GO system for renewable gases can be an effective market-based instrument to track and incentivise the use of renewable gases in the energy system and to maintain the overall integrity of a single gas wholesale market. In addition, such a gas GO system would more actively include consumers in the energy transition by making the origin of gas more transparent.

The following aspects are important when establishing an EU-wide GO system for renewable gases:

- A maximum of standardisation of GOs for “renewable”, “low-carbon” and “decarbonised” gases when developing a traded market for GOs. The information on the certificate should be based on the requirements as laid out in Article 19 of RED II and subsequent legislation.

- The standardisation should be developed in close cooperation with the relevant issuing bodies with the overall objective to make them easily tradeable.
- Cancellation of allowances in other member states should be possible as it is currently the case for power GOs. This could be achieved through a model similar to the power GO model: member state registers remain but they need to coordinate through a common body, like the AIB for electricity. This body could even become an EU body.

The requirements for the acceptability of GOs in other member states should be clearly defined. At best, there should be one common standard for all. A coordinated cancellation system is needed to avoid double counting.

In order to establish liquid markets, it is essential that renewable gas GOs can be traded separately from their underlying source. Therefore, a certificate system for gas, similar to that for electricity, should be structured in such a way that a certificate can be traded independently of the commodity. This would in principle enable cross-border transferability of the certificate and would allow certificates from different member states to be traded at the same trading hub.

TSO involvement in the design of the certification scheme should be ensured where technically necessary. In this sense, Europex welcomes the implementation of standards of gas blends that may facilitate securitisation, thus facilitating cross-border trading and adding to market liquidity.

4. What powers are needed for dynamic regulation to be effective?

Dynamic regulation for new activities

Europex agrees that there should be consistent principles for sector coupling and a dynamic regulatory approach. Moreover, we strongly believe in unbundling as one of the cornerstones of an efficient, transparent and liquid market. Regulated monopolies such as TSOs and DSOs will face clear conflicts of interest, should they be allowed to operate assets whose profitability depends on the surplus/deficit of energy in a network they are tasked with balancing. This applies in particular to power-to-x technologies.

Any sector coupling strategy must therefore contain a clear definition of roles and responsibilities, including clear limits of the powers, of the various actors involved. When integrating sector coupling technologies, such as power-to-gas, in the system it is indispensable that the principle of unbundling is fully respected. The Clean Energy Package underlines that “network operators principally should not own, develop, manage or operate energy storage facilities”. We therefore fully agree with the consultation document that this principle should equally apply to the gas sector as well as to any sector coupling activity (such as the operation of power-to-gas, gas-to-power, etc. plants). Guaranteeing an effective and

clear separation of networks from activities such as production, trading and supply is a fundamental pillar for achieving the objectives of an efficient and well-functioning internal gas market that operates on a level playing field.

Regulation of new networks

While we acknowledge that hydrogen-only networks should not be regulated prematurely or unnecessarily, they should in principle fall under the same rules as conventional gas networks to ensure a level playing field and to promote competition and open grid access, provided that the hydrogen in these grids is used as an energy carrier for public energy supply for households, industry, commercial consumers and/or power plants. The establishment of an extensive parallel new infrastructure, however, should be avoided wherever possible to safeguard economic efficiency.

About

Europex is a not-for-profit association of European energy exchanges with 27 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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