



Statement on the design of security of gas supply to-wards the Federal Ministry for Economic Affairs and Energy

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Summary

The European Energy Exchange AG (EEX) organises European gas markets via a majority shareholding in Powernext under the brand PEGAS. PEGAS/EEX welcomes the security of gas supply design work from the Federal Ministry for Economic Affairs and Energy with some market parties, a topic of utmost importance.

Considering its operational and economic implications, we regret that no formal public consultation was launched to offer all market participants the opportunity to comment on this topic. We deem it crucial to include all market parties in the decision making process as early as possible in order to ensure a fair, transparent and efficient design.

During the past years, by trusting the market principles, gas participants have completely adapted their operational model by offering their source of flexibility for the benefits of all. As a consequence, the wholesale market in both its components (spot and derivatives) has seen a tremendous growth in Germany bringing a significant contribution to the social welfare.

The market has seen similar development in most parts of Europe and it now constitutes the main source of flexibility in the European gas system. Therefore, in case of stressed situations, before applying ah-hoc solutions, it needs to be ensured that all market-based mechanisms have proved to be insufficient. Otherwise, the capacity of market players to anticipate the level of market prices in these tensed situations will be seriously affected. Visibility on applicable rules ensures trust, which is the key for a well-functioning wholesale market.

Given the short timeframe, we only present in this paper some guiding principles to allow the smooth integration of security of supply mechanisms within the normal functioning of the market. EEX/PEGAS is available to develop further these concepts with the Federal Ministry and market participants.

About the EEX

The European Energy Exchange (EEX) is the leading energy exchange in Europe.

It develops, operates and connects secure, liquid and transparent markets for energy and commodities products. At EEX, contracts on Power, Coal and Emission Allowances as well as Freight and Agricultural Products are traded or registered for clearing. Alongside EEX, EPEX SPOT, Powernext, Cleartrade Exchange (CLTX) and Gaspoint Nordic are also part of EEX Group as well as the clearing house European Commodity Clearing (ECC).

Statement

The European Commission identified Security of Supply as one of the five main priorities to create the “Energy Union” in its communication of February 2015. As such, we explicitly welcome the dialogue on security of gas supply and its operational implementation that the Federal Ministry has initiated with market parties.

PEGAS/EEX is convinced that the reforms to be implemented to ensure security of supply should be evaluated following these five core principles:

1. Compliance with market-based mechanisms,
2. Efficiency regarding security of supply,
3. Positive cost-benefit analysis,
4. Impacts on the storage and wholesale gas market,
5. Limited regulatory intervention.

PEGAS/EEX recommends favouring market-based approaches in order to mitigate security of supply risks. In the majority of cases, a well-functioning market can achieve security of supply while enabling all market parties to participate on equal terms. As such, we welcome the current implementation of European Network Codes which contributes to further developing these markets and limiting security of supply risks. Regulatory interventions should then be limited to very exceptional circumstances that have to be defined cautiously and only if market-based methods have proved not to be sufficient. The modalities of these interventions should be carefully assessed together with market participants.

Indeed, direct interventions in wholesale gas markets can have very detrimental impacts on their functioning. Interferences into the regular operation of gas infrastructure assets could distort market prices, have negative impacts on liquidity and competition, and decrease the attractiveness of the German gas market; ultimately leading to higher prices and less choices for final consumers.

Direct regulatory interventions should be used in last resort only, taking into account non-discriminatory principles and ensuring competition. We suggest prioritizing these actions as follows:

1. Encouraging market participants to use any of their flexibility means which can cause the desired physical effect in the gas network. All market participants should be able to offer their capacities or gas volumes on a non-discriminatory basis. All flexibility means should be taken into account and able to compete with each other. Here is a non-exhaustive list:
 - Reduce gas consumption by controlling their demand or the one of their customers (demand-side management) or by switching bivalent devices to other energy sources like oil,
 - Increase gas production on short notice,
 - Make physically available to the market already booked physical gas storage capacities or flexibilities inside gas contracts – this would provide physical gas to the market area manager from a physical storage or virtual flexibility portfolio.

Following a public request from the regulator or an infrastructure operator, market participants should be able to offer those flexibility means through a non-discriminatory and transparent trading platform. This framework is already in place in the UK.

2. Implementing a storage obligation system via standardized storage capacities certificates. This obligation could apply to gas utilities supplying protected customers. The mechanism should be defined and set-up in cooperation with market participants through public consultations. A public registry would be needed to control the issuance of these certificates and the fulfilment of the requirements imposed on energy suppliers. The certificates could then be exchanged through a non-discriminatory and transparent trading platform. International storages could be taken into account in the mechanism when they can deliver the same physical effect as national storages on the gas network.
3. Identifying physical gas storages as strategic reserves in a market-based way and without big financial expenditures and therefore be deprived of the price signals of the trading market. International storages could also be taken into account in the mechanism when they can deliver the same physical effect as national storages on the gas network.

We fully support Federal Ministry, regulators and market participants in the creation, implementation and operation of a market-based and reliable target model to ensure security of supply and will be glad to answer any questions.



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