CEER Vision Paper on Gas Market Model

Comments on behalf of Fertilizers Europe and CEFIC

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OCI NITROGEN

We are:

The European Chemical Industry

- Annual sales € 450 billion
- Average 10 year investment € 27.5 billion/year
- No long term contracts
- No open seasons
- No specific/special market regulations

Gas Conversion

- methanol
- ammonia (fertiliser, nylon)
- industrial gasses

Gas is not only energy, but also feedstock

Main expectations 3rd package

Security of Supply via:

- Interconnection, in particular cross border
- Storage, to be part of the transportation system
- Transparency, particularly at all x-border, storage, main entry/exit points, LNG terminals

and

- Regulation of framework, not details

Developments and Changes

- Long term capacity contracts should be possible, but not at 100% of pipeline technical capacity; thus enabling short term contracts (regulated max %age?, term definition)
- New pipelines (and storage) should not be given contract exemption for full capacity, despite open season procedure (again max %age)
- Credit risk management of shippers in long term oil priced commodity contracts; mark-to-market risk against spot. Credit guarantees are leading to substantial cost increases. Test against financial directives?

Key Elements Conceptual Model (1)

- The conceptual model requires a good, fairly detailed, description of the goals and principles of the gas market model.
- The market model should be focussed on benefits for the consumers. For each key aspect it should be possible to define the benefit.
- The model should prevent market dominance within particular Entry/Exit zones (relevant markets). This includes variety in pricing mechanisms (oil related not forbidden, but also not only choice).

Key Elements Conceptual Model (2)

- Efficient use of facilities precludes effective functioning of market and competition. So physical pipeline ullage should be allowed and some contractual ullage stimulated (max %age long term contracts).
- Additional connectivity leads to further widening of quality specs. This leads to inefficient use of consumer facilities with increased costs and negative impact on climate change. So one single trans-European market is not desirable, but zones of similar quality.
- Entry/Exit system is the preferred cost allocation method. Care should be taken that tariffs do not emulate other systems such as distance related methods.

Other Elements

- Treat transportation separate from trade; harmonisation of transport (balancing, capacity allocation, quality) should go further than trade.
- Avoid lumped inclusion of many services in system costs; this avoids transparency and true cost allocation.
- Some harmonisation of trading markets is beneficial, such as same gas day, same nomination methods
- Avoid detailed rules and regulations and avoid complexity– the incumbents will fill in to their benefit and claim to abide by the rules without consideration for the consumers.
- Strongly promote transparency; when consumers can check data, inconsistencies show up earlier.