



**Roadmap for a Competitive Single Gas
Market in Europe**

An EREG Conclusions Paper

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Executive Summary

In November 2005 ERGEG published the *“Roadmap for a competitive single gas market in Europe”*, an ERGEG Discussion Paper for Public Consultation (hereafter “Consultation Paper”). The Consultation Paper set out a number of priorities to be tackled if the goal of a single competitive European market in gas is to be realised:

- regulatory co-operation;
- unbundling;
- transparency and information handling;
- availability of gas;
- effective access to network capacity; and
- gas quality.

The paper also proposed creating a gas regional initiative, made up of a small number of regional energy market projects (REMs), to push forward the development of competition at a practical level. These will focus on the development of liquid trading at, and between, gas hubs as the basis upon which regional markets will develop.

26 responses were received to the Consultation Paper from a wide range of interested parties including network operators, suppliers, consumers (and their representatives) and other market participants – non-confidential responses are available on ERGEG’s website.

Most respondents broadly agreed on the need to tackle to the priority issues identified above although there were differences in emphasis and on the steps that would need to be taken to make progress. This conclusions paper summarises the issues raised by respondents and sets out ERGEG’s view. ERGEG intends to undertake further work on resolving these priority areas and also other important issues such as developing an appropriate framework to facilitate efficient investment in the European gas network. This is reflected in the CEER and ERGEG work programme for 2006.

All respondents supported the creation of the gas regional initiative – although some concerns were expressed about the geographic scope they should cover and the governance arrangements. This conclusions paper confirms the creation of the gas regional initiative which will, at least initially, be made up of four gas REMs. Details on the geographic scope of the REMs and the governance arrangements are set out in this paper. It will be important that all stakeholders – the European Commission, Member State governments, network and market operators and other market participants are all involved and play an active role in ensuring that progress is made.

The overall objective is that by late Autumn of 2006 the REMs will make concrete progress in terms of developing a way forward for achieving regional market development – including identifying an Action Plan. An indicate timetable for the gas REMs is set out in this paper.

Chapter 1: Introduction

Purpose of paper

- 1 ERGEG published a Consultation Paper on the development of a roadmap for a competitive single gas market in November 2005.¹ The Consultation Paper reviewed the current state of European gas markets and outlined the issues that need to be resolved if the goal of a competitive single market is to be achieved. It also proposed a **regional initiative** which would encompass a **number of regional energy market projects** to deliver practical improvements to European gas markets – to promote liquid and competitive trading at and between gas hubs.
- 2 26 responses were received from a wide range of interested parties and are available on the ERGEG website (except those marked as confidential). A list of respondents is in Annex 1. This paper sets out ERGEG's view in response to issues raised by respondents and provides further details on the establishment of the regional initiatives - including the proposed governance arrangements.

Relevant recent developments

- 3 Since ERGEG published the gas roadmap for consultation there have been some important developments:
 - **EREGEG and CEER work programme published** – ERGEG & CEER published its work programme for 2006 in December 2005. A number of important areas are being taken forward on gas:
 - i. **Gas market integration** – this will focus on three main issues:
 - *Regional initiatives* – ERGEG has proposed the creation of a gas regional initiative (focusing on gas hubs) as a practical step towards the development of regional (and ultimately) a single competitive EU market.² The regional initiative is discussed in detail in Chapter 3 of this document;
 - *Gas quality and interoperability* – It is important that gas quality/interoperability issues do not provide a barrier to trade and competition. ERGEG will undertake work on looking at the appropriate framework for ensuring fair and non-discriminatory access to gas blending services and conversion facilities (including the incentives that are required to bring forward efficient investment). This work will also look at whether TSO to TSO

¹ "Roadmap for a competitive single gas market in Europe - An ERGEG Discussion Paper for Public Consultation (hereafter "Consultation Paper"). The Consultation Paper built on previous initiatives including discussions at the September 2005 Madrid Forum of the ERGEG introductory paper on developing a gas roadmap.

² In the CEER & ERGEG workplan they are described as the gas hubs case studies.

- operational interactions raise issues for the regulatory and legal framework;³
- ***Cross-border trade*** – It is important that tariff arrangements for cross-border flows of gas do not create barriers to trade – including how to avoid “pancaking of tariffs” and the extent of harmonisation to avoid distortions in cross-border trade;
 - ii. **Gas balancing and storage** – ERGEG is currently consulting on guidelines for good practice for gas balancing (GGPGB). Work is also underway on further monitoring of implementation of the guidelines for good practice for gas storage system operators (GGPSO). This follows an ERGEG report published in December 2005⁴ which concluded that the level of implementation across the EU was generally disappointing;
 - iii. **Transparency** – in the second half of the year ERGEG will look at transparency issues. This will include how to ensure that the information that the gas market needs to work efficiently is made available on a non-discriminatory and fair basis;
 - iv. **Capacity** – ERGEG is currently reviewing the way in which TSOs calculate the amount of capacity that is available on their networks. This will be followed by work looking at how TSOs should be incentivised to maximize the amount of capacity that is made available including making UIOLI arrangements work effectively; and
 - v. **LNG** – ERGEG is looking at how different access arrangements impact on the efficient use of and investment in LNG facilities including how to ensure that UIOLI arrangements work effectively.
- **DG Competition report⁵** – on 16 February DG Competition published a preliminary report on its energy sector inquiry. This identified a number of barriers to the creation of a single competitive market in gas including:
 - i. ***transparency*** – there is a lack of reliable and timely information on the markets. Users require more than is required by legislation and confidentiality rules can undermine effective transparency when given too wide an interpretation.
 - ii. ***market integration*** – cross-border sales do not exert any significant competitive pressure. Available capacity on cross-border import lines is limited and new entrants are unable to secure transit capacity on key routes. Primary capacity on transit pipelines is controlled by incumbents based on legacy contracts derogated from third party access – this is

³ A key input to this work will be the study commissioned by the European Commission that is looking at interoperability issues (including gas quality) at cross-border points.

⁴ “ERGEG final 2005 report on monitoring implementation of the guidelines for good TPA practice for astorage system operators” December 2005.

⁵ “Sector inquiry under Article 17 Regulation 1/2003 on the gas and electricity markets” Preliminary report.

reinforced by ineffective congestion management mechanisms which hamper the development of secondary markets. In most cases new entrants have not secured capacity where transit capacity has been expanded;

- iii. vertical foreclosure – lack of liquidity and limited access to infrastructure prevent new entrant suppliers from offering their services to customers. Long term supply contracts makes it very difficult for new entrants to access gas on the upstream markets. Insufficient separation of infrastructure (pipelines and storage) from supply functions results in insufficient market opening – despite rules for third party access and legal/functional unbundling, new entrants lack effective access.
- iv. market concentration – wholesale trade has been slow to develop and incumbents remain dominant in their traditional markets – by largely controlling up-stream gas imports and/or gas production. Incumbents trade only a small proportion of their gas on hubs. There is little entry in retail markets and customer choice is limited. Potential new entrants are dependent on vertically integrated incumbents for services throughout the supply chain.
- v. price formation – no clear trend towards more market based pricing mechanisms can be observed in long term contracts. Ensuring liquidity on gas hubs is crucial to improving confidence in price formation.

A number of these issues are common with those highlighted in ERGEG's initial consultation on the gas roadmap and are reflected in its work programme for 2006 – in particular issues of transparency and market integration.

- **EU Energy policy green paper** – on 8 March the Commission published an energy policy green paper which identified six priority areas for action including completing the internal EU market for gas and electricity; ensuring that the internal market can guarantee security of supply; ensuring a sustainable, efficient and diverse energy mix; and developing a coherent external energy policy.⁶

Structure of conclusions paper

4 This paper is structured as follows:

- Chapter 2 - sets the key issues raised by respondents and ERGEG's view
- Chapter 3 – sets out the next steps including the process and governance arrangements for the regional initiatives
- Annex 1 – list the non-confidential responses to the gas roadmap conclusions paper

⁶ "A European strategy for sustainable, competitive and secure energy" [SEC(2006)317] - A Green Paper.

Chapter 2: Summary of respondents' views and ERGEG's view

Introduction

- 2.1 This Chapter sets out ERGEG's view on the key issues raised by respondents to the gas roadmap Consultation Paper.

Regional markets and the ERGEG Gas Regional Initiative

Recap of ERGEG Consultation Paper

- 2.2 Underlying ERGEG's work on the roadmap is the principle that regional markets are a useful stepping stone to a fully functioning single market. The development of regional markets in gas builds on the work that has already been undertaken in electricity – although it recognised that the regional markets in the two markets would be defined on a different basis.
- 2.3 To push forward regional markets and to help identify specific issues at a practical level ERGEG proposed the creation of a small number of **gas regional initiatives energy market projects (gas REMs)**. The gas REMs will concentrate on two aspects of market development – trading at gas hubs and trade between hubs.

Respondents' views

- 2.4 All respondents welcomed the roadmap paper although there were different views about the extent and nature of the barriers that need to be overcome and the potential solutions (this is discussed below in detail). Some respondents suggested that the gas roadmap paper was too focused on the European market and did not take account of factors in the global gas market – for example the trade in LNG and that security of supply was impacted on by investment outside of the EU.
- 2.5 All respondents also welcomed the creation of the regional initiatives although some issues were raised:
- that there should be a “pilot study” on one regional market in North West Europe the lessons from which could be applied elsewhere;
 - there is a need to link in other work that is being undertaken on gas issues;
 - that the suggested geographic scope of the gas REMs needs reviewing;
 - that the differences between electricity and gas must be taken into account;
 - that there was a need for a steering committee to look at issues that arise across the different REMs; and
 - that the REMs should be manageable in terms of their size and prioritisation of issues to ensure that progress is made.

ERGEG view

- 2.6 The Consultation Paper outlined that a number of wider strategic considerations such as the political framework necessary to facilitate agreements for supplying gas between producer countries outside the EU were only briefly covered in the roadmap. ERGEG recognises that issues outside the EU are important to the European market. However,

- the ERGEG analysis was aimed at addressing European regulatory issues as this is the remit of the European regulators. Some of these wider issues are identified in the Commission's energy policy green paper to which ERGEG will respond. One particular area where ERGEG has developed its thinking is on the framework that is needed to facilitate efficient investment both within and outside the borders to the EU – this is discussed in more detail below.
- 2.7 The DG Competition preliminary report identifies market integration as a key barrier to the development of a single market – ERGEG's regional initiative will help in this respect by looking at the key issues that are preventing market development in each area. If progress is to be made at a practical level towards the creation of regional markets it is important that there are no unnecessary delays in beginning work on the REMs. Whilst a pilot study could identify useful lessons many of the issues hindering the development of a particular regional market will be common to all markets. ERGEG believes that to make progress towards a liberalised single market work at a regional level must be undertaken across a broad geographic spread of the EU. ERGEG will also retain an overall steering role for the regional initiatives which will help to ensure that common issues and lessons can be identified.
- 2.8 It is important that linkages to wider work on gas issues are clear. Chapter 3 explains how issues raised in the ERGEG Roadmap document and by respondents are being taken forward – some will be picked up in CEER & ERGEG work programme, others will be looked at in the regional initiative. There is a strong link between the two and ERGEG in its overall co-ordination role will ensure that there is appropriate feedback between the work of the REMs and the wider work programme. ERGEG, through its existing task force and focus group structure, will also examine the issues that arise between REMs. At this stage therefore there is no need for a further steering committee.
- 2.9 ERGEG has reviewed the geographic scope for the REMs and some suggested changes are set out in Chapter 3 – although the final definition will be decided by the lead regulator in each area who will be informed by the geographic nature of trades made at hubs and between hubs in the region.
- 2.10 There are important differences between gas and electricity that mean that the geographic scope of the REMs in each market will be different⁷ – although a number of the barriers to the development of regional markets may be the same (e.g. transparency). ERGEG's co-ordinating role will allow it to take account of common issues where appropriate.
- 2.11 Chapter 3 includes further details on the arrangements for the REMs.

⁷ The conclusions paper on the electricity roadmap paper identifies the REMs for electricity.

Current state of European gas markets and priorities for action

Recap of ERGEG Consultation Paper

- 2.12 The ERGEG roadmap paper explained that despite considerable progress the goal of a competitive single European market for gas remains some way off although the vision remains clear: effective competition delivering real benefits for gas consumers throughout the EU; a stable regulatory framework facilitating efficient levels of investment; secure supplies; choice; and gas suppliers able to market their services to all consumers across the EU. This vision also includes the availability of new sources of gas supply to Europe – notably LNG.
- 2.13 The consultation also explained that a number of technical building blocks need to be in place to underpin the overall vision:
- real supply side competition;
 - contractual flows becoming significantly decoupled from physical flows in many locations;
 - entry-exit tariff arrangements for third party access to transmission networks
 - liquid hub-based trading; and
 - fair and non-discriminatory access to other key services and facilities (such as gas storage).
- 2.14 These building blocks need to be supported by a robust and comprehensive regulatory framework and effective mechanisms to facilitate investment in cross-border infrastructure. A number of issues were identified that need to be overcome to ensure that all of these factors are in place. A number of priorities were identified for action:
- regulatory co-operation;
 - unbundling;
 - transparency and information handling;
 - availability of gas;
 - effective access to network capacity; and
 - gas quality.

Facilitating investment in infrastructure

Respondents' views

- 2.15 A number of respondents including both TSOs and other market participants highlighted the importance of investment in infrastructure (both within Member States and cross-border) in underpinning the development of a competitive market.
- 2.16 TSOs generally argued that security of supply needs to be balanced against the drive for competitive markets – one TSO suggested that gas imports and associated pipeline infrastructure needed to be diversified as much as possible. They also highlighted the important role that long term contracts play in facilitating investment in infrastructure – a point supported by upstream producers. TSOs also pointed out that the investment framework need to be guided by certain principles:

- the respective roles and responsibilities (including any PSOs) should be made clear and that security standards need to be output based;
 - where possible the need for new infrastructure should be determined through market signals supported by binding financial commitments; and
 - the investment (and regulatory) climate/framework must be predictable, stable and commensurate/complete.
- 2.17 Other points raised by TSOs included that legacy contracts for capacity access should be retained and that as long as there was some congestion management principles and the development of secondary markets competition would not be hampered. Another TSO suggested that security of supply needs to be given more focus in the roadmap and that there could be a higher rate of return (where investment is regulated) for investment that improves security of supply. It also argued that exemptions from TPA should continue to be used to secure and incentivise investment in infrastructure.
- 2.18 Some other respondents argued that the recent ruling of the European Court of Justice (7 June 2005, C-17/03) has no wider application to gas contracts.
- 2.19 Traders suggested that although the importance of long term contracts was recognised they need to be consistent with the development of a competitive market. Another respondent argued that (financial) security for investors is facilitated by improving liquidity and network access. It also argued that if long term contracts are used they should be offered to a multitude of contract partners. It also suggested that exemptions from TPA should not be overused. A new entrant supplier argued that there is scope for both regulated (for natural monopolies) and “commercial” investment – although for the latter there is a need for appropriate regulatory safeguards and application of competition law. It also argued that legacy contracts across Europe are a real problem and that they should be integrated into a liberalised framework with the consistent application of UIOLI. Another supplier suggested that security of supply would be enhanced with greater diversity in sources of supply – highlighting the need for an optimal mix of long and short term contracts.
- 2.20 Another respondent argued the need for investment in infrastructure (both LNG and pipeline) will need a regulatory framework that does not create any barriers to investment – with the possibility of long term contracts and regulated/non-regulated investments. Two other respondents supported the continued use of long term contracts – one of these also argued that TSOs may not have an incentive to invest in cross-border capacity and that there may be need for Member States and regulators to ensure that the investment is undertaken.
- 2.21 Some respondents suggested that an ITC scheme similar to that which is used in the electricity market could be introduced in gas to facilitate investment – others suggested that this would not be appropriate as it would be extremely complicated.
- 2.22 One respondent suggested that cross-border transactions could be improved by reducing the number of contractual interfaces for market participants that are transporting gas. Another suggested that there is a need for greater co-operation between TSOs to improve the process of booking capacity on cross-border pipelines – with the possibility of harmonising tariffs and contracting with a single TSO to arrange transportation. TSOs argued that the market should be allowed to deliver efficient solutions to dealing with contractual arrangements for cross-border flows rather than

through a regulatory imposed solution. They also suggested that an ITC scheme in gas would not address issues of physical and contractual flows of gas and may not adequately remunerate existing investment or provide signals for new investment where it is needed.

ERGEG view

- 2.23 It is important that there is an appropriate framework in place to facilitate efficient investment in gas infrastructure which will help ensure an efficient security of supply. There are two general approaches for different “types” of investment.
- 2.24 The regulatory framework for investments made by network operators in their own networks (i.e. domestic investment) is well understood and generally works efficiently. Required investment (e.g. to meet specified security standards) is, if deemed efficient by the regulatory authority, passed through to the regulated asset base (or value) of a company and the costs are then recovered (through tariffs) from customers over the life of the asset. Under this approach the costs and risks (e.g. of stranded assets) are borne by those that receive the “benefits” of the investment, i.e. network users.
- 2.25 For investments which benefit parties other than the network users themselves other mechanisms are necessary to provide an adequate return on investment and allocate costs and risks appropriately. These “non-domestic” investments can include transit pipelines, upstream investments and LNG terminals and trains and interconnectors. This type of investment has generally been secured through contractual arrangements. The contractual arrangements provide a secure forward income stream (and therefore return for investors) and allocate some risk to those buying the capacity (and using the asset). Such investments do not tend to be driven by security or safety standards but rather exploitation of commercial opportunities or inter-TSO and/or inter-Governmental agreement (which may specify how costs/risks are allocated).
- 2.26 Neither of the approaches described above has been adopted in a way which provides a framework which is easily and fully compatible with achieving a single competitive European gas market. The fully regulated approach requires a robust regulatory framework that covers investments that cross borders. This is not the case at present – the regulatory framework only exists at a national level and TSOs have few obligations (such as security standards) to take account of requirements outside their own network. Nor does this framework deal well with the allocation of costs and risks particularly where the principal beneficiaries of the investment are located outside of the TSO’s network. For example, the costs⁸ of reinforcement investment to a TSO’s network to support a LNG terminal would be recovered from domestic network users (through tariffs) rather than being shared with users in other markets who could also benefit from the LNG terminal. The issue is more acute where the costs of reinforcement are significant. Consequently, the regulatory framework (and the responsibilities and obligations on TSOs) as it currently stands is inadequate to deal with these issues – i.e. there is a regulatory gap which can impede investment.

⁸ And consequent risk if the assets are not used and become stranded.

- 2.27 Whilst the regulatory framework **within the EU** could be adapted through legislation it would not solve similar issues for investments that are outside Europe but are used in the supply of EU markets, i.e. there can be no fully regulated framework for investments outside of the EU.
- 2.28 In the absence of a fully regulated framework to secure cross-border investments the main mechanism used are long term contracts. Whilst such contracts are capable of allocating costs and risks accurately – they can contain anti-competitive features. It is also not clear whether the commercial interests are currently sufficient to ensure that adequate capacity is brought forward.
- 2.29 The preliminary report from DG Competition has shown that some contractual arrangements do give rise to anti-competitive effects and that physical and contractual congestion particularly at cross-border points are a problem impeding the development of competition.
- 2.30 A fully regulated approach to investment is not possible for infrastructure outside of the EU and so commercial investments are likely to continue to be underpinned through long term contracts. If such contracts are to work in ways which help the development of a secure and competitive single European market then a regulatory framework must be developed which balances the need to promote competitive outcomes and foster security of supply with the creation of an attractive investment climate conducive to commercial interests. Current legislation envisages the possibility of exemptions from regulated third party access requirements but further work is needed to develop a commonly understood framework of regulatory conditions within which long term contracts could sit if regulatory certainty is to be provided for investors. They are also likely to require ongoing ex-post monitoring to ensure that there are no anti-competitive effects – and the relevant authorities must have the requisite powers to undertake this task effectively.
- 2.31 Continued reliance on contracts as the basis for securing investment across borders within the EU continues to be an option. An alternative approach would be to adopt an inter-TSO compensation mechanism along the lines of that already in place in the European electricity market. Although some (but not all) of this framework exists in the electricity market, the issues in gas are more complex because gas travels over longer distances and so the shared infrastructure costs are likely to be much larger. Cost and risk allocation would therefore need to be sophisticated. Electricity experience suggests that this is likely to be complex and challenging. It may be possible to simply contractual arrangements for cross-border trade by allowing market participants to contract with one entity (e.g. TSO or gas hub operator) to arrange for gas flows across borders – and ERGEG will look at this issue in more detail as part of its work through the CBT workstream of the GMI Task Force. The CBT workstream will also look at the extent of harmonisation in cross-border tariffs to avoid distorting trade.
- 2.32 ERGEG intends to undertake further work this year to consider the appropriate regulatory arrangements for contracts linked to investments within and outside of the EU – what features such arrangements surrounding long term contracts should contain (including looking at the application of the European Court of Justice decision - 7 June 2005, C-17/03); the impact of legacy contracts on the development of competition; what a fully regulated approach to infrastructure within the EU would look like and the challenges that would need to be overcome, and in the light of this analysis whether

different approaches for investments within and outside the EU are appropriate. A key driver in this work will be the need to ensure that the regulatory arrangements facilitate efficient investments in necessary infrastructure.

Effective access to network capacity (and other essential services and facilities)

Respondents' views

- 2.33 A number of respondents including suppliers, traders and representatives of large users argued that fair and non-discriminatory access to networks remains a problem – despite the existing package of legislation. Respondents also pointed to a number of related issues including that:
- further development is needed to develop secondary markets in capacity and implementation of effective UIOLI provisions including to legacy contracts to ensure that there is no hoarding of capacity;
 - there should be a focus on arrangements that improve access to firm capacity;
 - a lack of adequate pipeline capacity – both within/outside the EU – is impeding access to gas and development of competition;
 - there needs to be greater emphasis on access to storage/flexibility services and gas blending and quality conversion facilities; and
 - entry-exit zones could be enlarged to cross more than one network to facilitate cross-border trade.
- 2.34 Another respondent suggested that voluntary arrangements (such as ERGEG's guidelines for good practice for storage system operators) are a constructive way forward rather than further legislation. Another argued that no further legislation is needed at this stage to facilitate access to networks.
- 2.35 TSOs generally argued that although effective and non-discriminatory access to networks is essential, there is a need to assess the effectiveness of the existing package of legislation. It was suggested that as the market develops further voluntary agreements could be developed.
- 2.36 One TSO suggested that there should be freedom to implement tariff structures other than entry-exit if this appropriate and consistent with the specifics of the infrastructure.

ERGEG view

- 2.37 Fair and non-discriminatory access to network capacity (and other essential services and facilities) is crucial to the development of a single competitive market. The preliminary report from DG Competition significant concerns with access to networks which have been echoed by respondents to ERGEG's Consultation Paper.
- 2.38 ERGEG is currently looking at what incentives TSOs need to maximise the amount of (firm) capacity that they make available to the market – including ensuring that UIOLI arrangements are effective. This work is being undertaken by ERGEG's Capacity Task Force.

- 2.39 Ensuring that there is adequate pipeline capacity is important. One aspect of this is about providing an appropriate framework for investment. ERGEG's thinking on this issue is outlined above.
- 2.40 ERGEG is also undertaking further work this year on monitoring implementation of its guidelines for good practice for gas storage. A report on the level of implementation will be published ahead of the next Madrid Forum (which is expected to be held in May). As explained below ERGEG is also undertaking work on access to gas blending and quality conversion facilities.
- 2.41 Voluntary guidelines have been developed by ERGEG where there are currently gaps in the legislative framework. It is to be seen whether ERGEG's voluntary guidelines adequately fills these gaps (for example in ensuring fair and non-discriminatory access to storage) – although full implementation by stakeholders should be an immediate priority.

Regulatory co-operation and gaps

Respondents' views

- 2.42 One respondent suggested that regulatory regimes between Member States should “mesh” and not overlap and that regulatory rules/powers should be consistent across Europe. It also argued that there was no need for a “European regulator” but rather more effective working between national regulators. Another respondent argued that it was premature to consider changing the legislative framework to improve cross-border working between regulators. One respondent suggested that there was a need for a European regulator.
- 2.43 TSOs suggested that co-operation between regulators is an area where significant improvement could be made – particularly for investments that cross borders. A number of improvements were identified:
- an agreed set of regulatory requirements across the respective national and European authorities;
 - long term stable conditions;
 - timely approval process; and
 - effective and swift right of appeal procedure.
- 2.44 One TSO argued that there are already sufficient mechanisms for co-operation between regulators.
- 2.45 Some respondents argued that the current legislative/regulatory framework is not sufficient to deliver a competitive market. Gaps in regulatory powers and the use of voluntary arrangements were identified as problems. Some other respondents including TSOs argued that time should be given to monitor the effectiveness of the current legislative package before any new proposals were brought forward – there was also support for the continued use of voluntary agreements to supplement existing legislation.

ERGEG view

- 2.46 An increasingly integrated gas market will need to be accompanied by appropriate regulatory oversight – not just for investment issues but also for monitoring (and potentially taking action against) market behaviour.
- 2.47 Regulatory co-operation can be achieved through informal or formal arrangements. Although informal arrangements are flexible and do not require any new legislation they do not provide clarity with respect to roles and responsibilities – which would make it difficult to take practical decisions. This would be detrimental to building confidence and stability in regulatory oversight of cross-border issues – which may impact on investment decisions.
- 2.48 The most effective way of achieving the necessary co-operation between regulators would be through extending the existing framework of regulation including the role and function of ERGEG. It will be important to ensure that there is no unnecessary duplication (or inconsistency) in regulatory powers and that any revision or extension of regulatory competencies is justified in terms of the benefits it will provide.
- 2.49 It is also important that regulators have the necessary independence, competencies and powers within their own jurisdiction. This includes:
- designing and implementing market frameworks/rules;
 - monitoring market behaviour against the frameworks/rules (including collecting information from market participants); and
 - taking action if there is evidence of abuse.
- 2.50 At present, not all regulators across the EU have appropriate powers and/or independence to ensure that the market can work effectively and efficiently – this represents an important gap in the regulatory framework.
- 2.51 Work assessing the extent gaps in regulatory competencies (cross-border and within own jurisdiction) is being taken forward by ERGEG as part the Gas Market Integration Task Force.

Unbundling

Respondents' views

- 2.52 TSOs and some other respondents generally agreed that the existing provisions in relation to unbundling are sufficient and that further measures were not necessary at this stage. It was argued that further steps could create regulatory uncertainty. It was also pointed out that there is no reason to treat network operators differently based on how they are structured as long as the unbundling requirements in the Gas Directive are fulfilled.
- 2.53 Some other respondents (including new entrant suppliers) argued that there was insufficient unbundling of activities. It was suggested that further steps are necessary to help ensure that access arrangements are fair and non-discriminatory and that TSOs have the right incentives to maximise available capacity and transparency. Another

respondent argued that further unbundling should only be pursued if necessary after full implementation of existing requirements has been assessed.

EREGEG view

2.54 ERGEG supports the view reached by DG Competition in its preliminary report that structural issues are at the heart of energy market liberalisation. It is crucial that the commercial interests of network operators (and other providers of essential services and facilities) are not inconsistent with the efficient and effective operation of the market. This means that commercial interests should not impinge (or distort), amongst other things, the incentives to:

- provide (maximise) fair and non-discriminatory access to existing capacity;
- invest in new capacity where required; and
- manage and provide information to market participants.

2.55 Full structural unbundling, short of ownership unbundling, will require ongoing and strict regulatory oversight. Regulators must have appropriate powers to monitor compliance with unbundling rules and to take action if there is non-compliance – this is not the case at present in all Member States. Identifying problems is also difficult given the information asymmetries that can exist between TSOs and regulators.

Transparency and market information

Respondents' views

2.56 A number of respondents including suppliers and traders argued that transparency issues should be a top priority. It was argued that access to information is a key barrier to the development of competition and consequently prices paid by consumers. It was pointed out that compliance with the information requirements in the ERGEG voluntary guidelines for good practice for gas storage system operators had not yet been achieved. One respondent suggested that regulators should pay attention to implementation and compliance against the transparency requirements in the Gas Regulation. Another respondent argued that there should be a consistent level of information availability across Europe and that its provision should be monitored to ensure it is adequate.

2.57 TSOs suggested that transparency issues would be resolved by the implementation of information requirements within the Gas Regulation and that there was no need for additional measures at this stage.

EREGEG view

2.58 TSOs have a crucial role to play in managing and providing the information that the market needs to operate efficiently and effectively. If there are problems with management and provision of information it can make it difficult for market participants to manage risk and take commercial decisions – which can create real barriers to entry and competition. DG Competition has also highlighted a lack of information transparency as a key impediment to the development of competition across Europe. The scope for problems with information transparency is heightened where TSOs are vertically integrated.

- 2.59 Information must be managed and provided to all market participants on a fair and non-discriminatory basis. The information must also be “fit for purpose” (e.g. accurate) and meet market requirements in terms of the level of detail, frequency and timeliness of provision. Transparency of information is good for all parties. It allows regulators to take well informed decisions – for example in monitoring market behaviour; and it builds confidence, stability and liquidity in markets which can help to reduce the level of risk and costs borne by market participants.
- 2.60 ERGEG recognises that issues of commercial confidentiality can impact on the provision of information but it is important this concern is balanced against the risk and costs which result from distortions to the market caused by a lack of transparency. This is also recognised by DG Competition in their preliminary report. Differences in national law could affect the specificity of how issues of commercial confidentiality are managed in each Member State – but the principle of avoiding distortions to the market is crucial.
- 2.61 The implementation of the Gas Regulation will be an important step forward for information transparency. It is important that it is implemented in full and without delay in all Member States. ERGEG intends to undertake work in the second half of 2006 that will review whether both information provision and management is adequate to support the functioning of an efficient and effective gas market. Similar work is currently underway in electricity where ERGEG is in the process preparing guidelines for good practice on transparency and information management. It will be important to learn any lessons from this as work progresses on these issues in the gas market.
- 2.62 ERGEG notes that in electricity ETSO has published a “Winter Outlook Report” which includes information to help make more informed assessments about electricity security of supply at an EU level. No comparable information is made available in the gas market at the EU level – although some companies (such as National Grid in the UK) do so at a national level. It may be appropriate for GIE to consider whether such a move would improve market transparency in the gas market.

Gas quality

Respondents' views

- 2.63 A number of respondents commented on the issue of gas quality. Two respondents argued that the issue should be split into two: quality conversion (high (H) to low (L) calorific conversion) and issues arising from the use of different sources of gas (including LNG) in different networks. One of these respondents suggested that for H-L conversion specific facilities will be required to allow the conversion to be undertaken – and that access to these facilities should not be constrained (e.g. through long term contracts) as this would represent a barrier to entry to the market.⁹ It also argued that where there is a requirement for gas supplies to meet a system specification it should be the responsibility of the party providing the gas to negotiate for blending/treatment services. Where these issues arise at cross-border points it suggested that responsibility should

⁹ The other respondent provided the example of the Netherlands where it argued there is no access to H-L conversion and that therefore it is not possible for new entrant suppliers to supply domestic customers.

- rest with the “connected” TSOs to manage the situation. It suggested that there needs to be greater transparency regarding the potential capacity of blending services and that costs need to be market related (or overseen by a regulatory/competition authority) so that all users pay the same price for the same service. With regards to investment decisions, it argued that co-operation between a wide range of parties would be necessary to ensure that these were efficient and timely.
- 2.64 Two other respondents argued that gas quality should not create barriers to trade. TSOs suggested that the work of EASEEGAS on gas quality should be endorsed by regulators. One TSO argued that there should be a monitoring exercise to ensure fair and non-discriminatory access to gas conversion facilities and services.

EREG view

- 2.65 It is important that the EU has access to gas from a number of different sources – both domestic production and also from imports from outside the EU (including LNG). This gas has different quality characteristics. For gas to be safe to use it is essential that the gas is compatible with the appliances that will burn it and hence the technical specifications/standards of the transportation/transit system. To achieve this compatibility some form of treatment of the gas may need to be undertaken. This treatment can occur at source or at entry points to transportation/transit systems and can be undertaken in different ways (e.g. blending or ballasting).
- 2.66 Across Europe different networks have different gas quality specifications. For trade to take place between areas of different gas quality specification, treatment of any gas physically moved between networks is necessary. It is important that gas quality treatment does not create barriers to trade – both within Member States (such as where conversion from high calorie to low calorie networks may be required) and across borders.
- 2.67 This means there should be no artificial restrictions on flows of gas. Costs that arise from the provision of treatment facilities and services should be borne, as far as possible, by those that give rise to the costs. Costs associated with treatment should be managed as other network costs and should be recovered in the same cost reflective way. It should be noted that, as with transportation capacity, the capacity of treatment facilities and services needs to be sufficient only to deal with volumes of gas which move physically between areas of different gas quality and not of all gas traded between the areas.
- 2.68 It is also important that access to any facilities is provided to third parties on a fair and non-discriminatory basis. This will help avoid creating barriers to the development of competition. It would also be important (as with other network infrastructure/services) that rules for access are adequately specified in legislation and that relevant authorities have sufficient powers to monitor access arrangements and to take enforcement action.
- 2.69 As with transportation capacity, the availability of gas treatment facilities and services should not serve to create barriers to trade. It is important therefore to ensure that the market operates effectively by bringing forward efficient and timely investment to meet treatment requirements – including the possibility of providing TSOs with appropriate incentives to invest in and provide treatment facilities and services.

- 2.70 Whilst in the medium term the only practical solution for dealing with disparities in gas quality specifications in networks in different parts of Europe would appear to be to convert gas between quality specifications. In the longer term it may be appropriate to look at whether the quality specifications that are used could be changed. Any changes would need to consider a number of factors including the extent to which it will be necessary to change existing gas appliances (including the impact on costs) in use in Europe and the timescale which they might be changed over (which is likely to be many years unless all are changed at the same time) and the impact on trade and competition. The work of EASEE-gas will be a contribution to the consideration of any long term solution.
- 2.71 Another important contribution will be the project being undertaken by DG TREN looking at interoperability issues (including gas quality) at cross-border points. DG TREN has indicated that the project will aim to establish an “inventory” of gas quality and interoperability issues including assessing the costs and benefits of potential solutions.
- 2.72 ERGEG is also undertaking work on gas quality and interoperability – focusing on the issues that arise for the regulatory and legislative framework. Some key questions include:
- what impact will changes in the source of supplies have on gas quality?
 - how to ensure that competition and trade are not distorted by a need to treat gas?
 - what arrangements need to be put in place to ensure that costs are allocated appropriately and that any charges are fair and non-discriminatory?
 - how can any necessary investment in the provision of treatment facilities/services be secured on an efficient and timely basis?; and
 - how to ensure appropriate regulatory oversight of issues that cross more than one regulatory jurisdiction.
- 2.73 ERGEG expects to consult on these issues in 2006. Gas quality and interoperability may also arise within ERGEG’s regional initiatives and it will be important to understand and take account of linkages between this work and that of DG TREN.

Real supply side competition

Respondents’ views

- 2.74 Some respondents identified both upstream and downstream market concentration as a barrier to the development of competition. One respondent argued that focus should be given to customer switching issues. It argued that there should be as few barriers as possible for customer switching suppliers. Two respondents argued that regulated retail tariffs can be set below market costs and that this impacts on the development of competition by creating a barrier for new entrants.

EREG view

- 2.75 Market concentration (upstream and downstream) is an important issue that is impeding the development of competition in gas. DG Competition reached a similar conclusion in their Energy Sector review preliminary report. It is important that competition authorities consider carefully the implications of any future corporate activity and take action where further consolidation in the market would be detrimental.
- 2.76 As regional markets develop this may dilute some of the market concentration downstream – but only if entrants can access gas, pipeline capacity and customers. ERGEG’s REMs should help, at a practical level, to deepen market integration which may help to dilute market concentration in any one area. The increasing role that LNG could play in supplying gas to the EU may also help with concentration upstream. As explained below, ERGEG’s is looking at the issues raised by LNG.
- 2.77 ERGEG is also undertaking work on customer switching issues in its Customer Focus Group.

Availability of gas

- 2.78 One respondent argued that one priority is to improve access to gas including LNG – where there is a risk that exemptions from third-party access could impact on the development of the market. It also suggested that the oil-gas price link should be removed. Another suggested that ERGEG’s work on LNG should look at the barriers that exist in building new LNG terminals (and related infrastructure). It argued that these barriers, in combination with contractual and physical congestion on European pipelines, all contribute to problems with accessing gas.
- 2.79 Another respondent suggested that the role of LNG may be overestimated as costs of constructing facilities are increasing and that Europe is effectively “competing” for access to LNG – particularly in the Atlantic basin.
- 2.80 One respondent suggested that access to gas could be improved through further gas release programmes. Another argued that gas release programmes can be justified under certain circumstances but that they can endanger efficient gas purchasing and undermine security of supply. One other respondent argued that there was no evidence that gas release programmes work and that they create risk for potential investors in the gas market.

EREG view

- 2.81 Access to gas (including LNG and high and low cal.) is a prerequisite to the development of a competitive market and ERGEG supports the conclusions reached by DG Competition in its preliminary report. There are various ways of improving access to gas, including gas release programmes (like in the Marathon case) and/or resolving congestion problems on networks. Any solutions should, where appropriate, take account of national circumstances. Generally a well designed gas release programme should not undermine investor confidence or have a negative impact on security of supply.

- 2.82 ERGEG is also undertaking work on LNG issues. This will look at the role LNG could play in achieving a European internal market in natural gas – for example contributing to security of supply and diversifying sources of gas. It will also consider how effective existing facilities are in terms of efficient use of capacity (including UIOLI) and whether the existing regulatory framework provides the right incentives to bring forward new investment.

Liquid hub based trading

Respondents' views

- 2.83 Respondents generally agree that it is right to focus on improving liquidity at gas hubs. One suggested that the market should be left to identify and develop gas hubs – rather than through the imposition of a regulatory solution. Another suggested that it was not appropriate to focus on short term trading at hubs – longer term issues also need to be considered.

ERGEG view

- 2.84 Liquid gas hubs will be at the centre of a competitive European gas market. It is clear that a lack of hub development is currently impeding the development of competition. ERGEG's gas REMs are designed to focus on the practical issues that are constraining the development of hubs and regional markets.
- 2.85 The gas REMs are not about identifying regulatory solutions to impose on the market – gas hubs should be developed in response to demand and should be market based solutions. It is important however that there are no barriers to the development of gas hubs – and where they exist they should be identified and if possible removed. This is the underlying objective of the gas REMs – facilitating the development of gas hubs rather than identifying where new hubs should exist.
- 2.86 ERGEG recognises that the issues facing the gas market are not just short term trading issues – for example, Investment decisions are long term and there needs to be appropriate framework in place to incentivise investment (as discussed above).

Other issues raised

- 2.87 Two respondents pointed out the important role that a well functioning gas balancing mechanism plays in underpinning a competitive market. One suggested that there should be daily balancing periods with within the day information provided by TSOs. Another suggested that, in the absence of adequate legislation, voluntary agreements could be developed for gas balancing to improve market operation. TSOs suggested that there is a need to incorporate ERGEG's work on gas balancing with the roadmap process.

ERGEG view

- 2.88 ERGEG is producing guidelines for good practice for gas balancing – setting out guidance to both regulators and TSOs on how gas balancing regimes should be designed to ensure that market participants have appropriate incentives and also that system security and safety is maintained. It is clear that interactions between balancing

regimes can impact on the flow of cross-border trade and the development of competition. These interactions are likely to increase in importance as the single market develops over time. This is recognised in the Gas Regulation which will come into effect from June 2006 and requires that...“Member States shall ensure that TSOs endeavour to harmonise balancing regimes and streamline structures and levels of balancing charges in order to facilitate gas trade”.

- 2.89 ERGEG notes and welcomes the work that GIE has initiated on looking at convergence criteria for balancing regimes.
- 2.90 ERGEG’s gas REMs will at improving the level of market integration and competition across the EU. If differences between balancing regimes are impacting on the development of competitive markets then it could be investigated further as part of the work on REMs.

Chapter 3: Conclusions and next steps

Introduction

- 3.1 This Chapter sets out how the key priorities and also how the gas REMs will be organised – including further thoughts on their geographic scope.

Key priorities

- 3.2 There was general support from respondents to the gas roadmap Consultation Paper for the priority issues that need to be tackled in order to facilitate (regional) market development – although concerns were expressed about some of the issues and greater emphasis was called for on certain topics (such as investment). Generally, these key priorities are already reflected in the CEER and ERGEG 2006 work programme for gas (as outlined in Chapter 1). Chapter 2 also explained that work would be undertaken on looking at regulatory gap issues and also on developing a framework for investment. ERGEG considers that the overall key priorities for developing regional markets are:

- Transparency
- Availability of and access to network capacity (and other key facilities and services)
- Filling regulatory gaps
- Facilitating efficient investment
- Development of liquid trading at and between gas hubs
- Ensuring appropriate tariff arrangements for cross-border flows
- Ensuring gas quality and interoperability does not constrain trade

- 3.3 The work of CEER and ERGEG at a Task Force level on these issues will focus on EU wide issues – for example developing guidelines for good practice for gas balancing. It is important that the work of the gas REMs is consistent and linked to the higher level work being undertaken by the various ERGEG/CEER Task Forces in the 2006 workplan. This will help to avoid unnecessary duplication of effort and ensure that work is complementary. The gas REMs therefore have a crucial role to play in supporting the work of the Task Forces and vice-versa.

EREG Gas Regional initiative (GRI)

Introduction

- 3.4 Policy makers and stakeholders alike agree that their overall aim is the creation of a single competitive energy market across the EU. Indeed ERGEG has a statutory role which includes the facilitation of the completion of the internal energy market.
- 3.5 There is a broad consensus from responses to the ERGEG Consultation Paper that that the development of regional markets are a pragmatic interim step towards the overall aim of a competitive single EU gas market. ERGEG's regional initiative was welcomed by all respondents as a practical way of making progress in this respect.

- 3.6 Action will be required by many stakeholders and institutions in order for change and progress to occur – regulators, the EU Commission, Member State governments, TSOs and other market operators, and market participants and other market interested parties. The Madrid Forum will play an important role in the process – in particular by bringing together all stakeholders to discuss issues that arise from the regional initiative.
- 3.7 Each REM will require a process designed to ensure that stakeholders (TSOs, hub operators and storage operators) that are responsible for market operation and rules implement proposals designed to foster the development of liquid trading at (and between) hubs and, where appropriate, for the regional market more widely.
- 3.8 ERGEG will need to ensure that the gas REMs are coherent with each other so that common lessons can be learned. ERGEG will maintain an overall role in monitoring, comparing and co-ordinating the set of REMs.
- 3.9 This will also facilitate transparency of the REMs, and dialogue and consultation with the stakeholders. A transparent monitoring process will also enable all stakeholders to understand how and when necessary solutions are being delivered.

Progressing market integration – ERGEG Proposal for a Regional Initiative

- 3.10 ERGEG intends with this proposal to initiate a process intended to make concrete progress in integrating national markets and so facilitate further the creation of regional markets. The overall aim will be, for each REM, to identify specific problems of impediments to trade or distortions to trade at and between hubs and also barriers to the development of regional markets. They should introduce practical improvements that will contribute to removing such impediments by ensuring local stakeholders identify, and plan solutions for, the priority areas for action needed to deliver integrated markets.

Objectives

- 3.11 Each gas REM will:
- identify and publish, based on the priority areas discussed in this conclusions paper and through open consultation with market participants, the priority areas to be addressed in the region;
 - establish and publish a timetable for the technical work required to address these areas, including allocating responsibility for the tasks to the stakeholders most able to accomplish the relevant work; and
 - take forward and oversee that this work is done to timetable. Monitor and report progress. Note any reasons for any delay.
- 3.12 All REMs will clearly need to closely involve stakeholders. It will be necessary to consult on proposals for gas hub development and market integration. Market participants have extensive detailed knowledge of market conditions and issues. Established market participants are often already working with local regulators and other relevant authorities to enhance market functioning. New entrants often have helpful perspectives on where impediments to trade exist.
- 3.13 Each REM will identify its own priority issues needed to best foster liquid hub based trading and market integration. Each should aim to establish a process for delivering solutions, and so this will need to involve collaboration with and action by, among others, regulators, government, and TSOs.

- 3.14 It will also be important for the overall process to progress compliance with relevant EU legislation including the Gas Directive and Gas Regulation. Furthermore, the results of the related activities at the European level, like for example DG-TREN's recent report and Sector Inquiry by DG Competition shall be taken into account. Ensuring this compliance shall be the duty of regulators and shall be reported regularly to ERGEG.

Scope of the regional initiatives

- 3.15 It is important that the scope of the REMs are defined with reasonable clarity - this means that some "selection criteria" need to be defined and used. It is important that these are common across all the proposed REMs and that they are as simple as possible to derive a clear answer.
- 3.16 The proposed initial REMs have initially been defined primarily by the location of existing gas hubs, or locations where consideration of the establishment of a gas hub are fairly advanced. This reflects the approach, supported by respondents, that the REMs should focus their work on gas hubs. Greater definition of the scope of the work of each REM will be established by looking at trades between the identified hubs or where there is evidence of trades to specific locations. This involves looking at the destination of real trades (and desired but failed trades – including backhaul). This will establish the primary geographic scope within which a hub is "active".
- 3.17 ERGEG has also considered whether a "special factor" should be used in certain circumstances - for example there could be proposals for infrastructure (e.g. pipeline/LNG) that would deepen market integration between two areas that are not currently related by hub trades. However, how such special factors are included will depend critically on the circumstances in the region and it is neither possible nor desirable to be overly prescriptive.
- 3.18 Defining the "boundaries" of the REMs in gas is not as straightforward as in electricity (the wholesale gas market has more of a reach across borders than in electricity) – which means that there is no single correct answer to how the REMs should be defined – a pragmatic approach is therefore needed.
- 3.19 The question arises of how to define a gas REM project if there is no hub. At this initial stage there is no REM planned for Eastern Europe – the key area where there is no hub at present - so the issue is not so imminent at this stage. However, in these circumstances the destination of desired trades from other hubs will be a deciding factor. However, all the initial REM projects already have hubs in operation or proposals for a hub (where the geographic location will have been considered by those developing the hub).
- 3.20 This process has produced gas REMs that cross networks/borders but that are relatively modest in geographic scope to ensure that they are manageable – these are slightly different from the initial list published in the roadmap Consultation Paper. It will be important to periodically review the scope of the REMs – including after the initial phase of work. The market is dynamic and circumstances may change – for example new infrastructure (pipeline and LNG) may be developed that strengthens the link between two markets or more effective congestion management may release more existing capacity to the market.

Table 1: Proposed Gas Regional Energy Markets

Regional Energy Market (REM)	Likely geographic scope (lead regulator in bold) ¹⁰	Comment
North-West	Netherlands , Belgium, France, United Kingdom, Ireland	To include the TTF, Eurohub, Zebbrugge, NBP hubs.
North	Germany , Denmark, Netherlands, Sweden	To include Eurohub Initially the North and North-West REMs will be run jointly, i.e. under the lead of the Netherlands. Once the first phase of the REMs has been completed it is intended that the North region will revert to the leadership of the German regulator and will be separate from the North West REM.
South	Spain , Portugal, Southern France	One respondent suggested that Southern France should not be included in this REM as it could impede development in the Iberian market. However, there are important pipeline connections between Spain and Southern France and changes to TPA tariffs in Spain increase the possibility of export from Spain.
South-South East	Italy, Austria (co-chairs) , Slovakia, Hungary, Slovenia, Greece, Poland, Czech Republic	To include PSV. This REM has been expanded to include countries that have important gas link with Italy and/or related in terms of their dominant upstream supplier.

¹⁰ See text for definition of scope.

EREGEG and Inter region co-operation and consistency

- 3.21 Given the overall goal of a single competitive market for gas, it is important to ensure that each of the REMs produce proposals and solutions that are compatible with each other. ERGEG will therefore retain a role in overseeing and comparing progress in each of the regional initiatives.
- 3.22 ERGEG will receive, evaluate and compare the reports prepared for each region on progress identified and achieved. These reports will also be evaluated at Board level. ERGEG will also serve as a discussion forum, bringing together all regions in order to compare and contrast issues and to help maintain an overall consistency of approach. Contact with other relevant involved European bodies will also be undertaken by ERGEG in its co-ordination role.

An organisational framework

- 3.23 It is important that each regional initiative has a clearly defined organisational and administrative framework for its work - including for governance, decision making and conflict resolution. A suitable organisational framework for each regional initiative might therefore be the one illustrated in the figure. Any organisational framework taking account of all interests will be complex, but ERGEG recognise that it is very important that ways of working are practical and action orientated. The illustrated structure aims to strike the right balance.
- 3.24 Given that local circumstances, institutions, and existing initiatives vary, ERGEG would anticipate that each REM will tailor an organisational framework to its own needs. However the framework must achieve results in accordance with the objectives above, and monitor and report on progress. Some regional initiatives may for example see regulators working closely with member states to identify and publish priority areas for action and action plans for solutions. Regulators and other institutions in countries that are part of more than one region may wish to combine and/or target resources as necessary.
- 3.25 At the core of the framework, ERGEG will establish Regional Co-ordination Committees (RCCs) which would comprise the regulators for each region. Each of ERGEG's RCCs would have responsibility and authority for driving forward the work in their region. The RCC's role would include acting as overall co-ordinator of the tasks facing the regional initiative and providing leadership, strategy and decisions. Each RCC will also consult stakeholders. The RCC's duties could therefore include defining the way of work, involving stakeholders and setting up priorities, milestones and deliverables in line with the general EU/ERGEG objectives - in suitable collaboration with Member States and the Commission. Each RCC would also be responsible for reporting on the progress of their regional initiative through ERGEG to the Madrid Forum.

- 3.26 Given that the characteristics of each Region and its institutions, issues and existing initiatives differ, it will be appropriate for each RCC to have autonomy and flexibility regarding the governance procedures and approach it adopts as well the other composition elements of the group. In addition, for pragmatic reasons and in order to foster a transparent, accountable and consistent approach, the organisational procedures, decision making and conflict resolution in each RCC may be drafted in accordance with ERGEG statutes and principles.
- 3.27 Each of the RCCs should report to ERGEG on progress and ERGEG will inform the European Commission and Madrid Forum periodically on the progress of work.
- 3.28 An important task for each RCC will be to specify detailed roadmaps, milestones and deliverables in each Region. These roadmaps shall cover key milestones for 2-3 years, with a detailed project plan for the first year and general plan for successive years.
- 3.29 In undertaking its functions it will be important that each RCC recognises that regulators alone are unlikely to have the powers or resources to deliver by themselves a fully functioning regional market. Each RCC must involve, appropriately, each key stakeholder with such powers. Hence the organisational framework anticipates that the RCC will, among other things, work with Member State governments.
- 3.30 The organisational framework also anticipates that each RCC would establish and chair an Implementation Group (IG) or equivalent body. Each RCC would liaise closely with the IG and could for example request the IG to make proposals for action to deal with the priority issues identified by the RCC. The RCC would therefore need to meet with the IG on a reasonably frequent basis in order to set out the issues that the IG will need to consider, and in order to monitor and assess progress that the IG is making in coming forward with proposals. The intention in establishing this small group is that it will be able to take practical action, reporting periodically to a stakeholder group for assurance on direction and progress. In this way the structure should be sufficiently dynamic to make real progress.

European Commission

- 3.31 It will be necessary to involve fully European Commission in each of the regional initiatives, particularly since it will be expected to help deliver some of the objectives in some regions, and it is important that the appropriate support for the establishment of each regional market is forthcoming. Each RCC should decide how best to achieve this. It would seem likely that each RCC will invite the Commission to attend RCC or IG meetings.

Member States

- 3.32 Clear political support for identifying and solving impediments to market integration will be particularly important for the regional initiatives. It is likely for example that regulators lack a full legal basis to address issues outside national borders and so they may not be able to mandate fully all efforts concerning cross border market integration. Member State support therefore will be particularly important in this regard.
- 3.33 Each RCC will need to decide how best to work with member state governments in order to progress its work. This should include a commitment by the RCC to report on progress to Member States.

Implementation Group

- 3.34 In order to deliver concrete progress 'on the ground', commitment and action will be required from the main bodies who can make change happen on the ground. These could include TSOs, market operators, and gas hubs, as well as regulators from the relevant region. An Implementation Group (IG), comprising such stakeholders, should be able to propose, and commit to undertake, concrete actions in response to the priority issues identified at the RCC level. The RCC and IG should therefore work very closely together.

Stakeholder Group

- 3.35 Proposals of the IG should be subject to consultation of stakeholders. For this reason it would be helpful to establish a Stakeholder Group. Consultation should formally be with stakeholders, and this may include written consultation exercises, public hearings, and workshops. Stakeholders should have an opportunity here to express how solutions to market integration problems affect them and market functioning, and how solutions might best be conceived and implemented.
- 3.36 It is crucial that key stakeholders are involved in the regional initiatives. Market participants should for example be able to express their views on the need to address particular issues, how these issues might be addressed, and how market participants may be affected. They will also be very interested in progress as well any obstacles to implementation. Consultation should be done in a full and transparent manner.

Reporting

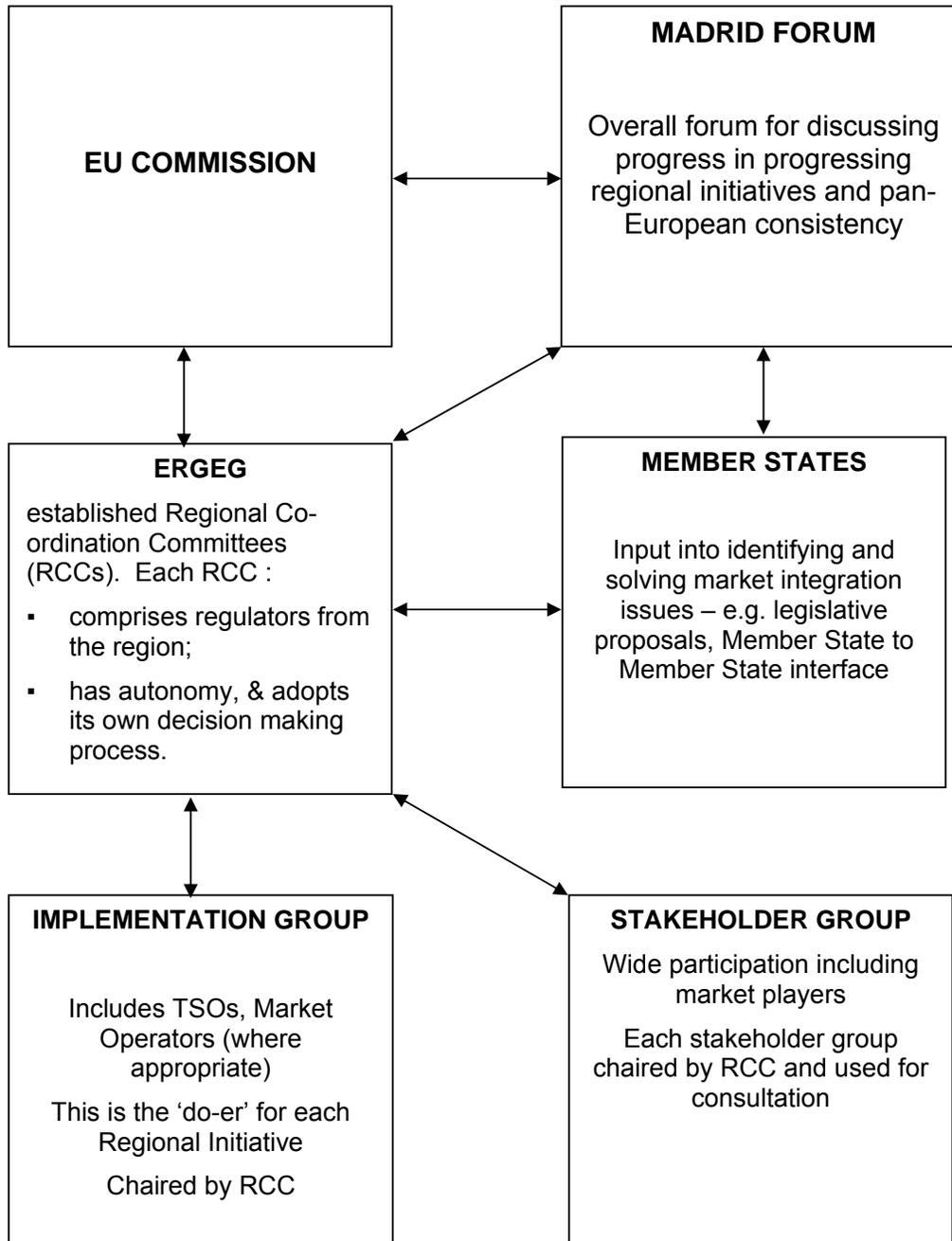
- 3.37 An important element of the overall structure will be a requirement for regular reporting and updates. The RCCs must endeavour to keep ERGEG informed of the progress of their REM and any reasons for delays. ERGEG will take on the task of co-ordinating an overall report to the Madrid Forum.

Timetable

3.38 ERGEG presently anticipates that each RCC will need to establish itself in spring 2006 – including a governance structure for itself and identifying priority actions. Following this each RCC would need to liaise with stakeholders in order to put in place the Implementation and Stakeholder Groups.

Indicative timetable	Task
April 2006	Finalise scope of gas REMs
May/June 2006	ERGEG reports to Madrid Forum on the establishment of the gas REMs First meeting of Regional Coordination Committee: <ul style="list-style-type: none"> ▪ Establish governance structure ▪ Identify priority actions based on ERGE Roadmap paper and CEER/ERGEG workplan ▪ Report to ERGEG
June/July 2006	RCCs to decide/establish/convene meetings of Implementation Group and Stakeholder Group
Aug/Sep 2006	RCC develops forward Action Plan in consultation with Implementation and Stakeholder Group
Sep/Oct	RCC reports to ERGEG on Action Plan
Oct/Nov	ERGEG compiles overall report of the four gas REMs
Late Autumn	ERGEG reports to Madrid Forum
2007 onwards	RCCs begin to implement Action Plan Continue liaison with Implementation Group and Stakeholder Group

Gas Regional Initiative – Elements of an Organizational Framework



Annex 1: List of non-confidential responses

APX

CENTRICA

CHEMICAL INDUSTRIES ASSOCIATION

CIEP

ENAGAS

ENERGYWATCH

E.ON

EURELECTRIC

EUROGAS

EXXON MOBIL

GDF

GEODE

GIE

IFIEC

OGP

OMV

PGNiG

SHELL

SHELL COVER LETTER

AGGM

UPRIGAZ

UPRIGAZ ANNEXE