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2006 GSE report on GGPSSO implementation

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Executive Summary

Since the previous round of monitoring, substantial progress has been achieved with respect to compliance with the Guidelines for Good Practices for Storage System Operators (GGPSSO). Key areas of the GGPSSO where compliance was lagging have been and continue to be addressed by storage operators. Gas Storage Europe (GSE) has been particularly active assisting storage operators to improve compliance in the areas of confidentiality, transparency and secondary markets. Amongst others, workshops were organised to discuss with stakeholders how these areas could be improved, and a model code of conduct has recently been published as an example of best practice.

GSE members have now implemented nearly all of the provisions of the GGPSSO and even the smaller SSOs are making considerable efforts towards full compliance. Also, due to the different stage and pace of development of the various markets, some services offered are not yet actively demanded by users. An example is the use of bulletin boards to facilitate trading on the secondary market. Once these services are used more frequently across Member States, the common experience gained will be used by SSOs to further improve the services offered to all users.

Storage users will need some time to review their needs and become aware of the business opportunities associated with the services offered. Storage operators will gain experience with the new services and will seek ways to improve and expand the services offered in response to market needs.



Gas Infrastructure Europe - is the European association of the natural gas infrastructure industry and represents the operators in 26 countries. GIE is structured by three columns: GTE - Gas Transmission Europe, GSE - Gas Storage Europe - and GLE - Gas LNG Europe.

1. INTRODUCTION

The 25 storage operators represented by GSE operate around 110 storage sites throughout Europe. GSE is committed to improve the regulatory and investment framework for storage activities in order to help its members to continue providing secure, efficient and valuable storage services to the market.

Most European storage capacity is concentrated in a handful of countries, which traditionally relied on seasonal gas storage, especially to optimise residential gas supply where the market relies heavily on long distance imports. The increased dependence on long distance gas imports to Europe and an increase in trading activity within European borders will increase demand for storage capacity.

GSE supports and enhances market access to storage facilities. A prerequisite for the availability of storage capacity and thus a main concern for GSE is the promotion of a secure and healthy investment climate. The technical, operational and contractual characteristics of storage facilities operated in Europe reflect the fact that most facilities were developed under markedly different market conditions and it is important that the legislative and regulatory frameworks accommodate these factors and do not impede the development and investment in new storage facilities. Storage operators and storage users alike benefit from a healthy, competitive market for storage services and timely availability of required storage capacity.

2. THE PROCESS LEADING TO THE GGPSSO

The Gas Directive sets the framework for TPA to storage facilities. The GGPSSO, as voluntary provisions for transparent and non-discriminatory access to storage facilities, are in line with the Gas Directive and are sufficient to deliver fair and non-discriminatory access to storage capacity.

GSE strongly supported the process to develop the GGPSSO and was actively involved in the discussions. As well as providing comments on the implementation of GGPSSO by September 2005, GSE also organised several storage workshops to enhance the dialogue among all interested parties. The latest was organised by mid-November 2005 and focussed on the areas where a lack of compliance had been identified by ERGEG in its draft report on implementation published in September 2005.

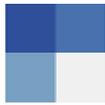
The GGPSSO are a voluntary agreement between authorities, storage users and operators. The GGPSSO enhance market opening and transparency. GSE, as a representative of the majority of gas storage operators in Europe fully supports the GGPSSO implementation.

3. REVIEW OF IMPLEMENTATION OF THE GGPSSO

This section describes the progress made towards implementation by GSE members and identifies areas for further development. It follows the structure of the 2006 ERGEG questionnaire. 21 GSE Members forwarded their response on the ERGEG questionnaire to GSE (list in Annex). GSE represents more than 85 % of EU technical storage capacity. The GSE responders, who represent nearly the whole capacity, fulfil the requirements of the GGPSSO to a large extent and have improved substantially their compliance level in most of the areas where a lack of compliance was highlighted in the 2005 ERGEG monitoring report on the implementation of the GGPSSO.

3.1. Necessary TPA Services

The GGPSSO set two deadlines in paragraph 3.10 for the implementation of the provisions concerning necessary TPA services: the implementation of 3.1, 3.2, 3.3a, 3.3c, 3.4, 3.5, 3.6,



3.7 and 3.8 by 1st April 2005 and the implementation of 3.3b and 3.3c en 3.3d and 3.9 in case of substantial IT developments by 1st April 2006.

In GSEs report of September 2005 concerning GGPSSO implementation, the main conclusion with regard to the implementation of the necessary TPA services has been that good compliance had already been achieved and parties committed to further action towards full compliance by 1st April 2006.

Paragraph 3.1. of the GGPSSO contains the provisions that technical storage capacity must be offered to the market on a non-discriminatory basis. Exclusion from this obligation can be found by means of an exemption under article 2(9) Gas Directive and following from that article the capacity that is reserved for transmission systems operators in carrying out their functions is excluded as well. For a few GSE members, either one of these options leads to exempt capacity in their storage facilities.

Paragraph 3.2 of GGPSSO prescribes that storage capacity needed for a PSO should be offered on a TPA basis. All GSE members that encounter this PSO obligation by national law comply with this requirement.

The implementation of paragraph 3.3 of GGPSSO has made good progress as compared to the status of implementation mid 2005. All members offer bundled and long-term services except for the Italian members, where the Italian regulatory framework only requires the provision of unbundled services; long term services are prohibited under the Italian Regulatory Framework.

Unbundled services, short term services and interruptible services are now offered by almost all members responding, which is a significant improvement compared to last year.

The service that includes an obligation to allocate the gas that has been nominated is offered by almost all of the members and again represents an improvement compared to last year. All GSE members but one (where there appears to be an interpretation issue) allow injection/withdrawal at any possible time.

The requirements set in paragraph 3.4 sub a of the GGPSSO are met by GSE members; storage services are developed with proper, frequent consultation with users either via public consultation or via bilateral contacts.

In case of limitations on the offer of services on the ground of technical constraints and/or economically efficient use of the storage infrastructure, the GSE members comply with the demand to make this information public and substantiated.

The majority of GSE members require a minimum size booking which can be justified on the basis of technical constraints according to paragraph 3.8 of GGPSSO. Pooling of nominations to overcome potential technical capacity thresholds is facilitated by a large number of members.

Regarding the implementation of paragraph 3.9, all members have information systems in place that allow the Storage System Operators (SSO) to interact in a timely manner, which provides commercial advantages to both the SSO and the storage user.

To conclude, considerable progress with regard to the implementation of necessary TPA services has been made by GSE members compared to last year. Nearly all members are fully compliant with the obligation to implement IT developments and necessary TPA services. In some cases the national regulatory framework or the structure of the storage facility prevents the SSO to become fully compliant with the requirements of paragraph 3.

3.2. Storage capacity allocation and congestion management

In the final 2005 report on monitoring the implementation of the GGPSSO, ERGEG states with regard to storage capacity allocation and congestion management : *“It is important that storage capacity is allocated on fair and non-discriminatory basis to ensure that no distortions or barriers to entry are created within the market”*. ERGEG also states that allocation of capacity shall be tackled together with the implementation of anti-hoarding mechanisms, which is a position shared by GSE.

Concerning the specific provisions for capacity allocation and congestion mechanisms in the GGPSSO, GSE observes that most members have implemented transparent and non-discriminatory procedures for allocating capacity along with discouraging hoarding and developing congestion management procedures. Provision of interruptible services, short term as well as long-term services is effective. Also, day-ahead release on non-nominated capacity is now provided by the majority of GSE members. Furthermore, progress in the development of the secondary capacity market as been made [see section on secondary market].

Two types of capacity allocation procedures are mainly reported: market based systems, either through auctions or through first committed first served mechanisms, and mechanisms reflecting existing PSOs of suppliers, usually based on priority rules depending on the type of customer served. In some cases, both mechanisms are coexisting.

To conclude SSOs have largely fulfilled the requirements concerning capacity allocation and congestion management mechanisms, using the first year of GGPSSO implementation to clarify the requirements of GGPSSO, thus ensuring that the maximum technical capacity is offered to the market.

3.3. Confidentiality requirements

In the final 2005 report on monitoring the implementation of the GGPSSO, ERGEG reported that for a majority of the SSOs compliance with respect to the confidentiality requirements is unclear.

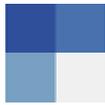
In response to this finding, GSE, in November 2005, organised a storage workshop inviting all concerned parties to discuss the issue of confidentiality of storage information. As a result of the workshop it was agreed that GSE would issue a framework code of conduct as an example of best practice by March 2006. The draft framework is now finalized after internal coordination and is presented by GSE together with this report. In this way an example of best practice for fair and non-discriminatory handling of information is given to all SSOs.

Concerning the specific provisions for confidentiality in the GGPSSO, GSE observes that members have implemented effective measures

- o preventing that commercially advantageous information is passed to other affiliates in advance of being submitted to all customers
- o providing a separation of storage related databases and
- o for the separate development of new IT systems

Finally, nearly all GSE SSOs have implemented a code of conduct. GSE issued a framework code.

The GGPSSO also require that the code of conduct is supervised by a compliance officer. Most GSE members respond that they have established such a position and have nominated a compliance officer. Apart from the provisions in the code of conduct most of the GSE members have established confidentiality rules in their storage contracts as well as in the working and employment rules.



The majority of SSOs are developing new IT systems as stand alone database to guarantee confidentiality for storage users. One example of an IT system that was solely developed for the transparent operations of the storage business is the storage secondary trading platform Store-x (see chapter on secondary markets).

Although the publication of the code of conduct is not required by the GGPSSO, several GSE members publish their code of conduct, plan to make it public in the internet or have submitted it to their regulatory authority. In this respect, the SSOs have responded with their activities beyond the provisions of the GGPSSO in order to allay any market participants concerns.

To conclude, GSE SSOs have put in place mechanisms to ensure the confidential and non-discriminatory handling and processing of information. This is clearly demonstrated amongst others by the development of company codes of conduct along with the assignment of compliance officers. Effective firewalls, confidentiality provisions in storage contracts and employment agreements as well as IT development efforts complete and substantiate these efforts. GSE has assisted this process with its framework code of conduct.

3.4. Transparency requirements

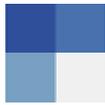
GSE continues to recognise that transparency of information is essential for existing and potential storage users and the wider market to undertake efficient decisions on the make up of their gas portfolio, especially in respect of accessing storage capacity.

Access to flexible sources of supply contributes greatly to the ability of a new entrant to enter a market with storage being a significant flexibility tool but not the only one! Since agreement on the GGPSSO in March 2005, GSE members have taken significant steps to deliver both operational and available storage capacity details to the wider market. GSE is convinced the continued development of supply competition will lead to increased competition to access existing storage capacity, sending efficient signals to existing and new SSOs to build new storage capacity if required.

Enshrined within the GGPSSO is the protection of existing storage users where less than 3 storage users access the storage capacity, in order to protect their commercial interests. A number of GSE members have had to elect to not publish some or all information following requests by their customers. In these cases transparency of information can be seen to act in conflict with rules designed to protect existing storage users commercial positions. However as supply competition increases, concurrent with the development of a single European energy market, GSE believes there will be a significant increase in the number of storage users, intra and inter-regional storage-to-storage competition with price being the primary allocative determinant (after PSO obligations), not company affiliation.

The 2005 storage workshop led to a significant clarification of the transparency requirements for SSOs in respect of operational and capacity information. We are happy to report that all GSE SSOs but one publish the commercial terms for accessing storage where capacity remains available for sale. In terms of presentation, many GSE member websites have been improved to include greater operational data and the commercial terms for storage access. GSE considers this success is due to increased awareness and understanding of GGPSSO requirements and increased competition to market (negotiated) storage capacity in increasingly competitive markets for flexibility. Indeed a number of GSE SSOs have taken steps to develop new storage websites and information systems.

Interpretation and understanding of the GGPSSO continues to increase amongst members. A good example is the interpretation of historical utilisation rates which appears to be moving towards either the presentation of current stock plus/minus storage movement with various time delays or a similar measure set against a declared level of technical storage capacity released.



GSE will continue to work with its members and other stakeholders to progress a common understanding such that transparency of information and protection of commercially sensitive information may not distort a single European energy market.

3.5. Secondary trading

In the final ERGEG Report on Monitoring the GGPSSO from December 2005 it was stated that the development of secondary markets of storage capacity is very limited. This would hamper the development of more liquid and competitive storage markets.

Secondary markets for storage capacity were discussed at the November workshop. At the workshop, it was emphasised that secondary markets are important for the development of competition for flexibility services as they can help to improve the availability and use of storage capacity especially in cases of congested storage capacity. This was confirmed in different GSE statements with the overall recommendation that SSOs should ensure the efficient use of capacity by allowing trading of capacity on secondary markets and facilitate the development of such markets.

According to the GGPSSO, SSOs have – among others – to establish a bulletin board in order to allow buyers and sellers the opportunity to transact any capacity requirements. A majority of GSE members have already implemented a bulletin board on their own website for several months but the use of it has been very limited.

At the above-mentioned workshop it was observed that the storage market should be considered on a European level at least for the larger storages. Thus, from a traders perspective, a European trading platform, which centralises available secondary storage capacities instead of having a bulletin platform for each SSO, seemed to be the preferred solution.

One response to this observation is the “Store-x” system, founded in February 2006 and introduced directly to the market at the e-World conference in Essen/Germany. The aim is to provide a comprehensive tool in order to facilitate the transparent and non-discriminatory pan-European trading of secondary storage capacity rights. Storage customers or traders owning storage capacities will be able to trade their capacities on such a trading platform.

Also in place by most GSE SSOs is title transfer possibility for both bundled and unbundled capacities. SSOs allow also new owners to aggregate such storage capacity operationally. The traded capacity can be combined with their primary capacity. There are no unjustified obstacles when transferring the capacities, as long as the new customer has passed the usual creditworthiness criteria.

To conclude, it can be stated that a majority of GSE SSOs fulfill the GGPSSO requirements regarding the secondary market (section 9) entirely. Consequently, the questions in the monitoring questionnaire are almost all answered positively. Moreover, some SSO have already been more market responsive and allow not only for trading of capacities but also for trading gas in store in many cases. Furthermore, SSOs are actively improving market liquidity by establishing new instruments and tools in response to existing or perceived market demands from the storage users.

4. SHARED OBJECTIVE: A WELL-FUNCTIONING MARKET

Users will need some time to review their needs and become aware of the business opportunities associated with the services offered. SSOs will gain experience with the new services and will seek ways to improve and expand the services offered in response to market needs.

In GSE's view, the GGPSSO are sufficient to achieve a well-functioning market in storage services. With the state of implementation of the GGPSSO by the major SSOs there should be no reason why – given a little time for users and SSOs to adjust to the new services – a well-functioning market could not be achieved. After all, storage operators and storage users alike benefit from a healthy investment climate, competitive market for storage services and timely availability of required storage capacity.

After all new investments are very important for the future development of the European gas market and further improve the possibilities for new players to enter the market.

ANNEX:

21 Questionnaires from GSE Members were analysed:

- BEB (D)
- Centrica Storage (UK)
- DONG (DK)
- Edison Stoccagio (I)
- Enagas (Sp)
- E.On – Ruhrgas (D)
- Essent (D)
- Fluxys (B)
- Gaz de France (F)
- MOL Storage (H)
- NAFTA (SK)
- NAM (NL)
- National Grid LNG (UK)
- OMV Gas (A)
- Pozagas (SK)
- RWE-Energy (D)
- RWE-Transgas (CZ)
- TIGF (F)
- Stogit (I)
- VNG (D)
- Wingas (D)