

Conclusions of the
6th meeting of the European Gas Regulatory Forum
Madrid, 30-31 October 2002

I. General

1. Participants at the sixth meeting of the European Gas Regulatory Forum, the Commission, the representative of the Danish Presidency, Regulators, representatives of the EU/EEA Member States, industry and consumers, stressed the need for consolidating rapid progress in the context of the Madrid Forum on a broad range of issues relating to the creation and operation of a fully operational and integrated internal gas market. Representatives of the regulatory authorities and ministries responsible for gas sector policies of the candidate countries participated in the meeting of the Madrid Forum with a view to assist the countries in preparing for full participation in the internal gas market. Representatives of the Russian Federation including OAO Gazprom and OOO Gazexport participated for the first time, within the context of the EU-Russia energy dialogue.
2. Practical experience in market opening and achieving access to the European gas network since the entry into force of Directive 98/30/EC as stated by the Commission's second benchmarking report¹ has revealed significant remaining obstacles for new market players in entering the market and for eligible customers really benefiting from competition in the internal gas market. There has been less progress for gas than for electricity since the first benchmarking report a year ago and the results and benefits from market opening have been limited in several Member States.
3. Access regimes in a number of Member States are as yet not able to deliver fully competitive markets and to enable a fully non-discriminatory access regime to develop across Europe. The representatives of the Commission, CEER, consumers and network users therefore stressed the need for access regimes in Europe to be improved and to move closer together and that important efforts are still required in this respect.
4. The Forum welcomed the work accomplished since the 5th meeting of the Madrid Forum on 7-8 February 2002 notably by the Joint Working Group of representatives of the Commission, the Council of European Energy Regulators (CEER) and interested Member States and by the gas industry, in particular through GTE and EASEE-Gas. The Forum stressed the importance of rapid completion and implementation of this work in order to consolidate tangible progress.
5. The Forum took note of the study prepared for the European Commission by The Brattle Group on "*Convergence of non-discriminatory tariff and congestion management systems in the European gas sector*" (September 2002), which was presented to the Forum. The study makes a large number of recommendations, which should be carefully considered by national regulatory authorities and relevant stakeholders when further developing these systems. In particular, based on the advantages in terms of cost-reflectivity and the promotion of competition, the study recommends a reasonable initial presumption in

¹ SEC (2002) 1038, 1 October 2002

favour of entry-exit as a tariff system, subject to a series of checks that must be applied. The study of The Brattle Group also considers a preference for an entry-exit capacity system to be a reasonable starting point.

II. Tariff structures

6. The Forum discussed a paper prepared by the CEER in liaison with all stakeholders on *“Establishing the preferred tariff methodology for intrastate, cross-border and transit flows in European gas markets”*. The paper further develops and details the key principles previously agreed by the Madrid Forum.
7. The Forum agreed that, where possible and justified, subsidiarity should be respected in relation to tariff setting. But in respecting subsidiarity, the CEER, the Commission, Member States, representatives of consumers and traders considered that tariff regimes will need to move closer together to deliver straightforward pro-competitive and non-discriminatory outcomes, and that there is a need for tariffication regimes in Europe to converge, to avoid tariff pancaking and to ensure cost reflective tariffs when individual tariffs are combined. The CEER, the Commission, representatives of consumers and traders therefore welcomed the assessment made in the paper presented by the CEER of different tariff systems against a number of key criteria, including the development of a competitive market, in order to identify an overall preference for a certain model.

GTE remarked that the criteria, apart from those mentioned in the paper presented by the CEER, should also include avoidance of cross-subsidisation, fostering of a sound investment climate to avoid bottlenecks in the future and the development of competition.

Eurogas considers that different tariff systems can be appropriate in different markets.

8. The representatives of the CEER, the Commission, most Member States, consumers, traders and GEODE confirmed their view that an "entry-exit" tariff structure would in principle best facilitate the development of competition in the European gas market. While the differences between Member States and between individual TSO networks should be recognised, workable solutions in relation to introducing entry-exit tariff regimes that can take account of these national differences are considered to be available.
9. The representatives of the CEER, the Commission, Member States, consumers, traders and GEODE therefore invited the relevant national authorities in close liaison with the TSOs to take appropriate action with respect to the implementation of an entry-exit regime as soon as possible and where practical under the next tariff review. Where it is considered that an entry-exit regime would not be appropriate and workable within their network, the reasons for this should be substantiated and published and alternative solutions should be presented which would meet the principles agreed by the 5th Madrid Forum and which would be coherent with tariff systems applied on other networks. At the next Forum, the Commission shall present an analysis of the progress achieved in the different systems in implementing this objective. GTE is invited to present concrete proposals on how to handle potential shortcomings of the entry-exit system.
10. The Forum welcomed the offer of EFET to actively work with TSOs to help develop workable entry-exit systems for certain specific national gas markets. The Forum invited EFET to put forward such a proposal.

11. The Forum invited the CEER in liaison with the Joint Working Group to establish as soon as possible a road map and practical guidelines to assist in adapting current tariff frameworks to an entry-exit system which should ultimately allow entry-exit systems across Europe to be integrated and reasonably harmonised while allowing national specificities to be taken into account. More specifically, CEER is to develop its views on the role of hubs and transit in this context.

III. Transparency requirements with regard to available capacities

12. The Forum reiterated the importance of ensuring non-discrimination with regard to access to information on system use including available capacities of the system. The Forum recalled the commitment of GTE and its members as stated at the 5th meeting of the Madrid Forum in principle to publish available capacities at least at all cross-border entry and exit points. The Forum recognised that the TSOs must provide network users with the information that network users need for efficient access to the TSOs networks. The representatives of the Commission, CEER, Member States, consumers and traders noted, however, that the pace of progress by some TSOs in implementing the guidelines was limited and urged GTE and its members to ensure publication of available capacities no later than 1 January 2003, in accordance with the Guidelines for Good TPA Practice and based on a methodology for calculating available capacities to be proposed by GTE. GTE was requested to put forward such a proposal for methodology, which should then be agreed within the context of a working group procedure.

Where, on an exceptional basis, certain network users consider that for confidentiality reasons, it would not be possible to publish numerical available capacities, the reasons for this should be substantiated and communicated to the relevant national authority and also provided to the Commission. Where accepted, the reasons should be published no later than by 1 January 2003, and the least restrictive alternative measures reasonably available, taking account of confidentiality, be undertaken.

Eurogas considers that exceptions to publication, due to confidentiality reasons should be based on the request of network users and substantiated and notified to the national authority.

IV. Capacity allocation, congestion management and interruptible capacity

13. The Forum stressed the need for transparent and non-discriminatory rules for capacity allocation and congestion management. Existing allocation mechanisms in a number of Member States appear to need to further improve to fulfil these requirements.
14. The CEER, the Commission, Member States, representatives of consumers and traders welcomed the contribution prepared by the CEER in liaison with all stakeholders on congestion management, capacity allocation and non-firm capacity. The Forum adopted the following principles which shall apply as overall guidelines with regard to capacity allocation and congestion management:

- 1) Congestion management and capacity allocation method(s) should be established and published and operate in an economically efficient manner, offering as much capacity as possible taking into account public service obligations, meeting market*

demand, providing appropriate economic signals for optimal use of the system and efficient investment in additional network infrastructure. The revenue system should not create disincentives to reduce congestion;

- 2) Congestion management and capacity allocation method(s) should promote effective competition and tradability of capacity and should be non-discriminatory. The mechanisms should neither facilitate nor consolidate market power and should avoid specific disadvantages for new entrants;*
- 3) All relevant information related to services offered by TSOs including all cross-border and domestic gas transportation in particular available capacities shall be published in a transparent and timely manner, taking into account the exceptions mentioned in paragraph 12;*
- 4) Capacity allocation and congestion management shall be compatible with the market mechanisms used (spot, short term, long term, hub trade, etc.) and should be capable of adapting to evolving market circumstances. Capacity allocation and congestion management should promote interoperability between systems;*
- 5) In any capacity allocation regime, specific anti-hoarding measures should be in place, including an appropriate use of short-term mechanisms and, where deemed insufficient, consideration of appropriate longer-term capacity release mechanisms. These mechanisms should aim to ensure that in case of commercial congestion that capacity rights are then awarded to parties who actually intend to use them, while respecting contractual rights in so far as these are compatible with Community law, and the objective of discouraging capacity hoarding and facilitating reutilisation of un-used capacity.*

GTE noted in this respect that it considered that, whilst agreeing in principle to these guidelines, it considers that it should be added that they should be implemented in a manner that does not take away contractual rights of the capacity holder to use them.

15. The representatives of the CEER, the Commission, consumers and traders stressed the positive role which non-firm capacity services can have in fostering competition and market liquidity and in enhancing the efficient use of the network. While no market distortions should be introduced which would lead to different tariffs for competing firm and non-firm services if these in practice would be the same service, the CEER, the Commission, Member States, representatives of consumers and traders agreed that interruptible services should have a place in the market even where spare capacity exists. The Forum therefore invited GTE members to offer interruptible services based on clear and common definitions of firm and non-firm capacity and transparent tariff conditions.

GTE remarked that its members only wish to offer interruptible capacity on the primary market when the firm capacity is sold out.

V. Guidelines for Good TPA Practice

16. The Forum welcomed the first overview report prepared by the European Commission on the compliance by individual TSOs with the Guidelines for Good Practice adopted by the 5th meeting of the Madrid Forum. The Forum expressed its appreciation of the considerable contribution and constructive co-operation of GTE and its members in preparing this first compliance check.

17. The adoption of the Guidelines for Good TPA Practice and the compliance monitoring and benchmarking exercise have played an important role in increasing the awareness of European gas TSOs about their responsibilities with regard to providing non-discriminatory access to networks. It is also clear that progress has been made since the adoption of the Guidelines in facilitating access and progress continues to be made in this respect and was acknowledged by the Forum.
18. However, the Forum noted that progress made has not been equally satisfactory among all TSOs. While progress has been made, the first compliance overview has also demonstrated:
- in several cases a lack of compliance with a number of the requirements of the Guidelines for Good Practice;
 - a significant degree of uncertainty about compliance with the Guidelines for Good Practice and about the interpretation of the Guidelines themselves;
 - considerable differences between different TSOs in implementing the Guidelines, resulting in different levels of effective network access.

Furthermore, the report noted that in some countries, TSOs had gone further than the minimum requirements of the Guidelines.

19. In order to (i) avoid ambiguity in the interpretation of the Guidelines for Good Practice; (ii) ensure a level playing field and (iii) to raise standards and aim towards best industry practice, the Forum considered it appropriate and necessary to clarify the Guidelines for Good Practice and to reinforce these in certain respects. The Forum therefore invited the Commission to chair a specific Working Group with participation of national regulators, interested Member States and GTE with the aim of preparing during the coming months a proposal for a revision of the Guidelines for Good Practice for adoption by the next meeting of the Madrid Forum together with a clear time-table for implementation. Where appropriate, the Commission shall invite, other relevant interested parties to participate in the meetings of the Working Group. The CEER, the Commission, and most Member States, representatives of consumers and traders considered the Commission's proposal for a revision of the Guidelines to be a balanced basis for the revision of the Guidelines.
20. The Forum also stressed the need for continued active monitoring and benchmarking of the compliance with the Guidelines and for formalising and deepening this process in close co-operation between TSOs, national regulatory authorities, Member States and the Commission as a means to measure progress over time. The Forum invited the Commission to prepare an up-dated compliance overview in 2003. The compliance overview shall also analyse the impact of different implementations on cross-border trading and imports.

VI. Technical interoperability

21. The Forum welcomed the considerable work undertaken notably by GTE since the 5th meeting of the Madrid Forum and by EASEE-Gas on technical interoperability issues including the significant progress made on harmonisation of definitions and units of measurement applied within the European gas industry; gas quality specifications; Business Rules; Communication Protocols and Network and Operational Balancing

Agreements. All this should help simplify gas trading and TPA transportation procedures in Europe.

22. The Forum took note of the inventory presented by GTE of achievements made and currently key outstanding issues in relation to technical interoperability and adopted the Action Plan set out in Annex 1 for solving these issues within a clear time-table. GTE pointed out that TSOs will not have the same possibilities to manage gas quality issues in the future. The Forum called upon all interested parties to contribute to achieving the objectives set out in the Action Plan and encouraged all market players to support and take active part in the activities of EASEE-Gas. The Forum invited EASEE-Gas, in liaison with GTE, OGP and consumer and trading interests, to take the lead in facilitating the implementation of the Action Plan and to report to the next meeting of the Forum on progress achieved.

VII. Gas trading hubs

23. The Forum stressed the need for further development of gas trading hubs at existing and new locations in Europe. The Forum invited the CEER to prepare an assessment for the next meeting of the Forum of how entry-exit tariff systems can facilitate the development of hubs.

VIII. Gas supply potential for Europe

24. The Forum welcomed the continued comprehensive work undertaken by the International Association of Oil & Gas Producers (OGP) analysing the domestic EU/EEA gas production potential and the potential of existing and new external gas suppliers within the context of a competitive single market for gas. This work is important in understanding the supply side potential for the internal market for gas.
25. The up-dated analysis prepared by OGP (including an update of indigenous EU/EEA production potential; an inclusion of the major producing accession countries and a more detailed analysis of external resources) has confirmed that Europe is in a relatively favourable gas supply situation with significant domestic gas reserves potentially available and abundant gas reserves within economic reach in neighbouring regions. OGP's latest data thus supports the encouraging supply forecast provided in the previous OGP report and reaffirms the view that there is enough gas resource potential to satisfy demand of an enlarged EU well up to the end of this century even if a conservative approach in the assessment and the analysis of the domestic and external resources is taken. However, a diversified resource portfolio is essential for sustained supply security of an enlarged EU.
26. According to the OGP, the commercial environment and the policy and legislative framework within which gas producers operate is, however, critical in terms of which resources are likely to be developed when and where. However, both internal and external supply security and diversity will, according to OGP, be maximised by encouraging competitive market entry in a liberalised market where all customers enjoy the supplier of choice.

The Forum stressed the importance of security of supply and of the EU ensuring a favourable investment climate as a basis for underpinning infrastructure development and long-term gas supply development for Europe.

27. The Forum stressed the importance and quality of the work carried out by OGP and invited OGP to continue and develop its work on these issues and to report on progress and developments on key issues at the next meeting of the Madrid Forum.

IX. Russian gas supplies for Europe

28. Mr. Chelpanov, Deputy Director General of OOO Gazexport made a presentation to the Forum on the Russian perspective in relation to long-term gas supplies for Europe and described plans for future priority gas supply projects and issues in this respect including risks, investments and financing involved in gas supply development, which need to be addressed in a dialogue between gas producing and consuming countries.
29. The Commission underlined the importance of a continued close energy producer-consumer dialogue and the particular importance of close co-operation between Russia and the EU in the gas sector within the context of the EU-Russia energy dialogue.

X. The way forward.

30. The Forum invited the Commission to convene the specific working group established with a view to revise the Guidelines for Good Practice for a meeting in December this year.

The Forum stressed the need for all relevant market stakeholders to take active part in the implementation of the Action Plan on technical interoperability and invited EASEE-Gas to report on progress at the next Forum meeting

With a view to ensure continued rapid and coherent progress, the Forum asked the Joint Working Group of representatives of the Commission, the CEER and interested Member States in liaison with all relevant industry and consumer bodies to monitor the rapid implementation of the decisions taken by the Madrid Forum and to co-ordinate the prioritised future actions and work agreed and prepare a full progress report on these matters for the next meeting of the Madrid Forum.

ACTION PLAN AIMED AT IMPROVING TECHNICAL INTEROPERABILITY

Agreed actions in relation to harmonisation of units:

1. The following units are recommended by the Forum:

Pressure	bar
Energy	kWh (with a combustion reference temperature of 25°C)
Volume	m ³ (at 0°C and 1.01325 bar) (normal m ³)
Gross Calorific Value	kWh/m ³ (normal m ³), with a combustion reference temperature of 25°C

2. Start the EASEE-Gas Working Group on “Harmonisation of units” with representatives of at least gas producers, shippers and TSOs with a view to adopt the recommendations as soon as possible and no later than 1 April 2003.
3. No later than 1 April 2003 initiate change of contracts and relevant legislation.
4. By 1 April 2003, start implementing the recommended units in agreements between TSOs, unless legal, contractual or technical restrictions make this impossible.
5. Implement the possibility of using the recommended units as soon as new equipment or software is installed.
6. EASEE-Gas to propose to ISO to change the recommended combustion reference temperature for the GCV from 15°C to 25°C, when agreed.

Agreed actions in relation to gas specifications:

1. Initiate immediate discussions among all relevant stakeholders (upstream to downstream) of the proposal presented by GTE at the 6th meeting of the Madrid Forum with regard to streamlining interoperability for high calorific gas qualities in terms of (i) combustion properties; (ii) Gross Calorific Value and (iii) additional components. EASEE-Gas shall be the forum for these discussions which shall include:
 - Consistent approach on combustion properties;
 - Review the billing arrangements that lead to restriction in the GCV range;
 - Agreement on common values on gas specifications (additional components).

The scope for widening gas quality specifications shall also be analysed including cost-benefit analysis and recommendations shall be made if appropriate.

2. Depending on the recommendations made for the next Madrid Forum by EASEE-Gas (ref. Point 1):
 - The legal framework in some countries would have to be adapted. This, however, should not delay the implementation of existing commitments;

- The necessary changes would have to be implemented in all supply and transportation contracts from upstream to downstream by all stakeholders.

Agreed actions in relation to operational procedures:

1. Implement consistent operational procedures and matching processes at each Interconnection Point (IP), including a default rule in case of mismatch;
2. Implement allocation rules and balancing agreements and rules at each IP;
3. BA type procedures should gradually – and no later than by the end of 2003 where technically reasonably possible – be used by all TSOs at all IPs where there is a market demand for this

Agreed actions in relation to business rules and communication standards

1. EASEE-Gas to finalise a recommendation with regard to the initial nomination scheme (including the content and type of messages) by 1 April 2003 for implementation at the earliest technically and contractually possible and in any case no later than by mid-2004.
2. Further harmonisation of other issues, amongst others re-nominations, allocation rules and processes, communication protocols, treatment of constraints, hub practices and rules. The standard template for OBA should also be reviewed and agreed no later than by the end of 2003 in order to take into account the output of the business rules.
3. EASEE-Gas to support common communication protocols based on the Edigas standards that should be more generally applied at EU level.