

6th EUROPEAN GAS REGULATORY FORUM

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MADRID

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Overview of the EU Gas Market

- The desired result is *gas to gas competition*
- The implementation of the gas directive 98/30/EC *has not achieved* so far this objective.
- Therefore we *welcome the initiative taken by the Commission* to accelerate the completion of the gas market with the proposal for a Directive amending the existing Directive 98/30/EC

Overview of the EU Gas Market

- **Pre-requisites** for a functioning competitive market are:
 - offers of gas from competing, independent suppliers
 - cost-reflective, harmonized, fair and transparent tariffs for access to the gas infrastructure
- **Gas infrastructures** :
 - are “essential facilities” and must be subject to appropriate regulatory mechanisms
 - should include : on-shore&off-shore pipelines, LNG terminals, boosters, storage, facilities for blending&balancing
- **Effective Unbundling** is a “*conditio sine qua non*” for gas to gas competition
 - it requires legal, financial and management independence, which actually means: **ownership unbundling**

Overview of the EU Gas Market

- ***“Even a perfect TPA system will not provide gas to gas competition in the absence of competing gas offers”***
- **Upstream competition** must be encouraged....via
 - Discontinuation of exclusive *territorial destination-clauses*
 - Access to off-shore pipelines and interconnectors under similar rules as access to on-shore gas infrastructures
 - Establish *Gas Release Programs* to kick-start gas to gas competition

Tariff Structures

- ***IFIEC agrees with the principles for tariff methodologies proposed in the 21 October 2002 draft Guidelines and with the CEER conclusions and proposals:***
 - cost-reflectivity monitored by regulatory authorities
 - promotion of gas to gas competition
 - promotion of efficient use of the system
 - transparency i.e. with publication of tariff derivation
 - flexibility and adaptability
 - cost recovery
- IFIEC supports Entry/Exit tarification
- IFIEC is in favor of simple, transparent and harmonized tariff regimes

Tariff Structures

- Calculation methodologies must ensure **cost-reflective** tariffs (not just “cost-based”)
- Definition of the cost base should include cost-reflective depreciation principles (specify :***asset valuation based on historical depreciated values for existing facilities and actual values for new infrastructures, “utility-type” rate of return, no opportunity pricing***)
- Tariffs should be available for **firm, non-firm and interruptible** capacities
- **Regulatory involvement** in tariff setting must include **recourse and arbitration**
- **Balancing costs** to shippers/suppliers should be **market-related, not punitive**

Tariff Structures

Non-firm/interruptible contracts

- *IFIEC agrees with the consultation document issued by CEER.*
- The TSO intention not to offer non-firm/interruptible capacity when firm capacity is still available is not justified and will not serve the market.
- IFIEC is clearly **in favor of non-firm/interruptible contracts**, as these will increase market liquidity and contribute to an efficient use of the systems.
- Interruptible contracts should be offered at a **discount versus firm contracts**. Tariffs should follow the same basic calculation principles as applicable to firm contracts and be subject to regulatory control.

Capacity and Transparency Issues

- *IFIEC agrees with the 21 October 2002 Guidelines and CEER conclusions and proposals*
- IFIEC supports the “use-it-or-lose-it” principle
- In line with the “**first-come-first served**” principle and on a “first-refusal” basis versus new customers, capacity known to be regularly needed by an end-user should always remain available for that end-user in case the shipper/supplier changes
- **No capacity hoarding** and speculative behavior
- Allocation mechanisms and congestion management procedures should be subject to **audit by the regulatory authorities**

Capacity and Transparency Issues

As far as *transparency* is concerned, IFIEC believes that:

- the goal is **real time information** on the transportation system operation
- the information must be **equally available to all market participants** and include all major interconnection points (not only the cross-border points)
- Confidentiality of information must not be misused as an excuse to hinder TPA
- The **calculation methods** for transmission capacity must be **harmonized** at EU level
- The operators of **storage facilities must publish data** on available capacities

Capacity and Transparency Issues

- **Daily balancing** should be the standard.
 - (harmonised throughout EU)
- Balancing to be **cost neutral** to TSOs (not “broadly cost neutral”)
 - Need to distinguish commercial balancing and physical balancing
 - Physical balancing is essentially the sum of positives and negatives from different shippers / suppliers
 - TSOs should not have windfall profits or losses from this activity

Capacity and Transparency Issues

- We need a **uniform**, non-discriminatory, **balancing system throughout the EU**, encouraging, not hampering, market development.
- There is no justification for different balancing regimes in different networks. **Harmonisation leads to simplification** and simplification encourages trading and free markets.
- Long-term capacity booking must be on a “use-it-or-lose-it” basis

Guidelines for Good Practice General

- *IFIEC welcomes DG TREN's Compliance Overview and the 21 October 2002 version of the Guidelines for Good TPA Practices.*
- **The Guidelines must be reinforced, continuously improved and respected.** The latest draft is a good step forward.
- The wide gap between “Best Practice” and “Least Effort / Minimum Standard” is unacceptable. **“Best Practice” should become the Standard Practice for all TSOs.**
- Compliance should be **regularly monitored** in accordance with an agreed timetable.

Guidelines for Good Practice

Specific Recommendations

- TSOs to be financially **liable for failure** to meet contractual delivery obligations
- TSOs must be **legally and financially independent**
- Unless there is ownership unbundling, we need clearly defined legal unbundling strictly ensuring that:
 - directors and management of TSOs have no ties to integrated natural gas undertakings
 - are accountable to act independently and operate totally outside the framework of the parent company

Barriers to gas trade and interoperability

- IFIEC Europe believes that the main barrier to gas trade is still the ***lack of market opening*** throughout the EU countries. As long as TPA remains a cumbersome and frustrating effort in many countries, a liquid gas market will not develop.
- Another major barrier to gas trade is actual (= technical) or contractual (= fictional) ***congestion*** at major nodes of the transportation grid. The information already available on this topic reveals the necessity of much ***more transparency*** about declared congestion points. This transparency must not only apply to cross-border-points, but also cover all major points of interest within the ***national system*** of an individual TSO.
- Transparency about the contribution of long-term TOP contracts to congestion problems is essential.

Barriers to gas trade and interoperability

- The extent of market concentration which results from TOP contracts held by few dominant players and covering about 90% of the European gas demand is **very disturbing** and, if not corrected, will **freeze the status-quo** for the next foreseeable future.
- The only effective solution to the stifling effect on competition of long-term TOP contracts are “**gas release programs**”. IFIEC Europe **urges Member States** to utilize gas release programs as a way to **kick-start real supply-side competition**.
- Nomination and balancing rules must be **harmonized** throughout the EU in a user friendly manner. Particularly in the case of access to grids with more than one TSO involved, harmonization of access rules are an essential requirement for industrial consumers' participation in gas trading activities.

Barriers to gas trade and interoperability

- **Gas Quality** requirements must be **standardized** as soon as possible.
- Quality types limiting interchangeability required for gas trading should be as few as reasonably possible (i.e. only H- and L-gas).
- Variation limits in Wobbe index and calorific values must not discriminate individual users, shippers and primary producers against each other. If special quality requirements are demanded by certain user groups, the associated costs must be exclusively allocated to these parties.
- Gas quality is not only a question of “flexibility at the burner tips” but an issue for the use of gas as “**feedstock**”, especially in the chemical industry.