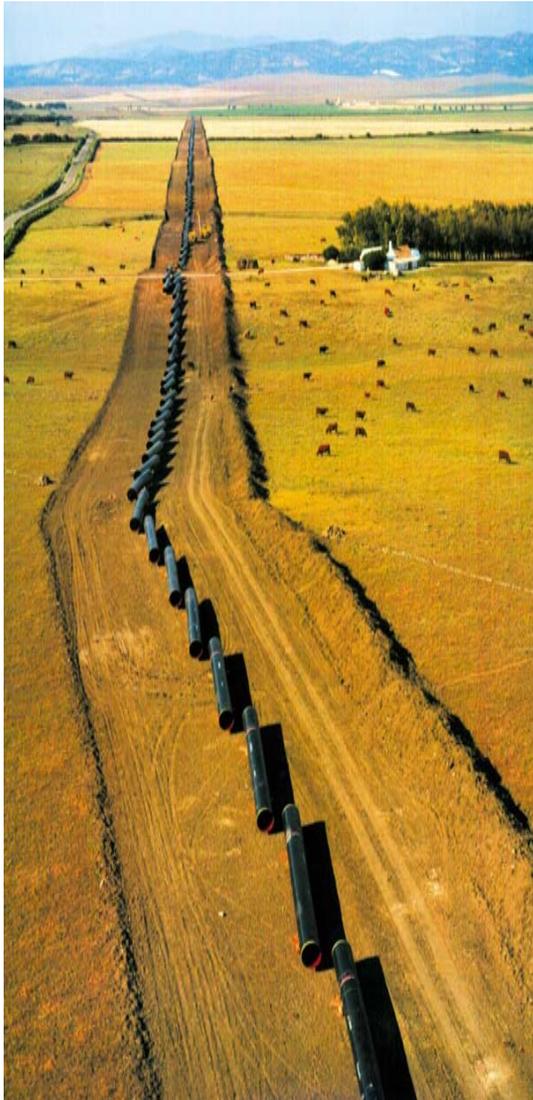




6th Meeting of the European Gas Regulatory Forum - Madrid 30-31 October 2002

European Commission - DG TREN/C-2



Guidelines for Good Practice - Compliance overview and proposal for revision of GGP

Klaus Geil

Electricity and Gas Unit

DG Energy and Transport

European Commission



PRESENTATION OUTLINE

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- ✓ **Conclusions of the 5th Madrid Forum;**
 - ✓ **Recall key elements of the Guidelines;**
 - ✓ **Compliance overview;**
 - ✓ **Main deficiencies and uncertainties in compliance and market expectations;**
 - ✓ **Best practice vs. minimum standards;**
 - ✓ **Why is a revision of the existing GGP justified?**
 - ✓ **Proposed revision of the GGP.**
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PROGRESS ACHIEVED AT MADRID V - GUIDELINES FOR GOOD PRACTICE

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- ★ **Not legally binding but agreed by GTE and intended to contribute in the short and medium term to achieving a fully operational internal market for gas;**
 - ★ **Aimed at clarifying roles and responsibilities;**
 - ★ **Shall ensure the application of the principle of non-discrimination;**
 - ★ **Guidelines on TPA services; transparency; tariffication; balancing; secondary trading;**
 - ★ **Important to monitor progress in implementation and compliance.**
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CONCLUSIONS OF MADRID V

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- ★ *“The Forum stressed the importance of actively monitoring the extent to which gas transmission operators meet the high standards outlined in the guidelines.*
 - ★ *Whilst stressing the need to benchmark actively the adopted guidelines, the Forum invited the Commission, in close collaboration with CEER, GTE, Eurogas and other relevant stakeholders to keep the guidelines under review with the objective of their regular updating.” (CEER: The Guidelines “are not for ever” - i.e. not static).*
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GUIDELINES ON TPA SERVICES (1)

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- ★ Offer unbundled TPA services for access to the different parts of the system including all necessary ancillary facilities operated by TSOs including storage when technically necessary for efficient TPA;
 - ★ Offer the same range of services on the same conditions according to the principle of non-discrimination to any eligible third party within the EU as to marketing affiliates;
 - ★ Publish the main conditions for all services;
 - ★ Publish available capacities on a regular and user-friendly basis;
 - ★ Co-operate with other TSO's on interoperability.
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GUIDELINES ON TPA SERVICES (2)

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- ★ Offer both firm and short-term services (flexible in time) and interruptible in certain circumstances;
 - ★ Design services to facilitate trading and liquidity in the European market;
 - ★ Standardise request and response procedures according to best practice, co-ordinate maintenance to minimise disruption;
 - ★ Implement non-discriminatory and transparent capacity allocation mechanisms and congestion management procedures subject to review by relevant authorities;
 - ★ Ensure sufficient functionally independence of SOs from supply business to avoid conflicts of interest.
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GUIDELINES ON TARIFF STRUCTURE AND DERIVATION

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- ★ **TSOs should publish reasonably and sufficiently detailed information on tariff derivation and tariff structure;**
 - ★ **As far as differences would hamper cross-border trade, TSOs should pursue convergence of charging principles and tariff structures.**
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GUIDELINES ON BALANCING

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- ★ **Design non-discriminatory balancing rules which should reflect genuine system needs, avoid cross-subsidisation between system users and which should be reviewed by the relevant authorities;**
 - ★ **Apply same balancing rules to related commercial operations as to third parties on a verifiable basis;**
 - ★ **Ensure that balancing charges are broadly cost-neutral to the TSO whilst providing appropriate incentives to balance (agreed to mean redistribution of above-cost revenues - “*we are not in the fining business*”);**
 - ★ **Facilitate pooling and ex-ante trading of imbalances.**
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GUIDELINES ON SECONDARY CAPACITY TRADING

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- ★ **Allow TPA capacity rights to be freely tradable in a secondary market;**
 - ★ **Endeavour to discourage capacity hoarding and facilitate reutilisation of un-used capacity.**
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PREPARATION OF COMPLIANCE OVERVIEW

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- ★ **Questionnaire circulated end-April (deadline 15 June);**
 - ★ **Replies received from 18 EU TSOs and several others parties;**
 - ★ **Additional information and clarification provided later;**
 - ★ **First draft compliance overview circulated on 12 September inviting comments;**
 - ★ **Meetings with TSOs;**
 - ★ **Significant contribution by GTE and its members.**
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TSOs COVERED BY THE COMPLIANCE REPORT

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COMPLIANCE OVERVIEW - GUIDELINES FOR GOOD PRACTICE

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- ★ **GTE quickly quantified and claimed very high levels of compliance based on own assessment;**
 - ★ **However, DG TREN's compliance overview has demonstrated:**
 - ★ **A significant lack of compliance with the Guidelines;**
 - ★ **A significant degree of uncertainty about compliance with the GGP and about the interpretation of the Guidelines themselves;**
 - ★ **A significant differences in compliance with the GGP and in access conditions in general between individual SOs with a considerable gap between best industry practice and minimum standards applied by industry.**
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MAIN DEFICIENCIES IN COMPLIANCE WITH GGP (I)

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- ★ **Not all TSOs publish available capacities;**
 - ★ **Not all TSOs offer short-term contracts with a duration of less than 1 month;**
 - ★ **Far from all TSOs publish sufficiently detailed information on tariff derivation;**
 - ★ **A number of TSOs have unclear sharing of responsibilities with regard to system balancing and lack transparency in system resources available to ensure this function;**
 - ★ **Many TSOs do not meet best industry practice with regard to response time in relation to capacity booking.**
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MAIN DEFICIENCIES IN COMPLIANCE WITH GGP (II)

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- ★ **Not all TSOs offer interruptible services in accordance with the Guidelines;**
 - ★ **Not all TSOs facilitate in any active way pooling and trading of imbalances;**
 - ★ **A number of TSOs do not provide well-timed information about balancing status;**
 - ★ **Not all TSOs facilitate in any active way re-utilisation of un-used capacity;**
 - ★ **In addition, albeit less important, not all TSOs publish their access conditions in English:**
 - ★ **at least Snam Rete Gas, Enagas, Thyssengas, BEB, OMV, Edison, SOTEG and Nova Naturgas only appear to publish conditions in their own national language;**
 - ★ **Scope for streamlining web-site structures on TPA.**
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COMPLIANCE OVERVIEW - AREAS OF UNCERTAINTY

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★ Residual balancing role of TSO

★ *“do not have own gas” - “infrastructure provider only” - “per definition not in position to supply gas to any shipper”*

★ How can a TSO do residual balancing without gas?

★ “Facilitate” pooling;

★ Pooling often cumbersome (requirement to act as 1 shipper);

★ “Discourage capacity hoarding” and “Facilitate re-utilisation of un-used capacity”;

★ *“Sanctity of contracts” - “paid for” - “requires consent” - “tariff structure is a disincentive”*

★ “Broadly cost-neutral” balancing;

★ *“negligible compared with overall TSO revenues”*



BEST INDUSTRY PRACTICE VS. MINIMUM INDUSTRY PRACTICE

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	<i>Guidelines</i>	“Best industry practice”	“Minimum industry standards”
Minimum capacity booking period?	<i>“Short-term services”</i>	1 day	1 year
Response time – capacity booking?	<i>“Harmonised to best industry practice”</i>	On-line (for short-term)	Up to 4 weeks
Publication of available capacities?	<i>“Publish physical available capacities initially at least at all cross-border points”</i>	Regularly at all main entry and exit points including at regional level	Indicative traffic lights as from 1 January 2003 at cross-border entry points



BEST INDUSTRY PRACTICE VS. MINIMUM INDUSTRY PRACTICE

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	<i>Guidelines</i>	“Best industry practice”	“Minimum industry standards”
Publication of historical utilisation rates?	<i>“Non-discrimination with regard to access to information on system use” (Conclusions – Madrid V).</i>	Yes	No
“Use-it-or-lose-it” principles applied?	<i>“Endeavour to discourage capacity hoarding and facilitate reutilisation of unused capacity”</i>	Yes (applied by several TSOs)	No
Interruptible capacity offered?	<i>“Offer interruptible service when firm capacity is not available and no liquid secondary market exists”</i>	Yes	No



BEST INDUSTRY PRACTICE VS. MINIMUM INDUSTRY PRACTICE

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	<i>Guidelines</i>	“Best industry practice”	“Minimum industry standards”
Backhaul provisions?	<i>“Cost-reflective charges which do not cross-subsidise ” (Conclusions – Madrid V).</i>	Incorporated in Entry-Exit models or discounts for backhaul	No provisions
Cost-neutral balancing?	<i>“Broadly cost-neutral”. (Agreed and understood to involve redistribution of above-cost revenues from “fines”).</i>	Market based balancing costs and income from penalties given back to the market.	Excessive - non-market based – penalties and no redistribution of balancing profits.
Balancing system	<i>“Non-discriminatory ...reflecting genuine system needs”.</i>	Daily with 20% tolerance.	Hourly with 4% tolerance.



BEST INDUSTRY PRACTICE VS. MINIMUM INDUSTRY PRACTICE

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	<i>Existing Guidelines</i>	“Best industry practice”	“Minimum industry standards”
Imbalance charges (gas cash-out price for being short)	<i>“Non-discriminatory ... broadly cost-neutral”.</i>	Market based marginal gas price (in the order of +10% of system average gas price).	+200% of average import price.
Pooling of imbalances?	<i>“Facilitate pooling and ex ante trading of imbalance services”</i>	Ex post pooling possible	No pooling service provided
System resources available to TSO?	<i>“The minimum role of the TSOs would involve...maintain physical balance (residual balancing role)”.</i>	Clear framework with adequate resources available for balancing either from market or under agreements within integrated companies.	TSO stripped of gas and other resources – and blurred relationship within integrated companies.



SOME OBSERVATIONS EMERGING FROM THE COMPLIANCE OVERVIEW

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- ★ What should be the role of TSOs and which resources should they reasonably have at their disposal (e.g. in relation to “residual balancing”)?
 - ★ Balancing regimes and imbalance charges differ significantly - what are “*genuine system needs*” - scope for more transparency + converging systems?
 - ★ Is “equal treatment” = “non-discrimination”? (e.g. with regard to balancing and pooling - “portfolio effect”. A +95% market share in reality allows “ex post” pooling);
 - ★ Gas Contract Year still reference - need for agreed pricing principles for short-term services (no point in daily services if tariffs are prohibitive).
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EXPECTATIONS FROM TSOs IN AN EMERGING LIQUID MARKET?

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Companies and consumers can now trade gas daily or within-day at hubs, but need the ability to (i) adjust their transportation nominations within day and (ii) access daily transportation capacity and services. Important that flexibility of spot markets can be passed through.

It is therefore important that the GGP ensure that:

- ★ short-term services are available at least on a daily basis;**
 - ★ transparency mechanisms with regard to available capacities reflect the need for rapid transactions matching spot market trade;**
 - ★ capacity booking and nomination rules for transportation services match spot market trade.**
-



ELEMENTS OF THE GUIDELINES KEY FOR DEVELOPING LIQUIDITY

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- ★ **The system of publication of available capacities (including historical data);**
 - ★ **What is the standard/minimum duration of services offered and on which conditions?**
 - ★ **Are interruptible services offered?**
 - ★ **Which tariff structures and methodologies are applied?**
 - ★ **How is backhaul transportation taken into account?**
 - ★ **Which system resources are at the disposal of the TSO and the incumbent supplier?**
 - ★ **Which balancing system is applied? Tolerance levels and imbalance charges?**
 - ★ **How is cost-neutral balancing ensured?**
 - ★ **Is pooling possible and non-discriminatory? Ex-post?**
 - ★ **Are TPA capacity rights freely tradable?**
 - ★ **Are “use-it-or-lose-it”-type principles applied?**
-



WHY IS A REVISION OF THE GUIDELINES JUSTIFIED?

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- ★ **The GGP must be clear and well understood by all and not mean different things to different parties. Ambiguity in interpretation must be avoided;**
 - ★ **Significant gap between between best and minimum practices - creates market distortions and hinders a level playing field;**
 - ★ **No need to wait for 100% compliance - minimum industry standards should not set the pace;**
 - ★ **No objective reasons or specific national circumstances for not moving towards already applied industry practices as quickly as possible;**
 - ★ **Indeed, improved standards are necessary to ensure non-discrimination and to reap the benefits of the internal market for gas.**
-



PROPOSED REVISION OF THE GGP - 1

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- ★ Clarify the residual balancing role of TSOs and improve transparency of system resources of TSOs;
 - ★ Standardise transparent OBAs;
 - ★ Clarify what “short-term services” mean (down to daily);
 - ★ Offer interruptible services;
 - ★ Deadline for standardisation of nomination procedures (1 April 2003);
 - ★ On-line screen-based capacity booking and confirmation systems before 31 December 2003.
-



PROPOSED REVISION OF THE GGP - 2

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- ★ **Improved transparency with regard to publication of available capacities (at all TSO IPs - not just cross-border points) and historical system utilisation;**
 - ★ **Specify that “broadly cost-neutral” balancing means redistribution of above-cost profits from penalties;**
 - ★ **Temperature dependent tolerance levels;**
 - ★ **Clarify rules for transfer of information about imbalances to allow corrective actions;**
 - ★ **Improve rules regarding secondary capacity trading;**
 - ★ **Clarify rules facilitating re-utilisation of un-used capacity (at least day-ahead capacity release on an interruptible basis).**
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”Die neue BEB” - Poetically

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“Fortschritt ist eine Verwirklichung von Utopien”
(“Progress is a realisation of Utopias”)

Oscar Wilde

***“Was gestern noch unmöglich war, ist morgen
Notwendigkeit”***

**(“What was still impossible yesterday, will be necessity
tomorrow”)**

Bill Gates
