

14th Madrid Forum

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Integrating Europe's Natural Gas System

EFET Gas Committee

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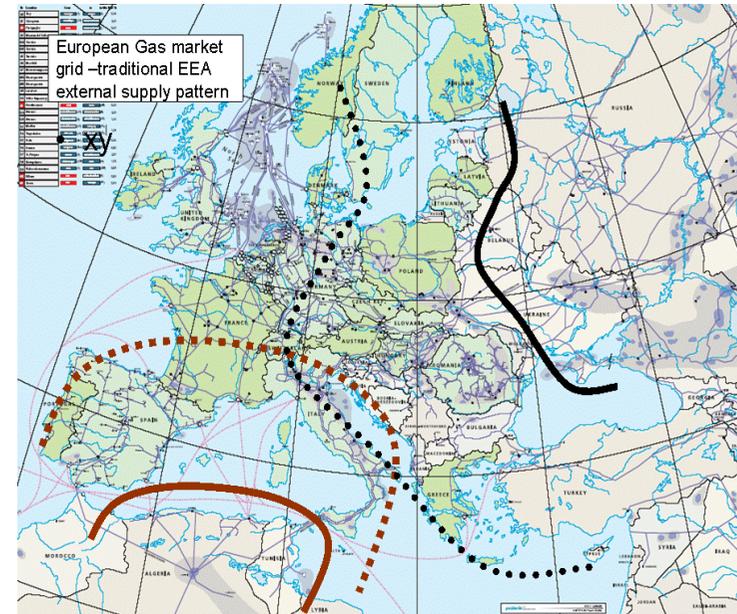
Regional Network Integration (RNI) – Why?

Ø Physical capacity from source to consumer?
Fewer systems, more clarity and predictability

Ø Transport cost/availability known at point of supplier's decision on where to source gas?
Flows are netted automatically with RNI.

Ø Historically, investments by international (multi-cross-border) consortia / cooperation.
Gas already flows over borders, we need a transparent supranational coordinated approach.

Ø Aim that some different supply sources must potentially arrive in each area – security of supply needs physical interconnection and (at least) regional system management



RNI – Benefits for market participants

Ø Final customer

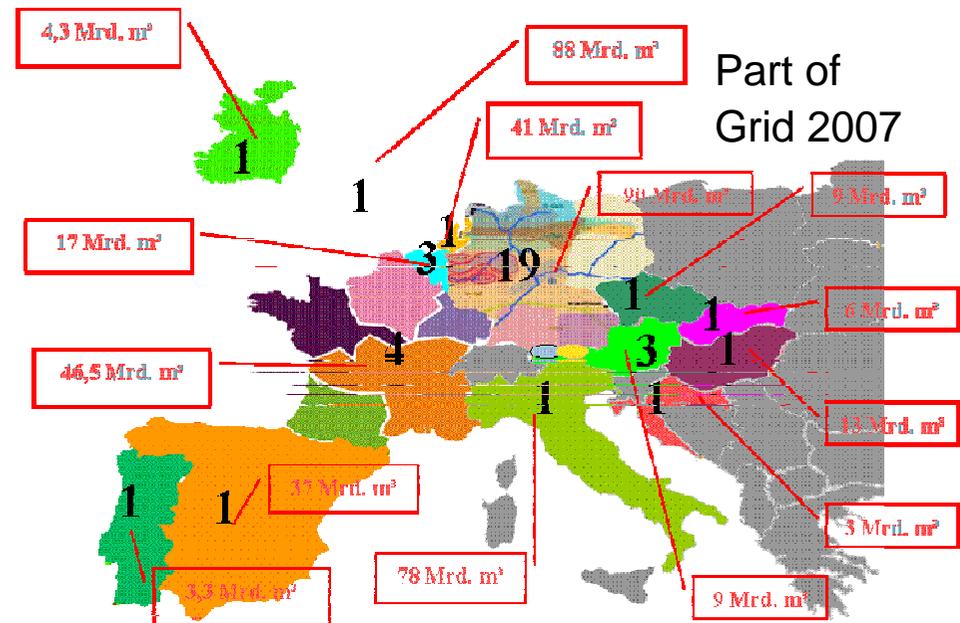
- Ø Improved negotiating power
- Ø Easier access to gas
- Ø More potential suppliers - reduction of market concentration

Ø Traders/Shippers/suppliers

- Ø Fewer interfaces, less contracts
- Ø More similar customers in one market
- Ø Larger netting of imbalance positions
- Ø Efficiency gains: nomination, balancing, registration, invoicing, communication etc ...
- Ø Liquid traded markets can emerge (intra-day, spot, forward, futures)

Ø Macro-economic/political

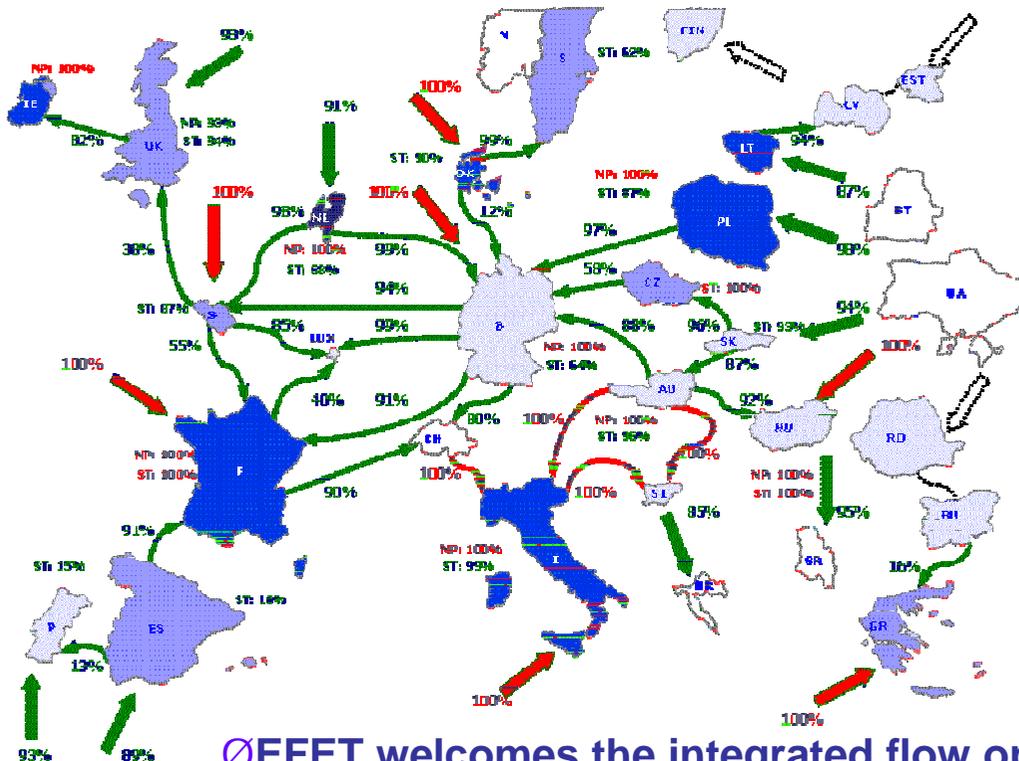
- Ø Potential of economies of scale for system operation
- Ø Potential for higher capacity provision through larger flow optimisation
- Ø Reduced influence of one particular party



Benefits of integrated flow pattern

Ø GTE presented benefits of European flow optimisation in its winter stress presentation at last meeting in Prague 22.01.2008

Integrated EU flow pattern – Exceptional condition



■ 3 critical single country balances in normal cold conditions



■ Flexibility already existing inside countries and in IPs both in normal and exceptional cold conditions

■ Future investments to follow increase in market demand and to improve flexibility at IPs

Ø EFET welcomes the integrated flow optimisation approach by GTE
 Ø Trading helps flow optimisation by providing market signals

Regional network integration (RNI) – How?



ØPros and cons of different network integration possibilities

+		level of integration		-	
1.) regional TSO (mergers – RTSO)		2.) EFET R_ISO Model (Regional or Multi-system Operator)		3.) general statement to cooperate	
Pro		Pro		Pro	
<ul style="list-style-type: none"> §Clear decisions, liabilities §Best information on operation §One E/E zone possible 		<ul style="list-style-type: none"> §Operational synergies potentially as high as RTSO §Regional investments and optimisation possible §One E/E zone possible §Very limited property issues 		<ul style="list-style-type: none"> §Better than nothing §Easy to accept by some §Combined with a strong ACER this could be a flexible bottom-up approach 	
Cons		Cons		Cons	
<ul style="list-style-type: none"> §Property issue §Politically sensitive 		<ul style="list-style-type: none"> §Not one company §Detailed explanation necessary 		<ul style="list-style-type: none"> §Inefficient decision making (coordinated investments,...) §No synergies in operations §One E/E zone not achievable 	

Regional network integration (RNI) – How?

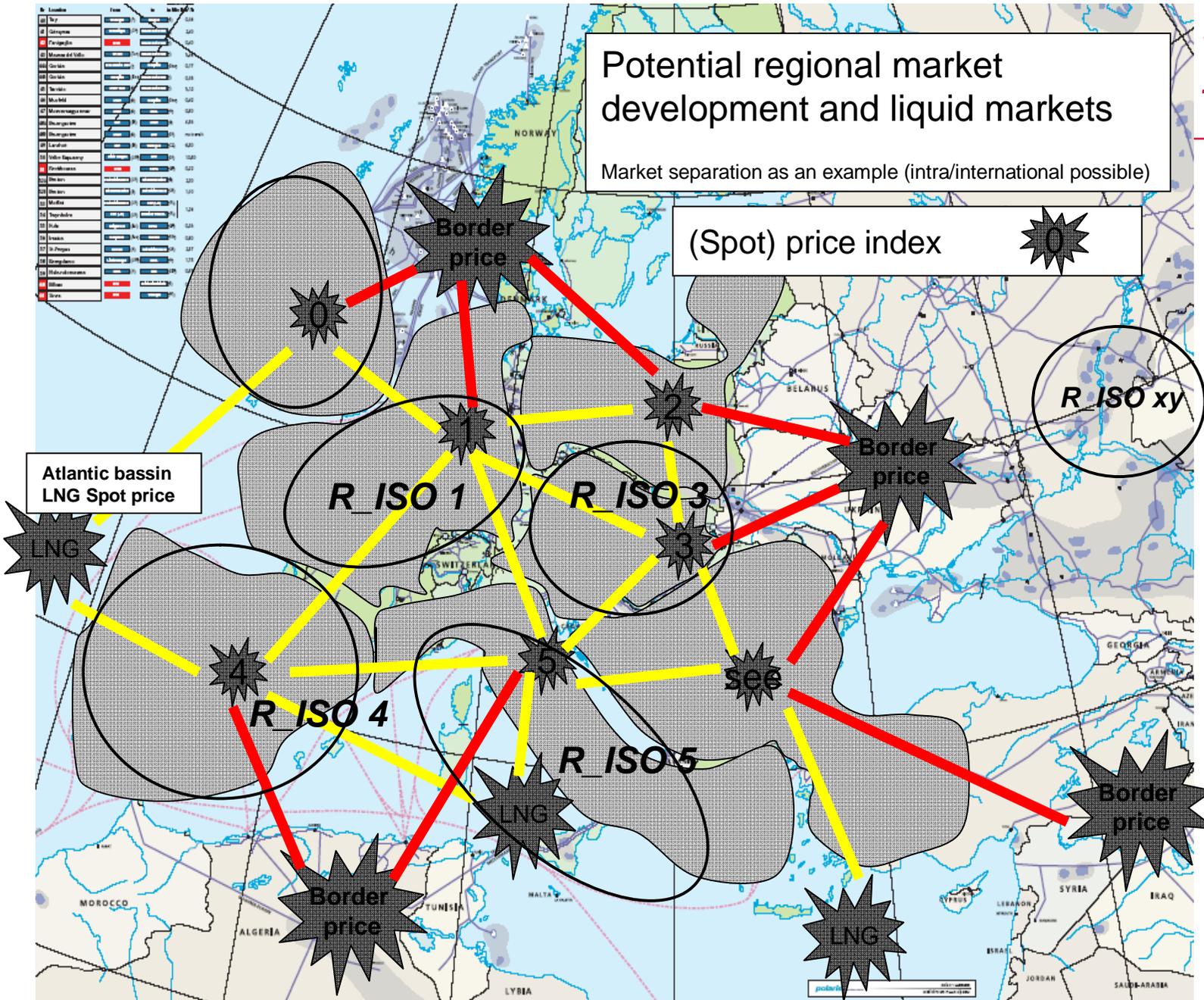
∅ Some examples (not exhaustive)

+		level of integration		-
1.) regional TSO (mergers – RTSO)		2.) EFET R_ISO Modell (Regional or Multi-system Operator)		3.) general statement to cooperate
Examples/suggestions		Examples		Examples
§MOL proposal (gas) §Statement CEO E-ON (elec) §Statement CEO – ENI (gas) §Potential GTS-BEB?		§ Austrian system (AGGM/AGCS – 6 years operation) § JV EGT- Bayernet § Irish case announced (All Island Energy Market Development Framework)		§Current situation §Reinforced in the 3rd package

Potential regional market development and liquid markets

Market separation as an example (intra/international possible)

(Spot) price index 



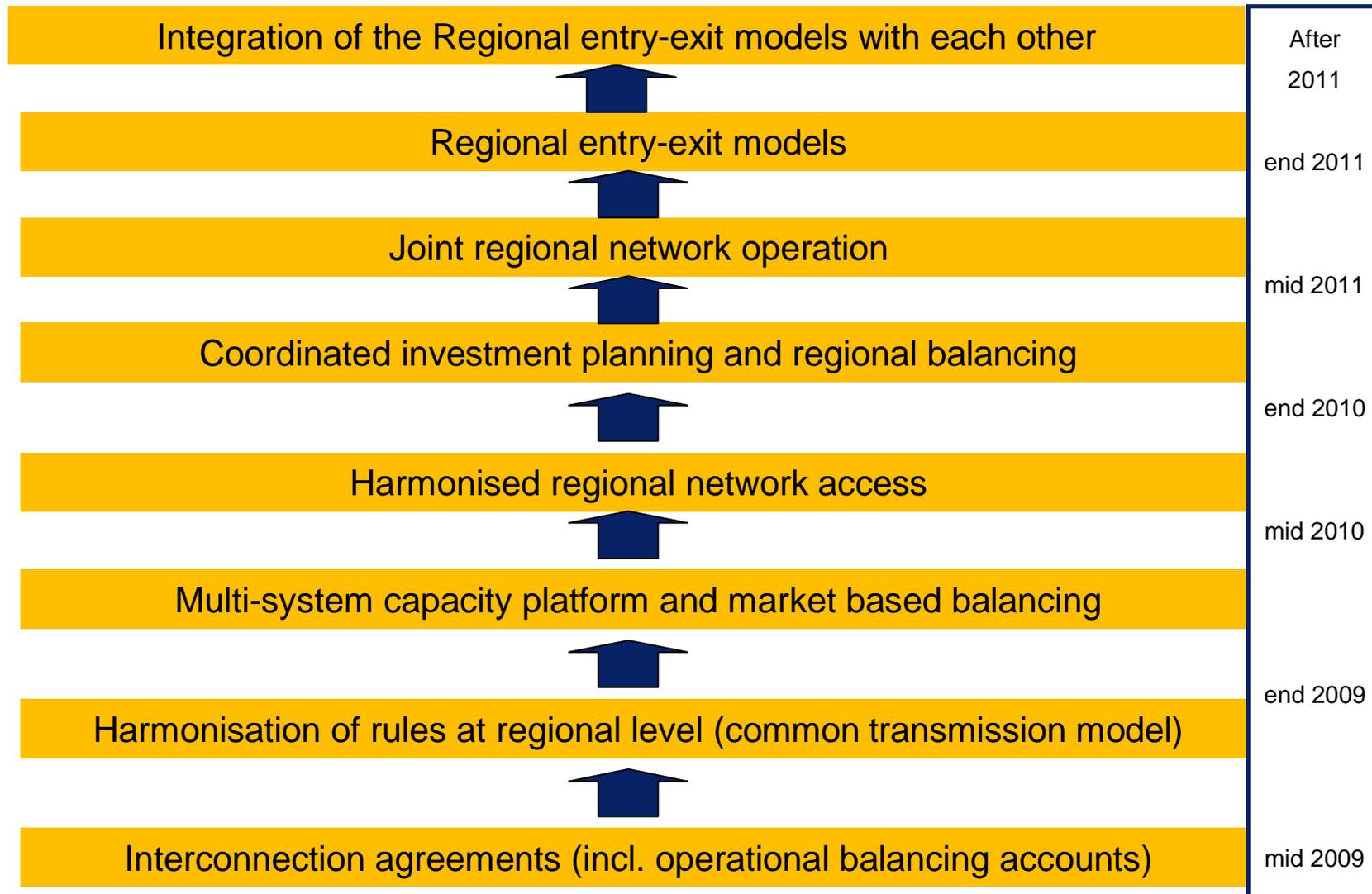
EFET „R_ISO Model“ – stakeholder consultation



- Ø A stakeholder consultation on R_ISO model took place including a workshop on the model in Prague as a follow up
- Ø Comments from all network using stakeholder groups and CEER supported the principles proposed in the model by EFET
- Ø Letter by EFET, supported by OGP, IFIEC, eurelectric, eurogas,... joint letter in progress
- Ø Joint paper on market integration in preparation based on EFET R_ISO, to be presented in June in GRI-SSE

Market users want network integration fast

Proposed timeline for establishment of a regional E/E model in SSE Region



Conclusion

- Ø **EFET issued a letter representing the position on market integration and timing and following interested associations support it – Eurogas, OGP, IFIEC, Eurelectric**
- Ø **Signing parties believe that starting implementation of the foundation of such a model now is a key prerequisite for further and timely development towards a single European gas market**
- Ø **European legislative framework necessary to better streamline the work done by Madrid Forum and Gas Regional Initiatives**
- Ø **Regions must be established on a pragmatic basis without particular link to national borders**
- Ø **EU Gas Market is currently facing a lot of proposals for regional integration –legislation must support the need of the market (EU, national, local)**