Gas Regional Initiative

Coherence and Convergence

Madrid Forum, 17 October 2007

Outline of presentation

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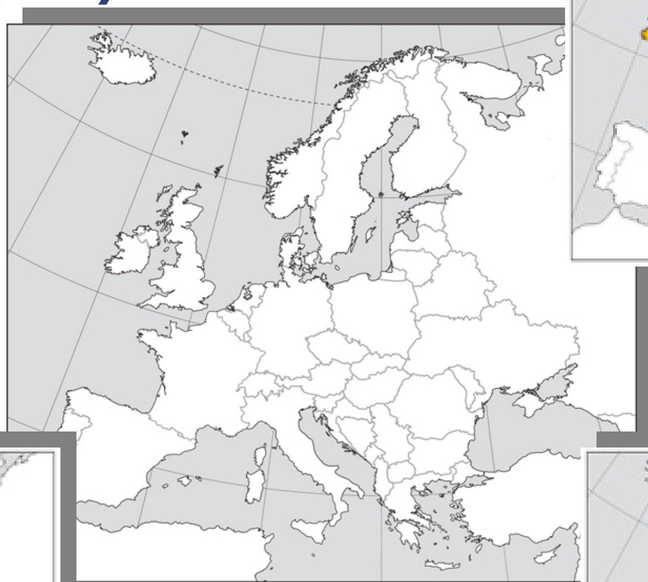
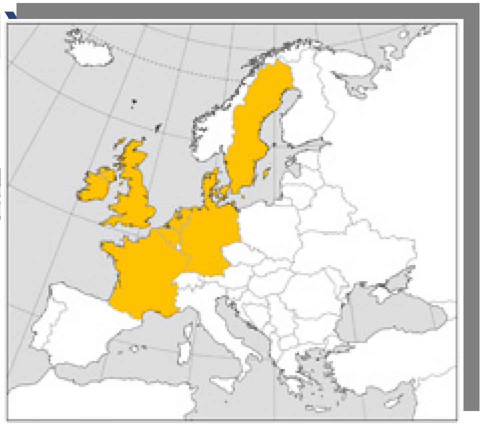
Overview

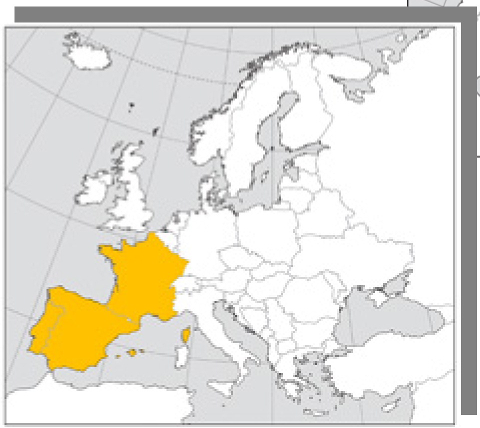
1 Gas Regional Initiative (GRI)
3 Regional Energy Markets (REM)

- North-West (NW)
- South (S)
- South-South East (SSE)

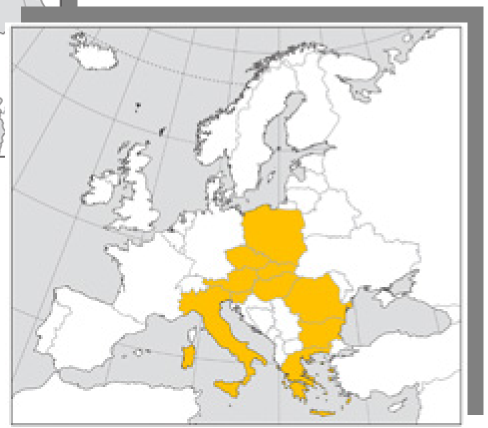




• 58%



• 12%
of total natural gas consumption



• 30%

Figures represent an approximation, France member in two regions

Background

- GRI is about facilitating practical improvements in gas markets to improve market effectiveness and integration
  - Identifying issues – that cause barriers to market integration
  - Proposing solutions – that will lead to real and practical improvements (e.g. transparency)
  - Implementing plans – ensuring effective delivery of plans
- Ensure that approaches and solutions adopted across the three regions do not create barriers for market integration and single market

Process on track

- 3 gas regional markets (‘regions’) established and all working effectively to facilitate change
- Priorities identified in all 3 regions, plans developed and solutions being brought forward
- European Commission actively involved and support
- Stakeholders involved – operators are supporting the process; but: more engagement needed to make process work and to deliver improvements
- ERGEG commitment to transparency – e.g. ERGEG website www.ergeg.org – development of “one-stop shop”: Single source containing all relevant information on the GRI

Coherence and convergence – Introduction

- **The gas coherence and convergence report follows on from electricity version BUT**
- **Issue of coherence and convergence not as pronounced as could be in electricity:**
  - **Few regions in gas – few borders in more than one region**
  - **Two relatively large regions accounting for majority of EU gas consumption**
  - **Level of integration of markets in gas –in general– less advanced than electricity (e.g. regional power exchanges)**
  - **Detailed legal basis for congestion management in electricity**
  - **Higher level of network interconnection in electricity**

*Coherence and convergence **within** rather than across regions is an important first step in gas*

Coherence and convergence – key messages

- All regions have identified and pursue similar priority topics - reflecting EU wide problems:
  - Interconnection and capacity
  - Transparency
  - Interoperability (including gas balancing)
  - Development of gas hubs
- Differences are generally due to local market conditions
- Treatment of priority topics broadly similar and in principle allow further integration at later stage
- As more solutions developed it will be key to ensure that they are coherent enough to allow regions to come together as single market

Interconnection & capacity

- All regions identified need to enhance efficient use of existing capacity and facilitate development of new infrastructure:
  - Day ahead auctions and trading (N-W)
  - Improving congestion management & capacity allocation (N-W)
  - Development of standard bulletin board for trading (S-SE)
  - Development one-stop shop for capacity bookings (S-SE)
  - Coordinated plan for new investment (S)
  - Developing coordinated capacity allocation mechanisms (S)
  - TSOs to develop an overview of current and future investment plans (S and S-SE)
- In (S) main focus on facilitating new infrastructure in (S-SE) and (N-W) mainly about more efficient use existing capacity
- Differences reflect local market conditions – do not appear to create barriers to further market integration and single market

Transparency

- All three regions identified improved transparency as key factor to facilitate market integration
  - Convergence of information for TSO/LSO/SSO (S)
  - Regular update on delivery of investment projects (S)
  - Bulletin board (S-SE)
  - Improving information from TSOs and SSOs (N-W)
  - Developing guidelines for less than 3 rule (N-W)
- (N-W) and (S) have consulted market on their requirements and are looking at ways to meet them – should similar approach be taken in S-SE once bulletin board implemented?
- Should the less than 3 guidelines be rolled out across all 3 regions once finalised?
- Existing transparency requirements in Gas Regulation must be properly implemented across the EU
- ERGEG guidelines (e.g. LNG, balancing, storage) include transparency provisions – implementation will help integration

Interoperability (including gas balancing)

- All 3 regions are looking at issues relating to interoperability
  - Regional entry-exit tariff system and balancing (S-SE)
  - Development of IPAs and OBAs (S-SE)
  - Report on interaction between neighbouring gas balancing mechanisms (N-W)
  - Improving balancing transparency (N-NW)
  - Development of coordinated and harmonised operational procedures (S)
- Each region needs to focus on interoperability within region as a priority
- Other initiatives on interoperability exist (Commission mandate to CEN, EASEE-gas work, individual regulator work on gas quality)
- There is a question of how a regional entry-exit tariff system will operate next to the other regions (particularly N-W) and whether any difficulties for convergence are created

Development of gas hubs – gas trading

- Significant current differences across 3 regions in the development of hubs – but a key priority for all
  - Initial work on liquidity at all hubs – now focusing on GTF initially to improve liquidity (N-W)
  - Developing MIBGAS into the regional initiative as a starting point for development of a gas hub (S)
  - Development of existing hubs as regional balancing points (S-SE)
- Work differs in its focus across the 3 regions – but generally reflects differences in market development, e.g. need action for a new hub in (S)
- Solutions for each hub may differ depending on respective issues they face
- Question of whether there is a need to look at development of regional hubs as in (S-SE) although need to think about impact on balancing markets

Other issues to be considered

- Regulatory gaps for cross-border cooperation between regulators is potential key barrier to market integration
- Commission's 3rd package aims to fill the gaps
- However: More buy-in from member states/governments needed
- The (N-W) region has developed a MoU for regulators to facilitate better cooperation, e.g. on consultation, sharing information, market development and design – a way of filling the gap for now. MoU will be signed on 25 October – plans for effective implementation being taken forward
- The (S) region has signed an agreement between the Spanish and Portuguese Government that facilitates and speeds up the procedure

→ MoU as role model for other regions until the 3rd package takes effect

Ensuring coherence and convergence

- This issue is not as pronounced as it could be in electricity
- However: Important to monitor developments as more solutions to region specific issues are brought forward
- ERGEG will provide an update on the issue in its annual report and will report again to Madrid Forum
- Implementation of ERGEG guidelines on balancing, storage, LNG and open season will help improve consistency and market integration
- Regulatory gaps and legal issues could hinder integration
  - Differences in competencies of regulators (MoU in N-W region developed to help fill gap)
  - Lack of flexibility in national legislation (e.g. auction in N-W region)
  - Impact of changing market design – national vs EU impact

Practical Success – NW region (1)

1. More transparency

- Enlargement of available information on storage levels in NW Europe.
- Data from numerous questionnaire was discussed among stakeholders and lead to better understanding of the problems faced at e.g. stream of primary markets (capacity congestion management).
- New publications at Taisnières (Fluxys: capacity) and Obergailbach (GDFDT: flows)

2. More (access to) capacity on the way

- Co-ordinated open seasons between Fluxys and GRTgaz at Taisnières
- Launch of secondary Day Ahead Pilot planned by APX and/or TRAC-X at Oude Statenzijl/Bunde and Ellund in q108. More news expected at SG on 24.10.07

  Sub-achievements Day Ahead Pilot:

  - Implementation leadtime for capacity transfer at Oude Statenzijl and Ellund shortened from 10 day to 3 hours by TSO's involved in the pilot.
  - Questionnaire and subsequent analysis on wishes for day ahead pilot for NW-region published.
    - Pilot can serve as evaluation example for EU-27 for question like Do we need centralised x-border pltaforms for getting liquidity in 2ndary capacity trading and this way addressing contractual congestion of capacity.
  - Pending challenges identified (also success): clarification of the legal framework and identification of perceived legal bottlenecks, contract development for trading by platforms and EFET, non-discriminatory interfaces between TSO's and platform operators.
- Implementation of a service of "conditional transit" at Taisnières to improve the use of Fluxys'grid

Practical Success – NW region (2)

3. **More x-border regulatory co-ordination:**
   - MoU between Regulators of the NW region to be signed on 23.10.07.
   - Regulators have now more then just contact list to call each other. So we await good things for 2008.

4. **Sound dialogue between regional players established. More progress to be reported on SG 24.10.07**
   - Transparency in capacity of flows
   - Balancing: analysis of 'gaps' when flowing x-border gas
   - Hubs: work on GTF and extension to more hubs
   - Investments (lead with TSO's): decision on a website with overview of open seasons in NW region

Practical Success – South region

- A coordinated open season procedure is being analysed by the French and Spanish TSOs under the supervision of NRAs
- Common new infrastructure plan to develop further capacity in the French-Spanish interconnections
- TSOs committed to publish periodically update the status of development of the French-Spanish interconnections
- Agreement between the governments of Portugal and Spain on the development of MIBGAS
- TSOs, LSOs and SSOs committed to improve transparency according to the consultation analysis made by regulators

Practical Success – SSE region

- TSOs and SSOs agreed to make capacity expansion plans / future investment transparent and to establish a regional Investment Plan
- CEGH and EFET agreed on a plan by stages to develop the Hub in Baumgarten as a regional balancing point
- TSOs committed to implement a standardized bulletin board for secondary market trading
- TSOs committed to offer a one-stop shop service for capacity bookings if requested by shippers

Problems encountered – process

- **NW:** More creative solutions from shippers is needed to take work further. Your commitment today helps.
- **S:** General agreement by TSOs to a common interconnection investment agenda – but still progress is slow (different decision procedure to approve investments, different capacity allocation mechanisms in the different countries…)
- **SSE:** Commitment is needed for implementation of IPAs and OBAs, defaulting TSOs are requested to finalize their agreements soon (eg. Baumgarten,...)

Problems encountered – legal

- **Daily auction of primary and secondary capacity:**

  Primary capacity: Dutch as well as German legislation prescribes fcfs principle

  Secondary capacity: German regulation prescribes that prices for capacity on the secondary market may not be significantly higher than the tariffs on the primary market

- **Data exchange:**

  Exchange of confidential information between NRA's is in most cases impeded by law. In the work of the regional initiative this proves to be a real bottleneck as it is difficult to analyse for example interconnection points. These impediments have been reported to the appropriate ministries.

- **TSO cooperation:**

  Missing framework for effective TSO x-border cooperation with regard to capacity allocation, congestion management, harmonising and bundling of capacity products and investment

Next steps and looking forward

- Public consultation on GRI coherence and convergence report until 16 December
- ERGEG Regional Initiative Annual Conference and Annual Report – Early March 2008
- Key challenge for 2008 is to strengthen active stakeholder (shipper) participation.
- As 3rd package discussion unfolds, we are happy to continue paving the way through regional co-operation.

Further information

WWW: www.ergeg.org

Contact: Walter Boltz

Email: walter.boltz@e-control.at

Tel.: +43 1 24 7 24 201

Fax: +43 1 24 7 24 900