



Gas Regional Initiative Coherence and Convergence EREG Report

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Executive Summary

In 2006, ERGEG's Gas Regional Initiative (GRI) established three groupings of countries with a view to integrating each of their national gas markets further, as an interim step towards the creation of a single EU gas market.

This report details how priorities and solutions being developed and adopted in each of the ERGEG GRI regions are enhancing coherence within and across each of the regions and potentially enabling convergence to the single market in due course.

Overall, ERGEG is confident that the regions have begun to work in ways that foster integration within and across the EU wide market:

- All regions have identified and pursued similar priority topics – where differences exist they are generally due to local market conditions; and
- The treatment of these priority topics is broadly similar and, in principle, allows further integration of regions at a later stage.

Unlike in the electricity regional initiative, where there are 7 regions – with a number of countries represented in more than one region – the GRI has only three regions.

Two of these are very large, representing the majority of total gas consumption in the EU. The other region¹ is not significantly connected to the rest of Europe in terms of gas flows as there is limited interconnection (via pipeline) and a significant proportion of supply is sourced from LNG.

The level of integration within the electricity market is also at a more advanced stage than in gas – for example regional power exchanges already exist in electricity. In addition, in electricity, the interaction between national networks is more pronounced and there is an important aspect of ensuring that supplies are maintained.

These factors mean that the issue of coherence and convergence within the gas market is not as pronounced as they could be in electricity. Achieving coherence and convergence **within** the regions (rather than across) is therefore important as a first step – although it is important to ensure barriers are not created to convergence of the regions – and as such this report evaluates issues across the three regions.

At present the focus within these regions has been to identify priorities that will allow each to improve market integration and develop regional markets by overcoming existing barriers. As solutions are being developed the key will be to ensure that such solutions will be coherent enough to allow the regions to come together as one single market in the future. There are a number of issues that are similar within each of the regions and this report assesses whether at present there is coherence between proposed solutions and, if not, if this is likely to impede the development of a single gas market in the future. The common priorities are:

¹ Focusing on the south of France, Spain and Portugal.

- Interconnection/Capacity
 - Day ahead capacity auctions (NW).
 - Best practice standardised bulletin board (SSE).
 - Best Practice provision of One-Stop Shop (OSS) service (SSE).
 - Interconnection: Primary and Secondary markets (NW).
 - Development of new interconnection capacity (S).
 - Development of coordinated capacity allocation mechanisms (S).
- Transparency
 - Convergence of information made available by Transmission System Operators (TSOs) (S).
 - Increase of information provision relating to LNG and storage (S).
 - Developing a bulletin board (SSE).
 - Increasing availability of information from Operators (storage and transmission) to the market (NW).
 - Establishing minus 3 guidelines for Operators and Regulators (NW).
- Interoperability (including gas balancing).
 - Balancing (information templates) and interactions (NW).
 - Interconnection Agreements and Operational Balancing Agreements (OBA) (SSE).
 - Regional Entry Exit tariff system (SSE).
 - Development of coordinated and harmonized operational procedures (S).
- Development of gas hubs (NW, S, SSE).

Responses to this document and in particular to the questions that are in Annex 1 should be submitted by 16 December. ERGEG intends to publish an Annual Report on the regional initiatives in March next year where it will outline progress of the process and also its further thoughts on coherence and convergence and how the regional initiative should develop over time. Stakeholders' views on coherence and convergence will be an important input to this work.

Purpose of this paper

1. The purpose of this paper is to identify the common areas of development within each of the regions and assess whether the development of solutions in each of the regions will impact on the convergence of the regional markets at a later stage to form one single EU gas market.
2. Solutions in each region are now beginning to be developed and there will be a greater level of implementation over the coming months. Coherence and convergence both within and across the 3 regions will largely depend on the details of these solutions implemented. ERGEG will continue its oversight of these questions over the coming months.
3. The Electricity Regional Initiative (ERI) coherence and convergence report [E07-ERI-05-03] indicated that ERGEG will develop an overall vision for the goal of the single European energy market. This paper will input to this work, which ERGEG intends to set out in 2008.

1 Introduction and background

1.1 Introduction

1. ERGEG is committed to working with the European Commission and other stakeholders to develop regional markets as an interim step to a fully effective single EU gas market. Work on developing regional markets must also go hand in hand with that of liberalising national markets – otherwise the benefits of regional development will not be realised and making the step towards a single market will become harder and take longer. Implementation of existing legislation and ERGEG guidelines is crucial to the development of more effective and efficient markets – which will lay a firmer foundation for greater integration across the EU.
2. ERGEG launched the Gas Regional Initiative in April 2006 with the objective of delivering real and practical improvements to help further market integration. The GRI is a collaborative process involving industry, government and other key stakeholders. The GRI comprises of three gas Regional Energy Markets (REMs) – or regions. Each region has a lead regulator, as set out in Table 1. On 1 January 2007 Bulgaria and Romania joined the EU. It is important that the regional initiative has full coverage of the EU and both of the new Member States have been invited to join the South-South East region. Romania is already actively participating. Norway is an important supplier of gas to the EU and as such its participation in the regional initiative is important. A representative from the government (which is responsible for gas issues in Norway) is an observer in the North-West region.

Table 1 – Gas REMs and Lead Regulators

Gas Region	Countries	Lead Regulator
North West	Belgium, Denmark, France, Germany, Ireland, Netherlands, Sweden, UK, Poland (aspirant member). Norway (observer).	DTe (Netherlands)
South-South East	Austria, Czech Republic, Greece, Hungary, Italy, Poland, Slovenia, Slovakia, Romania, Bulgaria (invited).	E-Control (Austria)
South	Spain, Portugal, France.	CNE (Spain)

1.2 Regions interact

Common priorities

3. Each region has identified a number of priority topics that it considers need to be tackled in order to foster trade and market integration across its region. These were developed in consultation with stakeholders who had the opportunity to identify the major barriers to further market integration. Common priorities across the regions include:
 - Enhancing the efficient use of existing pipeline capacity and facilitating the development of new interconnection capacity.
 - Improving transparency in the information provided by network operators to the market.
 - Improving interoperability between networks (including transparency in and interaction between gas balancing mechanisms).
 - Development of gas hubs.
4. There is a good degree of consistency in terms of the core priority issues that each region is looking at. This should be expected as many of the barriers to effective market integration are common across the EU.
5. There are some differences in the priorities that are being looked at and some of the solutions that are being developed. One reason for this is the different level of market development across the three regions. These issues will be discussed in more detail in the next Chapter to assess whether they cause problems for coherence and convergence.
6. The key to the success of the regional initiative is to ensure that decisions, actions and solutions for issues adopted at a regional level facilitate the full integration of all regions into one single market at a later stage. It will be important to maintain an oversight that these developments are coherent in the longer run alongside a vision of what the single market might look like.

Differences between electricity and gas

7. The electricity regional initiative has 7 regions – with a number of countries represented in more than one region. Market integration will often be focused on the treatment of trade at national borders – and in electricity many national borders fall into a number of the regions.

8. The situation is very different in the gas regional initiative where there are only three regions. These regions were identified by looking at the main flows of gas and the nature of trades at and between gas hubs. Two of the regions are very large, accounting for the majority of total gas consumption in the EU². The other region³ is not significantly connected to the rest of Europe in terms of gas flows as there is limited interconnection (via pipeline) and a significant proportion of supply is sourced from LNG. Only two countries (Poland and France) are represented in more than one region and (because of the smaller number of regions) there are not many borders that fall into more than one region. As a consequence there is not significant trade between the regions.
9. The level of integration within the electricity market is also at a more advanced stage than in gas – for example regional power exchanges already exist in electricity and there is greater interaction between balancing national markets. There is also a legal basis for the treatment of congestion management across the EU – in the form of amended binding Guidelines.⁴ These contain specific rules on congestion management mechanisms, publication of information and use of congestion management income – with the aim of ensuring arrangements are compatible with the development of a single market. In electricity there is also a much higher level of interconnection between most national networks which is an important aspect of maintaining security of supply across the EU.
10. These factors mean that the issue of coherence and convergence **across** the three gas regions is not as pronounced as it could be in electricity. Rather, achieving coherence **within** a region as a first step will be more important – but it will be necessary to ensure that the approaches taken across the three regions will not cause problems for coherence and convergence, at an EU level, at a later stage.

Questions for stakeholders

- ◆ Do you agree that there is sufficient consistency in the common priorities that are being looked at across the three regions to ensure that no real barriers are being created for the future integration of the regions? If not, please explain why.
- ◆ Given the factors outlined above do you agree that the issue of coherence and convergence within regions than between regions is more important as a first step in gas? If not, please explain why.

² But there are important differences in the sources and flows of gas within the two larger regions.

³ Focusing on the south of France, Spain and Portugal.

⁴ Commission Decision of 9 November 2006 amending the Annex to Regulation (EC) No 1228/2203 on conditions of access to the network for cross-border exchanges of electricity.

- ◆ Do you think there are similarities and/or interactions between the electricity and gas sectors that should specially be taken into account when assessing the coherence and convergence level among regions? Please, specify which similarities and/or interactions that should be taken into account.

1.3 The regional approach

11. The regional approach was first launched by the European Commission in 2004 in recognition that achieving the single market in a single step would be very difficult due to the nature of the legislative framework that had been put in place. The rather general requirements of the Gas Directive, which allows for different national implementations, and the fact that the Gas Regulation (which has not been implemented consistently across the EU), which does not really focus on cross-border issues, means that market integration has not been straightforward. Countries have also developed different structural, technical and regulatory frameworks over time – mainly due to a lack of binding (and consistent) requirements (for example on transparency, access to infrastructure etc). The regional approach is therefore aimed at developing market integration – whilst allowing for differences for a transitional stage.
12. ERGEG's regional initiative effectively builds from this starting point by aiming to speed up regional integration. The process is a voluntary one – acting as a catalyst for change – by bringing together stakeholders to work together on developing and implementing real and practical improvements to the way in which the gas market operates. The regional initiative is a key opportunity to deliver greater market integration in the interim period before the new package of legislation announced by the European Commission is implemented. The new package of legislation looks to address some of the gaps in the current legislative framework – particularly at a cross-border level – which will help facilitate greater integration across markets.

Process for ensuring coherence

13. Although it has been explained that the issues of coherence and convergence are not as pronounced in gas as they could be in electricity, ERGEG will continue to monitor overall progress in each region through quarterly internal reports and publishing an Annual Report on the electricity and gas Regional Initiatives⁵ and through reports to the Madrid Forum – a key part of this work will be on ensuring that there is coherent development across all of the regions. ERGEG also maintains high level contacts with relevant stakeholders in order to hear views concerning progress and coherence.
14. ERGEG will also seek the views of stakeholders on the progress and prospects for both the electricity and gas regional initiative as an input to its next Annual Report. An open letter will be published towards the end of this October.
15. ERGEG has also developed voluntary Guidelines for Good Practice (GGP) on:
 - ◆ Gas balancing.
 - ◆ Gas storage.
 - ◆ Access to LNG facilities.
 - ◆ Open season procedures.
16. Common implementation and monitoring of compliance with these guidelines will also help facilitate further market integration. The extent to which a gas region is following the GGP provides an additional indicator of expected coherence and convergence.
17. Coherence does not necessarily mean that all solutions developed need to be the same – as they may differ depending on different market conditions and circumstances in region. The key will be ensure that they are compatible and do not create barriers to market integration. It will be important to identify legal and organisational differences that constitute barriers to cross-border trade and market integration. Examples of this are already arising in the North West Region where it may not be possible to introduce proposals with regard to the auctioning of day-ahead capacity as originally envisaged due to the legal framework in one of the countries.

⁵ ERGEG Regional Initiatives Annual Report Progress and Prospects – March 2007 Available at: [http://www.ceer-eu.org/portal/page/portal/ERGEG_HOME/ERGEG_DOCS/ERGEG_ANNUAL_REPORTS/Regionall initiatives%20annual%20report.pdf](http://www.ceer-eu.org/portal/page/portal/ERGEG_HOME/ERGEG_DOCS/ERGEG_ANNUAL_REPORTS/Regionall%20initiatives%20annual%20report.pdf)

2 Overview of approaches in each region and assessment of coherence and convergence

2.1 Introduction

18. This section analyses coherence and convergence issues in respect of the common priorities within and between the regions both in terms of issues identified and the proposed solutions (the Annexes provides further details for each region).
19. Coherence and convergence can appear in stages. The first step is that issues that are a barrier towards market integration are tackled. Secondly, the solutions for these issues should be coherent to the extent necessary. Convergence and coherence should finally result in market outcomes which reflect the existence of a regional or even single market – such as price convergence and the ability to trade gas (without barriers) across the EU. The gas regional initiative is currently between the first and second steps – common issues have been identified and solutions are now being developed.

2.2 Interconnection and Capacity

20. Although some of the work varies, all three regions have identified the need to enhance the efficient use of existing pipeline capacity and facilitate the development of new interconnection capacity.

2.2.1 Relevant Developments

Day Ahead Auctions

21. The **North-West region** is looking to introduce a pilot project to introduce, if possible, some form of an auction mechanism for interconnection capacity on the borders of Netherland/Germany/Denmark. There are potential legal issues regarding the implementation of an auction-based approach in Germany and, as an alternative, a traded option is also being considered. To this end, stakeholders have come together to look at what a traded platform could like for the capacity products. The project is planned for implementation in early 2008 and, if it works, it should help to ensure that the interconnection capacity at these border points is used more efficiently. It would then be necessary to consider how the arrangements could be rolled out on a wider basis throughout the region – taking into account whether there are any relevant legal barriers that may dictate the particular solution adopted⁶.

⁶ Latest developments can be followed at:

http://www.ergreg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Interconnections_secondary_market/Day%20ahead%20capacity%20pilot.

Developing a standard bulletin board for trading

22. The **South-South East** region has proposed the development of a standardised trading platform for transmission capacity on all major transmission systems in the region as a major step towards facilitating a secondary trading market for shippers. The intention is that greater transparency in the secondary market will increase liquidity - which in turn should lead to less contractual congestion at interconnection points and promote market integration with the region.

Development of a One-Stop Shop (OSS) service for capacity bookings

23. The **South-South East region** has also proposed the introduction of an OSS service for capacity bookings to be implemented by the TSOs. The intention is that this service will benefit shippers who want transport gas across a number of countries in the region, by allowing them to make one booking rather than separate ones with each relevant TSO.

Interconnection: Primary and Secondary Markets

24. The **North-West region** published a report in relation to responses to a questionnaire on interconnections and primary and secondary markets. The section on primary capacity outlined differences across the various interconnection points in the products being offered and the allocation, nomination and congestion management procedures in place. The section on secondary markets highlighted that there is unused capacity that could be traded via secondary markets.
25. Specific work is also being undertaken in the **North-West region** on the issues associated with efficient use of capacity at three important interconnection points - Taisnieres, Oude Statenzijl and Obergailbach Medelshiem. The aim is to overcome transparency issues here so that stakeholders can take more effective commercial decisions; and to identify ways of improving the way in which the existing capacity allocation and congestion management work – which will improve market integration within the region. At some interconnection points (Obergailbach and Taisnieres), TSOs are taking measures to improve transparency. Once this work has been undertaken for these interconnection points it will be possible to roll out solutions and lessons learned to other interconnections points (suitably adjusted where appropriate).

Interconnection capacity

26. In the **North-West region**, Fluxys and GRTgaz are conducting coordinated open seasons procedures under the supervision of their regulators. The results of this open season will be published at the end of 2007.
27. In the **North-West region**, the infrastructure operator companies (in their ad-hoc investment workstream) is currently seeking the views of market participants as to whether they would like to see a website developed outlining all planned investments in the region – including expected completion dates and whether there is an open season process.
28. The **South region** priority is to increase interconnection capacity at the French – Spanish border to allow for greater flows of pipeline gas (and trade between France-Spain) into the region – and therefore integrate it more with the North-West market.

29. This will require investment in new infrastructure that will gradually increase the interconnection capacity over the next few years. The current study covers the period until 2015. The work within the regional initiative is focused on facilitating the investment by bringing the TSOs together to work on developing co-ordinated plans for the investment. Market participants are also being closely involved in the work so as to help identify the future capacity requirements.
30. The **South region** also plans to assess the future capacity requirements of the Portuguese-Spanish interconnection point. This initially will identify the current situation and look at whether there is a need for an increase in capacity to facilitate the development of competition, trade and greater market integration. As with work on the French-Spanish border this will involve bringing together TSOs and market participants to understand future capacity requirements.
31. The **South region** is also working on the development of coordinated capacity allocation mechanisms for interconnection capacity. This will help market participants (both incumbents and new entrants) at both sides of the border to gain access to the capacity in a transparent and non-discriminatory way. It will also eliminate the impact of inconsistent capacity allocation mechanisms either side of the border.

2.2.1.1 Assessment

32. All regions recognise that there is a need to facilitate more efficient use of existing capacity and/or the development of new pipeline capacity in order to improve market integration. It represents a key barrier to further progress towards regional, and eventually a single, market. Although the approaches taken in each region differ slightly they mainly reflect the market circumstances in each region. In the South region (and also in the North-West region at Taisnieres) the focus is on facilitating new investment – although in the other two regions it is on making more efficient use of existing capacity.
33. There is a question of whether the approach taken in the North-West and South-South East region are sufficiently coherent so as to avoid creating barriers to integration, at a later stage, across the two regions. ERGEG's initial assessment is that while there are some differences in the potential solutions that are being looked at they do not appear to create potential barriers for future integration – although it will be necessary to monitor developments closely and learn lessons from the solutions that are developed and implemented to see, for example, whether they could be rolled out across the two regions.

Questions for stakeholders

- ◆ Do you think that the approaches being taken across three regions towards interconnection and capacity are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently?

2.2.2 Transparency

34. All three regions have identified transparency as one of their key priorities to help facilitate greater market integration.

2.2.2.1 Relevant developments

Convergence of information

35. The **South Region** is looking at ways to help ensure that operators provide information needed by market participants across the regional market. The key focus is moving towards greater consistency and accessibility to the information provided by the TSOs/LSOs/SSOs to market participants. Market participants in the region were consulted to better understand the existing levels of transparency and also to identify the additional requirements of the market. The defined additional transparency requirements are being implemented by the operators in the region. Also the information of the new investment developments is going to be published in operator's web page, and updated on a rolling basis.

Bulletin Board

36. As indicated earlier the **South-South East region** has proposed the development of standardised trading platform for transmission capacity on all major transmission systems in the region to facilitate a secondary trading market for shippers. The key outcome from this will be greater transparency in the region which should in turn lead to greater liquidity.

Increasing the availability of information from Operators to the market

37. In the **North-West region**, TSOs were asked to complete a questionnaire which outlined the requirements of the market for greater transparency. The questionnaire, which was developed by market participants, asks TSOs whether they meet the requirements that have been outlined and, if not, the reasons for not doing so (e.g. legal or regulatory barriers). The questionnaire also asks TSOs, in the event of them not publishing the information, how long would it take for them to do so and what issues may arise (e.g. costs of provision). Following discussion of the responses to the questionnaire on 19 September, plans are now being developed by TSOs to improve transparency over the coming months – these plans, which will be discussed by the regulators, should outline quick wins and longer term improvements.
38. Also in the **North-West region** SSOs have already brought forward firm plans to improve transparency in three main areas:
- ◆ Aggregated storage inventory levels
 - ◆ Available storage capacity
 - ◆ Technical issues – e.g. information published during outages.

39. It is expected that implementation of these improvements will be achieved between October and November 2007. Storage operators have also published details of the planned storage projects across the region and introducing arrangements to allow “storage swaps” of inventory and capacity. These improvements will be a first step towards meeting the requirements of market participants and facilitating greater integration across the region.
40. In the **South region** regulators have identified a need to extend the transparency requirements already being applied to transmission to LNG and storage infrastructure.

Developing guidelines for “less than 3”

41. In the **North-West region** the regulators have developed guidance notes for the application of the “less than 3 rule”⁷. This indicates that where the number of network users that have contracted for capacity at the same point is less than 3, the operator can (at the request of a user) seek authorisation from the competent authority not to publish the relevant information for reasons of commercial confidentiality. The note sets out guidance to regulators, operators and users about how exemption requests should be treated – outlining the respective roles and responsibilities; the issues that regulators need to consider in assessing applications and potential ways of making some information available even if there are less than 3 users.⁸

2.2.2.2 Assessment

42. Transparency is crucial to the development of efficient and effective markets. Consistent levels of transparency are also important for facilitating integration because if there are significant differences between regions this can create barriers to trade. Both the North-West and South region have consulted the market on what their information needs are and steps will be taken by operators to try and meet these requirements. Although the work is at different stages the approach being taken is broadly the same. However, it will be necessary to review the detail of the solutions developed to ensure that they are sufficiently consistent so as to avoid creating barriers for convergence. There is a question of whether it would be appropriate to take a similar approach in the South-South East region once the bulletin board has been implemented. There is also the question of whether the “less than 3” guidelines could be rolled out across the other two regions once it has been finalised.

⁷ Article 6.5 of the Gas Regulation 1775/2005/EC.

⁸ The guidance note built on the results of a survey of regulators in the region that outlined how many exemption requests they have received and whether the request not to publish information was granted.

43. It is also crucial that the existing transparency requirements in the Gas Regulation are implemented on a consistent basis across the EU as this will help facilitate market integration. ERGEG's work on monitoring compliance against the requirements shows that there are significant differences across Member States in the level of compliance.⁹ It is also important that the transparency requirements in ERGEG guidelines (e.g. on LNG, gas balancing and gas storage) are fully implemented.

Questions for stakeholders

- ◆ Do you think that the approaches being taken across three regions towards transparency are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.
- ◆ Do you think there would be benefits in rolling out the guidance on “less than 3” to the other regions? If so, are there any regional differences that should be taken into account.

2.2.3 Interoperability (including gas balancing)

44. All three regions have priorities which directly relate to interoperability (including gas balancing). The key focus of these priorities is to enhance the integration of Operators within each of the regions and in many cases to standardise operational procedures.

Relevant development

Regional entry-exit tariff system

45. The **South-South East region** has focused work on the potential development of a regional entry-exit system. The work involves promoting more cost reflective transportation pricing systems and market access for new shippers through a regional entry exit system. At present the regulators are assessing a simulation of such a tariff system and the potential impact that it could have. Implementation of a regional entry-exit system should help facilitate convergence within the region.

Interconnection point Agreements (IPAs) & Operational Balancing Agreements (OBAs)

46. The **South-South East region** is also working with TSOs and stakeholders to remove remaining barriers to the implementation of IPAs and OBAs. Implementation of these should help improve the interaction between TSOs and facilitate cross-border trade and market integration within the region. This work is ongoing with further progress expected during 2007.

⁹ Compliance with Transparency Requirements of Gas Regulation 1775/2005/EC - An ERGEG Monitoring Report [E07-TRA-02-03].

Balancing

47. The **North-West region** is looking at the interaction between neighbouring balancing mechanisms to understand whether differences could impact on trade and the development of market integration. The terms of reference for this work has been published and an initial draft report has been produced. The next steps are now to seek the views of stakeholders across the region. Once stakeholders have been received it will be necessary for the regulators to consider whether any changes in balancing mechanisms are needed to help facilitate greater market integration.
48. The **North-West region** is also looking at improving the transparency of information provided on gas balancing which can be a potential barrier to trade. Information templates for three TSOs in the region (National Grid, Fluxys and GRTgaz) are in development in line with the requirements of ERGEG's GGP for Gas Balancing (GGPGB). Improved information provision will encourage coherence within the region and, in time, as the GGPGB is applied across the regions, will lead to greater convergence of balancing information across the EU.
49. The **North-West region** also looked at issues relating to interoperability in the region as a potential priority area of work. It was decided that whilst it is important, there is already significant work being undertaken by individual regulators where there are issues to be tackled – namely in the UK where the regulator (Ofgem) has recently published a report on gas quality issues. The regulators in the region have decided to keep work on interoperability, through the regional initiative, on hold at this stage – although this will be reviewed in due course.

Development of coordinated and harmonised operational procedures

50. In the **South region** work on interoperability has been done on the French–Spanish interconnection point. Shippers have conducted a study to identify interoperability problems - with various procedures such as booking, capacity allocation and congestion management, and the products and services offered being identified as potential issues impacting on interoperability in the region. The next step will be that TSOs will carry out work to respond to the issues raised by shippers, focusing also on gas quality and odourisation specifications – and identify solutions where appropriate. The study identifying the interoperability problems in the Portuguese-Spanish interconnection points is currently being done by the TSOs.

2.2.3.1 Assessment

51. The work carried out in this area is clearly inward focussed. Each REM needs to address issues of divergence within the region in order to create fully functioning regional markets. The key difference between the regions is the focus in the South-South East on the development of a regional entry-exit tariff system. There is a question of whether the development of such a mechanism over such a large region could cause problems in compatibility as the regions move towards a single market over time.

52. As there are only three regions in gas and that trade and gas flows between them are not that significant it does not appear that there are other interoperability issues across the three regions that are problems for coherence and convergence. In addition, the [European Association for the Streamlining of Energy Exchange](#) (EASEE)-gas has developed common standards for a number of interoperability issues (such as nomination and matching etc) and implementation of these is being actively pursued outside of the regional initiative process. The European Commission has also given a mandate to CEN (the European Committee for Standardisation) to develop consistent standards for gas quality across the EU – again this work is outside the direct remit of the regional initiative although it is important to keep up to date on progress.

Questions for stakeholders

- ◆ Do you think that the approaches being taken across three regions towards interoperability (including balancing) are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.
- ◆ Do you think the development of a regional entry-exit system in the South-South East region will lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?

2.2.4 Development of gas hubs

53. Liquid and transparent gas hubs are an important foundation for the development of efficient and effective markets. The ability to trade between hubs, with no barriers, is crucial to market integration. There are significant differences in the number and development of gas hubs across the three regions – which are mainly due to differences in market development across the three regions. Work is being undertaken in all three regions on the development of gas hubs.

2.2.4.1 Relevant development

54. The **North-West region** began work in this area by assessing the existing level of liquidity at the various hubs in the region. A number of the hubs were identified for further work - NPB, TTF Zeebrugge and GTF. Generally, the gas hubs across the regions have different levels of liquidity – and one aspect of the work will be understanding the factors behind this. Meetings have now been organised to help understand the detail of the barriers to further development of these hubs and ways of improving liquidity. This work is expected to identify solutions for improving the operation of hubs – both in terms of their liquidity and the ability to trade between hubs in the region. Recent work has focused on developing the GTF hub. In October 2007, based on feedback from stakeholders, there will be plans to look at other hubs in the region.

55. The **South region** is focused on the development and integration of MIBGAS (the Gas Iberian Market) into that of the regional initiative. The improvements expected from the development of MIBGAS will be the starting point for the development of a gas hub in the region – where none exists at this point. An action plan that will lead to the development of a gas hub is currently being prepared. The first priority will be to enhance the level of regulatory harmonisation between Spain and Portugal and the creation of a price signal mechanism.
56. The **South-South East region** has been working towards hub development as part of its work on developing a regional balancing market – with the aim of establishing the existing hubs as regional balancing points. Developments in this area have included work on introducing a back-up/back-down service, day-ahead products and web based nominations.

2.2.4.2 Assessment

57. The work being carried out on hubs across the three regions generally differs in its focus, although all are aimed at the development of more liquid hubs. For the South region, the development of an Iberian Gas Market will be the catalyst for the creation of a gas hub in the region – and as such the focus of the work is about laying the necessary foundations. The developments in the North West region and the South-South East region focus more on addressing specific issues, such as increasing liquidity at the hubs in their region, and, in the case of the South-South East region, is expected to be a possible step towards a regional balancing market.
58. It is clear that the solutions developed for each hub may differ depending on the respective issues that are faced. The South region is looking at the other two regions to learn from the experience gained in developing hubs which will help ensure that arrangements put in place facilitate the development of liquidity. There is also a question of whether, in the North-West region, it would be appropriate to look at the development of regional hubs as in the South-East region – although it would be important to understand the results from the work that is being undertaken in the North-West region on the interaction between gas balancing mechanisms.

Questions for stakeholders

- ◆ Do you think that the approaches being taken across three regions towards the development of gas hubs are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.
- ◆ Do you think that the more regional approach to developing hubs in the South-South East region will lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?

2.2.4.3 Other issues

59. The regulators in the **North-West region** have developed a Memorandum of Understanding (MoU) which is aimed at promoting greater cooperation between regulatory authorities – for example in sharing information and consultation. The MoU is intended to fill a regulatory gap that exists within the current legislative framework, which does not adequately set out requirements for regulators to work together more effectively to facilitate the development of more integrated markets. The MoU will be signed by all of the regulators in the region on 25 October 2007.

Questions for stakeholders

- ◆ Do you think there would there be benefits in the MoU being rolled out across the other two regions – or are there adequate arrangements already in place? If it was rolled out would there be any barriers to doing so and how could they be overcome?

3 Conclusions and responding to this document

60. It is important that the approaches and solutions adopted in each of the gas regions do not create barriers towards achieving a single gas market. This report has explained that the issues of coherence and convergence may not be as pronounced as they could be in electricity – due to the nature of market development and the make-up of the regions. This means that achieving coherence and convergence within (rather than across) the regions is important as a first step.
61. In general there is a good level of consistency in the common priorities being tackled across all three regions. There are some differences in some of the solutions that are being developed but generally these reflect the market conditions and development within each region. Some potential differences have been identified – particularly with regards to the more “regional” approach taken in the South-South East region (e.g. looking at regional entry-exit arrangements) – and stakeholders’ views have been invited on whether these cause any concerns with regards to future integration of the three regions.
62. ERGEG invites all interested parties to comment on the issues raised in this paper – and in particular those questions highlighted below. Any comments should be received by **16 December 2007** and should be sent by email to gasconvergence@ergeg.org.
63. Following the end of the public consultation period, ERGEG will publish all comments received from stakeholders. Any respondents wishing ERGEG to treat its contribution as confidential should clearly state this in their reply and endeavour to give any confidential material in annexes that can be separated from publishable non-confidential material.
64. ERGEG intends to produce an annual report on the regional initiatives around Spring 2008 – this document will set out further thoughts on coherence and convergence in response to this consultation.
65. Any questions relating to this document should in first instance be directed to:

Mrs. Fay Geitona
Tel: +32 2 788 73 30
Fax: +32 2 788 73 50
Email: fay.geitona@ceer-eu.org

Questions for stakeholders

General

- ◆ Do you agree that there is sufficient consistency in the common priorities that are being looked at across the three regions to ensure that no real barriers are being created for the future integration of the regions? If not, please explain why.
- ◆ Given the factors outlined above, do you agree that the issue of coherence and convergence within regions than between regions is more important as a first step in gas? If not, please explain why.

- ◆ Do you think there are similarities and/or interactions between the electricity and gas sectors that should specially be taken into account when assessing the coherence and convergence level among regions? Please specify which similarities and/or interactions that should be taken into account.

Interconnection and capacity

- ◆ Do you think that the approaches being taken across three regions towards interconnection and capacity are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently?

Transparency

- ◆ Do you think that the approaches being taken across three regions towards transparency are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.
- ◆ Do you think there would there be benefits in rolling out the note on “less than 3” to the other regions? If so, are there any regional differences that should be taken into account?

Interoperability (including gas balancing)

- ◆ Do you think that the approaches being taken across the three regions towards interoperability (including balancing) are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently?
- ◆ Will the development of a regional entry-exit system in the South-South East region lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?

Development of gas hubs

- ◆ Do you think that the approaches being taken across the three regions towards the development of gas hubs are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently..
- ◆ Do you think that the more regional approach to developing hubs in the South-South East region will lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?

Other issues

- ◆ Would there be benefits in the MoU being rolled out across the other two regions – or are there adequate arrangements already in place? If it was rolled out, would there be any barriers to doing so and how could they be overcome?

Annex 1 Planned developments and solutions in the North-West region

Countries in the region

- Netherlands
- Belgium
- France
- Ireland
- United Kingdom
- Germany
- Denmark
- Sweden
- Northern Ireland
- Poland (aspirant)
- Norway (observer)

Lead Regulator: Dte – part of NMa (Netherlands)

1. Relevant features and key developments

Size of market

Approximately 60% of total gas consumption in the EU (around 300 bcm per year)

Countries in the region that are also in other regions

France, Poland

Hubs in region

NBP (UK), Zeebrugge (B), TTF (NL), BEB VP (Germany), E.ON GT VP (Germany); GTF (Denmark); PEG Nord (France).

Key developments

- Identified six priorities which resulted in six project plans with timelines and identified responsible parties for actions. Initiated additional work on day ahead pilot project and investment.
- Held multiple Regional Coordination Committees (RCC), Implementation Groups (IG) and Stakeholder Group (SG) meetings across the region.
- Formed Enabler Groups (EG's) to ensure an appropriate mix of regulators, operators and market players in the work on the priorities.
- Published an process called “plan for change” in which every stakeholder can bring good ideas for practical change into the initiative.
- Got support from the gas forum on Ministerial level.
- Had first successes on workstream (see main document).

2. Current situation and future plans

Interconnection/capacity

Current status:

- Issued a final Report on the Answers to the Questionnaire on Interconnections, Primary and Secondary Capacity Markets.
- Held kick-off meetings on three Interconnection Points for the year 2007 (Taisnières, Oude Statenzijl, Obergailbach Medelsheim): Identification of implementation goals and next steps on the basis of project plan.
- Held IP-specific meetings, evaluating situation and possible solutions for progress.
- Implemented first measures regarding the transparency at the interconnection point of Mendelsheim / Obergailbach : publication of daily flows by GDFDT in September 2007.
- Launched 2 coordinated open seasons by Fluxys and GRTgaz at the interconnection point of Blaregnies / Taisnières.
- Finalising work on a pilot for trading and auction of day ahead secondary capacity.
- Analysis of the capacity situation and identification of congestion at the Oude Statenzijl interconnection point.

Future:

- Taisnières: commitment of Fluxys to set up an interruptible transit service from 1 January 2008.
- Mendelsheim / Obergailbach: investigate compatibility of capacity products sold and the possibility to make bundled products available to the market.
- Oude Statenzijl: Joint maximisation of available firm capacity, e.g. by means of CAM or investment and coordination between adjacent TSOs where needed. Harmonisation of products offered including booking procedures and nomination. Offering of bundled products.

Transparency

Current status:

- Conducted a survey to TSOs relating to market data requirements identified by the European Federation of Energy Traders (EFET) and the International Federation of Industrial Energy Consumers (IFIEC). This will identify the quick wins and assist in the formulation of a plan going forward for publication of the data.
- Workshop on TSOs responses to the data requirements held 19 September 2007.
- Published the Project plan of Storage operators to improve transparency in areas of storage inventory, information on maintenance periods and on available capacity.
- Conducted a survey to Regulators requesting information on the application of “less than 3”. This survey led to the development of draft guidance for regulators, operators and network users.

Future:

- Implementation of storage transparency improvements (expected October-November 2007).
- TSOs to develop quick wins and longer term improvements for transparency – to be assessed by regulators.
- Finalise “less than 3” guidelines following consultation and ensure implementation across the region.

Coordination/interoperability*Current status:*

- Developed an understanding of each National Regulatory Authority (NRA)’s current powers, focusing on areas of regulatory overlap, interconnection, cross border flows and investment and published this in a report.
- Approved MoU to formalise a commitment to regulatory co-ordination in the region.

Future:

- MoU to be signed by 23 October.
- Implementation of MoU by NRAs in the region.

Balancing*Current status:*

- Developed detailed plans for delivery of information and templates.
- Developed draft terms of reference for gas balancing interactions.
- Initial draft of study on gas balancing interactions published.
- Update on progress in developing balancing templates published.

Future:

- Responses to interactions study from stakeholders and actions to be developed in case of any changes necessary to balancing mechanisms to be considered by RCC in first instance.
- Finalise information templates and Implement information templates.

Development of gas hubs*Current status:*

- Produced a report with assessment of hubs.
- Formed a User Group (UG) and started work on the Gas Task Force (GTF).

Future:

- The next GTF meeting was held on 6 September. The ambition is that, after the meeting, it will be able to make a list of ideas to overcome barriers to better liquidity on the Danish market, and from that list, to do an action plan, including a time table for the actions.
- Based on experiences from this meeting lead regulator will facilitate start-up meetings on other hubs. At the SG meeting market players will be asked which hubs to start working on in November. Then it should be possible to identify barriers to increase liquidity in January and have an action plan before summer.

Other issues - Investment

Current status:

- Issued a questionnaire to TSO's with the goal of identifying key issues for the regional action plan to be developed.

Future

- Operators to publish on a website an overview of different initiatives including links to open seasons. Operators are now seeking the views of market participants on the issue – an open letter was published on the ERGEG website.

Annex 2 Planned developments and solutions in the South-South East region

Countries in the region

- Austria
- Bulgaria (invited)
- Czech Republic
- Greece
- Hungary
- Italy
- Poland
- Romania
- Slovakia
- Slovenia

Lead Regulators: E-Control (Austria) and AEEG (Italy) (co-chairs)

1. Relevant features and key developments

Size of market

3927 PJ, approximately 29% of total gas consumption in the EU. Transit through the South South-East (SSE) region towards North North-West (NNW) region amounts to a further 16% of total EU consumption.

Countries in the region that are also in other regions

Poland (observer in NNW region).

Hubs in region

CEGH Baumgarten (Austria), PSV (Italy)

Key developments

- Making good progress in terms of moving from action plans and consultation with stakeholders towards practical implementation of solutions that are being developed to tackle the priority issues that have been identified.
- Priorities have been refined in line with the feedback at the last stakeholder group meeting in Milan.
- Responsibility for implementation being allocated to TSOs and market participants, (in particular members of the implementation task forces) rather than delivery resting with members of the RCC.

Practical outcomes and results

- Route assessment: Assessment of 6 different transportation routes through the region: Assessment of contractual vs. physical congestion. This focuses on:

§ available capacities;

- § effective congestion management;
- § how tariffs are computed and publication of tariff information;
- § OBA at Interconnection Points.

- Monitoring of implementation of Regulation 1775/2005/EC in the region.
- Study: Towards an integrated regional gas system: One stop shop services and regional entry exit tariff system.
- Study: Towards an integrated regional gas system: The hub used as a regional balancing point.

2. Current situation and future plans

Interconnection/capacity

- Best-practice standardised bulletin board:

Started work on standardised trading platforms for transmission capacity on all major transmission systems of the region, which is expected to facilitate secondary market trading for shippers.

Aim: A harmonized content for individual TSO platforms according to examples provided by TAG as 'best practice'. The platforms are expected to be ready by autumn 2007.

Responsibility for implementation: TSOs, update at next SG meeting in September 2007.

- Best practice provision of OSS service:

Worked in ensuring market integration via simplification how gas can be shipped both within the region and across the region; role model for the whole of the EU.

Agreed with TSOs that they will provide with services on request of shippers for the whole transportation route and/or at certain interconnection points.

Aim: TSOs offer OSS service to shippers who request it, cross-reference to transparency platform (GTE pilot project) and best practice cases of OSS (e.g. OMV, www.gatrac.com)

Responsibility: TSOs, presentation at next SG meeting in September 2007.

- Regional entry exit tariff system (REETS):

Started work on a simulation of regional entry-exit tariff system and its impacts, starting from benchmarking of present tariffs.

Working on promotion of a more cost reflective transportation pricing systems and easier market access for new shippers through a regional entry exit tariff system; role model for the whole of the EU.

Aim: Presentation of benchmarking results and simulation of introduction of REETS

Responsibility: RCC, presentation at next SG meeting in September 2007.

Transparency

- Continuous monitoring of the implementation of Regulation 1775/2005/EC
Regular updates at SG/RCC/IG meetings.
- Achieving greater transparency regarding regional investment issues:
Summary of planned investments in the region (incl. storage).

Started work in the summary of planned investments in the region, which shall identify future bottlenecks and help improving congestion management.
Circulated a questionnaire to TSOs, SSOs and NRAs. Analysis of responses ongoing.

- Aim: To include information on expansion projects (Transmission & Storage) into the survey as well, cross-check with e.g. GSE database..
Responsibility for data analysis: RCC.

Interoperability (including balancing)

- Removing remaining obstacles to implementation of IPA/ OBA
Started work on removing obstacles to the implementation of IPA/OBA.
Involved stakeholders work on a solution for the implementation of an OBA at Baumgarten including a list of remaining obstacles.
Aim: To provide a further update on implementation: TSOs will focus on concluding IPAs where these are not yet in place; Implementation of an OBA regime is dependent on certain prerequisites and will always be conditional; Shippers must be equally involved in the implementation process by complying with the nomination rules set up by the TSOs.
CEGH (Baumgarten): all involved stakeholders work on a solution within the next 3 months incl. a list of remaining obstacles.
Responsibility: TSOs, shippers; CEGH to provide an update at the next SG meeting in September 2007.

Hubs

- Hub development as regional balancing market.
Worked on introducing a back up/ back down service, day ahead products, web-based nominations among other initiatives.
Aim: Develop hub(s) to be regional balancing points.
Next steps: Update on implementation of next steps according schedule.
Responsibility: CEGH/EFET, PSV/EFET; presentation at next SG meeting in September 2007.

Annex 3 Planned developments and solutions in the South region

Countries in the region

- Portugal
- France
- Spain

Lead Regulator Spanish Regulator (Comisión Nacional de Energía-CNE).

1. Relevant features and key developments

Size of market

The South Region is a significant gas market with consumption of nearly 87 billion cubic meters/year acts as one of the main entries for the natural gas from the north of Africa, and for LNG from a variety of origins (85.5% of LNG supplied to EU25 in 2005 enters by through this region).

Countries in the region that are also in other regions

France is also a member of the North region.

Hubs in region.

Although there is no hub in the Spanish or Portuguese market, the Spanish Over-the-Counter (OTC) gas market in the various LNG terminals is liquid and very significant, taking into account the high gas volumes traded (30% of the total demand in 2005 and more than 70% in 2006).

In France, wholesale gas market trading is organized at the Gas exchange Points (PEGs), which are virtual points within each balancing zone. The total exchanged quantity for all the PEGs, over the 1st 2007 quarter, was about 24.8 TWh for 8,400 transactions. The physical deliveries at the PEGs during the 1st 2007 quarter have increased by 69% compared to levels observed during the 1st 2006 quarter.

Key developments:

- Study completed on investment requirements for the period 2007-2015 at French-Spanish border (study included definition of required infrastructures, capacities, technical characteristics, TSOs construction responsibilities, investments, etc).
- There is a need to analyse the interconnection capacity status and future requirements at the Portuguese-Spanish border. Study of the current status of interconnection capacity is being finished.
- General commitment to develop a coordinated capacity allocation mechanism at interconnections. First draft proposal for French-Spanish interconnection has been presented. Agreement to allocate the new capacity in the French-Spanish border under this mechanism by March 2008.
- General commitment on regular monitoring of the interconnections construction status.

- A joint study on interoperability problems at the Spanish-French border has been undertaken by stakeholders - this has provided a clear and detailed description of the interoperability issues which hampering the development of the regional market.
- A working group, composed by TSOs and Regulators, has been created to deal with infrastructure developments and interoperability issues. Responsibilities and tasks have been already assigned.
- A in-depth analysis of information published by TSOs, LNG and storage operators has been carried out, giving a clear vision of transparency status, which complies quite suitably with the Regulation 2005/1775/EC.
- A consultation with shippers on their views on the existent level of transparency has been carried out, which has allowed defining additional transparency requirements for TSOs, LNG and Storage operators that will encourage the development of the regional market. Also shippers have identified the need to follow up the construction of the new infrastructures foreseen in the plan made by the TSOs. The information is going to be published at TSOs web sites.
- Clear picture on current status of the Portuguese gas market.
- The development of the MIBGAS inside the South gas REM has been agreed,. First meetings on MIBGAS have been held.

2. Current situation and future plans

Interconnection/capacity

Current status:

- There is a very detailed plan/agenda for new required interconnection capacities at French-Spanish border. Works to apply this plan is about to start. To comply with the dates specified in the plan, the building status of new interconnections will be supervised.
- A draft of the construction status report, to be published on TSOs web page monitoring the development degree of all the new interconnection infrastructures) has been designed and presented in the last IG.
- A study on current Portuguese-Spanish interconnection status is ongoing.
- Besides that, works on developing a coordinated Capacity Allocation Mechanism (CAM) for interconnections has started and a draft for French-Spanish interconnections has been elaborated.

Future plans:

- To elaborate a detail coordinated capacity allocation mechanism and infrastructure development procedures for new interconnection capacities, which will solve the most important constraint in this region. French TSOs have to decide on the final investments. There is a working group composed by regulators (CRE and CNE) and TSOs to deal with this issue.
- To develop the mechanisms of capacity allocation of the new interconnection capacity between France and Spain. It will allow having the new capacity allocated to shippers, so the development of infrastructures can be done.

- To accomplish the interconnection investment plan developed by TSOs in the French-Spanish border:
 - Following the Spanish Central Planning on the Spanish side.
 - Decision on investments on the French side.
- Periodical publication–monitoring of the new interconnection capacities.
- Developing a very detail plan and agenda of new required interconnection capacities at Portuguese-Spanish border.

Transparency

Current status

- Studies carried out by Shippers and regulators have shown that TSOs comply with Regulation 1775/2005/EC statements. Information published by LNG and Storage operators is also quite complete, but it would be convenient they make public all the information demanded by Regulation.
- Additional requirements have been identified. TSO's should fully compliance with transparency required by shippers to act successfully in the regional market. Convergence in published information would promote competition and guarantee non discriminatory behaviours.

Future plans:

- Continuing to progress on the transparency improvements already identified beyond transparency requirements for transmission systems included in the Regulation 2005/1775/EC.
- Application/extension of Regulation 2005/1775/EC principles on transparency to LNG and Storage facilities.
- To identify transparency requirements on the Portuguese market that do not comply with existing Regulation.

Interoperability

Current status

- A study on practical cases of transit between France – Spain, identifying interoperability problems when accessing French-Spanish existing interconnection, has been carried out by shippers. –It principally referred to type of products and services offered, booking procedures, capacity allocation procedures, congestion management procedures, maintenance operations and gas specifications.
- Works performed by TSOs to develop a detail agenda which will solve the difficulties pointed out by shippers are ongoing.

Future plans:

- Application of the action plan developed by TSOs to solve interoperability problems already identified at French-Spain interconnections. Interoperability integration should promote a more efficient use of the interconnections by shippers.

- To identify interoperability issues among the three countries (including Portugal) that could hamper the market integration. Most efficient use of the interconnections by shippers in the three countries will be achieved.
- Continuing analysing and detecting new interoperability difficulties that can arise from the daily operation (French-Spain border), in order to propose solutions.

Development of gas hubs

Current status:

- The first task regarding this priority is the development and integration of MIBGAS into the SGRI. Great improvements are expected in the development of MIBGAS, which will be the starting point for the development of a gas hub in the south region.
- Regarding this priority, it has been already identified the first approaches: a regulation harmonization.

Future plans:

- Presenting by Oct 2007 an action plan, which gives priority to the tasks to be performed, is the first step to get a MIBGAS hub, and beginning to develop it.
- Regarding harmonization of regulation, the plan will include the steps to follow in order to develop a single shipper authorisation, coordinated CAM, one stop-shop, secondary markets, similar rules, etc. Regarding gas market price, the plan will consider the creation of a “place” to trade (balancing zones - OTC), of an information exchange platform and the development of procedures and rules to be followed by the regulators.

Other: Implementation of Directive 2003/55/EC

Current status:

- Gas Directive is already implemented in the region. Nevertheless, Portugal benefited from derogation and is currently opening its gas market. Improvements on this priority will be the focus on overcoming arisen difficulties, making profit of the French and Spanish experience, to assure the coherent integration of the Portuguese recently liberalized gas market in the region according to the Directive principles.

Future plans:

- Monitoring the opening of the gas market, in order to assure implementation of the Gas Directive principles and to solve possible differences, to get a coherent integration of the three liberalized gas market (Portuguese, French and Spanish).