European Gas Quality
& Interchangeability
Summit 2007
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European Federation of Energy Traders

TRADING PERSPECTIVES OF EUROPEAN GAS INTEROPERABILITY

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TRADING PERSPECTIVES OF EUROPEAN GAS INTEROPERABILITY

Contents:

- About EFET
- The Developing EU Gas Market
- The Gas Regional Initiative (GRI)
  - Overview
  - South East
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- Progress and prospects

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Verbund Austrian Power Trading
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BG International

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bp
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MVM THE SOURCE OF POWER

MVV Energiehandel · GmbH

mark E

Nexen Energy Marketing

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POWEO
1er opérateur indépendant d'électricité et de gaz

RWE Trading

Sempra Energy

SJB energy trading

spe

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Alles ganz einfach.

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Trafigura Ltd

TOTAL

tiroler wasser kraft

Trianel Energie

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UBS

ZMB

EFET

ABOUT EFET:
The voice of energy traders in Europe.

The European Federation of Energy Traders (EFET)

- Represents over 90 trading companies operating in more than 20 countries
- Promotes pan-European energy trading in open, transparent and liquid wholesale markets.
- Main activities include:
  - Advocacy for liberalised markets
  - Promotion of energy trading in Europe
  - Standardisation of contracts

ABOUT EFET : Improve conditions for energy trading in Europe.

"... fostering the development of an open, liquid and transparent European wholesale energy market".

Achieving our mission through better...

- Information transparency
- Data exchange
- Products and procedures
- Laws
- Regulation
- Taxation
- European Contracts
- Organised market

ABOUT EFET:
Recent gas publications.

March 2007	▪ Secondary capacity trading
May 2007	▪ Gas information transparency
July 2007	▪ Regional balancing markets

All available at www.EFET.org

September 2006	▪ Gas Quality position paper

ABOUT EFET: GAS QUALITY POSITION
Gas quality must not be an undue barrier to trade

EFET

- Throughout Europe, it should be possible to buy and sell gas, whether LNG or pipeline gas, without any undue physical, commercial or legal barriers
- Once gas is in EU infrastructure, control of gas quality and other interconnection issues should be the responsibility of the infrastructure operators, who must ensure that they neither prevent fair access to gas, nor fair access to capacity
- Traders must not be exposed to unquantifiable risks

TRADING PERSPECTIVES OF EUROPEAN GAS INTEROPERABILITY

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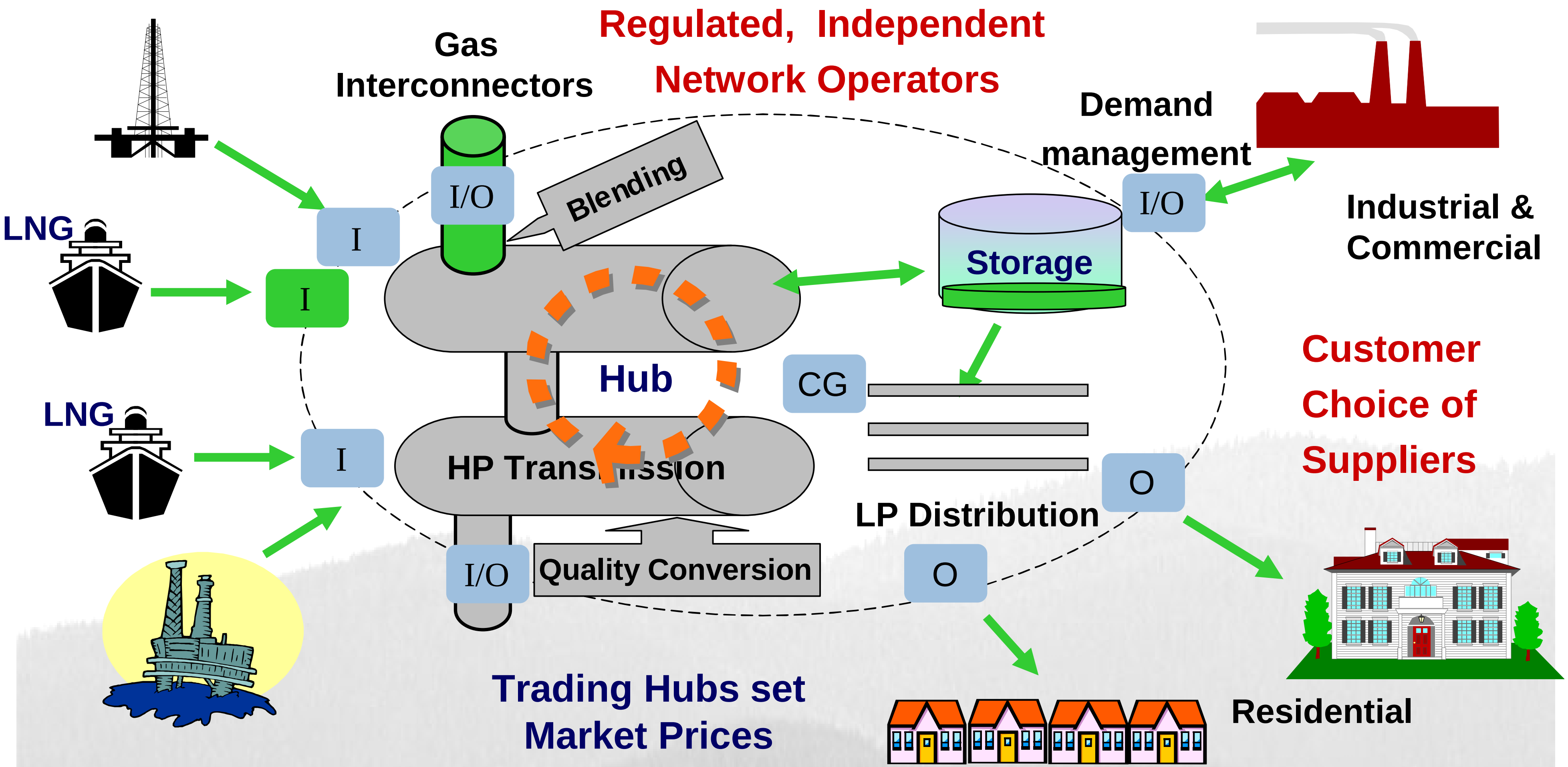
THE DEVELOPING EU GAS MARKET:
Regulated infrastructure, traded supplies



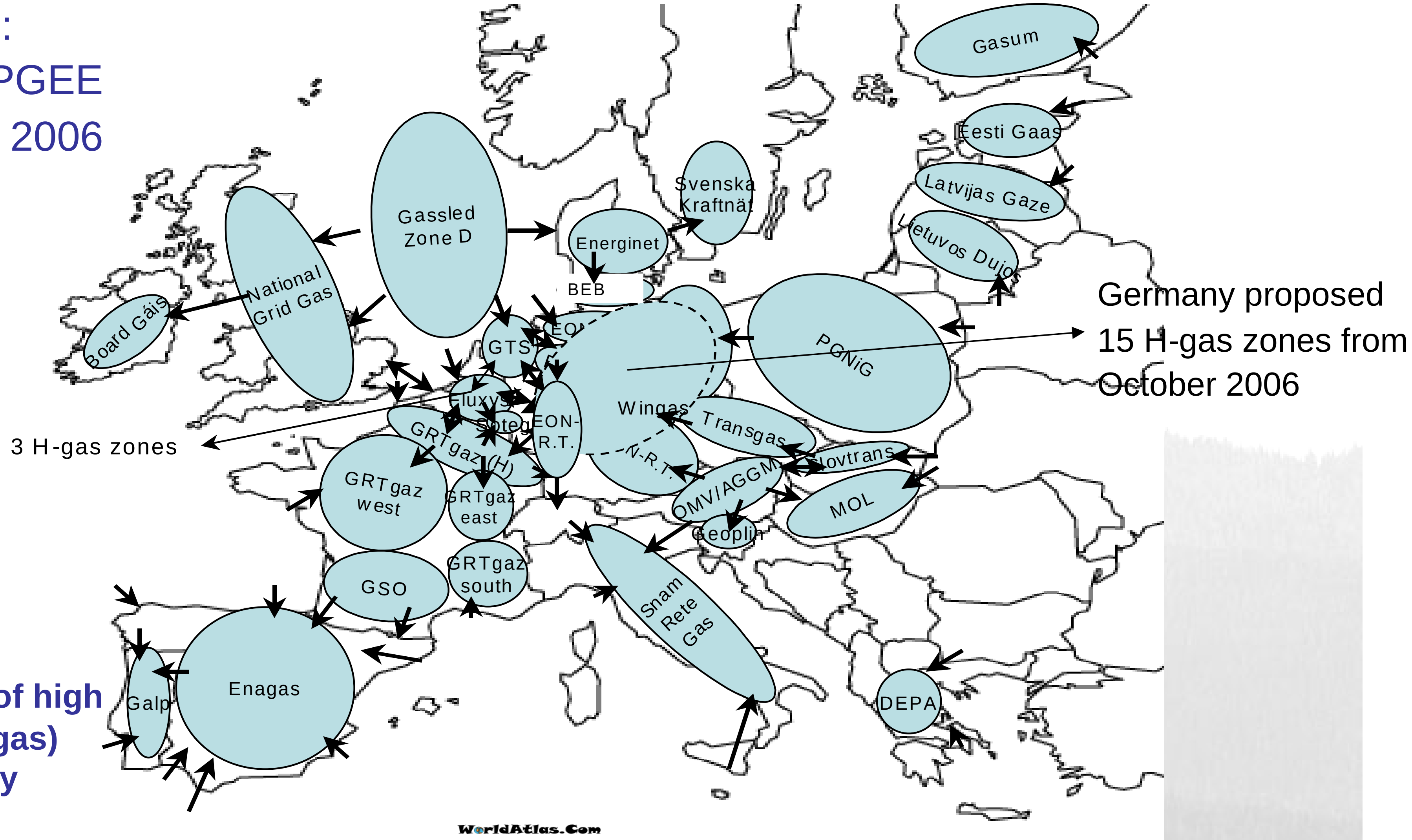
will exemptions complicate quality issues?

THE DEVELOPING EU GAS MARKET: Single market requires a consistent approach

- A shared (H gas) quality specification setting out clearly defined parameters will help to facilitate greater cross-border trade.
- Gas meeting this quality specification that is delivered at any cross-border or inter-TSO point within the EU must not be refused on grounds of quality.
- The responsibility for investment to ensure that this can be achieved lies clearly with the TSOs overseen by their national regulators.

THE DEVELOPING EU GAS MARKET:
Gas grids require compatible access rules

Source:
EFET PGEE
09 Feb 2006



***schematic of high calorific (H-gas) systems only**

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THE GAS REGIONAL INITIATIVE
Regulatory focus suggested by EFET (Jan 2006)

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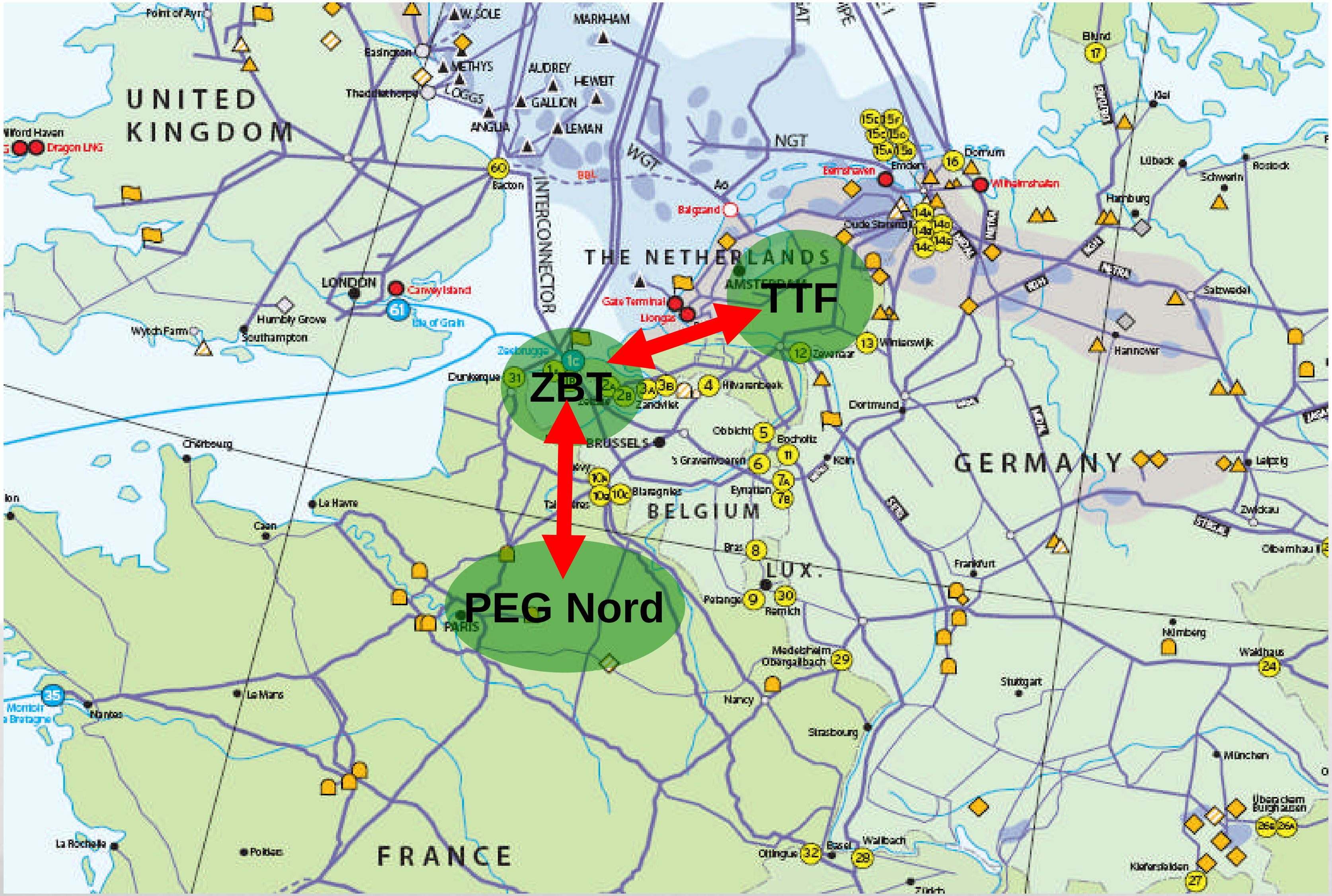
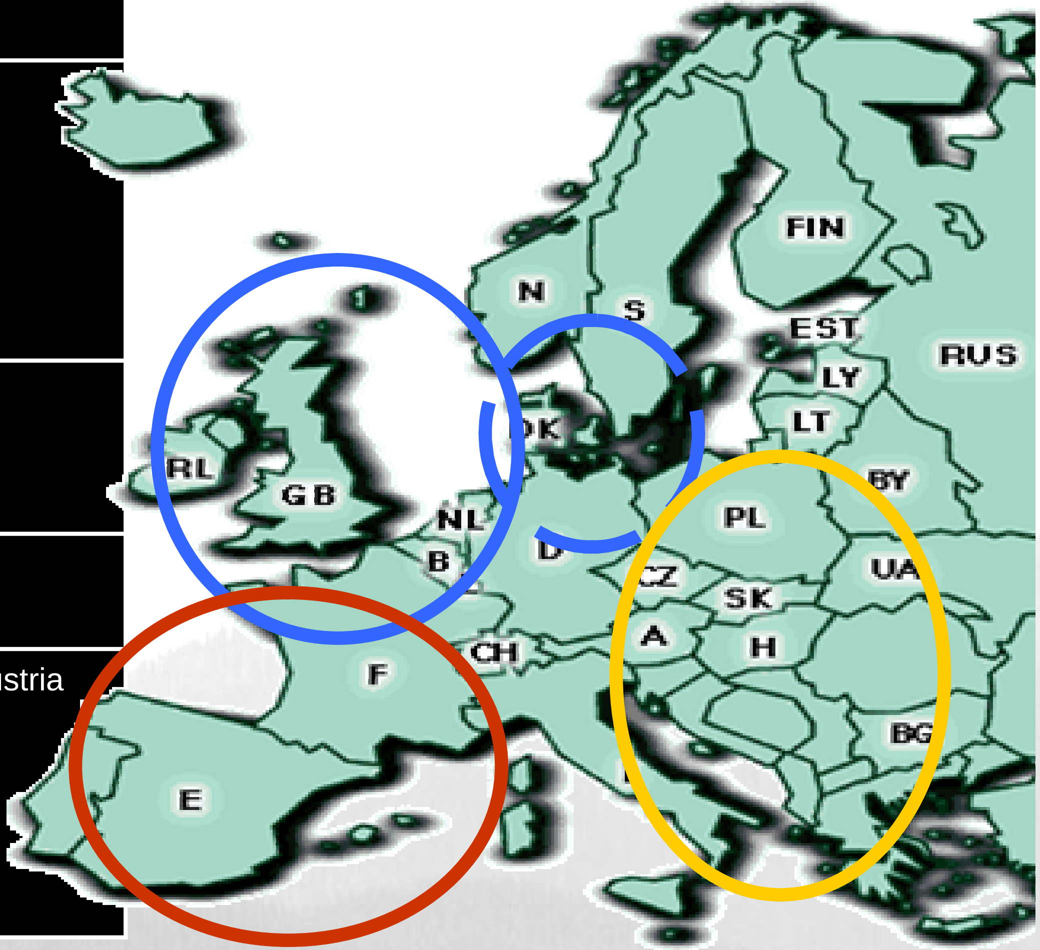


THE GAS REGIONAL INITIATIVE
Regional Gas Markets defined in April 2006

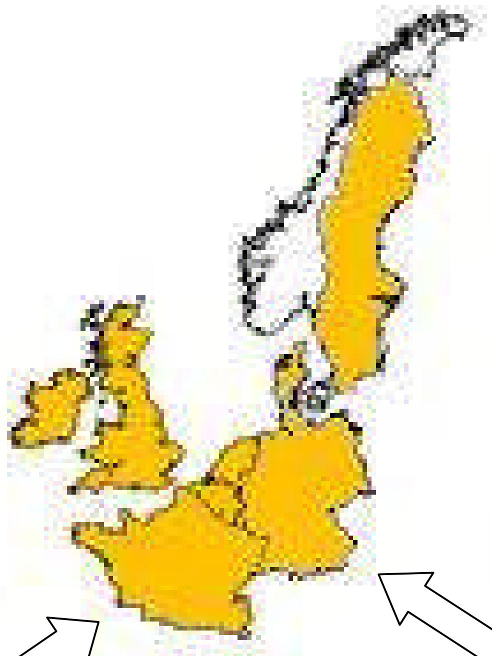
Region	Countries	Lead Regulator
North-West	Netherlands, Belgium, France, Great Britain, Ireland	NL
North (*	Germany, Denmark, Netherlands	NL
South	Spain, Portugal, Southern France	Spain
South-South East	Italy, Austria, Slovakia, Hungary, Slovenia, Greece, Poland, Czech Republic	Italy & Austria



THE GAS REGIONAL INITIATIVE
Regional division now used by Regulators

EFET

Region	Countries	Lead Regulator
North-North West	Netherlands, Belgium, France, Great Britain, Ireland, Germany, Denmark, Poland (aspirant at present)	NL
South	Spain, Southern France, (Portugal)	Spain
South-South East	Italy, Austria, Slovakia, Hungary, Slovenia, Greece, Poland, Czech Republic	Italy & Austria



THE GAS REGIONAL INITIATIVE
Structure of the Gas Regional Initiative (GRI)

EFET

EU COMMISSION

MADRID FORUM

Overall forum for discussing progress in establishing regional gas markets and pan-European consistency

ERGEG

established Regional Co-ordination Committees (RCCs). Each RCC :

- comprises regulators from the region;
- has autonomy, & adopts its own decision making process

STAKEHOLDER GROUP

Wide participation including market players
Chaired by RCC and used for consultation

IMPLEMENTATION GROUP

Includes TSOs, Market Operators (where appropriate)
This is the ‘do-er’ for each REM
Chaired by RCC

(NNW also has enabler groups on specific work topics)

THE GAS REGIONAL INITIATIVE
ERGEG assessment of progress of the GRI

EFET

April 2006	**Establishment of the GRI**
Sept 2006	**Action plans and priorities defined**
January 2007	**first quick wins** – did they materialise?
Feb 2007	**work on identified priorities** (IG, enabler groups)
Q2 & Q3 2007	**implementation and assessment of coherence and convergence**

THE GAS REGIONAL INITIATIVE
Transparency & Hubs are common priorities

Region	Priorities
S	Transparency Gas hub development Interconnection capacity Interoperability Implementation of Directive - market opening
SSE	Transparency Gas hub development Interconnection Practical transportation cases Regional Entry/Exit system One stop shop
N/NW	Transparency Gas hub development 1ary and 2ndary interconnection capacity Gas balancing Gas quality Regulatory coordination including investment issues

THE GAS REGIONAL INITIATIVE
Example from the South South-East Region

Austria
Czech Republic
Greece
Hungary
Italy
Poland
Slovakia
Slovenia

Walter Boltz leads ERGEG gas issues & SE region and is keen to improve access to gas transit pipes

THE GAS REGIONAL INITIATIVE
Can a new entrant get capacity in existing pipes?

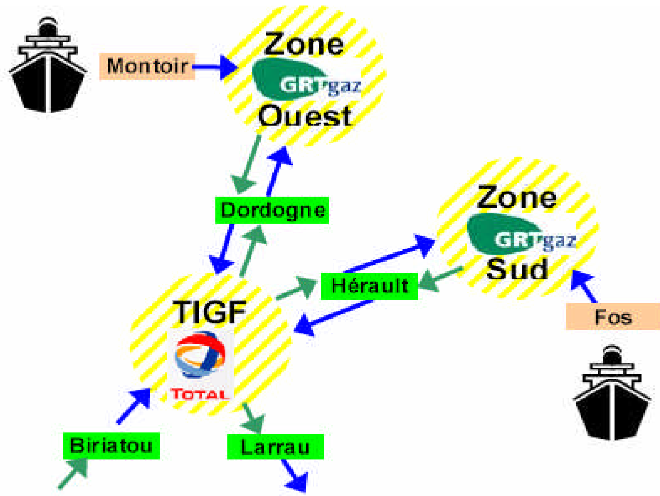
Short answer
Is … "no"

Gas Regional Initiative – Region: South-South East Assessment on selected Transportation Routes

THE GAS REGIONAL INITIATIVE
Targets for SSE region (for completion now)

- **Best-practice standardised bulletin board for capacity**
- **Summary of planned investments (incl. Storage)**
- **Removing remaining obstacles to implementation of Interconnection Agreements and Operational balancing Agreements**
- **Best practice provision of One-Stop-Shop service**
- **Possible specification for a regional entry/exit system**
- **Hub development as regional balancing market**

THE GAS REGIONAL INITIATIVE
X-border capacity is main topic in South region



- Enagas are increasing pipeline capacity to France,
- French regulator has approved some Total & GdF investment
- Integration of the region is dependent on new capacity being built and made available

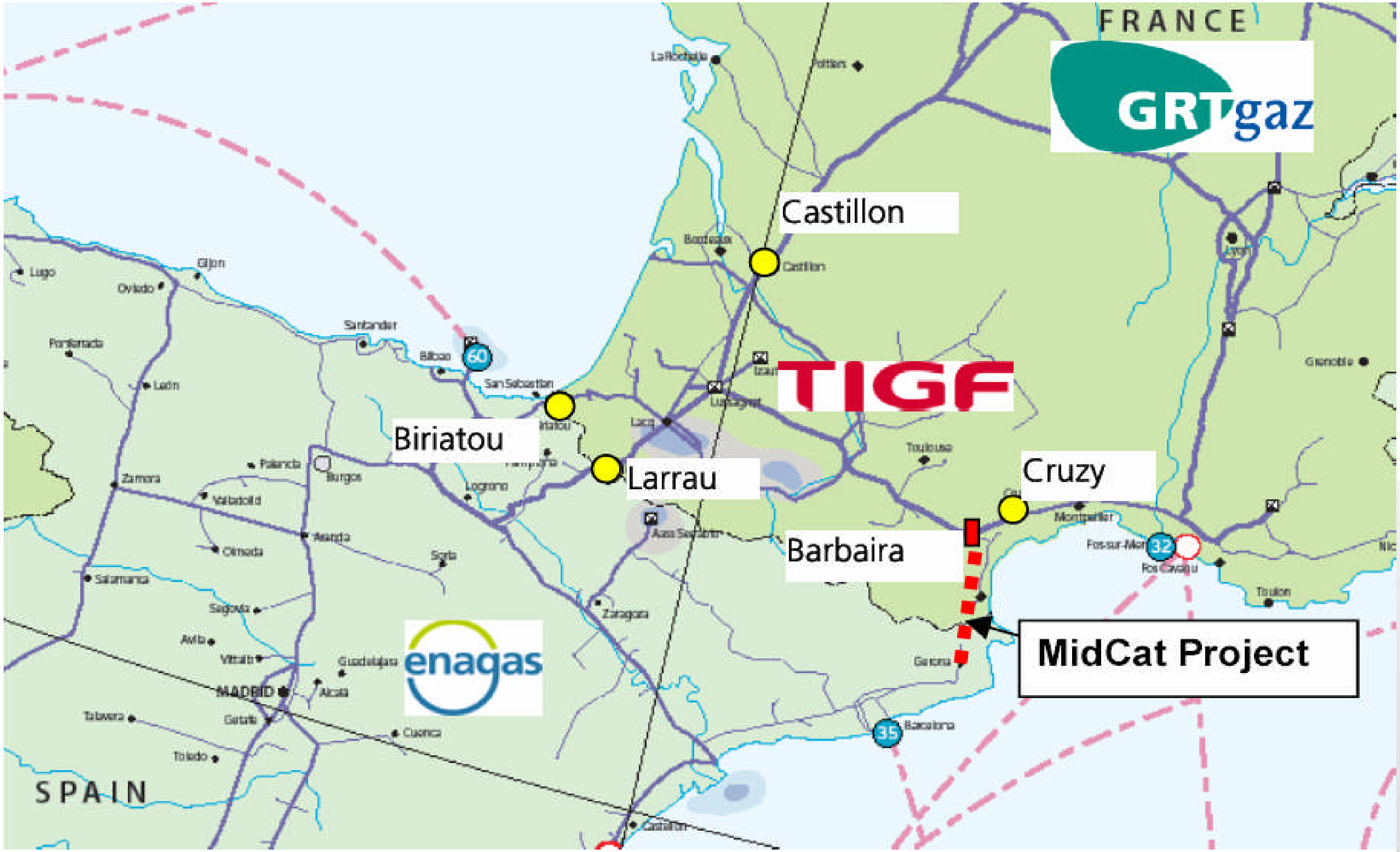
Entry capacity offered to shippers by the TSOs

Exit capacity offered to shippers by the TSOs

Dordogne Contractual entry-exit point

Fos Contractual LNG entry point

THE GAS REGIONAL INITIATIVE
The MidCat project is currently just for discussion

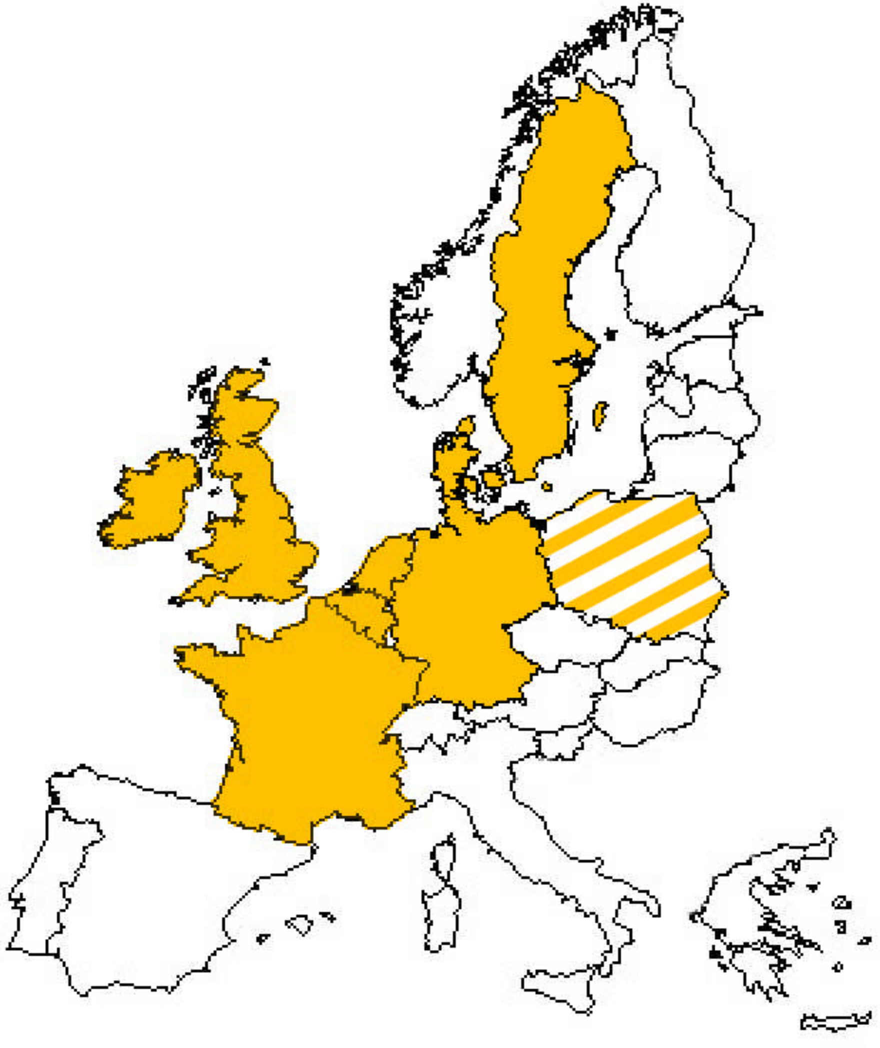


MidCat would link Fos LNG & Barcelona LNG

THE GAS REGIONAL INITIATIVE
Further investment to enable N-S & S-N flows

➲ Can financing rely on LT bookings if gas flows both ways?

THE GAS REGIONAL INITIATIVE
North-West region – most focus for trading



➲Combined in one super-region

➲Over 60% of Europe's gas

➲Led by Dte (jointly with BNetzA)

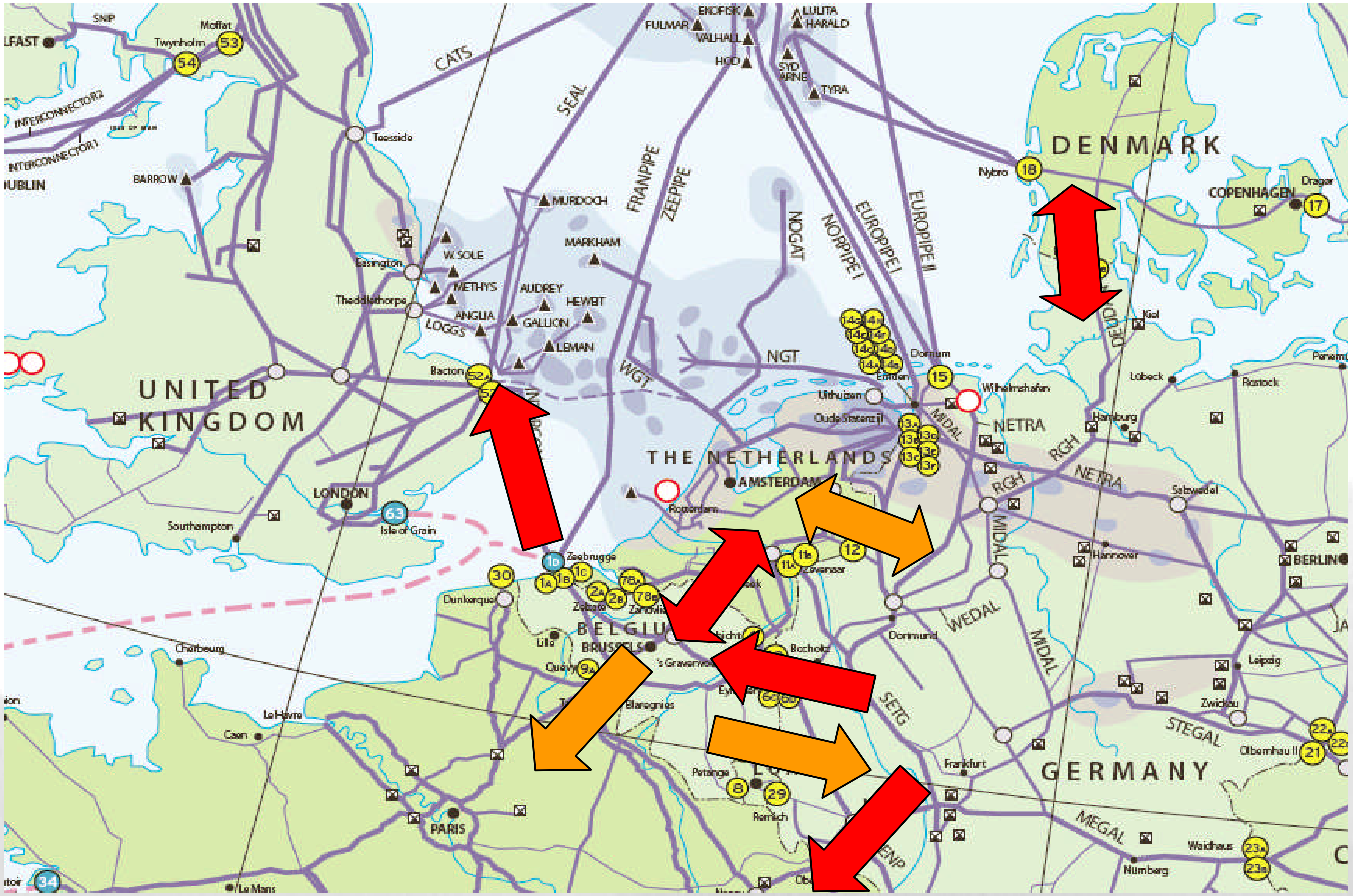
➲Key issues include

- hub development
- transparency
- primary & secondary capacity
- regulatory coordination
- balancing

THE GAS REGIONAL INITIATIVE
North-West region: Serious contractual congestion

EFET

- Rates of subscription in 2007:



Direction of flow

Availability

0%

<10%

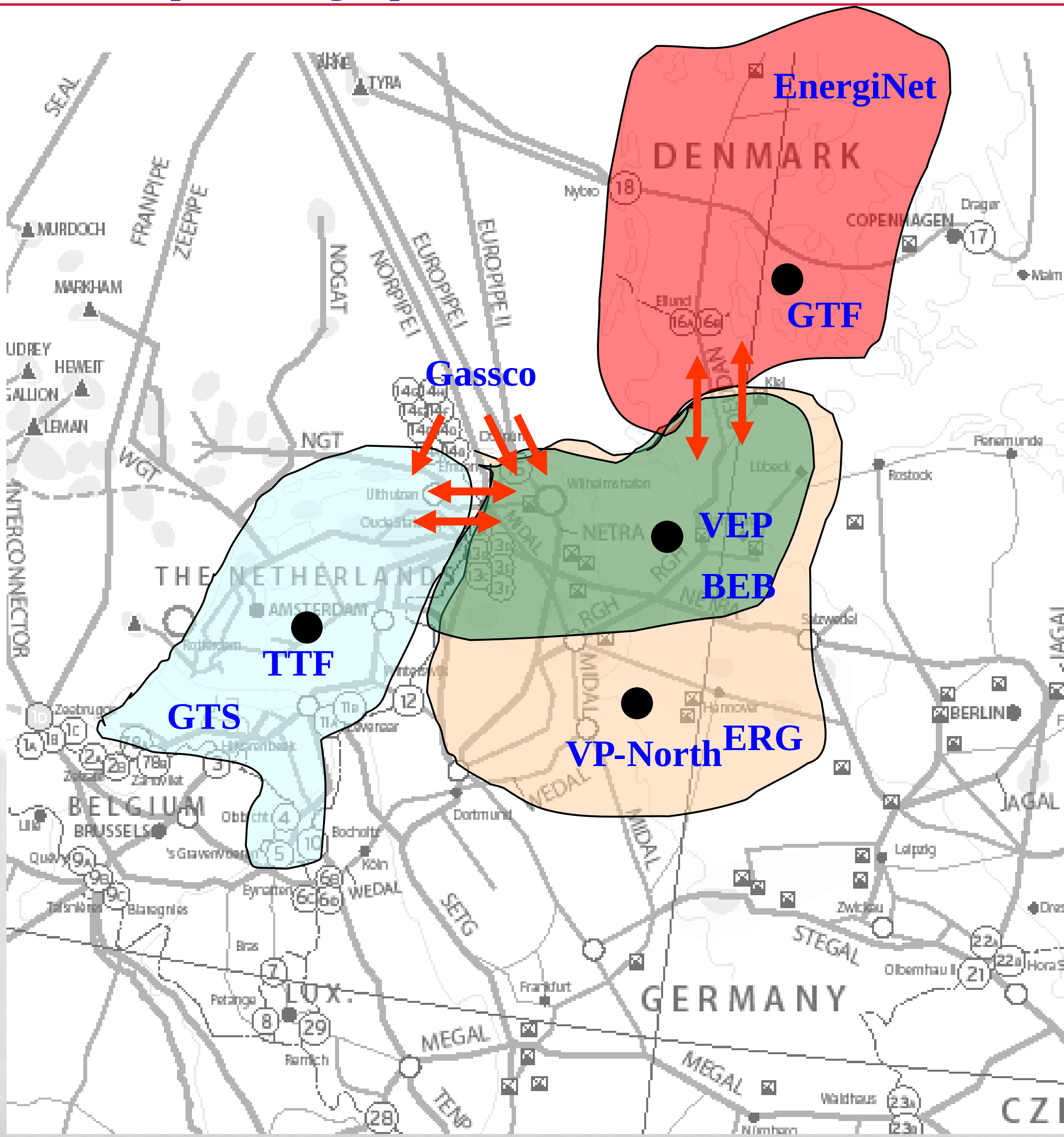
ERGEG

Overall Indication for the IPs considered

→ **insufficient firm capacity available**

THE GAS REGIONAL INITIATIVE
Lack of information on capacity remains a barrier

THE GAS REGIONAL INITIATIVE
Day-ahead capacity pilot idea launched Oct 2006



Trial daily capacity auctions to improve liquidity and connection in the Northern region

EFET then suggested OTC capacity trading in June 2007

Cross Border Capacity

Co-ordinated auctions at:
- **Bunde-Oude Statenzijl**
- **Emden**
- **Ellund**

TRADING PERSPECTIVES OF EUROPEAN GAS INTEROPERABILITY

Contents:

PROGRESS AND PROSPECTS
We need less questionnaires and more action

➲ Preparation by ERGEG has been thorough and worthwhile

➲ Current deficiencies and barriers to trade are better understood

➲But will the difficulties now be resolved?

PROGRESS AND PROSPECTS
Useful developments, but progress is slow

Have we moved?

South: Interconnector investment decision

South East: Multi-system transit access

North West: Day-ahead x-border capacity pilot

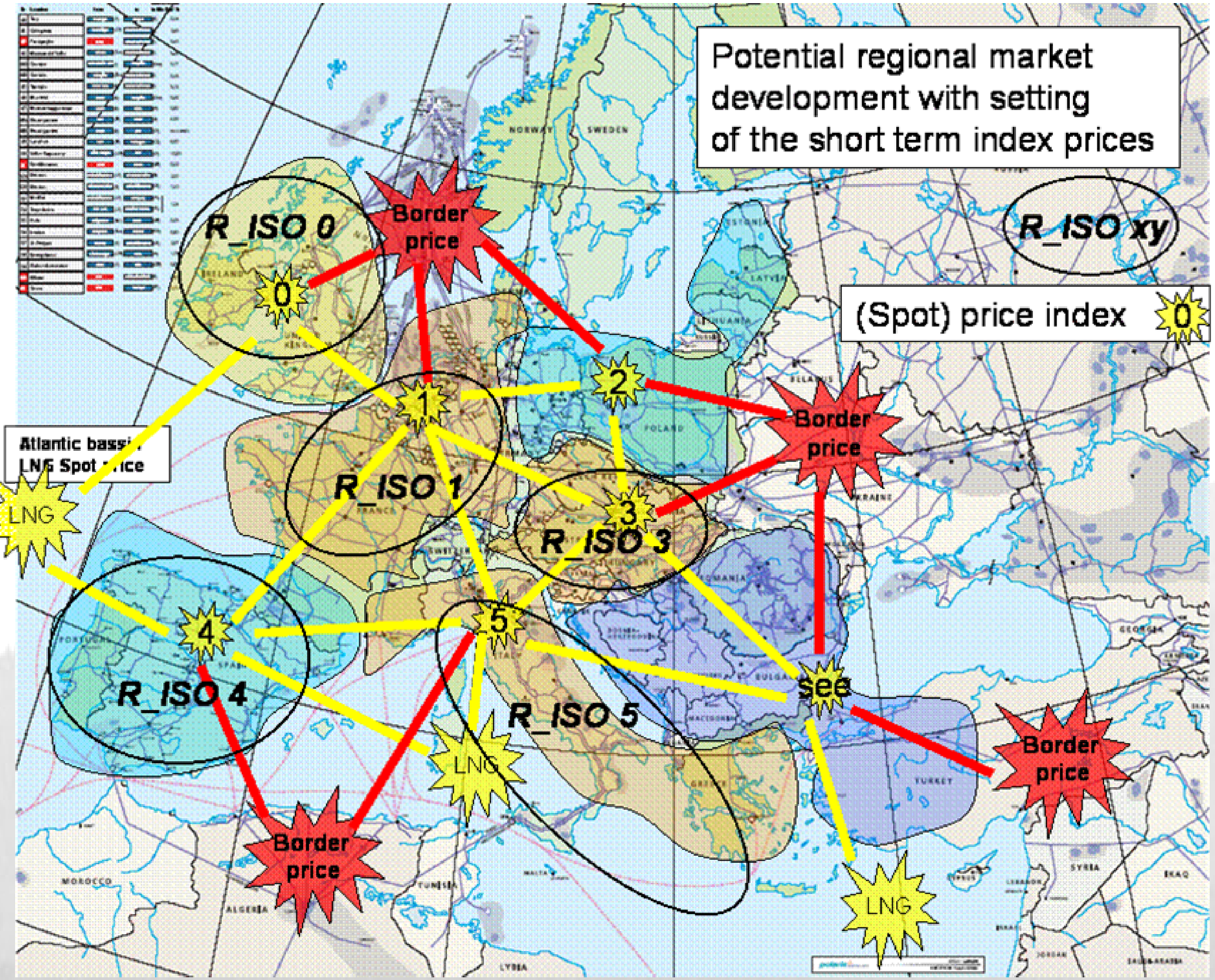
Need joint action, … now!

PROGRESS AND PROSPECTS
Movement can now be detected, but where to?…

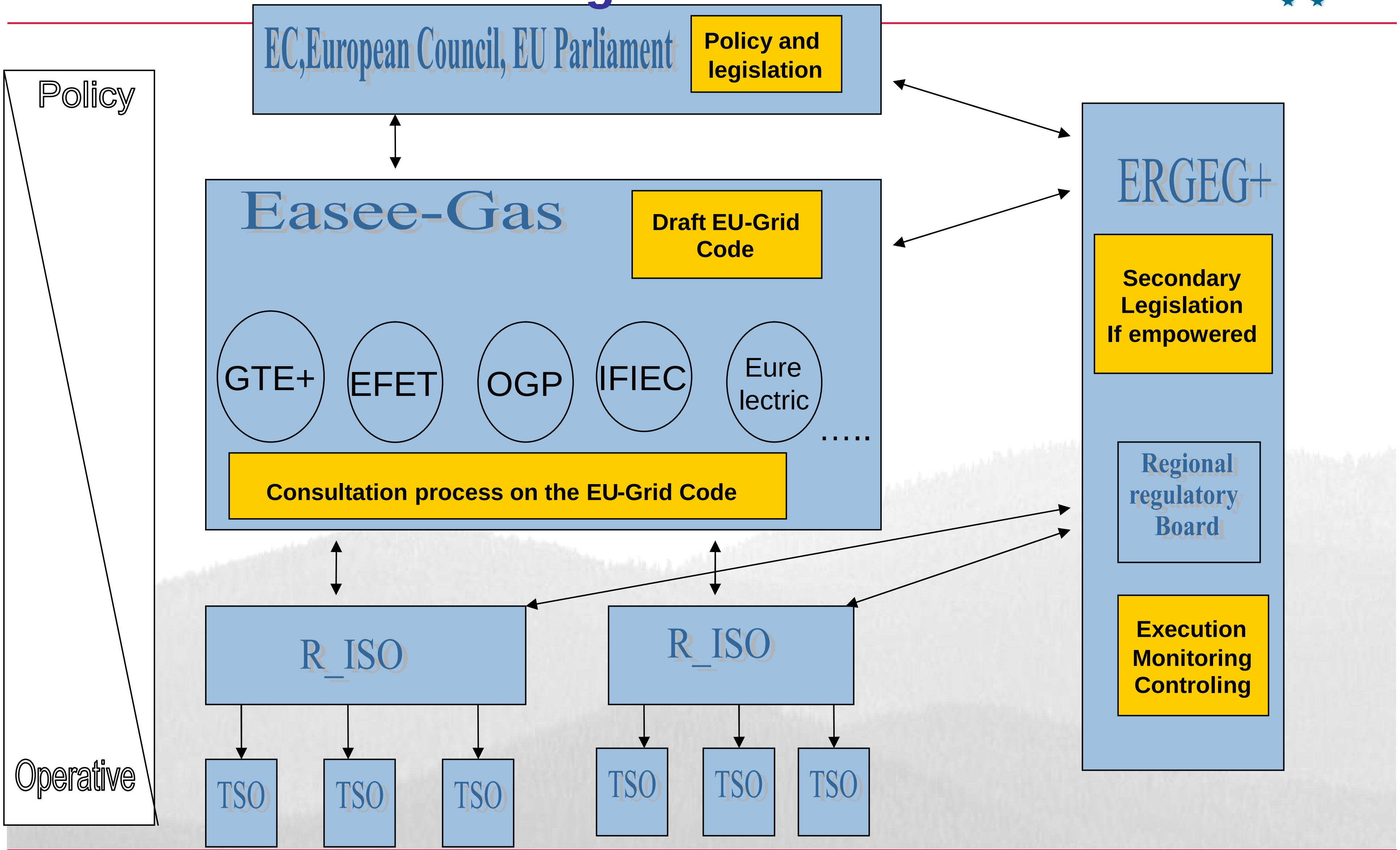
…will TSOs have joint x-border obligations/incentives?

… will there be clear x-border duties for regulators?

PROGRESS AND PROSPECTS
Example of future regional hub development



PROGRESS AND PROSPECTS
EU Institution reform: e.g. EU Grid Code decisions



PROGRESS AND PROSPECTS
Is the (alleged) 3rd package on target?

Good intentions:

- more effective unbundling
- independent regulators
- improved information on infrastructure use

But some dangerous tendencies:

- reinforcing national structures
- lack of x-border obligations
- TSOs drafting market rules
- bureaucratic market approach

Assessment of the draft:

Room for improvement

(before 19 September?)

Thank you.

Any Questions?

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