

ELEVENTH MEETING OF THE EUROPEAN GAS REGULATORY FORUM

Comisión Nacional de la Energía, Madrid

18-19 May 2006



European Federation of Energy Traders

EFET Gas Committee

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www.EFET.org



About EFET - OUR MISSION



“The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market”.

- Through better:**
- ➡ **Information transparency**
 - ➡ **Data exchange**
 - ➡ **Products and procedures**
 - ➡ **Laws**
 - ➡ **Regulation**
 - ➡ **Taxation**
 - ➡ **European Contracts**
 - ➡ **Organised market**

The European Federation of Energy Traders (EFET)



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

Contents

- ➔ The Green Paper: A European Energy Strategy
- ➔ Regulation 1775/2005: explanatory note on tariffs
- ➔ Regulation 1775/2005: explanatory notes on Capacity Allocation Mechanisms and Congestion Management Procedures
- ➔ Interoperability - the inventory project
- ➔ Gas Regional Initiative
- ➔ Guidelines for Good Practice for Storage System Operators
- ➔ Guidelines for Balancing

- 1. EFET supports the energy policy objectives of security of supply, competitiveness and sustainable development.**
- 2. open and transparent traded wholesale markets are essential**
- 3. priority should be completion of the internal energy market, by**
 - more effective unbundling of gas infrastructure operators from supply affiliates.
 - enhanced collaboration between national regulators (including powers to ensure the proper implementation of network unbundling, co-ordinated capacity allocation across borders etc...

4. Improving access to interconnections within Europe, thus widening and deepening the traded market, is the preferred route for mitigating regional upstream dominance.
5. External energy policy should promote consistent EU relations with energy producing nations and neighbouring transit countries
6. Security of supply will be enhanced by more information transparency, clearer security of supply standards and more open access to storage and transit routes.

EC/1775/2005: Draft explanatory note on tariffs

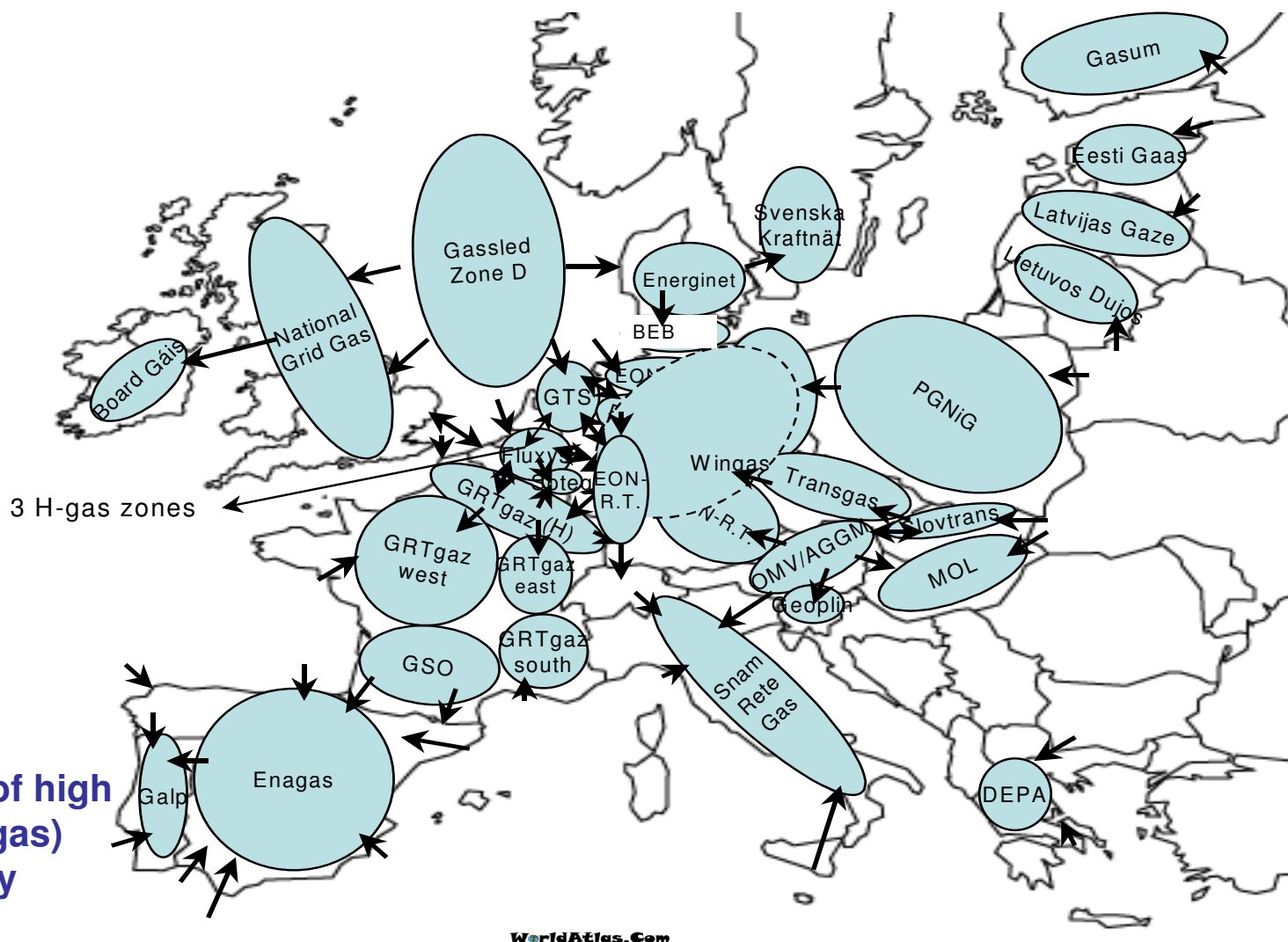
EFET welcomes the explanatory note on tariffs.

- ➡ support the focus on non-discrimination and clarity in tariff calculations
- ➡ recognise that TSOs need to recover transparent, efficiently incurred costs; the regulated tariffs should allow this
- ➡ advise that market pricing means that capacity sold at different times may have different prices, but the regulated tariff should be the same for everyone - Implementation of 'same price for the same (primary) service' should not prevent secondary markets evolving
- ➡ achieving non-discriminatory tariffs is difficult if there are legacy arrangements, but there are several options to ensure that the tariffs for new entrants are not more than in the legacy agreements

EFET suggests clarification of the relationship between regulated tariffs and their use in market-based pricing

- ➡ All primary capacity should normally be sold at the regulated tariff
- ➡ accept that the regulated tariff (not zero) should be the clearing price for capacity auctions when there is excess capacity
- ➡ If pipe-to-pipe competition were deemed to exist then (to attract users) the TSO would be expected to have a reserve/clearing price below the regulated tariff

Gas transmission* access systems in the EU



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

Area

Services

Capacity booking

Commodity trading

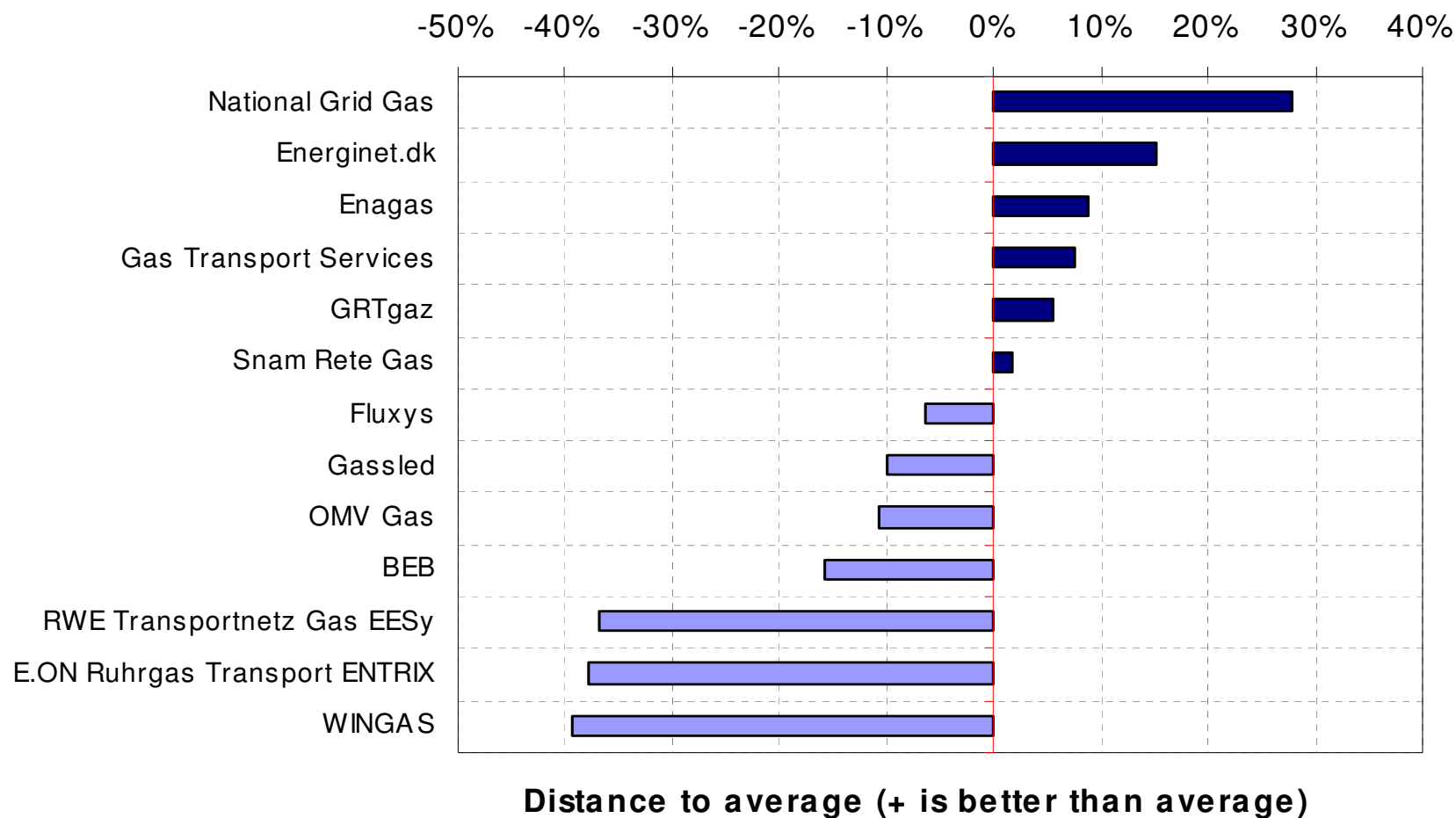
Transparency

Tariff structure

*** EFET Entry/Exit Project Group**

Overall results for benchmarking TSO Access Systems

Ranking of gas transmission access systems by comparison with weighted average score



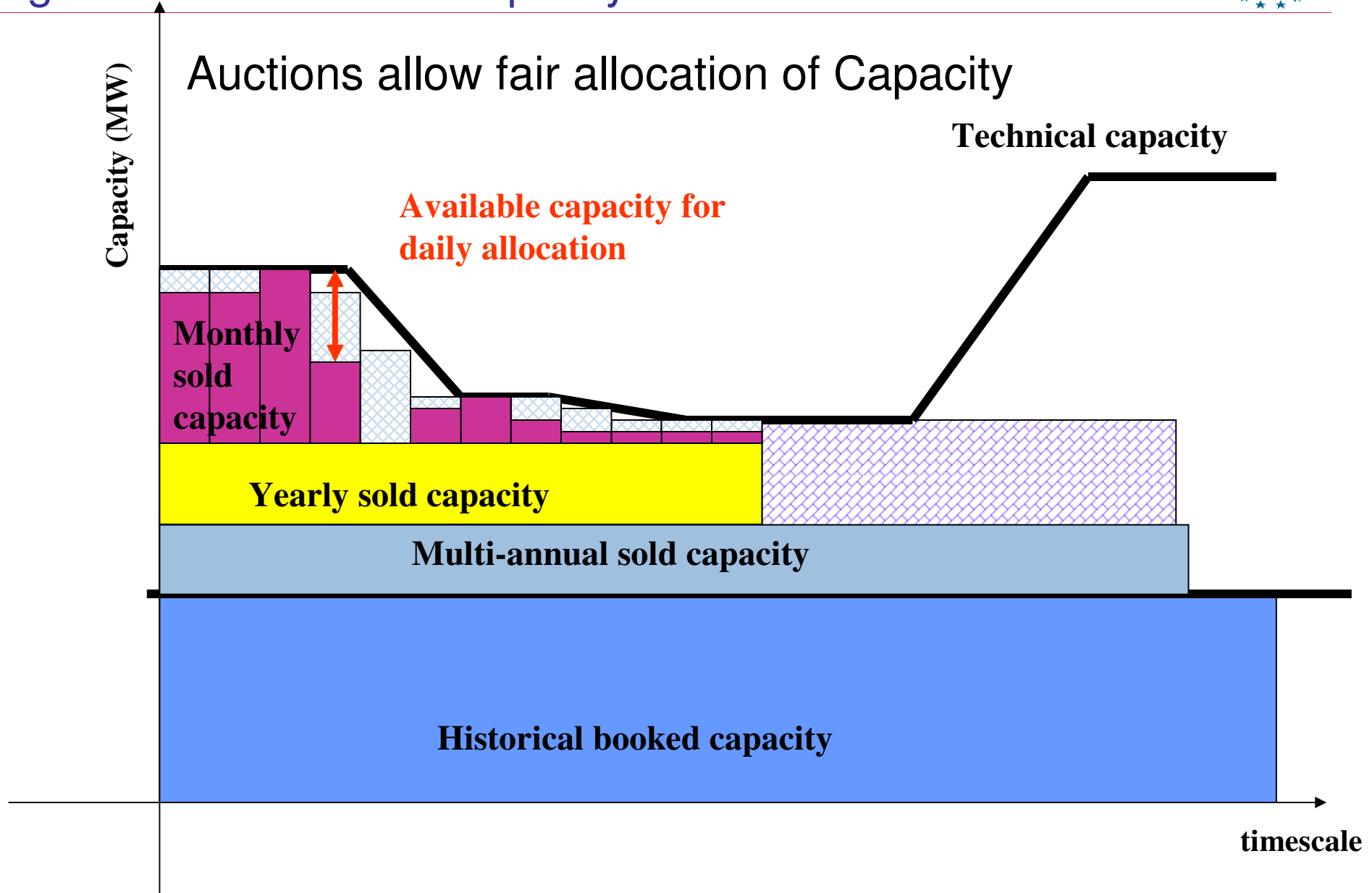
**EC/1775/2005:
Capacity Allocation Mechanisms
and
Congestion Management Processes**

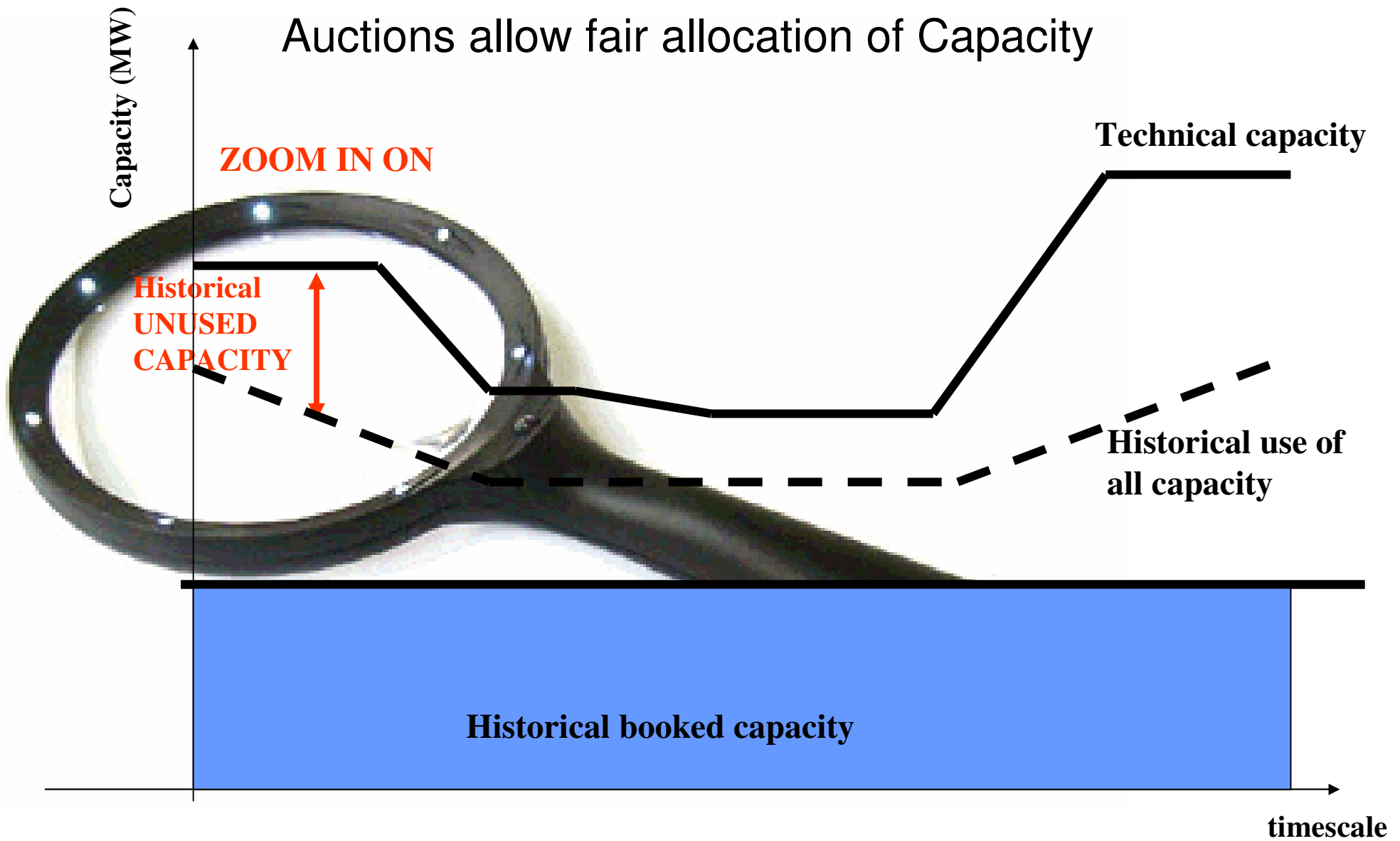
EFET has written to the Commission to suggest 10 points to ensure non-discriminatory capacity allocation

1. Consultation and TSO investment in sufficient capacity
2. Provision of full information on capacity, flows etc...
3. Regulators check historical arrangements
4. Capacity is sold as a tradable right
=> address anomalies in historical arrangements

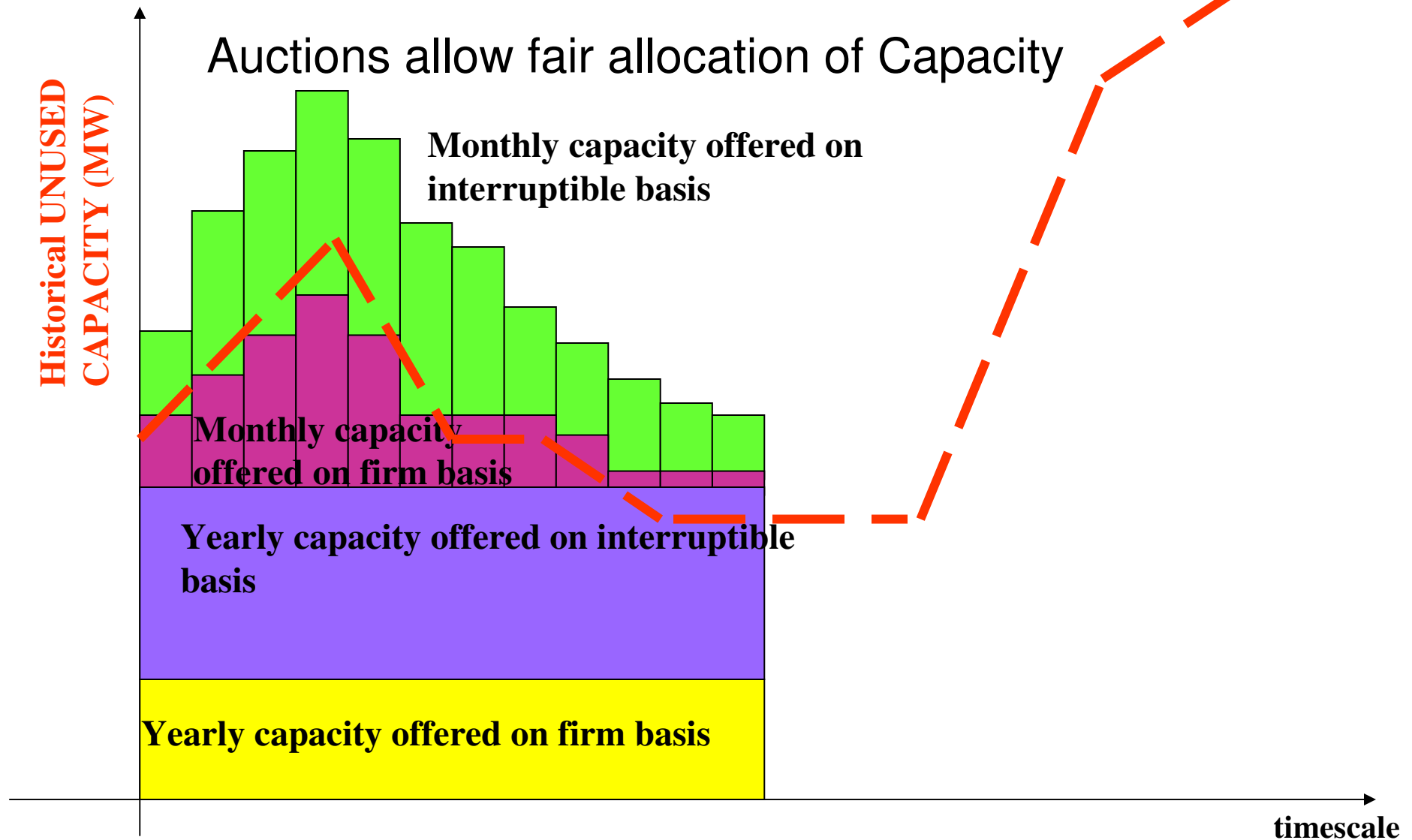
5. Enable secondary capacity trading
6. Maximize available capacity offered to market
7. Auctions normally clear at the regulated price
8. Co-ordination at cross-border points
9. Auction fairly allocates scarce capacity
10. Consistent shorter-term sale on-line by the TSO

Regulation 1775/2005: Capacity Allocation Mechanisms

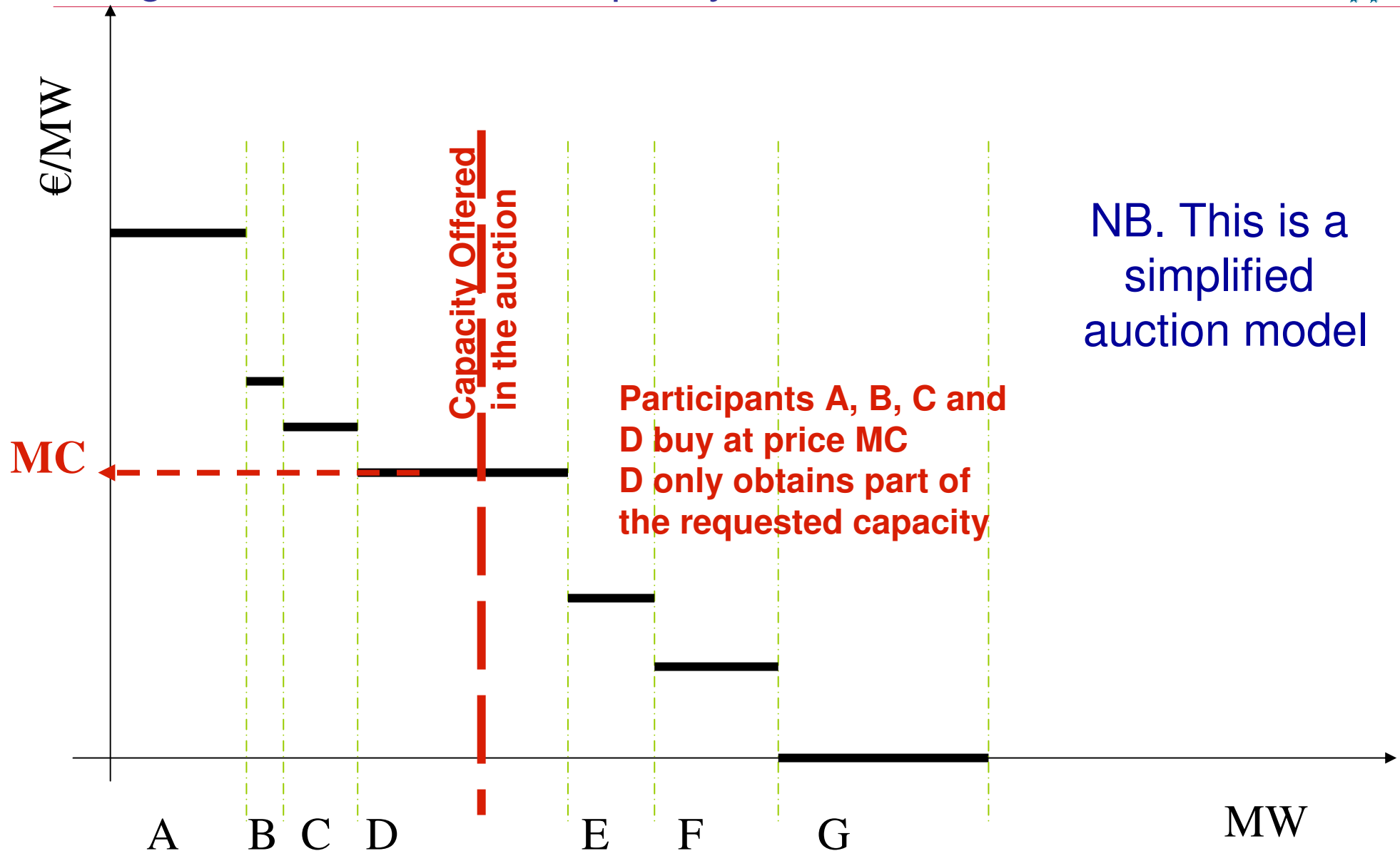




Regulation 1775/2005: Capacity Allocation Mechanisms



Regulation 1775/2005: Capacity Allocation Mechanisms



- EFET has offered to participate in a workshop with GTE to establish improved practical ways to implement non-discriminatory Capacity Allocation and Congestion Management through market-based mechanisms with Regulatory oversight based on 1775/2005
- EFET welcomes the emphasis on non-discrimination in the CAM and CMP explanatory notes. Allocation of capacity, whether it is an initial primary allocation or allocation procedures to cope with congestion, the allocation must treat all parties equally:
- "priority allocation of transmission or distribution capacities is incompatible with Community rules" SEC(2006) 547

Interoperability and the inventory project

Why can't gas be readily transported, at transparent prices, to and from different international locations in the European transmission grid?

- ➡ Capacity is not always available; where there is a lack of transparency it can be impossible to know why access is refused.
- ➡ If genuine interoperability problems do exist then they must not be allowed to cause undue barriers to trade.
- ➡ Procedural problems should be tackled first. E.g. **capacity sales processes** (on line booking or auctions) of trans-border capacities by neighbouring TSOs should be co-ordinated, as has already started in the power market.

Gas Regional Initiative

⇒ This could be a practical way to help identify and remove the barriers to establishing a competitive market, but

1. The process must lead to **convergence**

2. The target must be **ambitious**, with lessons shared from successful hubs.

⇒ all four regional market groups are important, but most practical trading experience is available in the NW region.

⇒ EFET has set out specific hub priorities and improvements [1].

.../ continued

⇒ [1] EFET position on ERGEG gas market Roadmap, 20 January 2006 www.EFET.org

At a pan-European level the priorities should be:

➤ information transparency

➤ effective unbundling to ensure non-discriminatory access to all services

➤ Addressing legacy agreements (mainly transit) to stimulate capacity trading

➤ Aiming for market-based daily balancing and within-day information.

Guidelines for Good Practice for Storage System Operators

EFET would remind the Forum about one issue;

➔ **clause 1.3 of the GGPSSO**, states that:

“In the case of a SSO being part of a vertically integrated company, the SSO should draw up a document setting out all the terms and conditions relating to storage use by the affiliate company to be made available to the relevant national regulatory authority upon request by 1 September 2005.”

.../ continued

➔ **Conclusion 18 of Madrid Forum 10** asked that:

“relevant national authorities should analyse the arrangements between SSOs and affiliated or integrated supply businesses to ensure that these arrangements are fully consistent with fair and non-discriminatory access to storage by third parties”

➔ **EFET asks what progress has been made on this issue to ensure that there can be non-discriminatory access to storage.**

Guidelines for Balancing

- ➔ EFET welcomes this consultation and will respond before June 20th
- Europe needs to converge on **market-based balancing** – this is missing from the guidelines.
- Information provisions for market-based balancing is inadequate in the proposed guidelines.
- Where it is not yet practical to implement balancing markets, the charges for balancing services must be based on **efficiently incurred costs**

.../ continued

- There should be a clear **Pan-European objective** to move towards balancing markets, and a recognition that the locally dominant supply companies will have a key role to play to achieve a successful transition.
- The guidelines, rely too heavily on Regulation 1775 and would benefit from **clarification** to avoid mis-interpretation or future interpretation arguments.
- Some **important issues**, albeit detailed, addressed in the previous consultation, ought to be included e.g: ex-post trading and use of linepack information.

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