



Principles for European Gas Market Development

Introduction

The European Federation of Energy Traders, EFET, actively contributes to the development of a transparent and liquid wholesale gas market throughout Europe and in which all consumers have a choice of energy supplier.

To achieve this all suppliers must be free to offer innovative solutions to meet customer needs and traders must be able to operate free of artificial restrictions. The benefits of full energy market opening include competitive prices for all customers, a wider range of products, more efficient use of infrastructure and delivery of security of supply, and increased standards of service, quality of supply and innovation.

The establishment of transparent and robust wholesale markets is essential to enable substantive competition and choice of supplier for European consumers. Without effective energy trading there will be no substantive competition in energy supply.

Alphabetically, the following summarises the EFET position on a number of key issues for the successful completion of the internal gas market.

Ancillary Services

All services that are required by network users must be made available on a non-discriminatory basis including for example: blending and quality conversion, allocation and metering services.

Balancing

There must be no requirement on network users to balance their inputs and outputs over a shorter period than is possible by using a market-based balancing regime. Residual system balancing is the responsibility of the Transmission System Operator (TSO), who should remain cash-neutral for providing this service.

Congestion management

The first step is for TSOs to ensure transparency of actual and available capacities, implementation of anti-hoarding mechanisms (e.g. Use It Or Lose It (UIOLI)) and facilitate secondary capacity trading.

In general congestion management schemes should be non-discriminatory, flexible, provide certainty of delivery, price transparency, simplicity, low delivery price and not be a barrier to market entry.

Effective Unbundling

There must be clear and true unbundling (including legal, financial and physical separation) of network operators from network users, including all production, supply and wholesale commercial trading.

Gas storage

Third party access to storage is an essential feature of gas market opening. Storage providers that have or share dominant positions must be regulated during the transition to fully competitive conditions.

Harmonisation

There should be appropriate harmonisation of rules across Europe. Divergent legal standards, particularly in gas transmission access may cause distortions in competition. A certain degree of harmonisation is therefore required to ensure a level playing field in the internal gas market in Europe e.g. qualification procedures for supplier and shipper licences.

Information and transparency

Information availability must not be a barrier to market entry or trading. All network users or potential users must have the same level and timing of information provided by network operators. Network and monopoly storage operators must provide all users with the information they need for efficient access to the system. Published information must include actual and available aggregate capacities, historic aggregate flow rates, maintenance schedules etc.

Investment in infrastructure

Network operators should be sufficiently unbundled to ensure that there is no conflict of interest when making investment decisions.

It is important that the market is allowed to send accurate signals to the TSOs, and that they are then able to respond to these signals to provide the efficient level of network capacity.

Market opening and consumer choice

Until the market is fully opened there will always be potential problems of cross-subsidisation. A fully opened gas market will also improve liquidity due to suppliers having to adjust their positions due to customers switching from incumbents and new entrants who will need to manage their positions.

There should be no undue delay between the full opening of the industrial and commercial gas market in 2004 and the subsequent opening of these markets to all residential consumers.

Network Access

There must be properly approved and supervised non-discriminatory third-party access to gas transmission and distribution networks under a network code or other published common terms and conditions.

Regulation

An independent competent authority with clear ex-ante powers and responsibilities to promote the development of competition is a key component of successful energy market opening. The national and EU regulatory frameworks should both play an important role to ensure that the benefits of the single energy market reach all customers.

Effective network regulation needs clear transparent rules and tariff regimes defined in advance. The regulatory process must allow the rules to be changed when necessary so that network users can continue to have fair and non-discriminatory access to networks.

Release programmes

Release programmes (of which there can be various types) can be designed to overcome the problem of inadequate access to supplies or capacity particularly in the early stages of market opening. EFET encourages such schemes where they would have an important 'catalytic' role in the context of developing sustainable competition in gas markets.

Security of supply

Security of supply is achieved most efficiently within a competitive market framework. The greatest danger for the future of Europe's gas supplies is the continuing uncertainty and delay in implementing a single energy market. There must be transparency in the application of security of supply policies to avoid unnecessary distortion of the wholesale markets.

An EFET position paper on security of supply is available at <http://www.efet.org>¹.

Short-term services

The availability of competitively priced short-term capacity is essential for the sustainable development of the competitive market. Capacity that has been contracted on a long-term basis should be subject to a UIOLI regime.

Tariff regimes

Tariff structures must be designed to facilitate the development of competition, especially wholesale gas trading and the development of liquid gas trading hubs. Tariffs must be non-discriminatory and cost reflective. EFET believes that entry-exit tariff regimes (combined with an entry-exit capacity systems) offer the best solution.

Taxation of energy

¹ From November 2002

Differences in the approach to the taxation of energy (VAT, excise duties and other gas taxes) are a serious constraint to trade. Until this lack of consistency is eliminated all gas trading hubs should be treated as tax-free warehouses within which there is no tax payable on trading within the hub. Any taxes payable on exit from the hub would be paid in accordance with the tax legislation in the jurisdiction concerned.

Trading hubs

The establishment of gas trading hubs will provide real price signals and enable resources to be used more efficiently. Without effective energy trading, there will be no substantive competition in energy supply.

EFET supports the development of new gas trading hubs in Continental Europe and urges the hub operators to ensure that the services they are aiming to provide will meet the needs of their future customers.

TSO obligations

TSOs should be responsible for the operation, maintenance and economic development of their networks, including the provision of sufficient interconnection capacity. TSOs should be responsible for ensuring interoperability with connected networks and implement Interconnection Agreements (IAs) and Operational Balancing Agreements (OBAs). These agreements must ensure that gas can easily be moved between different wholesale markets without the TSO trying to impose technical or operational constraints or potential liabilities on wholesale market participants who have met the entry requirements for gas within a European transmission system. (See also "Information and Transparency")

Use-it-or-lose-it (UIOLI)

UIOLI is an essential tool to ensure that all capacity that could be used is made available to market participants. Firm UIOLI involves the release of capacity that has not been used for a significant period of time. Interruptible UIOLI is normally applied on the day and involves lending forecast unused capacity to another user on interruptible terms. A well designed interruptible UIOLI system increases capacity availability and can eliminate the need for long-term capacity release.

An EFET position paper on UIOLI is available at <http://www.efet.org> ².

What should be regulated?

- Monopoly services associated with the transmission, distribution and storage systems must be regulated with published tariffs or an approved transparent market-based pricing mechanism.
- Competitive services that are shown to be subject to sufficient competitive forces do not need regulatory intervention. Prices and commercial arrangements can be left to the parties involved.

EFET Gas Committee
October 2002

² From November 2002