

Gas liberalisation: problems already arising?

EFET paper prepared for Second Gas Regulators Forum

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Introduction

The European Federation of Energy Traders was formed in 1999. It now represents over 40 companies. Each company in EFET supports liberalised energy markets in each country of Europe. EFET considers the second gas regulators' forum (Madrid, May 2000) to be an important initiative for pushing forward gas liberalisation. EFET thanks the European Commission for the chance to contribute to this process.

Vision

EFET has a vision of a single European energy market. A market in which all customers have the choice of energy supplier. A market in which all suppliers are free to offer innovative solutions to meet customer needs. A market in which traders are able to operate free of artificial restrictions. The benefits of energy market liberalisation have been clearly set out as part of the recent United Kingdom / Portugal initiative "Launching a Common Energy Market". These benefits include lower prices for all customers and increases in security of supply, standards of service, quality of supply and innovation.

The Brattle Report

EFET strongly supports the majority of the recommendations identified in the EC-sponsored Brattle Report on "Methodologies for Establishing National and Cross- Border Systems of Pricing of Access to the Gas System in Europe" and as reflected in the Commission's strategy paper. Recommendations are provided in the following areas - tariffs / non-discriminatory access, storage / flexibility, congestion and inter-operability. The implementation of the Gas Directive will be greatly enhanced if Member States follow the recommendations of the Brattle Report, as interpreted by the European Commission.

Current status of liberalisation

The Brattle report contained a useful comparison of the proposed legislation to date. Since the report was issued, further information, on the proposed regimes in Italy and Belgium, has been released. We have therefore updated the table included in Appendix One of the Brattle report, and attached it to this paper. The analysis shows that the proposed implementation of the Gas Directive still leaves a lot to be desired, in terms of facilitating customer choice and

trading. Areas of concern include insufficient unbundling, lack of access to flexibility / quality conversion / interruptible services and unreasonable balancing terms. In some cases, it seems that the Directive is not going to be implemented in full.

Current obstacles to trading

Although the Gas Directive is not yet in force, gas trading has already begun in Continental Europe. Extensive trading has developed at Zeebrugge. Also, some isolated trades have been reported at the borders of Belgium / the Netherlands and Belgium / Germany. However, whatever the status of proposed implementation of the Gas Directive in Member States, the development of trading is already revealing issues requiring action.

Germany

- Inadequate separation - there is evidence, from several parties, that requests for third party transportation are passed to marketing affiliates of transportation companies who then make a competing offer for supply.
- "Pancaking" - transportation quotes have to be obtained for multiple pressure tiers, with multiple charges derived from arbitrary allocations of pipes to tiers; we note that the Commission has already concluded against "pancaking" with respect to the European electricity market
- Delays in transportation offers - it is taking several weeks (or months) for a transportation offer to be made
- Maps - the only way to find out where the gas network runs is to walk down a street and look for gas meters!
- Quality specifications - no information is given out on the necessary quality for input or offtake gas

The Netherlands

- Capacity - no information is available on the capacity of import capacity to the Netherlands
- Balancing - access to flexibility, while available, is at prohibitive terms - ie failure to deliver for one hour results in 24 hours of charges

Belgium

- Balancing - In general, there is no access to storage or other balancing services (although Distrigaz has provided some services at Zeebrugge, albeit in a non cost-reflective way)
- Information - insufficient provision of information prevents shippers knowing their position until after the day
- Quality conversion - where UK gas is delivered to Belgium, the cost of addressing quality differences is too high; more generally, quality conversion is not available

United Kingdom

- Hydrocarbon dewpoint - a problem arising from the interaction of the UK and Belgium systems, this technical issue has at times halted interconnector flow; regulators are unwilling to intervene

Spain

- Contracts must be for at least two years
- There is no secondary capacity market
- There is no interruptible capacity
- The methodology for calculation of tariffs is not in the public domain

Conclusion

It is still some months before the Gas Directive is required to be in force. As the EFET analysis shows, the proposed implementation in most countries leaves something to be desired. Moreover, there are sufficient examples of barriers to trading now, that should guide the Commission in where to focus its attention in the coming months.

For the second regulatory forum, the Commission has put forward four discussion papers. EFET fully supports the conclusions of the Commission in these papers. However, barriers to gas trading are already evident. In order that these obstacles are not codified into national legislation, we recommend that the Commission (subject to the conclusions of the second regulatory forum) undertakes a country-by-country analysis based on the four discussion papers. This will give Member States some chance to take on board the views of the Commission before the implementation of the Gas Directive.

Contact

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Appendix: Comparison of Third Party Access by Country

	UK (except NI)	The Netherlands	Germany	Belgium	Italy (based on the proposed decree)	Spain
Threshold as at August 2000	All customers	Over 10mcm	All customers in principle	Over 25mcm	250,000cm	Over 5mcm
Published tariffs?	All	Most information	Basic principles only	Basic info only	Basic info only	Some Information
Specialist regulator	Yes	Yes - in part	No	Yes (2 in fact!)	Yes	Yes
Unbundling	Yes	Chinese walls	Voluntary code	Chinese Walls	Some tenuous unbundling.	Required by law and full divestment being discussed
Tariff Structure						
High Pressure	Entry: auctions Exit: LRMC	Distance related	Distance & pipe size	Distance	Not decided yet, but it will be similar to entry / exit	Not decided yet
Medium and low pressure	Charges reflect distance from mains	Postage stamp or by negotiation with local distributors	Negotiation with incumbents	Distance & pipe size		Combination of postage and distance related
Balancing regime	Daily	Hourly	Daily	Hourly	Monthly but incentives to be daily	Daily
Balancing Penalties	Market Related	Fixed Charges	To be applied hourly	Uncertain at this time	Uncertain	Under discussion
Access to storage	Yes	Yes	No	No	Yes	Yes
Access to flexibility	Market	Additional capacity service	Uncertain at this time	Hourly flexibility service	Not clear	Under discussion
Access to quality conversion?	Included in price	Yes	No	No	Yes	Included in price
Interruptible services?	Yes	Unclear	No	Yes	Not clear	Under discussion
Short term contracts	Yes	Unclear	Uncertain at this time	Yes	Not clear	Under discussion