

## European Federation of Energy Traders

Madrid Forum  
Regional integration

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Madrid

Dr. Stephan Ressler  
EFET Gas Committee VC



# A competitive integrated European market is strengthening security of supply!

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## Development of a competitive market needs:

- Stable, predictable and harmonised regulatory framework within the WHOLE EU/regions
- National legislation to support and not prevent the market to help
- Actual physical flows specially cross border, which should be published
- Increased transparency (prices, capacity, ...) to develop liquid traded markets and create the basis for sound investment decisions
- Regional TSO integration as a key for using existing capacities efficiently (larger system gives more flexibility and information to the dispatch for counter-measures)

# Multi TSO integration is necessary

- Despite the lessons from 2006 TSO coordination has not improved sufficiently.
- EFET and GEODE (14<sup>th</sup> Madrid Forum) called for stronger system integration
- EFET and GEODE issued a joint letter on the respective matter including a concrete time table and a phased and timed approach. This letter was also supported by other associations during the Madrid Forum.

## Regional Network Integration (RNI) – Why?



➤ Physical capacity from source to consumer?  
Fewer systems, more clarity and predictability

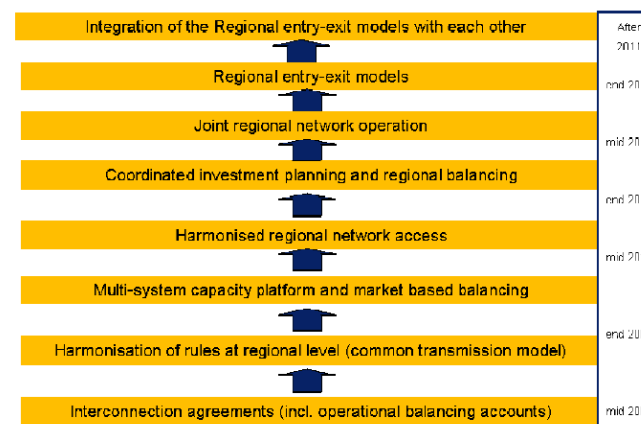
➤ Transport cost/availability known at point of supplier's decision on where to source gas?  
Flows are netted automatically with RNI.

➤ Historically, investments by international (multi-cross-border) consortia / cooperation.  
Gas already flows over borders, we need a transparent supranational coordinated approach.

➤ Aim that some different supply sources must potentially arrive in each area – security of supply needs physical interconnection and (at least) regional system management



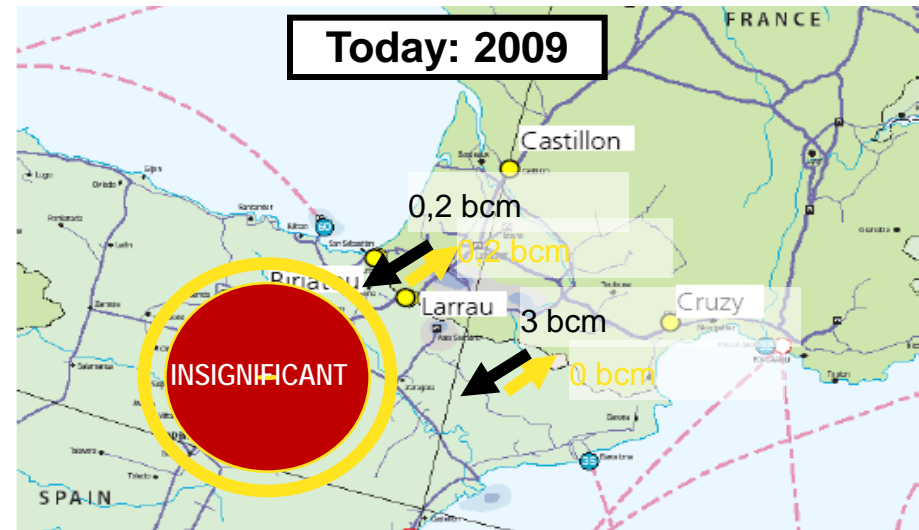
A potential timetable could be the following:



# Market Integration. South Gas Region.

## TODAY

- Investments in interconnection: S-GRI priority I
- An open subscription in Larrau launched in 2008.
- **OSP demand six times above the capacity offered.**
- Clear indicator of **market interest** to be taken into account by both NRAs and TSOs.



## TOMORROW

Three new projects considered:

- Increase of the capacity of the existing interconnections: Larrau and Biriadou, 7 bcm
- New interconnection in the east, MIDCAT, 7 - 5, 5 bcm



## Next steps

- **An open season will be launched: 15 September**, deadline for submitting binding requests to Larrau-Biriatou interconnection.
- Some issues should be clarified
  - Transparency of the economic test
  - Tariff visibility: indicative tariffs with a ...
  - Contractual agreement framework

## S-GRI role in the EU market and in its security of supply

- A marginal investment would provide a new gas “diversified entry point” to the EU: gas from 2 interconnections with Algeria and 7 LNG plants in the Iberian peninsula (8 LNG plants by 2011).
  - Traders could move the gas from North to South and viceversa. Market opportunities would increase.
  - Diversification of both supply routes and gas origin would improve.

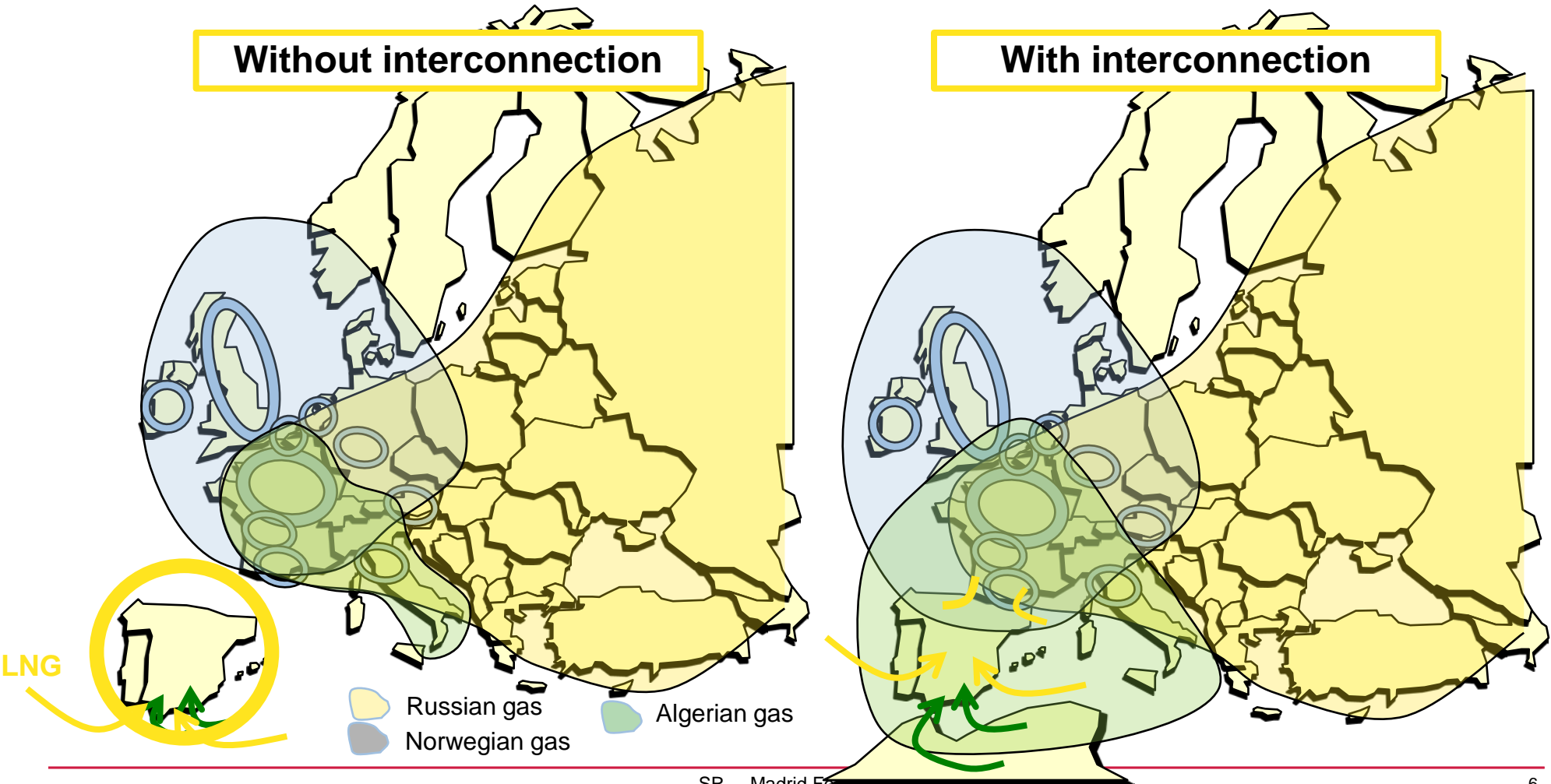


## IMPACT IN TRADING

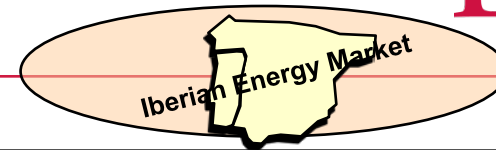
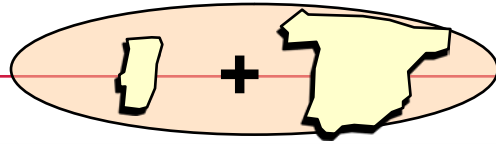
Interconnection capacity would allow traders to move the gas

Without interconnection

With interconnection



# Regional integration is possible. South Gas Region.



- ✓ Protocol Portugal & Spain to create the MIBEL
- ✓ Creation of a Financial Derivatives Market OMIP
- ✓ Common Spot Market OMEL
- ✓ Mutual Recognition of the Power Trader Licence
- ✓ Harmonisation plan of the Energy Regulation
- ✓ Harmonised proposal related to the procedure for change of trader
- ✓ Harmonised proposal for determining access tariffs

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- ✓ Harmonisation plan of the Energy Regulation
- ✓ Public consultation related to the Organisation and Operation of the MIBGAS
- ✓ Public consultation regarding Mutual Recognition of the Gas Trader Licence

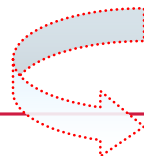
2009

- Creation Iberian Market Operator OMI
- Harmonised procedures for System Operation
- Reinforcement the interconnection capacity

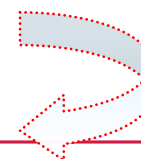
Next Steps

- Cordinated management of strategics stocks
- Reinforcement the interconnection capacity

MIBEL



MIBGAS



- CEFIC, EFET, EURELECTRIC, GEODE and IFIEC EUROPE **strongly recommend progressive implementation of multi-system operations by TSOs** as a step towards full market integration and improving security of supply.
- The promotion of **regional market integration means allowing the most efficient market areas to be established throughout the EU**, irrespective of national Member States borders and regulatory regimes. Integrating the operation of TSO networks is fundamental to this process.
- There has been some success in combining market areas and system operation within Member States. However, practical examples of gas market integration are few in number and interconnection problems and system incompatibility issues persist. **The next step is to ensure that economic and efficient cross-border market areas are delivered.**



We welcome the 3<sup>rd</sup> IEM package,:

- particularly the obligations of the Member States and the regulatory authorities to co-operate for the purpose of integrating their national markets at one and more regional levels, as required by Article 7 of the new Gas IEM Directive.
- The Member States will be responsible for establishing System Operation at regional level covering two or more Member States for capacity allocation and for checking the security of the network. ACER will be responsible for supervising this co-operation.

## Practical Implementation for the single European market

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A full implementation of the 3<sup>rd</sup> package – through the active and clearly-defined involvement of all parties – is a prerequisite for achieving the following benefits:

- strengthened competitive effects from efficient use of existing capacity and flexibility;
- improved security of supply by optimised use of interconnections on a European scale through regional operation and regional investments;
- enhanced competition as larger balancing zones with pooling effects reduce risks and attract more players;
- increased transparency and more liquid traded markets due to reduced number of market areas;
- more efficient investment and optimisation of interconnections due to scale effects and better overview of needed capacity; and
- lower administrative costs due to reduction of cross border interfaces.

## Practical Implementation for the single European market

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- The following steps need to be taken now:
  - ERGEG should anticipate ACER's responsibility to recommend binding rules for regional co-operation and market integration;
  - National relevant authorities should review and amend regulatory regimes to ensure consistency and co-operation across Member State borders and take the necessary steps for TSOs to plan and operate combined systems;
  - TSOs should identify possibilities for the creation and/or merger of economic cross-border and intra-state market areas;
  - GTE+/ENTSOG, should help member TSOs to develop action plans and timetables for multi-system operation and creation of large market areas;
  - Member States should remove any legislative barriers that are preventing integrated system operation at regional level, particularly for capacity allocation and security of supply; and
  - Market participants should actively contribute to achieving regional system operation and markets.

- The paper is based on the respective EFET/GEODE one and which is likely to be finished soon.
  - It does not want to impose a model but shows one of the possible ways to achieve effective regional markets with a view to a single market
  - The depicted model serves to demonstrate that solutions are possible and are not overly complicated
- decision makers must act!

# Market integration - Conclusion

## Practical Implementation for the single European market

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- Significant improvements can be made in the next 2 or 3 years if these steps are started now and progressed in a timely way.
- The associations invite the Madrid Forum to endorse this approach and to report on progress to be made at the next Forum.