

## Key input for the Madrid Gas Forum, 20/21 February 2007

**EFET Attendees** - Colin Lyle, Chairman EFET Gas Committee  
- Jacques Guldenmundt, Vice-Chairman EFET Gas Committee

### 1. Regulation 1775/2005: Compliance monitoring report

As set out in our letter of 12 December 2006 to Sir John Mogg ([www.EFET.org](http://www.EFET.org)), traders and shippers using Europe's transmission pipelines are dismayed by the disparity in the real levels of compliance across Europe. In checking compliance, EFET would urge ERGEG to avoid undue reliance on the self-assessment of TSOs and to pay particular attention to the following three areas:

- **Non-discrimination and efficiency** (Articles 3, 4 & Annex)  
e.g. offering the same services to all customers at tariffs reflective of efficiently incurred costs
- **Capacity allocation** (Article 5 & Annex)  
e.g. ensuring that all unused capacity is made available and facilitating trading of capacity
- **Information transparency** (Article 6 & Annex)  
e.g. providing meaningful and easily accessible information for all relevant points and without imposing new charges for this required information.

ERGEG must now carry out a thorough investigation of the real level of compliance with EC 1775/2005 and keep traders informed of progress.

### 2. Regulation 1775/2005: Draft explanatory note on transparency

EFET welcomes the initiative to produce these guidelines given the importance of good information to enable market participants efficient and non-discriminatory access to infrastructure and the development of an efficient and well-functioning wholesale market.

While some important improvements were made to the draft guidelines, EFET is nevertheless disappointed that much of the clarification that we suggested has not been incorporated. One key point that we think has been missed is that failure to provide information may itself be a form of unfair discrimination (e.g. the information is available to an affiliate).

In addition to this, EFET reiterates that the guidelines as interpreted are not sufficient, and further action is required by all TSOs to improve transparency. Example of the information deficiencies have made in writing to the Commission in December 2006 and include the following:

- gas demand forecast by TSO for aggregate loads connected to their system
- linepack information as close to real time as possible
- gas quality information, and how this affects or constrains capacity usage
- what physical congestion exists, where the physical constraints are, and what plans are underway to relieve those constraints
- Contractual constraints should also be published, through utilisation data, with publication of capacity booking (numbers) as well as capacity utilisation (numbers).
- In addition to what is specified in Annex 3.3 (5) of the regulation TSOs shall also publish the daily log of actual aggregated flows.
- Annex 3.3 (4) of the regulation only gives maximum and minimum historical capacity utilisation rates and average values for annual flows. For shippers or traders this is not sufficient for evaluation of future risks, and additional more specific information is required on the actual flows and available capacities.
- ETSO has recently launched a platform publishing real time flows across Europe (ETSO Vista – [www.etsovista.org](http://www.etsovista.org)). EFET considers that the gas TSOs, perhaps through GIE, should aim for a similar approach. The ETSO Vista platform was developed and launched in not much more than three months.

Improvements in information availability and transparency in the European gas market can be achieved without compromising commercial confidentiality or facilitating collusion, and will be vital to a developing wholesale European gas market, as explained in the EFET Gas Information paper August 2006 ([www.EFET.org](http://www.EFET.org))

### 3. An Energy Policy for Europe

EFET agrees with the Commission that there is a need for further action to achieve a competitive European energy market, notably regarding:

- **Improved provision of information from infrastructure operators**
  - Transparency is the priority issue, with improvements still required on basic information about historical, nominated and actual gas flows and capacity in Europe's main transmission and storage infrastructure.
  - Improved transparency would enable better harmonisation and would help ensure timely and meaningful investment signals
- **Enhanced, co-ordinated action by regulators**
  - Particularly in relation to transmission access across national borders, for which TSO-to-TSO co-operation also needs to improve.
  - The first step in regulatory reform should be to achieve consistency in the powers and duties of existing national regulatory bodies.
- **More effective unbundling of monopoly infrastructure operators**
  - Transmission businesses must be effectively separated from production, import and supply affiliates, and in the process we must ensure that primary capacity can be fairly allocated.
  - For the ISO option, the independence and coordination of ISO decision making needs to be defined and the implications addressed for the gas market.

- EFET would strongly support multi-system ISOs if this leads to better harmonisation, fairer capacity allocation and facilitates x-border trade.

Policy should be results oriented. Some signs of success would be:

- **System Operators jointly maximising the available firm transmission capacity for use by market participants**
- **No undue Government or regulatory intervention in the actual pricing of energy**
- **Transparent and liquid traded gas markets established throughout Europe.**

Whatever happens in the political debate, the Madrid Forum should agree to strive towards these three outcomes.

#### **4. Gas Regional Initiatives – Progress so far**

- Overall the GRI is proving to be a **worthwhile initiative**, has (re-)identified serious problems, now its time for action, the Implementation Groups must Implement solutions that satisfy stakeholders.
- We agree that the issues of **transparency and hub development** are important in all regions,
- but the main factor that is most preventing the development of regional markets (and the single EU market) is **allocation of capacity**.

#### **Regional Initiative NW**

Representative of EFET companies are willing to participate in all the enabler groups. As we expressed at the stakeholder meeting on 9 October 2006, now is the time for action not more long questionnaires and reports.

There are prospects of 'Quick wins' during 2007. Progress should continue on issues like **capacity allocation, balancing and regulatory co-ordination**.

**Primary capacity problems** have been re-iterated and now need to be resolved through better information transparency, harmonization and co-operation between independent TSOs.

On **secondary capacity** the workshop in Bonn on 8/9 February was a success, demonstrating strong demand for a day-ahead solution and wide support across the industry. Now the TSOs need to implement a rapid solution. EFET will work with the regulators and TSOs to help them finalise the arrangements for TSOs jointly making available x-border day-ahead capacity.

For **gas balancing** a quick win is the development of information templates in consultation with stakeholders (to improve transparency and therefore ability to manage risk within and across balancing mechanisms). Case studies are required to resolve balancing interaction problems experienced (e.g. differences in nominations and re-nominations, and level, way and frequency of information)  
And "Blue-sky thinking" is also worthwhile to try and improve gas balancing mechanisms (e.g. use of TSO storage)

EFET supports the target for the Enabler Group for regulatory co-ordination to draft a Code of Practice on **regulatory co-ordination**. This should make sure that national regulators do

effectively coordinate their responsibilities, activities and plans particularly regarding x-border issues.

### **Regional Initiative S**

Participants in the South GRI have been made aware that capacity needs to be built to enable gas to flow throughout this region.

- Will the Gas Regional Initiative in the South help the creation of a real regional market and increase security?
- A decision now needs to be made on increasing the capacity of the interconnections between France and Spain.

What action will come out of this process?

### **Regional Initiative SSE**

EFET strongly supports the emphasis on real examples. Again the issue is access to transmission capacity is key and remains unresolved:

- **Transit line analysis** shows that effective trading and shipping is not possible for new entrants
- Harmonisation between TSOs (&SSOs) & **development of Hubs** are crucial

We would encourage further work to focus on:

- Effective **system harmonization** (at regional level this is important for efficient capacity enhancement)
- Development of **regional balancing market** is needed to stimulate wider liquidity
- Existing regulation needs to be **implementation** particularly with respect to transparency, available capacity and congestion management

## **DAY 2**

### **5. Conclusions of the 1st day**

This is an opportunity for the Madrid Forum to show that Governments, Regulators and all industry representatives are united in the goal of striving for a fully liberalized internal gas market. Some clear commitments by Madrid participants to deliver on the issues within their power during 2007 would greatly enhance the value of the Madrid process

### **6. Interoperability**

The presentation by the Commission presents another vast catalogue of problems that could be solved by the joint operation of TSO systems. How are we going to get solutions and what is the timescale for resolving these issues?

EFET agrees that there are many differences between the Entry-Exit systems and there are many problems that restrict trade at interconnection points. Our System Harmonisation project group has identified and will make future suggestions regarding some key issues at the interconnection points. Problems related to market structures, Entry/Exit design and balancing all need to be addressed if interoperability is to be improved.

## 7. Guidelines for Good Practice for Open Season - Draft report from ERGEG

EFET made a full written submission to ERGEG in January 2007

Firstly we would expect that the primary way a TSO (and other developers) would assess the future capacity needs for its infrastructure is through **market analysis**. Open seasons can be used to help.

There are six **key principles** that EFET considers important when considering Open Season procedures, and we would urge ERGEG to ensure that these principles are followed in their guidelines:

- EFET understands that an Open Season is an umbrella for two processes; information gathering and capacity allocation.
- Coordinated and timely decisions are essential, with scope for users to demand additional processes.
- The process should allocate appropriate risks to users and to TSOs and requires approval and commitment from Regulators as well.
- Capacity investment should not be limited where such investment is economic and efficient.
- The principles for allocation of capacity must be known at the outset of the process.
- Although it is a heavy process, a frequent (e.g. every 2 years) repeated exercise is necessary in order to test and to meet changing users' requirements/needs.

Finally, Open Seasons can be used in many circumstances; however, EFET considers that the detailed process described in the guidelines is **only appropriate for major new infrastructure**.

## 8. Guidelines for Good Practice for Balancing – Report from ERGEG

ERGEG's Balancing Guidelines are a useful addition to the EU gas documents, but it is evident that they are something of a compromise because of the wide variation in balancing regimes throughout Europe.

Certainly the TSOs must now strive to fully implement these balancing guidelines and their application should be reviewed at a future Madrid Forum.

But to achieve a more harmonised approach the guidelines should have reinforced the vision agreed by this Madrid Forum.

Conclusion 34 of the 11<sup>th</sup> Madrid Forum states that

- **“The Forum agreed that balancing regimes should converge to a market based approach and stressed that regional balancing markets must be compatible with the goal to achieve a single European gas market and invited all stakeholders to accelerate the process.”**

EFET would ask for ERGEG's reassurance that this explicit and full agreement of the participants of the 11<sup>th</sup> Madrid Forum is not being ignored by the Regulators and indeed that Conclusion 34 should be enforced along side the ERGEG guidelines.

## **9. Conclusions**

EFET observes that the need for improved System Harmonisation runs through the whole of the Madrid 12 agenda. Whilst individual TSOs have made some progress during the last year there is a continuing failure to find ways in which the European Gas Transmission grid can start to be operated for the benefit of customers. The Madrid Conclusions should commit to joint action to achieve results across multiple systems, leading to a regional and then pan-European scale - the Madrid Forum will then rightly be playing an important role in helping to achieve the competitive, secure and sustainable gas market which Europe's citizens deserve.