



## Priorities for Implementation of the Gas Transmission Regulation EC No 1775/2005

### Summary

*EFET calls for full compliance with the Gas Transmission Regulation, including implementation of Operational Balancing Agreements and Interconnection Agreements as set out in the Guidelines for good practice accepted by the Madrid Forum. EFET recognises, however, that each TSO is currently at a different stage of implementation and we believe that GTE could play a useful role by presenting, for example on a web-based map, the progress of each TSO and key information on a consistent basis. The priorities, in order of timing, should be to ensure that there is*

1. full **information transparency** for all TSO services, including the system flows and available capacities at all national boundaries and other relevant points
2. fair and **non-discriminatory allocation** of primary capacity through the provision of an on-line booking system
3. short-term and long-term anti-hoarding mechanisms overseen by the Regulator and **secondary markets for capacity** facilitated by the TSO
4. ensuring nothing in the access system or design of tariff structures prevents the natural development of traded markets so that **market-based balancing** can become a reality

### Background

The Gas Transmission Regulation contains many provisions which, when properly implemented by all Member States, should help to facilitate the development of robust and liquid wholesale gas markets throughout Europe. The Regulation must be fully implemented by 1 July 2006.

The contents of the Regulation are a simplified version of the Second TSO Guidelines for Good Practice, adopted in 2002, for which the compliance dates have already passed. A few TSOs already attain standards beyond some parts of the Regulation, whilst others still lag far behind its minimum requirements. The purpose of this note is to suggest some areas of immediate focus for action now. In particular, EFET urges those TSOs who have not yet fully implemented the Information Transparency requirements to aim to do so well in advance of the 1 July 2006 deadline.

The following sections are simply extracts from the Regulation, highlighting some of the requirements that must be met by TSOs.

#### **Tariffs for access to networks (Article 3)**

- Tariffs shall
  - reflect actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator

- be applied in a non-discriminatory manner
- facilitate efficient gas trade and competition
- not restrict market liquidity nor distort trade across borders of different transmission systems
- TSOs shall ....actively pursue convergence ....including in relation to balancing

#### **Third party access services (Article 4 and Annex)**

- TSOs shall
  - offer the same service to different customers ...under equivalent contractual terms and conditions
  - offer to network users both long and short-term services
  - develop information systems and electronic communication means to provide adequate data to network users and to simplify transactions such as ...transfer of capacity rights between users
  - provide for on line screen based capacity booking and confirmation systems and nomination and re nomination procedures no later than 1 July 2006 after consultation with the relevant network users
  - publish ...all planned maintenance periods

#### **Capacity allocation mechanisms and congestion management procedures (Article 5 and Annex)**

- Maximum capacity ...shall be made available to market participants
- transparent capacity allocation mechanisms ...shall ...be compatible with the market mechanisms including spot markets and trading hubs
- The TSO shall offer unused capacity on the primary market (including unused capacity contracted under existing transportation contracts)
- Capacity allocation mechanisms and congestion management procedures shall facilitate the development of competition and liquid trading of capacity and shall be compatible with market mechanisms including spot markets and trading hubs.
- Information on interruption should reflect the level of information available to the transmission system operator
- TSOs shall make reasonable endeavours to offer at least parts of the unused capacity to the market as firm capacity.

#### **Transparency requirements (Article 6 and Annex)**

- TSOs shall make public information on technical, contracted and available capacities on a numerical basis for all relevant points including entry and exit points on a regular and rolling basis and in a user-friendly standardised manner
- At all relevant points, transmission system operators shall publish the following information about the capacity situation down to daily periods on the Internet on a regular/rolling basis and in a user friendly standardised manner:
  - a) the maximum technical capacity for flows in both directions,
  - b) the total contracted and interruptible capacity,
  - c) the available capacity.
- TSOs shall publish
  - provisions on capacity allocation, congestion management and anti hoarding and re utilisation procedures;
  - the rules applicable for capacity trade on the secondary market
  - a detailed description of the gas system
  - daily updates of availability of short term services
  - historical maximum and minimum monthly capacity utilisation rates and annual average flows ...for the past three years on a rolling basis
- TSOs shall always disclose the information required by this Regulation in a meaningful, quantifiably clear and easily accessible way and on a non-discriminatory basis

- Relevant points shall include at least ...all entry points ... all exit points or exit zones covering more than 2% of total exit capacity [and] ...all points connecting different networks of TSOs;
- [for available capacities publication shall be] at least 18 months ahead ...update this information at least every month
- TSOs shall ...keep a daily log of actual aggregated flows
- TSOs shall ...provide user friendly instruments ...for verifying on line the capacity available

#### **Balancing rules and imbalance charges (Article 7)**

- Imbalance charges shall be cost-reflective
- Any calculation methodology for imbalance charges as well as final tariffs shall be made public.
- TSOs shall provide sufficient, well-timed and reliable on-line based information on the balancing status of network users.

#### **Trading of capacity rights (Article 8)**

- [TSOs shall] ...allow capacity rights to be freely tradable and to facilitate such trade.

#### **Conclusion**

EFET suggests that TSOs and Regulators give their immediate attention to ensuring full compliance with the basic requirements of the Gas Transmission Regulation that are set out above. These need to be implemented bearing in mind the stated purpose of ensuring the proper functioning of the internal gas market. Reference should also be made to the content of the Second Guidelines for Good Practice accepted by the Madrid Forum in cases, where this document sets out more detail what the industry has already agreed should be in place now (for example in dealing with operational Balancing and Interconnection).

In particular, EFET would point out that

- Whilst tariffs should be based on actual costs, these costs must be efficiently incurred. This must apply equally to all connected transmission systems, otherwise there will be distortions in the availability and use of capacity across Europe.
- Access to capacity on historically well established routes remains a serious problem that needs to be addressed by effective anti-hoarding mechanisms (e.g. long term and short term Use-it-or-lose-it)
- Transparency requirements must apply to all services that TSOs or other monopoly infrastructure owners provide, in particular information on quality conversion and other ancillary services
- TSOs should have in place Operational Balancing Arrangements (OBAs) and Interconnection Agreements (IAs). All aspects of these agreements that affect system users must be published, otherwise users are subject to unquantifiable risks.
- Guidance on balancing is limited in the Gas Transmission Regulation and further guidelines on this topic may be required to ensure that throughout Europe there is a consistent daily balancing system, based wherever possible on market prices and with the provision of within-day information by the TSO.