



# **Gas Regional Initiative Coherence and Convergence An ERGEG Conclusions Paper**

**Ref: E07-GRI-01-05b**

**15 July 2008**

## Table of Contents

<b>1 EXECUTIVE SUMMARY.....</b>	<b>3</b>
<b>2 BACKGROUND .....</b>	<b>4</b>
<b>3 SUMMARY OF THE CONSULTATION OUTCOME AND SOLUTIONS PROVIDED BY THE REMS TO THE ISSUES RAISED BY RESPONDENTS .....</b>	<b>5</b>
3.1. General comments on coherence and convergence .....	5
3.2. Interconnection and capacity.....	5
3.3. Transparency .....	5
3.4. Interoperability (including gas balancing) .....	6
3.5. Development of gas hubs.....	6
3.6. Other issues raised in the responses .....	7
<b>4 SOLUTIONS PROVIDED WITHIN IN OTHER ERGEG TASK FORCES.....</b>	<b>8</b>
<b>5 CONCLUSIONS.....</b>	<b>10</b>
<b>ANNEX – GRI PRIORITIES AND CORRESPONDING WORKS WITHIN THE REMS .....</b>	<b>11</b>

## 1 Executive Summary

- 1.1. The purpose of this paper is to conclude the public consultation on the 2007 Gas Regional Initiative (GRI) Coherence and Convergence report. It sets out how stakeholder proposals have been taken forward and provides an explanation of why some suggestions were not adopted. The public consultation closed on 16 December 2007 and an Evaluation of Comments Paper was published on 15 February 2008.
- 1.2. ERGEG is encouraged by the positive and constructive responses that have been received. This opportunity to engage with stakeholders demonstrates that there is a real desire for further progress to be made.
- 1.3. We believe the responses indicate that the three Regional Energy Markets (REMs) of the GRI are addressing the right issues. This is not just the case for the work being conducted under the umbrella of the GRI, but also under the other ERGEG gas task forces. A number of suggestions made by stakeholders have been taken onboard and implemented as a result of this consultation process. For example, in the South South East Regional Energy Market (SSE REM), a Memorandum of Understanding has been drafted to improve cooperation between regulators, a step which was proposed in the stakeholder responses. Furthermore, going forwards regulators will make more effective use of the existing channels of communication to ensure that GRI priorities continue to address the pertinent issues.
- 1.4. This paper is structured in the following way: Chapter 2 provides more detail on the background and related documents. Chapter 3 briefly summarises the responses from the consultation and how the issues raised are being addressed within the Gas Regional Initiative framework. Chapter 4 provides information on issues that have been raised in the responses, but which are being addressed in other ERGEG gas Task Forces. Conclusions are set out in Chapter 5 and in addition, a summary of the priorities for each of the three REMs is set out in an annex.
- 1.5. This paper is primarily based on the feedback received regarding the development of the REMs during 2007. ERGEG will continue to monitor coherence and convergence of the three gas REMs, although the paper does not commit to an identical process for this year.
- 1.6. The seven REMs of the Electricity Regional Initiative (ERI) have conducted an equivalent consultation. The report, Evaluation Document and Conclusions Document are available on the ERGEG website ([www.energy-regulators.eu](http://www.energy-regulators.eu)).

## 2 Background

- 2.1 In Spring 2006, ERGEG launched a Gas Regional Initiative (GRI), made up of three gas Regional Energy Markets (REMs). The development of regional gas markets, together with further liberalisation at a national level, is an important and practical step towards the eventual goal of a competitive single European gas market.
- 2.2 The REMs work towards removing the most serious market distortions and cross-border issues, in close cooperation with market participants and other stakeholders. The three gas REMs and their lead regulator(s) are set out in table 1.
- 2.3 On 8 October 2007, ERGEG launched a public consultation on coherence within each of the three REMs of the Gas Regional Initiative and the eventual convergence to a single European energy market (“GRI Coherence and Convergence – A Public Consultation Paper” [E07-GRI-01-05]). This consultation process provided the opportunity to assess the overall progress of the REMs, to identify the key areas for development and to consider whether solutions that have been adopted by individual REMs are an obstacle to future convergence of the EU gas market.
- 2.4 The consultation closed on 16 December 2007 and all non-confidential responses have been published on ERGEG’s website. On 15 February 2008, ERGEG published a summary of responses in the document “Gas Regional Initiatives – An ERGEG Evaluation of Comments Paper” (Ref. E07-GRI-01-05a, hereinafter referred to as the “Evaluation Document”). This paper identified a number of the conclusions ERGEG has drawn from the consultation document.

**Table 1 – Gas Regional Energy Markets (REMs)**

Regional Energy Market	Member countries	Lead Regulator
<b>North West (NW)</b>	Belgium, Denmark, France, Germany, Ireland, Netherlands, Sweden, UK, Norway (observer).	<b>DTe (Netherlands)</b>
<b>South- South East (SSE)</b>	Austria, Czech Republic, Greece, Hungary, Italy, Poland, Slovenia, Slovakia, Romania, Bulgaria (invited).	<b>E-Control (Austria)</b> <b>AEEG (Italy)</b>
<b>South (S)</b>	Spain, Portugal, France.	<b>CNE (Spain)</b>

### **3 Summary of the consultation outcome and solutions provided by the REMs to the issues raised by respondents**

#### **3.1. General comments on coherence and convergence**

- 3.1.1 The Coherence and Convergence report established that the gas REMs have already started to prioritise a number of similar issues and are seeking to address them in a common fashion, which will facilitate further integration in the future. However, the first step for all REMs remains to effect integration within their region. Additionally, ERGEG's consultation emphasised the need to ensure that the development of trade barriers across REMs is avoided in order to meet the ultimate goal of creating a single European gas market. Most stakeholders seemed to agree with this assessment and felt that there was no significant risk that different developments within REMs were creating potential obstacles for future convergence between REMs.
- 3.1.2 The consultation document also raised the question whether there were similarities and/or interactions between the ERI and GRI. Most respondents agreed with ERGEG that no significant similarities of that kind existed.

#### **3.2. Interconnection and capacity**

- 3.2.1. ERGEG stated in the consultation document that both the facilitation of new transmission and interconnection capacity development as well as the use of existing capacity are essential remedies for removing trade barriers between different gas markets. This is reflected in the priorities of all gas REMs, and capacity development is one of the most significant work areas in the S and NW REMs.
- 3.2.2. Respondents strongly agreed that this area should be prioritised. Most reactions pressed for a more rapid process, but some also mentioned that there was a need for more coordination between adjacent system operators. ERGEG is currently addressing many of these issues centrally across all REMs. Chapter 4 reports in more detail on ERGEG's ongoing activities relating to interconnection and capacity.

#### **3.3. Transparency**

- 3.3.1. All three REMs have identified transparency as one of their key priorities to help facilitate greater market integration and so they are working towards greater consistency and accessibility of information. Stakeholders have already been consulted on their requirements regarding transparency in each of the REMs. There appeared to be agreement amongst respondents that approaches taken in the three REMs to improve transparency were sufficiently consistent to avoid problems for the integration of the REMs in the future. For completeness, chapter 4 sets out current general ERGEG activities on transparency.

#### *Three minus guidelines*

- 3.3.2. ERGEG recommended in 2007 that the three minus rule be abolished. This is reflected in the current proposals for the Third Package of energy legislation<sup>1</sup>. In the meantime, the NW REM regulators have developed a guidance note for the application of the three minus rule. The note sets out how exemption requests to this rule should be treated by regulators and how some information can be made available, even where there are less than three users. Some stakeholders suggested that this guidance should also be rolled out to other REMs.

### **3.4. Interoperability (including gas balancing)**

- 3.4.1 All three REMs have priorities directly relating to interoperability (including gas balancing). The key focus of these priorities is to enhance integration of network operations within each of the REMs and, in many cases, to standardise operational procedures. Most respondents stated that the approaches were sufficiently consistent between the different REMs and were unlikely to pose a barrier to coherence and convergence between REMs in the future.

#### *Entry-Exit tariffs*

- 3.4.2 Numerous companies drew attention to the benefits of expanding an Entry-Exit tariff system (which is currently being looked at in the SSE REM) across Europe. Others expressed concerns that this project could create a barrier to future convergence of the SSE REM and the other REMs. This project (in the SSE REM) is in a very early phase and a decision on whether such an Entry-Exit tariff system will be implemented will not be made in the near future. This project is valuable for future work on European gas markets. The regulators will monitor this and consider whether this project should be expanded to other REMs. It will also be considered whether what is implemented in one REM could raise any issues for future convergence with other REMs.

### **3.5. Development of gas hubs**

- 3.5.1. Liquid and transparent gas hubs are an important foundation for the development of efficient and effective markets. There are significant differences in the number and development of gas hubs across the three REMs, which are mainly due to the differences in market development across the three REMs. Work is being undertaken in all three REMs on the development of gas hubs. All respondents agreed that the current approaches on the development of gas hubs in the different REMs are sufficiently consistent.

---

<sup>1</sup> 3rd Legislative Package Input - Paper 6: Transparency requirements for Electricity and Gas – a coordinated approach – An ERGEG public document [C07-SER-13-06-6-PD].

### 3.6. Other issues raised in the responses

#### *Memorandum of understanding*

- 3.6.1. The regulators in the NW REM have developed a Memorandum of Understanding (MoU) to promote greater cooperation between regulatory authorities. It is intended to fill a regulatory gap that exists within the current legislative framework. The MoU was signed by all regulators in the NW REM on 25 October 2007. Stakeholders favoured implementing the MoU across all three REMs. Some stakeholders advised monitoring the success of the MoU in order to determine its wider value.
- 3.6.2. A similar MoU has been developed within the SSE REM and was signed by the regulators within the region on 9 June 2008. It is a good example of one REM learning from the successes of another REM. Within the S REM, there are only three regulators and drafting an MoU is not considered necessary to enable effective cooperation. Additionally, strong commitments have been made in the S REM. In 2007, the governments of Portugal and Spain signed a cooperation agreement to harmonise the regulation of gas networks in both countries.

#### *Communications*

- 3.6.3. Some respondents emphasised the need for ERGEG to publish regular summaries of GRI activities, which would be presented before changes are implemented. Also, creating a dedicated team to monitor and coordinate the gas REMs in order to guarantee the adoption of a common framework has been suggested.
- 3.6.4. Several respondents indicated that they were unclear about where they could find information on the GRI process. ERGEG is constantly looking to improve communication with stakeholders. We would therefore like to take this opportunity to set out the existing options:
- Any ERGEG publications (such as consultations, reports and press releases) are published on [www.energy-regulators.eu](http://www.energy-regulators.eu). The website also contains a section on the Regional Initiatives. Pages with detailed information on each REM, their projects and priorities, are available too. This is also where contact details of the lead regulators can be found.
  - All stakeholders are encouraged to sign up for the monthly ERGEG newsletter on [www.energy-regulators.eu](http://www.energy-regulators.eu). This newsletter contains a section on each Regional Energy Market as well as the Regional Initiatives more generally.
  - Each REM regularly arranges stakeholder group meetings. This is a key platform which enables stakeholders and regulators to ensure that the REMs address the pertinent issues and set the right priorities. The dates for these meetings are published on the ERGEG website and in the newsletter.
  - Every year a Regional Initiatives Annual Conference is held. This is a more strategic, high level meeting. Prior to this event, a Regional Initiatives Annual Report is published. The invitation to the annual conference can be found on the ERGEG website and in the newsletter.

#### 4 Solutions provided within in other ERGEG Task Forces

- 4.1. Some respondents proposed increased cross-regional coordination and consistency for the areas of capacity and transparency. ERGEG considers that these areas are already being addressed in its existing Gas Focus Group (GFG) and the subordinate Task Forces (TF).
- 4.2. The Gas Network and Market (GNM) TF is developing strategic guidelines regarding a number of areas in the Third Energy Package (in anticipation of the new legislation coming into force), which will be duly consulted upon with the public. These include:
  - interoperability rules;
  - capacity allocation and congestion management rules;
  - rules for trading;
  - transparency rules;
  - balancing rules;
  - rules regarding harmonised transportation tariffs;
  - 10-year investment plan;
  - storage;
  - LNG; and
  - exemptions from rTPA requirements

##### *Comments on capacity*

- 4.3. Regarding capacity, respondents made the following suggestions:
  - to create a minimum set of shared principles across all REMs to ensure consistency and compatibility among them, and to define minimum common principles to ensure market integration;
  - to take into account the significant differences that exist between electricity and gas;
  - to prioritise access to capacity, as it is considered the most significant barrier to trade;
  - to coordinate an investment plan prioritising interconnector projects;
  - enhancement of interconnection capacity, i.e. to remove the capacity constraints between the Spain-France region; and
  - the need for harmonisation of capacity allocation mechanisms and capacity products, as well as harmonisation of capacity monitoring, charging structures and methodologies within transmission systems throughout the EU.

##### *Existing ERGEG work streams that address these areas*

- 4.4. In addition to the GNM TF mentioned above, the following ERGEG work streams address the comments made by stakeholders:



- The GCA (Gas Capacity Allocation) TF is currently working on the improvement of the current guidelines annexed to the Regulation 1775/2005 on capacity allocation and congestion management procedures (CAM and CMP). This work aims to harmonise CAM and CMP among EU members, thereby contributing towards the creation of a single European gas market. The issue of the lack of firm capacity is thus dealt with by this TF.
- The GIF (Gas Investment Framework) TF is developing a framework and best practices to encourage domestic and non-domestic investment in infrastructure, e.g. through relevant incentives, in order to ensure sufficient transmission capacity in the future.
- The GTT (Gas Transmission Tariffs) TF is developing transmission tariff guidelines in order to remove a potential issue of different national tariff methodologies that might create a barrier to liquid cross-border trade. Guidelines will also provide guidance on coherent and harmonised application of Article 3 of Regulation 1775/2005/EC.

*Comments on transparency*

- 4.5. Regarding transparency, respondents made the following suggestions:
- to work towards creating more transparency regarding networks;
  - to issue recommendations on European-wide binding rules; and
  - to harmonise information publication requirements.
- 4.6. In addition to the above mentioned GNM TF, the following ERGEG task forces address the issue of transparency across a number of areas:
- the Gas Transmissions Tariffs (GTT) TF for transparency regarding transportation tariffs and balancing payments;
  - the Gas Capacity Allocation (GCA) TF for transparency in relation to capacity allocation mechanisms and congestion management procedures;
  - the Gas Storage (GST) TF for transparency on access conditions for storage users; and
  - the LNG TF for transparency regarding access to LNG terminals.
- 4.7. ERGEG is committed to addressing the issues raised in the workstreams that have been outlined in this chapter. However, in order to avoid duplication of work, the GRI Task Force will not address these issues. Responsibility will remain within the existing structure.
- 4.8. Within each REM, specific (regional) aspects will be addressed. Also, it is possible that additional steps may be taken at the regional level. It will be important that this additional work is consistent with the ongoing work outlined in this chapter.

## 5 Conclusions

- 5.1. The extent of stakeholder engagement is encouraging and ERGEG considers that many stakeholders are motivated to contribute to the GRI work. ERGEG concludes from this that REMs are addressing the crucial issues and that the different work programmes reflect stakeholders' priorities. ERGEG considers that most stakeholders' suggestions are being addressed in the existing structure, through the GRI TF and also through other GFG TFs.
- 5.2. In order to maintain commitment from all parties involved, it is important that improvements continue to be made. The regulators are therefore committed to continue considering means of improving the Regional Initiatives.
- 5.3. ERGEG will continue to improve the coordination between the three gas REMs. Where necessary, best practices will be identified and promoted among the different REMs, in areas such as monitoring, management and governance of the REMs (e.g. to foster consensus on priorities and to facilitate the evaluation of progress against clear and realistic objectives).
- 5.4. Furthermore, ERGEG will continue to closely monitor the three gas REMs to ensure that developments in each REM do not lead to inconsistencies which could become an obstacle to the creation of a single European energy market.
- 5.5. ERGEG does not think that the drafting of common principles for all REMs is necessary at this stage. Moreover, this would overlap with existing ERGEG policies. Appendix 1 shows the priorities set in the different REMs. It shows that these are broadly consistent with each other.
- 5.6. ERGEG concludes that publishing the 2007 Coherence and Convergence Report has been a useful exercise. The regulators are grateful for the responses received. ERGEG will continue to monitor coherence and convergence of the three gas REMs.

## Annex – GRI priorities and corresponding works within the REMs

As was set out in ERGEG's Gas Regional Initiative Coherence and Convergence consultation in October 2007, there is a good degree of consistency in terms of the high priority issues that each region is looking at. In the paper, the priorities from each REM have been grouped according to the following four common areas<sup>2</sup>:

- **Interconnection/Capacity** - *Enhancing the efficient use of existing pipeline capacity and facilitating the development of new interconnection capacity.* This priority is addressed in the three gas REMs through the following workstreams:
  - o Optimising capacity utilisation (NW).
  - o Day-ahead capacity auctions (NW).
  - o Best practice standardised bulletin board (SSE).
  - o Best Practice provision of One-Stop Shop (OSS) service (SSE).
  - o Interconnection: Primary and Secondary markets (NW).
  - o Development of new interconnection capacity by assessment of market needs through Open Season procedures (S).
  - o Development of coordinated capacity allocation mechanisms through Open Subscription procedures (S).
  
- **Transparency** - *Improving transparency in the information provided by network operators to the market.* This priority is addressed in the three gas REMs through the following workstreams:
  - o Publishing information on the building status of new interconnection capacity on ERGEG's and TSOs' webpages (S).
  - o Improvement of information provision relating to LNG and storage (S).
  - o Developing a bulletin board (SSE).
  - o Improvement of the availability and the quality of information from Operators (storage and transmission) to the market (NW).
  - o Establishing guidelines on the application of the three minus rule for Operators and Regulators (NW)

---

<sup>2</sup> For more information on the priorities in the NW REM please refer to the recently published roadmap at [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_INITIATIVES/GRI/North\\_West/Meetings/SG\\_meetings/3sup%20NorthNW%20SG/DD/080414%20FINAL%20VERSION%20OF%20THE%20ROADMAP.pdf](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/North_West/Meetings/SG_meetings/3sup%20NorthNW%20SG/DD/080414%20FINAL%20VERSION%20OF%20THE%20ROADMAP.pdf)

For more information on the priorities in the SSE REM please refer to the Implementation Group's Terms of References at [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_INITIATIVES/GRI/South\\_South\\_East/Final%20docs/2007-04-23%20TOR%20SSE%20draft\\_clean.pdf](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/South_South_East/Final%20docs/2007-04-23%20TOR%20SSE%20draft_clean.pdf)

- **Interoperability (including gas balancing) - Improving interoperability between networks (including transparency in and interaction between gas balancing mechanisms).** This priority is addressed in the three REMs through the following workstreams:
  - o Balancing (information templates) and interactions (NW).
  - o Interconnection Agreements and Operational Balancing Agreements (IPAs / OBAs) (SSE).
  - o Regional Entry/Exit tariff system (SSE).
  - o Implementation of EASEE gas Common Business Practises (S).
  
- **Development of gas hubs (NW, S, SSE)**
  - o Development of hubs to fully functioning, liquid market places.
  - o Introduction of back up/ back down services (CEGH), publication of price information (CEGH) in cooperation with HEREN and Dow Jones.
  - o Stimulation of trading of day ahead products, both at hubs (CEGH) and interconnection points (Germany).
  - o Technical progress to allow web-based nominations and re-nominations.
  - o Development of hubs to become regional balancing points (CEGH, PSV).