

Una Shortall
Council of European Energy Regulators (CEER)
28 rue le Titien
1000 Bruxelles
Arrondissement judiciaire de Bruxelles

23 January 2006

Dear Ms Shortall

EGREG Discussion paper: Roadmap for a competitive single gas market in Europe

Comments

energywatch (the Gas and Electricity Consumers' Council – Great Britain) welcomes the opportunity to consider the issues raised by this discussion paper.

We have a number of comments to make regarding these issues which we hope you will find useful, although we do not address them in the form of responses to the questions raised in the paper:

- We have been concerned for some time about the lack of transparency of information in wholesale gas markets. This has led to a disconnect between the availability of supply and the prices charged in wholesale markets, in turn adversely impacting the retail prices paid by all energy consumers. The lack of real time, or close to real time, information about supply availability, including the sudden and unexplained occurrence of outages and interruptions to the delivery of gas, has led to some of the recent price spikes seen in wholesale gas markets. This has been coupled with relative illiquidity and an inability on the part of those wishing to respond to supply shortages to trade out their existing positions. energywatch, for its part, has already highlighted these problems to the local energy regulator, Ofgem. Furthermore, we have sought to improve on the current situation by raising a modification to the Uniform Network Code, which currently remains under consideration. We

believe that only improved transparency from producers will inject the levels of liquidity and ability of market players to respond to pricing and availability signals which would lead to effective competition and fairer pricing.

- We reiterate that liquidity in markets will lead to both effective competition and the kind of fairer pricing from which all consumers benefit. There may be a tendency for some market players to 'hoard', i.e. book capacity on the network with TSOs but fail to deliver the physical capacity at the time. This practice inevitably prevents effective third party access to networks and the ability to trade gas. We believe that it is necessary to examine these practices and ensure that appropriate market rules prevent hoarding. Without effective market rules which uphold 'use it or lose it' provisions in contracts between network users and operators, there is a danger to security of supply as well as detriment to the prices paid by consumers.
- We agree that the market rules should be assessed to consider how best to encourage greater investment, both in terms of promoting improved infrastructure to increase security of supply, and, where necessary, to allow appropriate blending of gas. Improved and increased storage facilities are necessary to allow LNG and imported gas easy access to European networks. It is also of specific significance, given the different quality of gas which is being imported into, and across, European networks, that the interests of the safety of all consumers is maintained by having the facility to blend gas which can be used in current appliances. If this is not possible, consideration will need to be given to how best to safeguard consumers where gas quality does not meet the requirements of consumer appliances, including options for conversion, but always in terms of seeking a competitive solution.
- We have already highlighted that the lack of liquidity in European gas markets has many adverse impacts, including restricted trading, lack of competition which is essential to driving down prices, and provision of inefficient investment signals to market participants. You may be aware of the recent work of the UK Parliament's Trade and Industry Select Committee (TISC) on identifying some of the issues around high wholesale gas prices in the UK to which energywatch has contributed fully. Our views note that illiquidity is a major challenge and has clearly impacted on consumers through recent price spikes. It would be our contention that effective and organised trading of gas, including through existing Over-the-Counter markets and through improved secondary trading, would help to stabilise prices and allow greater market participation by large users who may be able to provide effective responses when

supplies require to be curtailed. These large users can be useful partners for network operators and suppliers in gas trading but are limited to accessing illiquid spot markets. Market rules which encourage accessibility and the creation of trading markets would provide an effective response, whether based on a 'hub' concept or in other ways.

- We agree that, ideally, regulatory regimes should 'mesh' and not overlap. It is also important that regulatory rules are consistent across European markets and recognise the key principles of transparency of information, non-discrimination in application of rules and allow for appropriate levels of monitoring and compliance which do not stifle competition and investment but also ensure that consumer interests are strongly recognised. National governments must set out clearly the boundaries between their own remits and those of national regulators. We believe that there is no need for a supranational regulator but that effective working between national regulators would help to bring about the effective single market in gas which would benefit consumers.
- We have particular concerns about the physical links between the UK and Europe, especially the interconnectors which provide gas imports to Great Britain and the way they are used. We consider that, particularly in the recent past, inconsistencies in national market rules have made it more difficult to import gas into GB, affecting both security of supply as well as raising prices to GB consumers which are not reflective of the underlying economics. Given that gas supplies from the North Sea are dwindling, the increasing reliance placed on imported gas by GB consumers means that we would expect the fair application of market rules, ensuring a consistency between those applied in Europe and the more liberalised market regime in GB which would help consumers, producers and suppliers.
- We note and support the emphasis on customer switching as a means to ensure suppliers offer the most competitive terms to consumers. Experience in the liberalised GB market highlights that consumers should be able to have as few barriers to switching supplier as possible as this not only increases competition amongst existing suppliers but allows new suppliers to enter the market. In the context of the wholesale gas market, we also agree that, where switching is limited, appropriate regulatory oversight should ensure that costs to consumers are limited to reflect the underlying economics.
- We are keen to emphasise that demand-side participation in liquid gas trading markets is an important component of the liberalised

single market regime. Users who are able to respond effectively to pricing signals from the market and limit their own consumption at the appropriate price should be encouraged to be involved as increased liquidity can promote effective competition and lower overall costs which benefit all end consumers.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the roadmap proposals and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs