ERGEG GAS REGIONAL INITIATIVE
COHERENCE AND CONVERGENCE

<u>Regions interact</u>

- *Do you agree that there is sufficient consistency in the common priorities that are being looked at across the three regions to ensure that no real barriers are being created for the future integration of the regions? If not, please explain why.*

YES, the priorities that are looked at across the three regions are sufficiently consistent being the keys (however different) to obtain in the different regions the same result of a more competitive market. However the different priorities are being developed through different and non-coherent instruments in the three regions (see below). These different policies may eventually end up in three different markets that may require additional specific efforts to be further integrated.

What is lacking is an higher level of exchanges between the different regional chairs/ Implementation Groups in order to assure that the policies followed in each Region are, in the end, coherent and interlinked .

- *Given the factors outlined above do you agree that the issue of coherence and convergence within regions than between regions is more important as a first step in gas? If not, please explain why.*

YES, the regional Initiative was set up exactly because national markets were too different among each other. A regional approach, reducing the number of markets to tackle, makes less complex the convergence policy. However the Regional Initiative should not loose the link with the overall objective of creating an effective EU internal gas market.

- *Do you think there are similarities and/or interactions between the electricity and gas sectors that should specially be taken into account when assessing the coherence and convergence level among regions? Please, specify which similarities and/or interactions that should be taken into account.*

The electricity and gas sector are strictly interlinked. It is important that coherence is assured between these two markets in term of :

- Peace of convergence: attention should be paid that the gas and the electricity convergence process are compatible. Any delay in one market would reduce the speed of convergence in the other..

- Organisation of secondary markets for gas and capacity: a large part of demand in the gas market is determined by gas power generation. It is thus essential that the time-frame for re-nomination in gas are compatible with the time-frame for renomination in electricity
- Dimension of regional markets: electricity and gas regional markets do not overlap. This is risky if the Regional Initiative does not pay the due attention to the coherence of the policies adopted: the EU gas/electricity market would result in a number of different markets, one for each gas/electricity combination.

<u>Interconnection and Capacity</u>

- *Do you think that the approaches being taken across three regions towards interconnection and capacity are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently?*

No, as mentioned in the paper the two approaches are quite different in the NW region and in the SSE. The development of a standardised bulletin board for the SSE region has a limited impact if it is not extended to the whole EU market, or at least the other region do not develop a similar board, so that a shipper in the EU gas market has to consult three bulletin board at most.

The same for the One Stop Shop project of the SSE. This project would loose a significant part of its meaning if it remains an option for the SSE gas market only. These two projects should be adopted by the other regions as well.

On the other hands all the Regional Initiatives should evaluate the possibility of developing the auction (open season) procedure for cross-border capacity as in the NW region.

<u>Transparency</u>

- *Do you think that the approaches being taken across three regions towards transparency are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.*

No, the approaches are quite different. The development of a bulletin board is the most significant and should be endorsed by other regions as well.

- *Do you think there would be benefits in rolling out the guidance on "less than 3" to the other regions? If so, are there any regional differences that should be taken into account.*

The -3 rule should be strongly limited to really essential cases. There should be a uniform (very limited) application of the rule across the EU.

<u>Interoperability (including gas balancing)</u>

- *Do you think that the approaches being taken across three regions towards interoperability (including balancing) are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.*

Interoperability is a case in point for demonstrating how a non-coherent approach could seriously limit the integration of markets and the meaning of the Regional Initiative in itself.

The implementation of OBAs is very important for a less costly gas transportation. The SSE region is developing a project focusing on Operational Balancing Agreements that could higly improve the liquidity of the SSE Region. However if different or not compatible OBAs are implemented in the other Regions, or if no OBAs are implemented at all, the SSE project would largely loose its meaning.

On the other hands in the NW region a project looking at the interaction between different balancing mechanisms is being developed. This project would also be very significant for the other regions, were there are (or are being developed) different balancing points, whose interaction may affect the trading between the different markets.

- *Do you think the development of a regional entry-exit system in the South-South East region will lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?*

The development of the entry exit tariff for the SSE Region only, would in any case contribute to reduce the complexity of gas transit across different countries in the Regions. It would positively contribute to the liquidity of the SSE gas market, but would have a limited (however positive) EU impact if transportation in the rest of EU would continue to require to calculate several different tariffs.

Development of gas hubs

- *Do you think that the approaches being taken across three regions towards the development of gas hubs are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.*

The approaches are consistent. However attention should be paid that the operations of the hubs are set in a way that allow them to exchange.

However this result is also in the interest of the market so it could be expected that the market would anyway evolve towards greater ability to hub exchanges.

- *Do you think that the more regional approach to developing hubs in the South-South East region will lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?*

In the SSE Region two hubs are developing, each one acting as a balancing point for its own reference area. The dimension of the reference area is determined by the physical interconnections and the storage capacity available at each hub.

The development of hubs can only add to the liquidity of the market. The market would develop the convergence instruments needed to allow the hubs to exchange, provided that the **needed interconnection capacity and storage capacity is available**. Regulators should verify that the needed infrastructure are developed and that the access to these infrastructure is non discriminatory.