



GTE Response to EREGG Gas Regional Initiative Coherence and Convergence Consultation Report E07- GRI - 01 - 05

Background

Gas Transportation Europe (GTE) includes amongst its members many of the TSOs who have actively supported and enabled progress in the GRIs. GTE is working towards creating the European Network of Transmission System Operators for Gas (ENTSOG) that aims to build upon the successes in the GRIs in the light of the amended legislative and regulatory framework that might be expected post Third Package implementation.

GTE View of the GRIs

GTE welcomes the regional approach as a pragmatic way to accelerate the European gas market liberalisation process using voluntary processes. Some of the regions are very diverse in respect of geography and state of market evolution and therefore small regions might enable more rapid progress.

The regional approach recognises that the implementation of reform is often hindered by the different structural, technical and regulatory regimes that apply throughout Europe. The Gas Regional Initiatives therefore afford an opportunity to explore particular market and cross-border issues. Collaboration between TSOs, market players, regulators and member states has enabled both progress and a much better understanding of some of the challenges to be overcome to further the aspiration of delivering the single European market. Continued progress is anticipated to require the continued involvement of the full range of stakeholders and particularly member states where national legislation needs to be amended.

The GRIs have made credible progress. However GTE would urge caution about comparisons between gas and electricity market operation. The underlying commercial, legislative and regulatory frameworks, the fundamentals of transmission and the different histories of the gas and electricity industries often make such comparisons impractical.

The greatest successes within the GRIs have been achieved in areas where real but specific challenges have been identified and where wide stakeholder, TSO and regulator focus has been applied. A key learning point has been greater awareness of the specific barriers, particularly contractual, regulatory and legal, that have slowed progress. Future GRI initiatives

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should therefore be focussed on a small number of priority areas. This should enable the necessary focus, commitment and co-operation between all key players, including relevant ministries to ensure timely progress towards enhancing regional markets, as a step towards a fully functioning single market.

Focus areas within the GRIs

GTE acknowledges ERGEG's desire to focus on the following areas:

- enhancing existing pipeline capacity and developing new interconnection capacity
- Improving transparency
- Improving interoperability between networks.

A primary aspiration of the first area should be to take practical steps to enhance interconnection capacity at particular points in response to market needs. These practical steps should then be used to refine processes and develop principles that will establish an investment climate providing an appropriate balance between the interests of all stakeholder groups.

Progress in respect of ERGEG's first three focus areas will contribute to the development of the fourth; namely the anticipated development of efficient gas hubs. GTE views ERGEG's first three focus areas as necessary conditions to deliver the fourth area. It is therefore GTE's view that time and effort should be devoted to establish the enabling circumstances for hub development. It is then for the market to determine whether a liquid hub will be the result. TSO and regulators cannot create liquid hubs, they can only provide the environment in which, if other necessary conditions exist (for example multiple buyers and sellers of the commodity) that the market can create the desired liquidity.

Moreover, improving the investment climate should be an additional focus area.

Consistency

GTE does not believe that, at this stage in market evolution, harmonization is essential, rather the focus should be in exploring ways to improve compatibility between different regimes.

At this stage we should make tangible progress with regard to overcoming barriers that will assist the easy transfer of gas across Europe's transmission networks. It may be better to deliver modest incremental improvements and then build upon the successes rather than have expectations of fundamental Europe wide reform but then achieve limited delivery because of the inability to overcome difficulties at every interconnection point that might ultimately frustrate rapid Europe wide progress. A particularly emphasis in the GRIs should be on "quick wins".

Subsequent work, including that which might be lead by European Network of Transmission System Operators for Gas (ENTSOG) can then build on this success in the light of the improved legislative and regulatory framework that might be expected post Third Package implementation.

Commentary on the first three focus areas

Whilst the priorities for each area were established early during the GRI process via stakeholder consultation GTE believes that it may be appropriate to reconsider the priorities in the light of experience. For example stakeholders in the NW GRI recently elected to focus on a smaller number of distinct elements. This increased focus may be appropriate elsewhere. Several GTE members in the SSE GRI believe that it may be better to focus on some more narrow objectives rather than, for example, the “one-stop shop”, regional entry-exit systems or a regional independent system operator. With such ambitious targets it will be difficult to deliver tangible benefits in a timely manner given the extensive range of challenges that this would involve (eg potential changes in respect of entry/exit capacity access and allocation, tariffing arrangements, inter-TSO compensation arrangements and balancing regime definition and operation). Such ambitious proposals, however, may be worthy of consideration once essential improvements in subsidiary areas have been introduced that might provide a foundation for more fundamental reform.

- **Enhancing existing pipeline capacity and developing new interconnection capacity**
The activities identified within this category imply very different approaches across the three regions. At this stage it is not clear that coherence is a problem; the initiatives are local and should they later be found not to be mutually supportive at either regional or European level then they would require amendment or indeed it might be decided that differential approaches should be applied. Whilst harmonization might be considered beneficial it is by no means clear that this would be optimal if it destroyed local efficiencies. The objective of mechanism design should be to achieve an optimal outcome having due regard to the generality of Europe’s gas consumers.

GTE’s aim is to have easy and transparent access to all existing European gas transmission capacity. Where demand for envisaged gas flow exceeds existing or planned capacities then TSOs welcome opportunities for the market to signal such requires and provided sufficient financial commitment and an appropriate regulatory framework can be achieved then TSOs would anticipate that such investments would be made.

The GRI should therefore be used to develop initiatives locally, that reflect local demands and circumstances, to deliver progress and to achieve progress. The GRIs have already started to do this and should continue on that basis. The applicability of local initiatives for wider implementation should then be considered in the light of experience.

- **Improving transparency**

GTE recognises the value that stakeholders place on improving transparency. The approach does not appear to be entirely consistent across all of the regions. This does not necessarily imply a problem. The regions will have developed different approaches and the outcomes can be assessed in the light of experience.

Substantial progress is being made by TSOs in the North West to respond to the market's specified requirements. More widely, and following the commitment of NW GRI Operators, GTE TSOs have committed to consider market requests for information and have developed principles aimed at ensuring the release of information provided that such release does not harm stakeholder interests and that TSOs are fairly rewarded for the provision of such services.

GTE envisages being an information service provider, amongst others, to the industry complementing services provided by individual TSOs. The proposed GTE transparency platform is the first step in this process of responding to market requirements at the European level.

Information release needs to be formulated following full stakeholder consultation processes involving TSOs, market players and regulators so that it can appropriately reflect the requirements of local markets. Information release may not therefore be consistent across regions if the operating, commercial and regulatory environments differ.

- **Improving interoperability between networks**

The scope of the interoperability work is extensive and it is not clear that all of the issues are sufficiently well defined that the GRIs can make meaningful progress. Greater focus might therefore enable better progress.

The development of regional entry-exit tariff systems, for example, is likely to be particularly challenging and it may be that some intermediate steps are necessary to define credible aspirations and timelines.

Maintaining a clear focus on tangible and specific issues will assist progress towards greater interoperability.

Gas hub development

GTE recognises that liquid gas hubs are likely to be a significant feature of the single European market. At this stage efforts should be focussed on developing the necessary conditions to enable such hubs to develop; the GRIs are already doing this in general and in specific cases in relation to MIBGAS (in the South) and in relation to GTF (in the North West).

It is not clear that steps to deliver a more regional approach, as might be the case in the South-South East region are likely to be achievable in the short term. Whilst single entry/exit regions across a region and single balancing points may promote a better gas hub this may not occur unless pre-requisites for an efficient market (including multiple buyers or sellers) are in place. Additionally careful consideration to the trade-offs between the size of balancing zones and the risks of hiding internal constraints and reducing local efficiencies before such aggregation is contemplated.

Conclusion

Overall GTE believes that the GRI is delivering some valuable progress and learning that will assist the delivery of the single European market. At this stage GTE does not believe that any initiatives are anticipated to create problems from a later convergence perspective; but rather that the results should inform decisions as to the areas in which pan-European harmonization might be appropriate. GTE believes a major focus on quick wins can address tangible and specific challenges. Therefore reconsidering some current GRI priorities, including such areas as the one-stop shop, regional entry/exit systems and regional ISO may be helpful to better increase the focus on other priorities and to ensure the continued success of the GRIs.