

ENI: ERGEG – Gas Regional Initiative: Progress Report

A.1. From your point of view, what is the main achievement of the Gas Regional Initiative process?

First of all, the Gas Regional Initiative process represents a significant step towards the realization of an integrated EU market, as far as its prior effort is to overcome regulatory and technical barriers within the three Regions with the final aim of creating a well functioning single EU gas market. From the beginning of this project, many actions have been undertaken and many practical mechanisms have been introduced, focusing on improving regional harmonization and transparency of information among system operators. Taking into account the differences existing in rules, market features, degree of development among MS, in these years GRI priorities have been to favour coordination and cooperation, to promote regulatory consistencies and to implement instruments allowing a rational use of infrastructures. These actions are appreciated and certainly pave the way for an effective enhancement of the integration and a fair competition in the EU gas market, with the consequent advantages in the conditions of supply to final customers.

Investment in new infrastructure

A.2. Do you consider that Gas Regional Initiative (GRI) projects have effectively contributed to cross-border investment processes? What kind of improvements would you expect?

Cross border interconnections are essential in order to carry out the integration of the market, to guarantee mechanisms of solidarity for security of supply goals and to compensate for possible capacity gaps. GRI projects contributed to cross border investments. They established a useful coordination among operators involved in particular during the implementation of the Open Season procedures and favoured the circulation of transparent information. In particular we support and expect GRIs to adopt and promote market-based instruments in the management of investment processes. First of all we support the carrying out of Open Season procedures open to all interested parties that shall assess both market capacity needs and financial commitments of involved parties (such as sale operators, TSOs, third parties..), to support the cost of the investment.

In our view GRIs could also contribute to the future development of the EU 10-year Network Development Plan as the fora in which gas players can better cooperate in gathering correct information on capacity gaps and investment needs at EU level and identifying the main constraints to gas flows within the relevant Regions.

Capacity allocation and congestion management

A.3. What lessons do you draw from GRI projects in the area of access to cross-border capacity? Do the current GRI projects on capacity allocation harmonization meet your expectations?

Different lead times in the mechanisms of capacity allocation and regulatory divergences constitute serious obstacles to a coordinated and consistent management of available cross-border capacity. In our opinion compatible booking and operational procedures between adjacent systems are a necessary and preliminary requisite to introduce a common approach to the management of capacity and to create liquidity in the market. Although it encountered many difficulties, the GRI process on capacity allocation harmonization promoted more coordination at European level.

To further enhance consistency the alignment of the different operational practices applied by Member States is needed (we are referring for example to the timing of the nomination and re-nomination procedures that should be harmonized and aligned to a daily level. The same considerations are applicable for the interruption procedures the capacity allocation windows and congestion management procedures).

A.4. Would there be real benefits if, at this stage, the GRI tried to seek better coordination at a cross regional level? How do you value the experience acquired with the capacity projects in the regions? What type of projects should be developed in the future?

Coherence and convergence within Gas Regional Areas has to be considered a priority step towards the development of a single European Gas market.

It's therefore fundamental, for Gas Regional Initiatives to direct their efforts, right from the start, towards common or at least consistent measures.

For this reason, in our vision it would be important if coherence and convergence of works in progress and solutions were monitored when discussed. To do this, each Regional Group should be aware of what is discussed and adopted in the other Groups in the main area of intervention and a super partes team should follow and coordinate the works in order to guarantee the adoption of a common direction. In this direction, the GRIs should promote market driven projects prioritizing the ones which contribute to achieve the security of supply goal.

Transparency

A.5. What would you expect to be the contribution of the GRI to transparency going forward? Do the current projects in the three regions meet your expectations?

A.6. How could this work help to ensure that the requirements of the 3rd Package are met in a consistent way across the three gas regions?

A complete and homogeneous level of transparency, has to be considered a priority as far as a lack of transparency can create barriers to enter the network and have impacts on the development of competition. An adequate level of transparency has to be considered a preliminary requirement for the correct addressing of areas considered crucial for example the efficient utilisation of the existing transport capacity, interoperability of grids and common balancing mechanisms.

For this reasons transparency levels should be progressively monitored and a "reference level" of transparency to be reached in the European market was identified as a goal on European Network of Transmission System Operators for Gas (ENTSOG). ENTSOG would be able to guarantee better than each single TSOs both the compliance to the 3rd Package as far as it concerns transparency and the development of measures entailing a common effective and operative framework. We consider the existing transparency requirements to be sufficient. For this reason the implementation of existing requirements should be considered as the first priority. An effective transparency level should be realized also through the resolution of linguistic barriers. Nowadays documents are often not available in English or are available just after the conclusion of the procedure during which documents are related. Moreover, in order to facilitate the sharing of information it would be useful if TSOs websites sent alert to all transmission users and to operators who registered in their websites. This should be happen regularly when a deadline is set or new relevant information is made available.

Interoperability and Hub development

A.7. What further actions would you expect from the GRI in this area in order to contribute to interoperability and hub development?

A.8. From your experience with the Regional Initiatives, what are the main obstacles to reach harmonization regarding interoperability at a regional level?

We are in favour of all the solutions regarding development of hubs that could bring to a more liquid regional market and in the future to a more liquid European market. The different

initiatives, due to physical conditions and market conditions, are a first step toward a efficient and effective European market.

In our vision hubs conceived as Balancing Points and hubs conceived as an effective Gas Stock Exchange, although different, have to be considered consistent solutions and both suitable for achieving in different ways a more liquid market.

The creation of hubs as Balancing Points could be the right and the most efficient instrument to address the harmonization of balancing regimes, a fundamental point to solve, in view of a single regional and then European gas market.

For this reason the establishment of hubs as balancing points should be considered the first step to create effective conditions for liquid gas exchanges in the European market.

Initially hubs should be conceived as balancing points ex post where, in other words, operators are allowed to compensate their imbalanced gas positions once they acknowledge them. In fact nowadays different balancing and metering regimes in force in the different Member States are not consistent and do not allow daily knowledge of gas allocations.

To support this kind of development, adequate incentives could be introduced, for example reducing balancing penalties for users who decide to trade their imbalance in the hub.

Priority should be give to the development of harmonized metering regimes (ways and timetable) that are strictly interdependent with gas allocation and balancing procedures, with the aim of developing more liquid and efficiently functioning "hubs balancing points" (daily consistent balancing regime).

The interaction between balancing hubs would gradually and with the increase of liquidity transactions allow to identify a market price signal of imbalance that would constitute the "common reference imbalance price".

Moreover the implementation of a common balancing regime through balancing hubs would allow to restrict and to optimize the use of storage, creating the conditions of increasing the gas storage reserves available to face climate emergence situations.

A hub conceived as a balancing point should function on the basis of common regulatory rules that on one hand should guarantee non discriminatory third party access, on the other hand should allow transactions on the basis of market mechanism which should operate without constrictions.

The creation of hubs as an effective Gas Stock Exchange can instead be viewed as an additional measure to be developed in parallel with balancing hubs or as a further development of them.

However a Gas Stock Exchange, in terms of physical point of exchange once implemented, should be established taking into consideration the following principles:

- it's necessary to avoid a speculative use of hubs by operators that could sell gas without effective gas availability in storage and that would use in a speculative way, strategic storage reserves. It should be granted by:
 - specific procedures to admit operators to sell or buy in the hub, verifying the ownership of adequate features first of all in terms of gas availability, financial and technical ability;
 - defining suitable penalty mechanisms.

It should be useful to define, initially, not compulsory contractual schemes, disciplining general conditions of the transactions. The introduction of standard contracts (compulsory or not) if on one hand could favour decreasing transaction costs, contractual transparency and simplifications on the other hand would deter operators who could prefer defining contractual contents on a negotiation basis. An evaluation on the need to enforce contractual schemes could be carried out in a second moment

In order to increase liquidity we favour, in addition to physical hubs, the development of financial hubs where it should be made possible to trade gas derivatives instruments. Financial

Gas hubs could be gradually developed, at the European level building on the example of the existent ones.

Security of Supply

A.9. Should security of supply be more clearly considered as a main driver within the GRI?

Should specific actions be developed in this area?

A.10. How can the regions of the GRI take into account and develop measures contained in the European Commission's proposal for a Regulation concerning measures to safeguard security of gas supply?

Security of Supply has to be considered one of the main drivers within the GRIs' actions which should be aimed at:

- promoting market driven projects. Priority should be given to projects which contribute to achieve the security of supply goal;
- Contributing to the implementation of the new Regulation by playing an important role in the coordination of the risk and impact assessment process that should be carried out before the development of the Emergency Plans.
- Evaluating trans-national impacts of possible disruptions and actions to be taken to effectively react to a crisis.

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