



Consultation on "Roadmap for a competitive single gas market in Europe" (ERGED)

Shell Response

Three main points:

- 1. Shell supports the development of a roadmap for the European gas market; it should reflect the view of policy makers and eventually be agreed in and adopted by the Madrid Forum and subsequently implemented by regulators.**
- 2. Shell believes that the current legislative framework for the regulation of access to infrastructure in the European gas market is sufficient.**
- 3. While we acknowledge that there is a role for short-term business in the gas market, we also see that the gas business in Europe is fundamentally long-term orientated.**

In more detail:

The discussion paper and indeed the process of creating a roadmap for the European gas market coincide with the publication of the DG TREN report on the gas market¹ and the plans for further work described in that report². Also, ERGED has published in parallel to the DG TREN report their own evaluation of the development of the European energy markets³. Another report published at the same time is the issues paper on the energy sector review by DG COMP⁴. It would in our view be desirable to consolidate evaluations and recommendations.

The DG TREN report - which satisfies an obligation laid down in the European Gas Directive - investigates the current state of the European gas market and especially the state of the implementation of the Gas Directive. One of the conclusions of the report on further measures is: "It is therefore too early to decide whether additional legislative measures at Community level are necessary [...]"⁵.

Shell supports the development of a roadmap for the European gas market. Such a document could help to give confidence in the stability of the regulatory framework, which in our view is a precondition for a sound investment climate. To be successful, the roadmap needs to be put on a broader basis and reflect the view of policy makers. While we appreciate the initiative taken by ERGED, we believe that the Madrid Forum would be the proper place to eventually adopt the roadmap; it should as such become a joint document. We understand that this was originally planned for the Vision Paper of the Joint Working Group, which, however, was never adopted.⁶ After adoption the roadmap should be implemented by Regulators.

Shell believes that the current legislative framework for the regulation of access to infrastructure in the European gas market is sufficient and that, concurring with the view expressed by DG TREN, it would be premature to contemplate further legislative measures at this time. As expressed at

¹ Report on progress in creating the internal gas and electricity market - DG TREN - 15 Nov 2005

² Page 3 Report on progress in creating the internal gas and electricity market - DG TREN - 15 Nov 2005

³ A Preliminary Assessment of the European Energy Market - ERGED - 15 Nov 2005

⁴ Energy Sector Inquiry - Issues Paper - DG COMP - 15 Nov 2005

⁵ Page 3 Report on progress in creating the internal gas and electricity market - DG TREN - 15 Nov 2005

⁶ A long-term vision of a fully operational single market for gas in Europe - a strategy paper" - Draft - Joint Working Group of the Gas Regulatory Forum, 2002

various occasions and reflected in remarks in the ERGEG discussion document, it is of utmost importance to create and maintain regulatory stability. Without such stability the investment climate will suffer and consequently security of supply will be put at risk.

Liquidity of the market, hub-trading and in general short-term-ism is a prevailing feature of the discussion paper. While we acknowledge that there is a role for short-term business in the gas market, we also see that the gas business in Europe is fundamentally long-term orientated. This is not an isolated view; it is shared by many players in the market. The role of long-term contracts is also reflected in the Gas Directive⁷ and the Security of Gas Supply Directive⁸.

It has to be realised that in order to make use of long-term supply (import) contracts, long-term capacity reservations are required. The Benchmark Report published by DG TREN offers a definition of different types of long-term contracts⁹.

Having followed (and contributed to) the discussion around long-term contracts since the beginning of the debate on gas market liberalisation and the Gas Directive, we are concerned about the renewed debate about the validity and desirability of long-term contracts. This renewed debate is not only prominent in the ERGEG discussion paper but also in initiatives of the Competition Directorate and national regulatory and competition authorities. It is often overlooked that, for example, the German Federal Cartel Office has excluded long-term upstream and import contracts from their initiative.

Long-term contracts are essentially a risk management tool. They exist to limit the risk for an investor but also to give security of supply and thus mitigate the risk of disruption to energy supplies. In many cases long-term contracts are a precondition for major investments. Not all supply contracts need to be long-term and indeed there are examples where investments have taken place without long-term contracts being in place. Given the increase in import dependence that Europe is facing, we believe that a major proportion of primary gas supplies will continue to be based on long-term contracts. We advocate freedom of contract between willing sellers and willing buyers.

Taking the above into account, we do not agree that the statement in the discussion paper that "The immediate priority is to take steps necessary to promote liquid and competitive trading at and between gas hubs [...]"¹⁰ indeed sets the right priority.

In addition, we would like to offer the following comments:

- The ERGEG consultation document contains the description of a regional initiative. A similar, but different, initiative is described in the DG TREN benchmarking report. As a measure of efficiency and economy, Shell advocates to combine these activities.
- We take note of ERGEG's concept to use a regional market approach as a stepping-stone to a single European market. The inherent danger obviously is that such a concept would exacerbate market segmentation. Given that the lack of integration between national markets is seen as the most persistent shortcoming¹¹ we have doubts about this approach.
- As already mentioned above, Shell would welcome the roadmap to be a product that is endorsed and adopted by the Madrid Forum and as such become a joint product.

⁷ Directive 2003/55/EC (Gas Directive), Recital 25

⁸ Directive 2004/67/EC (Security of Natural Gas Supply), Recital 8

⁹ Technical Annex to said report, section 5

¹⁰ ERGEG Roadmap Discussion Paper, section 1.2

¹¹ Report on progress in creating the internal gas and electricity market - DG TREN - 15 Nov 2005, page 2