

**RESPONSE TO ERGEG'S CONSULTATION PAPER ON
GAS REGIONAL INITIATIVE COHERENCE AND CONVERGENCE**

Introduction

Eurogas agrees on the aim of the consultation, and welcomes the importance accorded to monitoring solutions that are being developed in the three GRI work groups. Coherence and convergence within Gas Regional Areas have to be considered a priority step towards the ultimate objective of the development of a single European Gas market.

It is therefore of major importance that specific regional activities are checked against activities of other regions leading if necessary to similar actions in those regions, if these are appropriate.

In ensuring coherence and appropriate convergence between Regions, the GRI initiatives must, however, strike a balance

- on the one hand, it would be of concern if disparate activities in different regions strengthened regional integration but made harder the possibilities for later European market integration
- on the other, a regional solution to a particular regional situation should not dictate an approach in regions for which that solution may be less appropriate.

Therefore, there is need to reinforce transparency and co-ordination in the regional work, but also to allow for flexible responses where these better serve the common goal of a fully functioning European market.

The GRI can facilitate the process of integration, but ultimately progress will be achieved when TSOs fully recognize that development of the internal market and meeting all users' needs efficiently is in their best business interests.

Responses to the main Consultation questions

- Introduction -

Question 1: 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.

As the paper says, beyond core issues, there are differences in priorities. Eurogas judges these to be acceptable for now. For example, in the Southern Region there is less pressing need to discuss regional hub liquidity, REETs and OSS, as long as the issue of market interconnections is the prime challenge. The other issues are understandably priorities for the NNW and SSE respectively, although there are also interconnection problems in the SSE (Slovenia).

Eurogas would be concerned, however, if differences were allowed to develop in such a way as to lead to new barriers between regions. Common consistent priorities have to continue to be underlined and they should cover the matters necessary to guarantee a correct functioning of a single European gas market, avoiding the creation of such barriers. It could be useful, in order to facilitate the convergence of regional solutions, to share, in addition to the common priorities, for each priority, an understanding on shared principles or measures, aimed at a minimum convergence level of the solutions that are being developed between regions.

Question 2: Given the factors outlined above do you agree that the issue of coherence and convergence within regions than between regions is more important as first step? If not, please explain why.

Considering the differences existing in rules, market features and degree of development, Eurogas continues to support the approach that the first step towards a single European Gas Market is to adopt common solutions within countries that, because they show similarities and are near geographically, have been brought together in Regional Areas. It should be considered that the first step should be preliminary to the final objective of the creation of a common European Gas Market.

As priorities are checked regionally, a guiding principle should be that integration within regional markets should aim at achieving that the most developed market.

It is important, however, to be clear that an emphasis on regional integration can never be reason for delaying implementation of legislation and voluntary guidelines that have been agreed at an EU level.

Question 3: 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.

No comment

- Interconnection and capacity -

Question 4: 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.

It is evident that in two regions in particular, there are problems with cross-border interconnections. Taking into account that a lot more work is needed to achieve sufficient progress, Eurogas supports the eventual development of a range of mechanisms including OSS, capacity trading and hubs to reach more competitive markets.

Where the infrastructure allows, Eurogas supports mechanisms that could incentivise a real secondary market of capacity. Even if the approaches may differ e.g. in the NW regions day ahead auction of capacity and in the SSE standard bulletin board for trading, they should follow a set of minimum common principles to avoid too great divergences among regions. A platform offering primary and secondary capacity should guarantee the possibility of bilateral agreements and auctions for the secondary market. In the NNW, a day ahead auction pilot project should also be developed. Such measures could assure in future the same opportunity for all the regions to use capacity efficiently avoiding barriers among regions.

Moreover the initiative of One-Stop-Shop is a first step towards a single market. Progress in this direction, where it is possible, will reduce to a minimum level the entrance barriers into the relevant markets, and benefit system users.

- Transparency -

Question 5: 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

We would, however, wish to understand better what is implied by the “swap of inventory and capacity regarding storage”. We assume this refers to information exchange, but this should be classified.

Eurogas is in favour of harmonised initiatives regarding transparency. We would, however, wish to understand what is implied by the “swap of inventory and capacity” regarding storage. We assume this refers to information exchanges, but this should be clarified.

Question 6: Do you think there would be benefits in rolling out the note on “less than 3” to the other regions? If so, are there any regional differences that should be taken into account?

Eurogas has called for Guidelines on the 3- rule, and the NNW note could serve as a basis for discussion. At first sight, regional differences should not influence this question.

- Interoperability and balancing -

Question 7: 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.

We do not think that the IPA and OBA of the SSE regions conflict with the balancing rules envisaged by the NW and South region.

Question 8: 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?

Eurogas considers that an entry exit system is the most efficient mechanism to avoid entrance barriers to different markets. It would be useful if similar initiative could be taken in the NW and when possible the South region.

- Development of gas hubs -

Question 9: 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.

We think that the different approaches undertaken at a regional level, combined with other initiatives regarding harmonization of rules (balancing, allocation of capacity, development of a secondary market of capacity ...), are sufficiently consistent to avoid creating problems for the integration of the three regions in the future.

Question 10: 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 late stage? If so, how could these be overcome?

We are in favour of all solutions regarding development of hubs that could achieve a more liquid regional market and lead to a more liquid European market. Initiatives aimed at this objective, even if they are different because of physical conditions and market conditions, are a first step toward an efficient and effective European market.

Question 11: Do you think there would be benefits in the MoU being rolled out across the other two regions – or are there adequate arrangements already in place? If it was rolled out would there be any barriers to doing so and how could they be overcome?

We think that MOU is an important step that will contribute to plugging regulatory gaps and to harmonizing regulation between countries and regions. Its implementation and value in the achievement of progress should be monitored, to determine its wider use, pending implementation of Third Package proposals.