

**DRAFT ERGEG STRATEGY FOR DELIVERING A MORE INTEGRATED EUROPEAN ENERGY MARKET: THE ROLE OF THE REGIONAL INITIATIVES
EUROGAS RESPONSE**

Introductory comments

Eurogas welcomes the opportunity to comment on ERGEG's Draft Strategy Paper for delivering a more integrated European energy market. Eurogas agrees that it is timely to conduct such a review. Now that the Third Energy Package has been adopted, the role of the GRI in contributing to its objectives has to be looked at, and at the same time the GRI process has to be examined to check that it is fit for purpose. The GRI since 2004 has proved itself as a social infrastructure in enhancing understanding among market participants, facilitating co-operation among TSOs, and suggesting bottom-up solutions. Now in its next phase, the GRI have to more clearly deliver solutions to faster progress in step with Third Package objectives. While continuing to harness the improving dynamics of the market and to draw on bottom-up developments the output of the GRI should be coherent with EU policy on the internal market and also on security of supply and infrastructure development.

Eurogas responded to ERGEG's Consultation on its GRI Progress Report in December 2009, and in parallel with this paper is commenting on the DG TREN commissioned study by Everis/Mercados "From Regional Markets to a Single European Market".

1. Questions – Set 1

There is no 'blueprint' for achieving a single energy market, and yet activity towards that goal is taking place across a number of levels. Do you consider that a high level/strategic vision is needed to set the overall direction of market integration? Should this vision be the same in gas and in electricity? How do you think it should be formed, and who should be involved? Which sort of forum do you think would be appropriate for the development of such a strategic vision? Do you see a risk that developing a strategic vision may delay implementation in the regions under current structures, or that it could facilitate progress?

The objectives, framework and principles of the internal market are clear in the Third Package and should serve as the guide to what is needed without waiting for the Third Energy Package to enter into force. Correct, progressive implementation of the legislation should determine the high level approach. A balance, however, is needed between a top-down and a bottom-up approach, allowing for flexible regional approaches when these will facilitate reaching the overall goals through market-driven solutions, providing that they remain consistent with EU policy.

To ensure this last point and improve overall transparency and management of the individual regions output, work programmes with target deliverables should be issued and updated after each stakeholders' meeting. An overall work programme for the three regions should be issued annually.

The objectives are the same for gas and electricity markets, and experience is showing that generally similar regulatory routes and instruments can be followed especially regarding the network side of the business. The gas chain, however, differs from that of electricity, notably in respect of its supply structure and use of storage and in specific cases there may be sound technical reasons for some variation in regulatory treatment, high level aims should be the same.

Therefore in the immediate future, the output of the GRI has to focus on capacity, balancing, tariffs, and transparency issues.

The main aim should be to have the correct structures and processes to deliver results, and to obtain added value from better management of the GRIs.

2. Questions – Set 2

Member States have an important role in establishing a legally binding cross-border regulatory framework, as well as in relation to their own Member State's interests. Work in the Regional Initiatives will be very relevant. Do you agree that Member States should be more closely involved in the work of the Regional Initiatives? If so, how should this happen?

Greater involvement of the Member States in the process will bring added-value if it is aimed at removing obstacles to progress that are identified in national law, and in reinforcing their commitment to progress towards the internal gas market. The setting-up of the Pentelateral Forum has brought a certain added-value to the work of the NW GRI. Eurogas would, however, be concerned if the involvement of Member States were to tilt the balance of input away from industry and regulators towards national legislators. Essentially the GRI process has to remain a market-driven, bottom-up, activity in line with EU and not national interests.

Furthermore, the success of the Pentelateral Forum, an informal development, may not be easily replicated.

Therefore although the essential governance of the GRIs should remain with market participants and regulators, they should as appropriate explore ways of involving Member States as appropriate.

3. Questions – Set 4

Not all regional market projects are part of the ERGEG Regional initiative, and yet the achievement of a single European energy market is the goal of all such regional projects. Do you agree that the regional market initiatives which are outside of the ERGEG Regional Initiative should be incorporated in some way in the overall approach to achieving a single European energy market? How do you think this should happen? If you disagree, what role do you think these initiatives should have and how do you think convergence of European markets should be achieved?

Non-EU regional initiatives should not be included before further development of the EU market and more robust regional markets.

Regarding other possible EU regional initiatives, there is no valid argument for incorporating them, as their existence presupposes sufficient progress and support. ERGEG can include them if they ask.

4. Questions – Set 5

Could ACER improve co-ordination across the regions in a better way than is proposed in this paper?

Potentially ACER's biggest contribution to improving regional co-ordination lies in its successfully operating in line with the objectives of the Third Package whereby NRAs should co-operate in fashioning a European-level regulatory framework.