Amstelveenseweg 998
1081 JS Amsterdam

Phone: + 31 20 520 7970
Fax: + 31 20 646 4055

Email: secretariat@efet.org
Website: www.efet.org

ABN Amro Bank Amstelveen:
Account no: 54 05 15 116

9 July 2007

EFET Response on ERGEG public consultation on Gas Secondary markets

Dear Mrs. Geitona,

EFET would like to thank ERGEG for the opportunity to respond on the consultation paper on gas secondary markets. EFET fully endorses the observations made by ERGEG that efficient and effective secondary markets are a key element of an internal energy market.

We have structured the response in line with the questions in the consultation.

Question A: Please comment whether you feel the outcomes of the qualitative and quantitative study on the performance of the secondary market in the North-West gas Regional Energy Market of the Gas Regional Initiative reflect the performance of the secondary markets in the whole of Europe.

EFET feels that the issues raised in the NW REM are valid and relevant in other areas both for new and developing hubs. The importance of accessing capacity to take gas to and from a hub is fundamental to developing liquidity. As many routes are contractually congested, secondary capacity mechanisms are an essential means to allow access to unused capacity.

In general, markets are not liquid, and capacity is seen as a low value product compared to the gas flow it facilitates. The administrative and legal effort, costs, and commercial risks mean that sellers of capacity see little return for the activity. We also note that the inequality arising from the way that overwhelming proportions of primary capacity are held by the historical players may not be resolvable in the secondary market – no matter how good it is. EFET considers that primary allocations must be improved to reduce the reliance on second best solutions. The principles of establishing efficient access to primary capacity are set out in EFET's letter to the European Commission dated 2 May 2006.

EFET believes that many additional points have come to light from the attempts to develop a pilot on the Dutch/German and German/Danish borders that are also relevant elsewhere in Europe, including:

- The lack of common products, for both firm and interruptible services, in neighbouring pipeline systems
- The lack of a common framework for trading secondary capacity in different networks in terms of whether capacity transfer is allowed or requires additional arrangements to be put in place, more clarity on the role of the TSO in validating or approving a capacity trade, differences in notice periods, and what happens in each network in case of default.
- Uncoordinated capacity auctions or allocation processes leave shippers at risk of holding capacity on one side of a border and not on the other.

It is difficult to imagine how secondary capacity markets can become effective as long as network access agreements address them in fundamentally different ways. Some level of convergence among network access terms will be necessary.

Question B: Please advise on how you suggest to improve the secondary market design for transportation capacity products (e.g. week/month/season/year(s)).

As stated above, the key to successful secondary markets across the region lies in creating common products and services and a common trading framework. This will require convergence of network access terms. As long as capacity is tradable down to a daily unit, the market will provide the necessary signals on what terms for capacity products are desired (but they are most likely to reflect the commodity products being traded).

Question C: Please comment on the possible ideas to enhance UIOLI provisions. Which possible (positive) incentives are there for shippers to offer capacity on the secondary market?

Greater data transparency will help to reveal where capacity is not being used, and allow greater acceptance of interruptible products. It may even lead to the development of new services whereby a holder or primary capacity is happy to sell access to that capacity on an interruptible basis, where the reasons for interruption are very narrowly defined. This has emerged in North American pipeline systems, for example.

There is also the possibility of using tariff structures to create incentives for TSOs to promote secondary markets in capacity. This could be achieved by allowing TSOs to keep a proportion of the revenues generated, or rewarding TSOs from higher pipeline utilization - so that if it resells unused capacity to a party who uses it, the TSO will earn a higher commodity-based revenue. Regulators could also consider incentives on TSOs to expand capacity where there is contractual congestion (especially where this has additional benefits to improving security of supply), and to do this in a way that allows access to capacity for new entrant suppliers.

Question D: Please comment on the further thoughts on the way forward

EFET encourages ERGEG to address convergence of product definitions and the assignment and transfer processes. There should also be investigation of legal and regulatory barriers in other EU member states.

Question E: Please feel free to provide us with additional comments

Capacity release schemes should be considered both independently and linked to gas release schemes. These could be considered as merger remedies or competition actions.

Under entry-exit models, customer transfer can lead to transfer of capacity downstream of a virtual trading point, but not upstream. Extension of the “rucksack principle” to entry capacity could create greater movement in capacity trading. EFET recognizes that this is not straightforward, but believes that some progress could still be made in this area, and would welcome further consideration of this topic.
Investigation of tariff-based incentives should be undertaken by regulators.

Conclusion

EFET looks forward to cooperate with all stakeholders, including ERGEG, on developing a proper regulatory and contractual framework for efficient secondary markets. Please contact EFET in case you have any questions.

Yours sincerely,

Adam Cooper
Project Group Capacity Markets
EFET Gas Committee