

**ERGEG Gas Regional Initiative Coherence and Convergence Report
A contribution from IFIEC Europe**

General remarks

IFIEC Europe has always been strongly in favour of market integration and thus supports the Gas Regional Initiatives established by ERGEG. These initiatives represent a first step towards a truly integrated European gas market. Therefore IFIEC Europe agrees with ERGEG that the Regional Initiatives should result in regions whose internal markets are planned to converge with each other, rather than become separate "islands" which would make it more difficult to achieve the goal of a single integrated European market.

During the Stakeholders Group Meeting in The Hague, October 2007, it was agreed by the stakeholders that progress in realising a single harmonised regional NNW Gas Market is rather slow; however, it also shows progress, worth continuing the process. In order to improve this process, it was decided during the meeting to focus on a more limited number of priorities. Even though this point was formally validated, IFIEC Europe made clear, however, that market functioning improvement will not be obtained by focussing only on 1 or 2 bottlenecks, as all market features and aspects are connected. In other words, the original regional approach makes sense and should be fully implemented. The first focus should be within the regions, and not starting to converge the activities between the three regions at this stage. Moreover, gas has an advantage over electricity with only three regional initiatives. However, this does not make the cross-border issues less important, as for example the split of the North and South parts of France. Therefore, it should be ERGEG's task to coordinate the activities between the three regions.

There are similarities and interactions between the electricity and gas sectors that should be taken into account when assessing the coherence and convergence level among regions. In many countries a substantial part of electricity production is gas fired. So, if the gas market is not functioning properly, resulting in prices that are not based on supply and demand mechanisms, this has direct consequences for the electricity markets and the price setting of electricity.

A most important priority for IFIEC Europe is the issue of transparency. Without proper transparency with regard to the availability of infrastructure and market operation, being available to all interested market parties, a level playing field will never occur and stakeholders will not be able to make proper choices based on market conditions, resulting in reliable prices.

IFIEC strongly believes a Memorandum of Understanding (MoU) provides a basis to move forward. Without this instrument, commitment might be lacking.

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Issues

From IFIEC Europe's point of view, the following issues are the most important in the momentum towards integrated regional gas markets.

1. Interconnection-capacity

Transmission grids have not been established to facilitate the implementation of a gas market, but to facilitate the supply of gas. National borders are a major constraint, due the historical scheme. Overcoming structural congestion is of utmost importance in creating regional gas markets. This requires new capacity allocation mechanisms, grid investments in cross-border interconnectors and new transmission lines facilitating trans-national market flows (transit).

To identify the required capacity expansions, a coordinated medium-term investment plan should be drawn up jointly by the TSO's in every region. IFIEC Europe thinks that such process is more likely to proceed quickly and effectively if grids are effectively unbundled from vendors, and if TSO cooperation is improved.

2. Access to interconnection-capacity

The Gas Regional Initiative NNW-Region has shown that if interconnection capacity is physically sufficient, the capacity is not always contractually available due to the first-come-first-served allocation principle. The mechanism of use-it-or-lose-it should prevent contractual congestion. However, it is not the case. A secondary market in trading available interconnection capacity is not developed yet.

In the view of IFIEC Europe, the non-used allocated capacity should be made available to the market, including end customers, on different time basis. The re-construction means timely releasing the capacity, transparently, in such a way that the capacity can and will be used by interested market parties on various timeframes.

3. Access to transport capacity, quality conversion and storage

The Gas Regional Initiative NNW-Region has shown that only limited players have access to the strategic assets, such as gas storage facilities, quality conversion stations and transport capacities. The third legislative package of the Commission is a good starting point to create a level playing field, but the system should be shaken up entirely to give access to key infrastructures to new entrants.

Exemptions from TPA-regime and open season procedures are all but a contribution to this level playing field. In the downstream markets it is the task of the TSO to invest in the infrastructure and to take reasonable risks in doing so. These reasonable risks are accommodated by transport and connection tariffs, authorised by the regulators, on a long term basis if necessary.

4. Transparency

Transparency of wholesale data and infrastructure access data is important to create a level playing field. Only in a situation of balanced, symmetric information between market parties, it can be expected that players develop trust in the market and the price setting mechanisms. Moreover, transparency is also required to monitor possible abuse of market power by dominant players. To improve transparency, the following requirements are important :

- Create binding rules for information disclosure. A mere self-regulation via non-binding guidelines is not enough;
- Harmonisation of publication requirements is necessary;

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- Data should be published in a uniform format and in a common language. Publication should be internet based;
- Data should be available to all market participants at the same time, as close to real-time as possible, in a non-discriminatory way;
- If less than three players are active at a certain point, this is even more a reason to be transparent in order to tackle monopolistic or duopolistic behaviours.

5. Interoperability (including gas balancing)

Gas quality is an important issue for end consumers, both for feedstock users or gas burners. There is an important discrepancy between having one gas quality to create a single gas market on the one hand and different technical specifications of receiving installations on the other hand. IFIEC Europe strongly supports the single gas market, but would like to emphasise that a change in gas quality will require significant investments to adapt the existing facilities. Otherwise, furnaces and burners will operate in a low efficiency mode with negative economic and climate impacts.

Balancing principles are quite different within and between regions. A single gas market will never develop if balancing mechanisms are not harmonised. IFIEC Europe proposes a market-based daily balancing system.

6. Development of gas hubs

End-users should have access to liquid market places, either directly or via a balancing party / shipper. End-users should have free choice in the delivery point of the gas molecules, for example at their exit-point or at a hub. Transport capacity should be offered to the market on a separate basis, where a mechanism of one-stop-transport should be established. The liquidity of the market place can be improved by taking the balancing market to the hub.

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