

To:

Directie Toezicht Energie

Attention: Mr. P. Plug, Director

Copy to: Mr. E. Rakhou, Program manager natural gas

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North and Northwest Europe Gas Regional Initiative – Bonn workshop

Dear Peter,

I would like to thank you and your colleagues, both from Dte and the Bundesnetzagentur, for organising the workshops in Bonn on 8th and 9th February. Several EFET members attended these workshops and found both the workshops themselves, and the regulators' preparatory reports important and worthwhile steps in realizing the goal of an internal European gas market.

Whilst I recognize the burdens that the Gas Regional Initiative places on regulators, I would urge ERGEG to continue with its efforts; EFET will continue to contribute. Going forward we believe that regulators should maintain pressure on TSOs and other key players to enable competition to develop in Europe by meeting both the spirit and the letter of the Gas Directive and the Gas Transmission Regulation.

Below are our views on some of the issues raised at the various Bonn workshops.

Workshop 'day-ahead capacity auctions'

EFET welcomes the discussion and the wide industry commitment at the workshop regarding this pilot. To facilitate further progress I would like made to summarise the most important features of the EFET proposal. These features are:

1. **Proper design of the pilot is essential**, as success or failure will determine future actions. However, the project remains a pilot, so the design must not be 'cast in stone'!
2. **Quick implementation is of paramount importance**. For issues concerning IT, etc. the use of existing platforms or the aid of gas exchanges could speed up implementation of the pilot.
3. **EFET favours a graduated approach** for both products; secondary firm and primary interruptible. Network users declared a clear majority preference for firm capacity. A pilot with only interruptible capacity, as initially proposed by the TSOs, is unlikely to attract many participants.
4. **EFET will cooperate with the operators** to help them make their work plan and present a proposal at the workshops in April. However, at this stage the

operators have not provided any detailed information on their proposals or timing.

5. **This pilot is only a first step.** Many necessary measures are needed for a fully competitive market and it may be that participation in the pilot is limited. Analysis of the pilot results will still provide experience, knowledge and understanding that will help the implementation of improved future schemes.

Workshop ‘primary capacity’

EFET welcomes the findings of the study on interconnections and primary capacity. The analysis is consistent with the widespread problems in obtaining non-discriminatory access to capacity. I would like to draw your attention to the following observations:

1. Most interconnection points (IPs) in NW Europe are contractually congested and therefore **urgently require effective congestion management procedures** to allow non-discriminatory access and the optimum use of cross-border capacity.
2. A fundamental target of the Gas Regional Initiative ought to be for as many as practical of the **TSOs jointly to maximise the capacity made available to the market** at all IPs. Currently it appears that few if any of the TSO do so.
3. Confidentiality should not disproportionately prevent disclosure of information. EFET supports the view that **TSOs must make available aggregate information** on gas flows and capacities availability at all major IPs.
4. The selection of IPs and their distinctive obstacles to cross-border trade is necessary to concentrate efforts, but EFET is concerned that the choice of IPs has been determined by the amount of information provided by TSOs. Attention should **focus on IPs where the situation is more opaque** because of the failure by TSOs to provide full information.

Workshop ‘secondary capacity’

EFET acknowledges the efforts of Dte to develop secondary market design variables. The discussion showed that **any effective secondary market fundamentally depends on the capacity allocation procedures and the congestion management rules** of the primary market. Measures such as concentrating trading through an auction or releasing capacity from dominant primary capacity holders (cf. Release Capacity at GRT Gaz) may be necessary to launch the secondary market, but should only be of a temporary nature. EFET stresses that **capacity traded on the secondary market should be treated non-discriminatorily by the TSO** with respect to the rights and obligations of the capacity owner vis-à-vis the TSO.

Workshop ‘Regulatory co-ordination’

EFET acknowledges **the importance of regulatory co-ordination** in order to achieve effective regulation, efficient operations and timely investments. The development of a Code of Conduct or a Conduct of Practice could be useful way to make sure that

national regulators do effectively coordinate their regulatory responsibilities, activities and plans.

Workshop ‘Transparency’

EFET has always promoted ‘transparency’. Open access to useful information is essential, particularly to avoid discrimination against new entrants to the gas markets. Much of the discussion in the workshop focused on the problems with the ‘less than three rule’ and on the provision of information as aggregated data. EFET is of the opinion that **the ‘less than three rule’ as currently applied is hindering market development** and a critical review is needed. Europe started with monopolistic or oligopolistic markets, and it is inevitable where competition is least developed there is a very small numbers of companies involved. Blanket application of the ‘less than three rule’ creates a vicious circle that prevents a competitive market from becoming established by placing new entrants at a disadvantage at the very locations where access to infrastructure is needed.

Overall, significant advances in shared understanding were made during the Bonn workshop. Now more progress is needed to deliver real improvements in the short term. Just as you said in your introduction; “vision has to be turned into action!”

I can assure you that EFET is committed to achieving progress, and we are looking for tangible results from all the Gas Regional Initiatives during this year. For the N/NW region, Adam Cooper, Leader of our Capacity Markets Project Group will continue to work with the TSOs on the day-ahead capacity project. The Vice-Chairman of the Gas Committee has also written to Erik Rakhou to nominate EFET Members who are willing to participate in each of the Enabler Groups in which more detailed matters will be raised. Meanwhile if you wish to discuss any points in this letter, please do not hesitate to contact me.

With my sincere best wishes



Dr Colin Lyle
Gas Committee Chairman
European Federation of Energy Traders