

## **RESPONSE OF EUROGAS TO THE DG TREN STRATEGY PAPER**

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### INTRODUCTION

1. Eurogas welcomes the signal of the Madrid Forum on the need to develop a long-term vision for the gas-market in Europe. Policy questions have tended to focus on short-term issues as a result of the Madrid Forum's work and the already in-hand Directive modifying the existing gas and electricity Directives. Longer-term horizons, however, should guide the vision, including the impact of an integrated environmental-energy policy, the keen debate on the Green Paper on security of energy supply, and importantly the motivation for the Prodi initiative which is focused on enhanced EU-Russia energy co-operation, including the need to secure gas supplies well into the future. None of these policy issues can or should be examined in isolation, but should be considered overall to develop a coherent approach and consistent objectives, to which further market opening will contribute.
2. Any strategy paper therefore should seek to identify the dynamics against which an internal market blue-print is to be thought out and the opportunities and restraints which these dynamics may contain in respect of the internal market and shifting responsibilities. The DG TREN paper should consider thoroughly the implications of market practices in relation to medium and long-term issues. At present policy determination seems to focus on development of a single model for market mechanisms, and the concrete regulation needed to achieve this in the context of an over-simplified description of the gas system and summary comments on mostly short-term security of supply considerations. The Strategy Paper can only be regarded as a starting point for a debate which should be organised at different levels.
3. The gas industry already encompasses different types of market participant-suppliers and other network users, TSOs, - and the perspective of each of the main groups involved in its operation needs to be considered. The most important market participant however, is the final consumer and it is with these end-customers that any vision should start.

### END-CONSUMERS

4. The end-consumer, whether industrial, commercial or residential wants his gas at a competitive price, in a safe, secure, efficient supply. A few large users may be prepared to envisage a trade-off between price and supply security, but for the vast bulk of consumers, whether eligible or non-eligible customers a safe secure and efficient supply will remain paramount. Furthermore increasingly the consumer will be looking for his energy needs to be satisfied in the most environmental friendly way, within his budget, maximising rational and efficient energy use.
5. The market should ensure for consumers the possibility of choice, based on adequate transparency of end-consumer prices, range and quality of services offered by suppliers, to permit informed selection. Consumers should be confident that security of their supply will be maintained.

6. Large industrial and commercial consumers wanting the option to access the traded gas market themselves must also be able to act in a market with clear economic signals, which provides them with the appropriate tools. Those usually large customers who are in a position to choose the level of supply security appropriate for their requirements should be able to do so in a competitive market.

#### NETWORK USERS

7. Suppliers will sell natural gas to end customers and will want to be confident of its delivery at all times (unless in cases of force majeure). They and other network-users will make agreements with gas transmission operators to move the gas within the network. Other network users can be expected to include large consumers (e.g. power generators) and energy traders. Traders who may not have the same concern for investment incentives as other users will seek greater liquidity in the traded market.
8. Suppliers will wish to have access to available, competitive upstream sources of gas, and if they are not shipping it themselves, a framework for dealing with shippers. Suppliers, to compete in the market, will seek to improve their sales service to consumers, on price and standards, and therefore will seek a reliable network operation to underpin the potential advantages of new technology. Suppliers will want to know tariffs of supplying gas Europe-wide. They and other network users require the information from TSOs to enable them to offer effective services including
  - information on capacity availability should be quickly and easily available;
  - trading mechanisms, which should be market driven and not regulatory impositions;
  - published clear commercial conditions for network use and ancillary services.

#### TRANSMISSION SYSTEM OPERATORS

9. Eurogas will not comment in detail on the perspective of the TSOs. This is the task of the GTE, but from the general point of view, Eurogas would endorse a GTE wish for a system which offers
  - an economic basis for the maintenance and development of the network;
  - incentives to provide their customers with the appropriate information;
  - incentives to invest for the longer term in these regions where gas demand is expected to increase;
  - incentives to improve the efficient operation of the network and provide customers with necessary ancillary services.

#### KEY OBJECTIVES

10. In the light of the above analysis of market participants' needs, Eurogas considers that the following key objectives should underpin future market vision involving different emphases from the Strategy Paper.
  - Security of supply has been assured successfully by the incumbent supply companies, responsible for long-term purchases and concomitant network planning,

supported by the reliability and the integrity of the transport system. Safety, integrity and efficiency of the system have to remain operators' key priorities. It should be clear, moreover, in the new market structure that security of supply will be more market oriented and how the requisite investments and the risks involved will be shared. The Strategy Paper can be better developed to consider related questions including improved definition of objectives in view of Europe' long-term interests, more thorough consideration of the roles and responsibilities of different market participants and the principles for an appropriate market framework.

- The market should be developed according to principles which will encourage the investment necessary to deliver long-term security of supply, a concern of all market participants. The gas market will only grow when the high standards of security of supply can be maintained. There should therefore be a balance between short and long-term considerations in developing the market regime. There is a risk that liberalisation, if accompanying regulation only focuses on short-term results, will not lead to a climate conducive to investment. This risk must be avoided. Sustainable development of the market should be an aim;
- Account should be taken of different national market structures in the gradual development of a fully integrated and operational internal market. The Strategy Paper envisages a market organisation for gas at EU level. Diversity, however, should be respected, unless it leads to undue market distortion. Sufficient harmonisation to ensure a level playing field is important but it needs to acknowledge as starting point the national characteristics of different markets and the principle of subsidiarity. In this respect the Madrid Forum has a key role to play, because it permits opportunity to the regulators to establish principles and learn from each other's experiences, but develop their markets towards the common goal in appropriate ways, suited to national circumstances.

11. Otherwise Eurogas agrees on the starting points mentioned by DG TREN

- Non discriminatory access to the network and to ancillary services.
- The provision of relevant, timely and accurate information by TSOs (and where appropriate market participants).
- Cost reflective charges which do not cross-subsidise.
- Efficient network use.

12. Eurogas acknowledges that there should be sufficient functional independence of gas transmission operators to ensure non-discrimination. Most Eurogas members consider that the objectives of transparency and non-discrimination among network users can be obtained without the necessity of legal unbundling. To obtain this goal, these companies have taken organisational steps to separate their transmission activities from the trading functions (management unbundling). Those companies within Eurogas which are or will be unbundled from transmission companies wish assurance that, where this is not the case, no shipping advantage rests with the incumbent.

13. In the light of these above principles, Eurogas has the following specific concerns about the direction of the DG TREN paper :

- The Strategy Paper focuses the security of supply issue on questions of market *organisation* and short-term issues and leaves open the question of how the market will provide incentives for continuing large investments in future infrastructure development and/or new supply schemes.
- Security of supply should be considered both an operational and strategic issue. The Commission seems to conclude that it can be ensured by technical means, including

new roles for storage. The importance of storage in the gas market is undeniable, but the Strategy Paper should take a more balanced approach and consider other means of ensuring security of supply, including long-term contracts. These have served to safeguard the availability of gas and secondly to ensure competitive gas purchasing conditions for consumer countries on a long-term basis. In some form, such contracts will remain fundamental to the gas market, although they are likely to include more flexibility than in the past in response to developments and be combined with new financing instruments.

- The driving factors of private investment are the expected profitability and a relevant evolution and management of the different types of risks. Financing institutions will need stronger guarantees to get involved in large gas infrastructure projects under an open access regime.
- With regard to the “lake” concept of the gas infrastructure developed in the Strategy Paper, Eurogas members agree that this will be a focal point for future debate. Dialogue with regulators and officials to achieve improved understanding of the objectives and issues involved in network system use will be very important, to ensure approaches are consistent with a sustainable market.
- As the concept is presented in the Strategy Paper all but a few Eurogas members share strong concerns. In their views, physical gas flows can be identified clearly at different locations and they question that the lake concept can apply to physical gas transportation process on the Continent, which is essentially transaction based. For these members, given the limited supply regions (contrary to electricity production) security of supply cannot be guaranteed if the lake concept is adopted for the gas grid. Further analysis is needed.
- A few members, however, accept that although there is and will continue to be a high level of coincidence between physical flows and contractual ones, approaches should evolve (provided this does not place at risk guaranteed delivery of supplies or diversification of supply policy for different countries) and either a lake or (to elaborate the metaphor) different pools will develop, to dominate the gas supply pattern in Europe.
- All agree, however, that it is in the interests of Europe’s security of supply that network management should continue to incentivise capacity planning. The forecast that “commercial gas trade flows ... lesser and lesser extent follow the physical flow” has physical limits; gas trade needs networks and interconnections.

## CONCLUSION

The Gas Directive is currently being implemented in Member States, and in most cases implementation as is recognised by DG TREN goes beyond the Directive’s requirements. This process is set to continue according to the well recognised principles of the Directive. Emerging barriers to this objective should be discussed with Eurogas, and where appropriate with the GTE which has responsibility for dialogue on transmission related issues regarding the achievement of the internal market. Eurogas, however, urges that the discussion on completing the internal market takes account of the wider challenges and issues concerning gas market development and its aimed for sustainable growth. A stable development of the market driven by commercial incentives to invest in new supplies and infrastructure will not just enhance the overall security of energy supply for Europe, but contribute to important environmental and economic objectives, and boost co-operation between west and east.

