Gas Transmission Regulation
EC 1775/2005
The View of Gas Traders

European Energy Law Seminar
NOORDWIJK AAN ZEE
THE NETHERLANDS
15 and 16 May 2006
Colin Lyle
Board Member and
Gas Committee Chairman

Colin.Lyle@EFET.org
Contents/Agsenda

- About EFET
- Current Gas Sector Issues
- Why is EC/1775/2005 important?
- Traders’ concerns, key points and implementation priorities
- A practical way forward for capacity allocation
About EFET - WHO ARE WE?

“We foresee energy markets throughout Europe, in which traders efficiently intermediate in the value chain on the basis of clear wholesale price signals, thereby optimising supply and demand and enhancing security of supply, to the overall long term benefit of the economy and of society”

The European Federation of Energy Traders (EFET)

represents over 80 trading companies operating in about 20 countries

promotes pan-European energy trading in open, transparent and liquid wholesale markets.

main activities include:
- Advocacy for liberalised markets
- Promotion of energy trading in Europe
- Standardisation of contracts
“The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market”.

Through better:

- Information transparency
- Data exchange
- Products and procedures
- Laws
- Regulation
- Taxation
- European Contracts
- Organised market
Current Gas Market Issues
Current gas market issues

EU Commission Gas Sector Issues *

(1) Market concentration
(2) Vertical foreclosure
(3) Lack of market integration
(4) Lack of transparency
(5) Price formation

In a competitive gas market, wholesale prices are set at trading hubs.
Current gas market issues

What is a Gas Trading Hub?

- A contractual point where buyers and sellers execute transactions for gas

Hubs can be:

- Virtual or physical
- Trans-regional or within-country

Hubs generally, consist of:

- Hub Services Agreement - Hub Operator own/draft
- Standard Trading Contract - Traders own/draft
Development of gas trading takes time
But will be rapid once market conditions are right

After 4 years - traded volumes at the NBP exceeded UK Gas Demand
After 8 years - sufficient confidence to index LT deals on ‘spot’ price
Current gas market issues

Continental European gas trading is illiquid and brokered volumes declined last year*  

UK  
174 b. therms  
+21%  
(€ 80 billion )

Other  
24 b. therms  
-23%  
(€ 10 billion )

* Financial Services Authority (FSA) - Analysis of activity in the energy markets 2005, based on broker volumes.
Current gas market issues – EFET projects

- **Entry-Exit**
  To make the implementation of entry exit systems more helpful to traders

- **Balancing**
  To reduce risk by encouraging a transition to market-based balancing

- **Capacity Markets**
  To improve access and x-border trade by the establishment of capacity trading

- **Gas Hub Development**
  To identify & remove local barriers to hub development and establish contractual and operational trading arrangements

- **Gas Market Information**
  To set out what information traders need, including data from TSOs and how to monitor liquidity.
Why is EC/1775/2005 important? - a complement to 2003/55/EC
Why is EC/1775/2005 important?

Gas transmission* access systems in the EU countries

* schematic of high calorific (H-gas) systems only
Why is EC/1775/2005 important?

Benchmarking gas transmission access systems - Overall results

Ranking of gas transmission access systems by comparison with weighted average score

Distance to average (+ is better than average)
Why is EC/1775/2005 important?

Improved access to Europe’s gas routes is essential
Why is EC/1775/2005 important?

Starting with logic of the Gas Directive, 2003/55/EC

• ‘Transmission’ applies to all downstream high-pressure pipes (unless for regional distribution?)
• ‘Transmission’ certainly does include transit pipes
• TSO’s must provide non-discriminatory access
• Regulators must ensure non-discriminatory access
• New transit might be exempt
• Old transit contracts remain valid

=> Regulators must examine capacity reservation in old contracts and ensure that terms and conditions for transit TPA are fair
Why is EC/1775/2005 important?

Some problems traders face to gain access to transit capacity

- Terms and conditions for cross-border access are often not published
- Real available capacity is often not published or it is out of date
- Access to transit capacity is often denied
- Major congestion occurs at some cross border points
- Limited regulatory involvement in cross-border transit capacity issues
Uncertainty exists for TPA in High Pressure lines under the Gas Directive (2003/55/EC)

The Gas Transmission Regulation aims to ensure that ‘Regional’ High Pressure pipes are included in ‘transmission’
Why is EC/1775/2005 important?

Can EC/1775/2005 help to achieve non-discriminatory access to Gas Transportation across Europe?

Capacity access rules should lead to:

- efficiently used networks
- facilitation of competition
- reliable economic investment signals

Achieving non-discrimination involves

- unbundling pipeline system operators
- improving information transparency.

But this is complicated by:

- historical contractual arrangements
- lack of clear regulatory powers
Traders’ concerns, key points and implementation priorities
Concerns, key points and implementation

Traders’ main concerns about Gas Transportation across Europe

- “Grandfathered” long-term rights
- Discrimination & transit/transportation substitution
- Lack of information about capacity and flows
- Concerns of discriminatory and opaque capacity allocation
- Congestion Management needs market solutions
- Is the “open season” concept being misused?
- Attempts to avoid regulated tariffs
Users need ‘real-time’ capacity information…
and access to firm capacity

Aggregate capacity figures in MWh for each balancing period

- Total physical pipeline capacity
- Aggregate booked capacity
- Aggregate nominated capacity (forecast to be used)

Primary available capacity*
Other unused capacity*

Total forecast unused capacity

NB. EC/1775/2005 requires unused capacity to be made available.

*Total forecast unused capacity could be made available from the TSO or capacity holders via a secondary market

Concerns, key points and implementation
Concerns, key points and implementation

Some key points from the Gas Transmission Regulation*

 accuses for access to networks (Article 3) - reflect efficiently incurred costs and facilitate gas trade and competition

Third party access services (Article 4 and Annex) - On-line screen-based capacity booking and confirmation systems and nomination and re nomination procedures by 1 July 2006, after consultation

Transparency requirements (Article 6 and Annex) - TSOs must publish daily capacity information on the Internet, on a regular/rolling basis and in a user friendly standardised manner

Balancing rules and imbalance charges (Article 7) - TSOs must provide reliable on-line based information on the balancing status of network users

Trading of capacity rights (Article 8) - TSOs must allow capacity rights to be freely tradable and to facilitate trade.
Concerns, key points and implementation

Priorities for Gas Transmission Regulation implementation

in order of timing, priorities should be

- full information transparency for all TSO services, including system flows & available capacities at all interfaces
- fair and non-discriminatory allocation of primary capacity
- short-term and long-term anti-hoarding mechanisms overseen by the Regulator and secondary markets for capacity facilitated by the TSO
- ensuring nothing prevents the development of market-based balancing
A practical way forward for Capacity Allocation under EC/1775/2005
Implementing Capacity Allocation under EC/1775/2005

a) Consultation and then TSO investment in sufficient capacity
b) TSOs provide full information transparency
c) Regulators check historical arrangements
d) Capacity is sold as a tradable right
   => address anomalies in historical arrangements
e) Enable secondary capacity trading
f) Maximum available capacity offered to market
g) Auction normally cleared at the regulated price
h) Co-ordination at cross-border points
i) Auction fairly allocates scarce capacity
j) Consistent shorter-term sale on-line by the TSO
LET US ZOOM IN ON THE

Historical unused capacity

Historical use of all capacity

Historical booked capacity

Technical capacity

Capacity (MW)

timescale
Historical UNUSED CAPACITY (MW)

- Monthly capacity offered on interruptible basis
- Monthly capacity offered on firm basis
- Yearly capacity offered on interruptible basis
- Yearly capacity offered on firm basis

Timescale
Implementing Capacity Allocation under EC/1775/2005

Bids of auction participants
A makes 3 bids with different prices
D and A2 bids are equal, A3 and G are 0 bids

MC1 = 0
All participants receive at MC1 = 0 price the requested capacity

Participants A1, B, C and D, A2 buy at MC price
A2 and D will be proportionally allocated.

MC2 = 0
All participants receive at MC2 = 0 price the requested capacity, save for bids A3 and G that will be proportionally allocated.
EC/1775/2005 in Conclusion

– Will it help to achieve a European Gas Market?

in which

- **Entry-exit** systems are the norm
- **No contractual foreclosure** of the market
- **Independent System Operators**
- Each ISO system has **one balancing zone**
- Bid and offer prices at hubs are used for **cashing out daily imbalances**
- **Capacity rights** for any individual transfer route are in the hands of many companies
- Europe has a robust and liquid gas **futures market**
Gas Transmission Regulation
EC 1775/2005
The View of Gas Traders

European Energy Law Seminar
NOORDWIJK AAN ZEE
THE NETHERLANDS
15 and 16 May 2006
Colin Lyle
Board Member and
Gas Committee Chairman

Colin.Lyle@EFET.org