

GTE Response to Commission's Strategic European Energy Review

Executive Summary

This document is GTE's response to the Energy Package published by the Commission on 10 January.

This document describes how the Commission's proposed ERGEG+/GTE+ model might operate to enhance and improve liberalisation of the European gas market.

GTE+ would be a formal TSO body. GTE+, like ERGEG+, would have an advisory role to the Commission. GTE+ would have objectives defined in the context of the development of regulation related to gas transmission that will promote the single European gas market.

GTE+ would be a legally independent non-profit body whose members are transmission system operators. It would be a key player in the development and facilitation of the single European gas market. It would have responsibilities to ensure appropriate development of the market framework and in respect of information collection, aggregation, analysis and publication in the context of the European Grid Ten Year Statement. GTE+ will promote market based solutions and its work would follow the subsidiarity principle. It would proactively initiate and conduct robust stakeholder consultation before GTE+ made recommendations for potential change to ERGEG+.

Endorsement by ERGEG+ of proposed market framework changes would be the trigger for implementation of the proposal to better facilitate the single European gas market with consequential binding of TSOs to deliver the required changes, within the limits of the European and national legislative and regulatory frameworks.

Endorsement by ERGEG+ of the European Grid Ten Year Statement might trigger market based processes to establish demand for additional European Grid interconnection service. This might arise where a pan-European perspective might establish an apparent need for service which might not have been envisaged by National processes.

The GTE membership supports the creation of the new GTE+ entity. GTE stands ready and would welcome the opportunity to work with the Commission to develop the proposed model beyond the detail defined in this document. This collaboration should develop draft proposals for the legislative framework that will enable the ERGEG+/GTE+ model which in turn will enable the delivery of the single European gas market.



Contents

1. Introduction
2. General Principles of the new framework
3. GTE+ Role
4. Implementing Changes to promote single European market
5. GTE+ constitution
6. Conclusions



1. Introduction

GIE provided an initial response to the Energy Package published by the Commission on 10 January in writing on 23 March 2007 indicating its preliminary position as presented to the Madrid Forum XII on 21/22 February 2007.

GTE has subsequently considered and further developed the ideas advocated in Madrid and this detailed response is an output from that process. In order to advance the discussion, GTE hereby would like to set out how the proposed ERGEG+/GTE+ model might operate to enhance and improve liberalisation of the European gas market.

In Chapter 2 a broad outline of the ERGEG+/GTE+ model is proposed. Chapter 3 provides more detail about the key activity areas and responsibilities of the GTE+ organisation. Chapter 4 defines the processes that might be used to enact change in the European gas transmission system to better facilitate the proper functioning of the single European gas market. Chapter 5 describes the anticipated constitution and structure of GTE+. Chapter 6 provides conclusions.

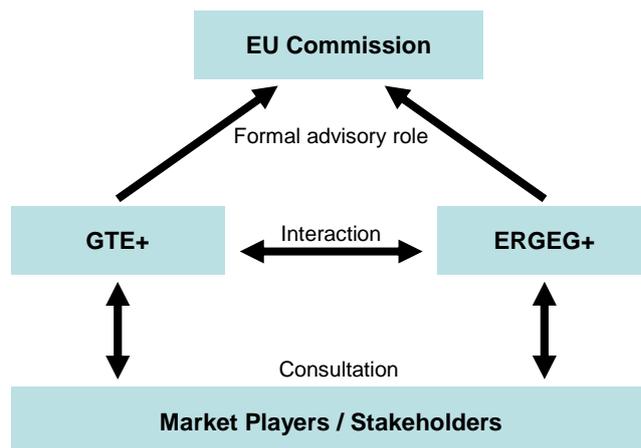
2. General Principles of the new framework

2.1 The operating model

GTE welcomes the Commissions proposal of the development of a formal TSO body, currently designated as “GTE+”. GTE has sought to develop the proposal that will promote the development of the market whilst ensuring that the consultation processes, voting and approval processes fairly balance the needs of all stakeholders.

Diagrammatically GTE would see the new operating model embedded into the European framework as follows:

GTE+/ERGEG+ Model



The above diagram represents the generic framework. Chapter 4 of this response describes how the processes would be conducted in relation to GTE+ activity areas.

Both GTE+ and ERGEG+ would have advisory roles to the Commission and would have objectives defined in the context of the development of regulation related to gas transmission (rather than gas distribution) that will promote the European single market wherever it is economic, efficient and sensible to do so. The single European market would be characterised as enabling all consumers to choose gas supply from their preferred supplier and for there to be no artificial and unwarranted barriers to free flow of gas across national borders.

2.2 The European Grid

The focus of the new operating model would therefore be on the consultation, development and recommendation of change proposals relating to the European Grid.



The proposals relating to network development will focus on the capacities of the interconnection points between transmission grids.

The proposals relating to the single European gas market design (including access arrangements, interoperability and transparency) will apply to interconnection points and, where necessary, national transmission networks.

2.3 The key role of GTE+

GTE+ is envisaged to be a key player in the development and facilitation of the single European market. This would be achieved via GTE+ adopting a proactive approach to market development via the application of robust and comprehensive stakeholder consultation to support the development of proposals to enhance the operation of the single European market. Such proposals would then be considered by ERGEG+, the Commissions regulatory advisor.

If ERGEG+ endorse the proposal then it would proceed to implementation, which may involve a recommendation for change to European law. Should ERGEG+ not be able to endorse the proposal then it would refer the matter back to GTE+ for further reconsideration and/or stakeholder consultation. If these processes did not yield an acceptable outcome then GTE+ or ERGEG+ or other stakeholders might have recourse to an appeals mechanism.

Where it is possible to implement proposals without recourse to changes in the European or National legislative or regulatory frameworks then the proposal should be implemented as soon as reasonably practical. In an analogous manner to the binding of TSOs to the endorsed GTE+ proposal GTE would anticipate that National Regulatory Authorities (NRAs) would be bound to allow the TSOs to recover their reasonable costs to facilitate the change.

GTE+ would be a legally independent non-profit organisation, whose members are transmission system operators. GTE+ shall carry out its tasks after consultation and in co-operation with the market and regulatory authorities (ERGEG+/NRAs).

GTE+ and all its work should be bound by a number of general principles. The organisation would have a principal objective to further the single market by facilitating increased compatibility of access regimes and operational and commercial systems for gas transmission, and where possible also their harmonisation. GTE+ would promote safety, reliability and security of supply for gas transmission throughout the EU. In this context, GTE+ shall carry out the annual Ten Year Statement process.

GTE+ would work in a non-discriminatory, transparent and cost-conscious manner. The work of the organisation would follow the subsidiarity principle and GTE+ shall promote market based solutions.

GTE+ would co-operate and co-ordinate with other relevant organisations, such as ERGEG+, the Gas Coordination Group and the Energy Observatory.

Additionally the robust stakeholder consultation process and the processes for enshrining the proposals (where necessary in European and National law) would also afford an opportunity for TSOs to progress early changes. For example, where permissible under European and National laws TSOs might be bound to a more timely adoption of rules to promote the single European market rather than wait for the implementation of legislation.



3. GTE+ tasks

The high level SEER response identified several key activity areas that might provide the focus of GTE+ efforts.

- EU Grid Ten Year Statement

Investment in the EU's gas transmission system is critical to the growing demand for gas and to support the free movement of gas to facilitate the single European market.

GTE+ might be required to produce a long term report based on inputs from market players about likely supply/demand scenarios. This may require obligations being placed on market players to provide GTE+ with reliable information. Additionally GTE+ statements should identify, based upon information received from the TSOs, the existing, committed and required capability of the EU grid. Thus the GTE+ reporting would identify the risks and potential capacity gaps associated with the considered scenarios. Thus GTE+ will inform the market of the resilience of the European network.

Whilst ERGEG+ might endorse the final annual GTE+ statement, investment decisions would remain a matter for relevant TSOs in the context of relevant regulatory regimes.

Specifically in relation to the EU Grid Ten Year Statement GTE should have a role to:

- Promote and ensure information sharing

TSO exchange of information and publication of data to the market including sharing of supply/demand projections and capacity availability via a long term "European development scenarios" report.

The key objective will be to ensure a high visibility of infrastructure requirements necessary to support the aggregated view of European supply/demand projections.

- Framework development

Development of regulatory principles that are key to establishing a predictable, stable, commensurate and complete framework to support efficient development of European gas transmission infrastructure

GTE commitment in these areas is already exhibited in respect of initiatives associated with TSO co-operation, GTE contribution to the Commission's Priority Interconnection Plan and the regulatory frameworks objective work that has been undertaken within GTE.

- Review and develop existing access conditions

GTE+ would have a responsibility to keep under review, and propose amendments to (as may be appropriate), the principles that define access arrangements including those in Directives and Regulations.



Principles would need to be defined, and kept under review, in a number of key areas particularly including capacity product compatibility, capacity access conditions and the balancing regimes.

The emphasis should be on compatibility to facilitate an effectively functioning European market. Harmonization should be an objective where possible and where it is economically sensible to do so in the light of both pan-European and local considerations.

Particular focus areas for capacity might include:

- Capacity contracts and processes (eg contract durations, booking procedures, including lead-time, on-line booking processes, application and auction processes)
- Shipper's qualification requirements (eg creditworthiness)
- Methodologies for capacity allocation (first come first served, auction, application window with pro-rata or ranking)
- Procedures for selling new capacities
- Characteristics of interruptible capacity products
- Use-it-or-lose-it regimes
- Framework for secondary market

Focus areas for balancing might include

- Balancing periods
- System operator balancing tools
- Balancing services and imbalance management tools
- Shipper incentives

Whilst standard tariff arrangements should generally be sufficient to address new investments in one country to support a market requirement in another country, if specific investment is agreed between two or more TSOs to address this circumstance then a joint regulatory framework to allow an appropriate investment return and recovery for the TSOs may be necessary.

- Establish single transparency platform

Information access is fundamental to the functioning of any market and GTE+ would establish a single transparency platform to ensure accessibility.

The framework should define information release required by market players. Data requested by the market should only be withheld where there are demonstrable commercial confidentiality issues that would arise from an individual company's exposure and TSOs should be funded for the provision of such information services.

Data access should relate to information about capacity availability and balancing so that both gas and capacity market functioning are supported by an appropriate and efficient provision of information.

The transparency platform might also include other information to better facilitate the market including, for example, winter outlook reports.



The transparency platform would likely feature links to many other market operator and TSOs' IT systems and/or websites.

- Define network operational rules

For the proper functioning of the market it is important that network operational rules for cross-border transactions are harmonized, or where this is not achievable at least compatible, between TSOs in order to increase interoperability between networks

GTE+ would have a responsibility in developing and improving operational rules. The emphasis should be on issues that are creating real hurdles on the free flow of gas across borders. Insofar as these rules require involvement of other parties, especially shippers, GTE+ would use EASEE-gas as a discussion platform to finalise such rules.

GTE+ should focus on the following areas:

- Development of technical standards, including IT standards for data exchange and publication
- Publication of an interactive interoperability map
- Guidance on business continuity and back-up provisions
- Provision of additional guidance on implementation of EASEE-gas CBPs, where possible under prevailing legislation, and if needed highlight regulatory and/or legal implementation issues

GTE+ would have responsibilities to ensure that the framework ensures that the operational benefits, on an overall level, of harmonising operational rules can be offset against the additional costs of implementation.

Once these operational rules have been endorsed by ERGEG+, NRAs would be required to accept the related implementation and operating costs incurred by the TSOs.

- Convene network user forum

GTE+ would have responsibilities to ensure that users are involved in an inclusive, open and transparent process to develop both long-term network development studies and framework developments.

GTE+ would manage such processes and perform the secretariat function necessary to manage the processes and develop the proposal documentation.

4. Processes

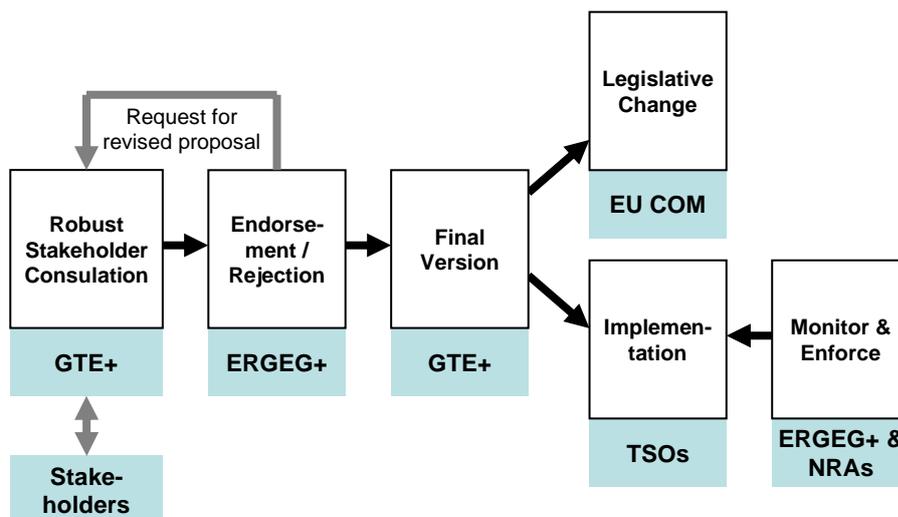
4.1. Development of the EU regulatory framework

Changes to existing access conditions/rules and the EU legal/regulatory framework may be required for the further development of the EU internal gas market. GTE would see the role of GTE+ in preparing under robust stakeholder consultation documents that either will be implemented directly or will constitute an advise to the Commission for regulatory/legislative change..

GTE proposes the following process to address potential development requirements which might be requested by system users, ERGEG+ or GTE+ :

1. GTE+ to draft a public consultation document to assist the exploration of the potential change proposal and its merits and challenges
 2. GTE+ to conduct a robust stakeholder consultation
 3. GTE+ to develop a final draft document to be sent to ERGEG+
 4. Endorsement or rejection of final draft document by ERGEG+
- If ERGEG+ endorse proposal then where EU legal changes are required GTE+ advises the EU Commission of the requirement for legislative change. Where ERGEG+ endorse proposal but no EU legislative change is required then GTE+ will propose a binding recommendation to GTE+ members with implementation subject to the development of the legislative and regulatory framework emerging from the SEER proposals (and its interactions with European and National regimes). Proposal implementation should be subsequently monitored and enforced by NRAs.

Rule Setting Process





4.2. Annual process for the development of the EU grid / Ten Year Statement

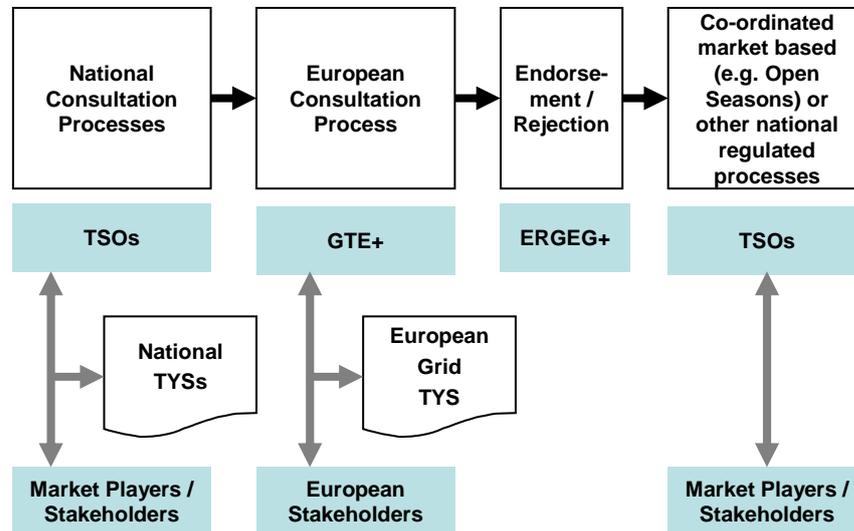
As current studies show, huge investments into the EU grid are required to cope with the changes that are necessitated by the following developments in the market place:

- Production from the EU indigenous gas sources is declining. In order to satisfy even the current level of demand, extensions and adaptations to the EU grid are required to cater for additional EU external supply, be it via pipeline or via LNG.
- The EU demand for natural gas is expected to increase, therefore investments in transmission capacity in addition to those described above will be required.

Therefore there is a clear need to improve the EU legal and regulatory framework to ensure that it promotes the single European gas market. GTE would therefore propose the following process for facilitating the future development of the EU grid which would ensure the necessary cross-border oversight and enables the decision making of TSOs, Regulators and other market players:

- TSOs to send their national Ten Year Statements (TYSSs) to GTE+
- GTE+ to develop consolidated draft EU grid Ten Year Statement on the basis of the documents received from TSOs. This would highlight any risks of potential capacity gaps and indicate the potential capacity provision that would resolve the gaps.
- GTE+ to conduct a robust stakeholder consultation on draft EU grid Ten Year Statement enabling ERGEG+ and EU Commission inputs where appropriate
- GTE+ to develop final EU grid Ten Year Statement based on feedback received. This would highlight any risks of potential capacity gaps and indicate the potential capacity provision that would resolve the gaps.
- ERGEG+ to endorse or reject the final EU grid Ten Year Statement
- Relevant TSOs to conduct co-ordinated market based processes (e.g. Open Seasons) or other national regulated processes
- Repeat above process yearly

Annual process for the development of the EU grid / Ten Year Statement





5. GTE+ structure

GTE+ would be an entirely new organisation in the European gas landscape. It would be charged with responsibilities to promote the single European gas market.

GTE+ would be a legally independent non-profit organisation. European TSOs would be compelled to be members thereby ensuring full representation of TSOs and participation in the GTE+ decision making processes.

GTE+ would have responsibilities to develop proposals to facilitate the development of, and to enhance the operation of, the single European gas market.

The development process would involve consultation, proposal development or statement development. GTE+ members would be involved in voting processes that would decide GTE+ recommendations or finalise GTE+ statements. Different voting processes might be used in different subject areas.

GTE+ would also have an advisory role to the EU Commission so it could recommend changes to the relevant legislative framework.

GTE+ would be populated with dedicated, knowledgeable and able staff having previous TSO experience.

6. Conclusions

This response seeks to identify how the new model articulated by the Commission in the Strategic European Energy Review involving the creation of two new entities; ERGEG+ and GTE+ might operate.

The GTE membership supports the creation of a new entity, GTE+. This would be a legally independent non-profit organisation whose membership would comprise European transmission system operators. GTE+ would champion the development of the single European market based on robust stakeholder consultation, sharing views about likely gas infrastructure requirements as well as advocating regime changes to enhance the economic and efficient operation of the market.

GTE welcomes the Commissions commitment to putting in place the necessary legislation and/or regulations to create both ERGEG+ and GTE+.

GTE would wish to support the Commission to develop the appropriate framework. This document has been designed to assist the Commission formulate the next steps towards enacting the framework. GTE stands ready and would welcome further opportunity to assist the Commission further develop the envisaged model and particularly the definition of role for both ERGEG+ and GTE+. This collaboration should then extend to the development of draft proposals for the legislative framework to enable the delivery of the single European market.