

Delivering competitive gas markets across Europe

The underlying philosophy of the Third Package is that the establishment of liquid and competitive wholesale markets will deliver EU members secure, reliable and cost effective gas supplies. The Gas Forum fully supports this philosophy but its fulfilment depends on fostering the right regulatory environment; one in which the appropriate application of common rules and standards is used to expand opportunities for gas trading and open grid access across the EU. As the most competitive and liberalised market in Europe the GB gas market offers many lessons that could be applied to other EU gas markets.

Facts

- Wholesale market liquidity in GB is high – the ratio of traded volumes to delivered volumes at the National Balancing Point (NBP) is typically around 10.
- As gas imports grow, the establishment of fully competitive gas markets across Europe will become ever more important to GB.
- Gas imports into the UK are expected to rise to 75% by 2020¹.
- UK imported around 50% of annual supplies in 2009/10 – 24bcm from Norway, 17bcm from LNG and 9bcm from interconnector¹.
- UK has spent in excess of £5bn on infrastructure in the last 5 years which has provided for an additional 140bcm of import capacity¹.

Key Messages

Overall market design

- Policies should focus on removing physical, contractual or market impediments that might otherwise limit gas being brought to the GB market.
- The Gas Forum supports the aims of the 3rd Package, Regulation 715/2009. It believes that the development of a single market will be best achieved through active involvement of network users in its implementation (e.g. in relation to framework guidelines (FGs) and European network codes (NCs))
- We wish to see the establishment of common market arrangements where this is possible and where there is not sufficient compatibility, an alignment of rules in adjacent markets to facilitate efficient cross-border trade.

¹ Source data National Grid 10 Year Statement.

- EU driven regulatory interventions should be targeted, measured and proportionate. Gentle policy ‘nudges’ in the right direction are in many cases more likely to be successful than imposition of ‘top down’, ‘one-size -fits-all’ solutions.
- The design of the market should reflect the nature of the commodity. Gas is different to electricity. It can be stored and is not transported instantaneously thus energy and capacity can be efficiently traded separately.
- Competition should be introduced wherever possible and national regulators should, as a matter of policy, avoid giving too much control to monopoly network businesses. Thus each TSO’s role in the market should be minimised and focused on delivering services which facilitate competition in wholesale and retail markets.
- We wish to see the relatively ‘light touch’ regulatory regime applied in GB for storage, LNG terminals and interconnectors maintained so as to ensure adequate investment to meet future gas demands.

Consulting with the market

- In formulating options and proposals for EU Network Codes, ENTSOG and individual TSOs should be obliged to actively consult with network users including;
- Outlining initial views and options in interim consultations
- Carrying out impact assessments that include an evaluation of the costs and benefits to market participants
- Explanations as to why particular points raised by respondents in consultations have or have not been addressed.
- In GB, National Grid should be obliged to regularly update GB network users on the likely impact of EU Network Code proposals on the GB market arrangements; and
- Ofgem should carry out an impact assessment whenever a proposed EU Network Code is likely to have a material impact on the GB market arrangements.

Market rules

- Daily balancing, entry-exit charging² and ‘NBP style’ virtual hub trading are features of the GB market that should be adopted by other Member States.

² Entry-exit charging arrangements ‘de-couple’ the charge for access into the system (i.e. for transportation to the virtual hub), from the charge for access out of the system (i.e. transportation from the virtual hub). This is in contrast to more traditional point to point charging arrangements which do not permit trading at virtual hubs, although trading at physical points is still possible.

- Daily balancing arrangements in each market should allow shippers to nominate entry flows independently of exit flows. Shippers should be financially incentivised to balance their positions by the end of the day rather than be obliged to match entry and exit flow rates.
- Flow restrictions in each market (e.g. ramp rates and rate change notice periods) should only be applied where TSOs are able to clearly demonstrate technical or operational reason for such restrictions.
- Shippers should be free to choose how they participate in the market, where they trade (balancing point or flange), what products they trade and how they trade (over the counter or exchange based).
- TSOs should cooperate to offer the option of bundled capacity at exit from one system and entry into an adjacent system.
- The Gas Forum does not see a requirement for full electricity style market-coupling, although we can see merit in relevant exchanges offering bundled energy and capacity products should they consider there is a commercial demand for such products.
- Capacity Allocation Mechanisms (CAM) should include a process to allow shippers to bid for incremental capacity as well as prevailing capacity. This will provide TSOs with clear signals to invest provided sufficient commitments have been received from the market.
- Congestion Management Procedures should incorporate overselling and buy-back concepts. Together with the sale short-term firm and interruptible (UIOLI) capacity this should remove barriers to entry arising from cross-border contractual congestion.
- Restrictions or the removal of re-nomination rights and the application of day-ahead gate closure procedures and mandatory implicit auctions (similar to electricity market coupling) would be detrimental to the efficiency of the market. Application of such arrangements to GB would harm competition and wholesale market liquidity.
- Confidence in the market will be undermined if contractual rights for access (including re-nomination rights) are removed or amended.