

Ms Maya van der Steenhoven
Mr. Erik Rakhou

ABN Amro Bank Amstelveen:
Account no: 54 05 15 116

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Dear Ms van der Steenhoven and Mr. Rakhou,

Letter from the EFET Gas Committee regarding the North & NW Gas Regional Initiative

The European Federation of Energy Traders (EFET) fully supports the aim of removing barriers to the development of a single European Energy market through the Gas Regional Initiative (GRI). In our view the GRI process must

1. lead to convergence on a consistent EU internal market approach, not a series of incompatible geographic markets within the EU
2. be structured in a completely transparent manner with information accessible to all stakeholders on an equal basis
3. have ambitious, but realistic targets with the lessons both from the electricity markets and successful gas hubs being understood and shared.

In this letter we would like to draw attention to a small number of essential points that need to be taken in to account if the GRI is to achieve useful goals and bring real benefits to market participants and final consumers. Our comments are illustrated by referring to the recently published papers from the North & Northwest Implementation Groups of Regulators and System Operators.

Gas Hub Development is fundamental to successful liberalisation. Most successful gas hubs in Europe are virtual trading points that provide title transfer facilities and firm (or super-firm) trading facilities within an entry-exit system. The workstream should focus primarily on the existing trading points and solve specific problems that currently restrict liquidity.

Significant information on the problems already exists in the public domain and EFET's views on the main hubs were set out in January 2006 EFET offers to assist in the work of this group on the understanding that there is commitment to implement the changes that are needed to improve liquidity.

Primary and Secondary Capacity in interconnectors must be available to the market to enable gas to be physically delivered in and out of gas hubs. EFET strongly supports the target of the Implementation Group to establish compatible and consistent capacity products and processes for all TSOs. However we are concerned that a work programme that involves gathering more information, evaluate it and then identifying actions might unduly delay implementation of the necessary steps that were set out clearly at the 11th Madrid Forum.

EFET suggests that the GRI grasps the opportunity to implement the 10 capacity allocation steps set out by EFET at the 11th Madrid Forum, so that there is a consistent approach across the North and NW region.

Transparency of information regarding all aspects of access to infrastructure is essential if there is to be fair and non-discriminatory access. Information that would have a material effect on the market price of gas must also be released promptly in a non-discriminatory way so that market efficiencies are optimised and suspicions of market abuse are minimised.

There must be extreme caution that rules are not agreed that allow exemption from publication of data for reasons of commercial confidentiality that only serve to protect dominant players. The paper on gas market information transparency published by EFET in August 2006 (www.EFET.org) illustrates the wide range of data that needs to be made available if new entrants are to approach the level of information access that is already available to incumbents.

Gas Balancing is closely related to hub development, which was recognised by the 11th Madrid Gas Forum who recommended market-based balancing across Europe. This indeed should be a central goal of the GRI. A firm implementation plan is required to ensure that the whole of North and NW Europe is able to use market-based balancing with imbalances cashed-out at market prices.

Gas Quality issues should not affect wholesale trading within the single market. Gas from a variety of locations, including LNG, may require increased levels of treatment in order to maintain safe supplies to consumers, but it is essential that this does not form an artificial barrier to trade: For example, by placing obligations on parties with no control over quality, by restricting capacity on the grounds of quality but without suitable transparency, and by applying unduly discriminatory conditions to the acceptance of off-spec gas particularly when the gas can safely be blended.

Obligations on gas quality must clearly reside with those parties who have the information and capability to take action. EFET will shortly publish further statements to explain this further.

Regulatory Co-ordination and Investment are essential issues. The future success of the gas industry in Europe will depend heavily on investment in infrastructure: transit pipelines to bring gas from further afield and to increase market interconnectedness; LNG import terminals to provide greater diversity to European gas supplies; storage to replace lost flexibility from indigenous supplies and to provide supply security. Consistency of regulation and of the application of Article 22 exemptions from third party access will be essential to minimise investment delays from regulatory uncertainty and confusion, and to avoid inefficient investments in suboptimal locations because of inconsistent regulatory treatment.

Whether or not major infrastructure is exempt from certain aspects of regulated TPA, EFET strongly believes that a certain level of information transparency regarding the capacities and aggregate usage of major gas infrastructure should always be required.

EFET aims to participate in all the Regional Stakeholder Groups and will participate actively in the N/NW regional initiative, including the meeting on 9 October. We urge that the Implementation Groups focus on actual improvements that can be achieved rather than producing more questionnaires and long documents without real commitment to make the necessary changes. This is an opportunity for the industry to make real progress, and we wish all concerned the strength and commitment to redouble their efforts to help achieve a fully traded gas market throughout Europe.

Yours sincerely



Dr C D Lyle
Chairman of the Gas Committee
European Federation of Energy Traders

Annex

10 steps to ensure non-discriminatory capacity allocation - presented by EFET at the 11th Madrid Forum 18/19 May 2006

1. Consultation and TSO investment in sufficient capacity
2. Provision of full information on capacity, flows etc...
3. Regulators check historical arrangements
4. Capacity is sold as a tradable right
=> address anomalies in historical arrangements
5. Enable secondary capacity trading
6. Maximise available capacity offered to market
7. Auctions normally clear at the regulated price
8. Co-ordination at cross-border points
9. Auction fairly allocates scarce capacity
10. Consistent shorter-term sale on-line by the TSO