ERGEG

Gas Regional Initiative

North-West Region

Workstream Progress Report

October 2007

1 Introduction

1.1 Introduction of the GRI North-West Region

Last year's stakeholders' meeting in The Hague (the 9th of October 2006) acted as the real starting point for the six priority workstreams of the ERGRG NW-European regional initiative. These priorities were identified in consultation with stakeholders and there was broad agreement that they represented the key barriers to improving and integrating the market in the NW region. The six priority areas originally identified were:.

- Balancing
- Gas quality
- Hubs
- Interconnections: primary markets
- Interconnections: secondary markets
- Regulatory coordination
- Transparency

The process of taking work forward on these priorities has been collaborative – with regulators, operators and stakeholders working together to identify and bring forward improvements.

Since the last SG meeting in 2006 substantial progress has been made in each of these workstreams and two additional workstreams have been created in response to initiatives raised by stakeholders and operators:

- Investment (being led by operators)
- Day ahead capacity pilot (initiated from a proposal from EFET)

1.2 Overall achievements of the GRI process

In general we can state that all parties involved in the GRI have worked hard to get the process right to focus efforts and deliver:

- We have organised about 30 meetings with representatives regulators, operators and market parties, from the region around the north west region to discuss practical solutions and take up actions.
- Numerous questionnaires were issued and discussed with the market to pinpoint the problems and sharpen the working plans.
- Enabler Groups and workshops have bee held to take work forward – although we are always looking for ways to improve the process.

On 24th October 2007 the region will present in the SG conference in the Hague the progress that has been achieved so far. It is crucial that all stakeholders make their voice heard both at the conference and in the significant work that remains to be done.
- We will show successes where real changes have been delivered, but will also highlight some legal barriers where the North West region is not able to proceed as planned in one workstream in particular and outline what we are doing to try and overcome this working closely with governments in the region.

1.3 Objective and outline of the document

The objective of this document is to present an overview of the process so far (October of 2007) in each individual workstream and to present the key achievements1 in each of the workstreams. In addition, the document also highlights the future process and expected deliverables of the individual workstreams.

The structure of the document is as follows: first progress of all the ‘original’ workstreams will be discussed, followed by a discussion of the two ‘spin-off’ workstreams. This document also includes a general conclusion section.

[1] On the ERGEG website a complete overview of the key achievements of all individual workstreams is presented:
http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements

2 'Original' Workstreams

2.1 Balancing[2]

2.1.1 Background and initial objectives

Gas balancing interaction has been identified as one of the priority areas of work for the North-West Gas Regional Initiative (NW GRI). The key objective was to better understand whether differences in gas balancing regimes create barriers to trade and cross-border flows – and if so what could be done about it. There was also the objective of looking to improve transparency of information provision under gas balancing mechanisms to help market participants take effective commercial decisions.

2.1.2 Process so far and key achievements

Process

A questionnaire was sent to stakeholders in November 2006 to gain a better understanding of the issues associated with gas balancing. A workshop was held in Bonn on 8/9 February to discuss the priority issues under the North West regional initiative. One of the workshop sessions focused on gas balancing. This session discussed:

- Responses to the questionnaire;
- A facilitation paper and data appendix on gas balancing issues that was prepared by the RCC; and Possible next steps.

After the Bonn workshops it was decided to create an Enabler Group (EG) for the "balancing" workstream. This EG will, together with the lead regulator, focus on completing the following two tasks:

The following key tasks are proposed for the gas balancing workstream:

- Development of "information templates" (or information assessments) on data to made available under gas balancing mechanisms consistet with ERGEG's guidelines for good practice for gas balancing – an initial "pilot" for 3 countries and then roll out to other countries in the region if appropriate. The initial countries were identified as:
    - France
    - Belgium
    - UK

- 2 case studies on gas balancing mechanism interactions – the initial view is that one of the case studies would focus on the Bunde-Ellend interconnection to fit with the work that is being undertaken on introducing day ahead capacity auctions at this point.

Work has progressed on both areas – although not at the speed envisaged due to its relative priority to other workstreams.

Key achievements

- Developing plans for delivery of information – update on progress published in October 2007 specifying changes that have already been made to improve transparency under gas balancing consistent with ERGEG's guidelines for good practice and an outline of future plans to fill in remaining gaps.
- Developed terms of reference for gas balancing interactions case study

[2] All relevant documents for this workstream are published on the ERGEG website: http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Gas_Balancing

- Initial draft study completed and published in October 2007 with covering note with questions for stakeholders to decide on next steps

Obstacles encountered

A key obstacle has been ensuring that sufficient resources have been available to allocate to this workstream – by all parties – to ensure that the work was taken forward according to the envisaged timetable. This has not always been possible given other priorities both within the region itself but also other commitments that parties have to meet. As such, although good progress has been made it was not to the envisaged timetable.

2.1.3 Future process and expected achievements

The future plans are that:

1. work will continue on improving information provision under gas balancing mechanisms according to the plans set out by the TSOs and consider the steps that could be taken by other TSOs in the region.[3].
2. Summary of responses to the draft case study and key questions & decisions on way forward – including whether recommendations for changes to balancing mechanisms are needed.

[3] In this respect it will be important to ensure effective coordination with the transparency workstream.

2.2 Gas Quality[4]

2.2.1 Background and initial objectives

Within the category of high-cal gas, differences in quality exist. As an example, piped gas from Russia or Norway and LNG gas from Algeria or Qatar differ considerably. However, diversity of source – including domestic production and LNG –provides benefits in terms of security of supply in the region.

An effective and competitive market depends highly on the easiness for the gas to flow from one transmission system to another, i.e. the interoperability between systems. But across the region, as well as across Europe, different networks have different gas quality specifications. Shippers have to bear this in mind. For trade to take place between areas of different gas quality specification, treatment of any gas physically moved between networks may be necessary.

The initial objective is to ensure safe transportation and utilisation of gas by all consumers, avoiding that differences have an impact on trade and competition. Reference has to be made to the EASEE-gas gas quality Common Business Practice (CBP 2005-001/01) as a first attempt to harmonise gas quality specifications – although this does not necessarily remove the need for treatment of gas in some networks.

2.2.2 Process so far and key achievements

During the Implementation Group (IG) meeting on 10 October 2006 in The Hague, and as an outcome of the discussions at the first SG meeting the day before, the decision was taken to put the work that would be undertaken within the NW regional initiative on gas quality on hold.

The reason for this decision was that there is already other national or European initiatives/work on gas quality. For example, the European Commission initiated a large project on interoperability that included a questionnaire to understand the interoperability issues (including gas quality) at all interconnection points in the EU.

One of the important findings by the European Commission is that a lot of different quality specifications and interoperability exist - but only a few are being identified as (potentially) problematic. In some cases, work is already been undertaken at a national level to resolve these issues.

The European Commission has subsequently provided a mandate to CEN to develop common standards/specifications for gas quality – this work is expected to take around 5 years given the need to do extensive safety testing of gas appliances that will be a key part of the work.

2.2.3 Future process and expected achievements

Based on the key finding that Member States have introduced national standards basically to guaranty the safe use of gas appliances within their country, influencing the Member State policy in supply security, it is clear for all stakeholders that no solutions may be found without the involvement of Member States.

The Regional Coordination Committee (RCC) will take forward the gas quality issue by proposing it as an issue to the gas multilateral forum that is to be created by the end of 2007, inviting Member States take part into the discussion.

[4] All relevant documents for this workstream are published on the ERGEG website: http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Regulatory_coordination

2.3 Hubs[5]

2.3.1 Background and initial objectives

Liquid commodity hubs are a prerequisite hubs for well functioning (national) gas markets. It was therefore that the development of gas hubs was identified as a priority for the North-West regional initiative.

2.3.2 Process so far and key achievements

Process

The process of the "hubs" workstreams was kicked-off by a questionnaire, distributed to the stakeholders and the hub-operators in November 2006. The questionnaires focused on market barriers preventing or limiting trade at hubs. The response on this questionnaire was analyzed and the outcomes of this analysis were presented in a conclusion paper[6], published in February 2007 and presented at the SG Bonn workshops in February 2007.

After the Bonn workshops it was decided to set-up an overall Enabler Group (EG) and User Groups (UG) for the individual hubs. An UG will consist out of, ideally 5-7, traders which represent the whole market and who trade at specific hubs or want to trade at the hubs but are prevented because of the barriers. The task of the UGs will be to come up with a specific list of actions that need to be taken at the individual hubs and carrying out these actions in cooperation with the hub operators and the national regulators.

Key achievements

- Published a conclusion paper (based on the response on the questionnaire) with an assessment of NW-European hubs' liquidty problem;
- Held a first UG meeting on GTF (Denmark) at June 6th. Based on experiences from this meeting lead regulator will facilitate start-up meetings on other hubs.
- Held a second meeting on GTF at September 6th. On the basis of this meeting Energinet.dk and lead regulator is currently drafting an action plan for GTF to be presented on SG.

Obstacles encountered

The work stream is still at an early stage and no obstacles have been identified or expected.

2.3.3 Future process and expected achievements

Based on experiences action plan from the GTF, lead regulator will facilitate similar processes on other hubs following the market's decision of which other hubs to include to be taken on the basis of the market's feedback during the SG meeting in The Hague on the 24th of October 2007.

[5] All relevant documents for this workstream are published on the ERGEG website:
http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Hubs

[6] For the content of this conclusion paper we would like to refer to the link above, were the conclusion paper is to be found.

2.4 Interconnections: primary markets[7]

2.4.1 Background and initial objective

Like with the other workstreams the primary market for transmission capacity at cross-border interconnection points was identified by the GRI as a priority field of interest. Especially the lack of coordination between TSOs at cross-border points turned out to be a barrier for the free flow of gas between different countries. It was therefore decided that the focus of the workstream "interconnections: primary markets" would be on finding practical solutions to resolving existing problems arising from differences and mismatches between neighbouring TSOs in order to facilitate the removal of barriers to trade and competition. The focus would be on the following subjects:

- capacity products
- allocation rules on capacity and booking rules/
- congestion management procedures
- nomination, re-nomination and matching

The objective of the workstream was, and still is, to achieve this by means of the closest cooperation possible between adjacent TSOs.

2.4.2 Process so far and key achievements

As with the other workstreams the "interconnections: primary markets" workstream kicked of with the distribution, in cooperation with the "interconnections: secondary markets", of a questionnaire amongst the NW-European TSOs. The questionnaires inquired after the level of coordination of the different operational procedures and products between adjacent TSOs.

The TSOs' response on this questionnaire was analyzed by the CRE and the BNetzA and presented at the SG workshops in Bonn, February 2007, and published in a final paper in April of 2007. On the basis of the discussion during the workshops in Bonn, RCC meetings and IG meetings it was decided to focus on dealing with the coordination issues on cross-border point specific level. The discussion showed that the focus also had to be put on the transparency at the interconnection points. The following IPs were selected to be worked upon:

- Obergailbach / Medelsheim
- Taisnières/ Blaregnies
- Oude Statenzijl/ Bunde (BOS)
- Eynatten
- Zelzate
- Bocholtz
- Bacton[8]

It was decided that work on the specific interconnection points would be during, interconnection point specific, IP meetings. In these IP meetings the relevant TSOs, regulators and shippers will work together on coordinating the procedures and products on the two sides of the interconnection point. The overall work done is to be coordinated by the workstream's Enabler Group (EG).

Considering the resources available to the parties involved it was decided that for 2007 the workstream would focus on the IPs Obergailbach, Taisnières and BOS, Work on the other IPs is scheduled to start in 2008.

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[7] All relevant documents for this workstream are published on the ERGEG website:
http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Interconnections_primary_market

[8] BBL to be included.

Key achievements

General achievements

- Publishing a paper on the outcomes of an analysis of the response of the questionnaire (presented at Bonn, February 2007 and published in a final version on the ERGEG website in April 2007).

Bunde/Oude Statenzijl

- GTS (NL) is now publishing information on capacity flows on its side of the IP on its website
- Analysis of the capacity situation has been performed and contractual congestion as well as occasional incidents of physical congestion has been determined.
- Analysis of the legal framework on capacity management and data exchange between regulators showed that some improvement is needed in order to facilitate better regulatory oversight.

Obergailbach / Medelsheim

- At Obergailbach / Medelsheim, GDF DT is now publishing the daily flows on its extranet (access only granted to its clients) and is still looking into the possibility of publishing contracted capacity 10 years ahead. EGT is now publishing the available capacity for the 3 coming years on its extranet. EGT also do not publish any flow information. Concerning the possible bundled products at this point, the TSOs have been asked to produce a project plan.

Taisnières / Blaregnies

- At Taisnières / Blaregnies, Fluxys is now publishing the contracted firm and conditional capacity and will put its interruptible transit service from January 1st, 2008, thus enhancing its current “conditional transit” service.

- At Taisnières / Blaregnies, the coordinated open seasons are on track, with the market showing a strong interest for additional capacity: 39 shippers in Belgium and 37 shippers in France have confirmed their interest during the first non binding phase. The additional capacity should be allocated at the end of the year, after the 2nd phase of the open season.

Obstacles encountered

Bunde/Oude Statenzijl

- Difficulties in obtaining sufficient cross-border data of TSOs for discussion in this workstream as a consequence of the “minus three’” rule;
- Legal issues concerning the exchange of cross-border data between NRAs;
- Insufficient use of market parties resources and input in the process.

Obergailbach Medelsheim

- During the process some TSOs have been more proactive than others.

Taisnières / Blaregnies

- During the process some TSOs have been more proactive than others.

2.4.3 Future process and expected achievements

General

- Joint maximisation of available firm capacity, e.g. by means of CAC or investment and coordination between adjacent TSOs where needed. Harmonisation of products offered including booking procedures and nomination. Offering of bundled products.

Bunde/Oude Statenzijl

- The **TSOs** are asked to make concrete proposals on the coordination of application of CAM, CMP, and UILOI, meeting the needs of the market.
- **TSOs** are asked to make proposals to **cooperate on investment** procedures more closely and to implement concrete measures in order to make more firm capacity available. This includes close upstream and downstream coordination especially in Germany, where the three participating TSOs are interconnected at points other than BOS.
- Where **regulators** identify further “legal bottlenecks” on cross border coordination they will make proposals to solve them.
- **Shippers** are requested to share their problem-solving ability and to enhance their concrete input.
- The work on BOS will continue with implementation goal 2, which is yet to be identified by the relevant bodies. The capacity situation will continue to play an important role as the basis for all further work and will need to be continuously monitored.

Obergailbach / Medelsheim

- At Obergailbach / Medelsheim, regulators have still to ensure that a satisfactory level of transparency is being reached and that the TSOs come forward with the coordination of their respective products;

Taisnières / Blaregnies

- At Taisnières / Blaregnies, the regulators will continue to monitor the open season to guarantee a good coordination of Fluxys and GRTgaz.

2.5 Interconnections: secondary markets[9]

2.5.1 Background and initial objectives

In the original workstream action plan "Interconnections, Primary and Secondary Capacity Market", published in the following main objectives of the "Secondary Market" workstream were formulated:

> *"The outcome of this work stream should lead to a situation, where maximum of "unused capacity" is re-allocated on the secondary market. This should create (additional) network access from which all parties could benefit. The mechanisms used should create transparent signals for efficient investments at physically congested border-points."*

2.5.2 Process so far and key achievements

Process

With this target in mind the GRI North-West performed a study on the current performance of the secondary market. A questionnaire was sent out to the TSOs in the NW-European region (in combination with a questionnaire of the "interconnections: primary market" workstream). The response on this questionnaire was analyzed and the findings of this study were published in January of 2007 and discussed on the SG workshops in Bonn, February 2007.

During the workshop on the secondary market (Bonn, February 2007) the stakeholders confirmed these findings. Based on the study and the workshop in Bonn it was decided that the secondary market work stream would pursue two new (sub-)objectives:

1. to create and support a "day ahead capacity pilot" workstream, initiated by EFET's pilot proposal. Objective is to learn from the experiences in facilitating a secondary market in this pilot[10];
2. to further study the existing or possible congestion management procedures to find out how they can support the secondary market and how they can be improved AND to feed these advisory studies into the work of the "primary market" working group(s), if congestion management is on their agendas.

In order to perform this task the workstream's EG worked in close cooperation with the workstream "day ahead capacity pilot". In parallel the EG produced two papers on congestion management procedures: one on the releasable capacity procedures (as implemented by GRTgaz) and one on the interruptible capacity products (as recorded in EU Regulation 1775/2005). These two papers were communicated to the workstream "interconnections: primary markets", in order to support their activities concerning congestion management procedures.

Key achievements

- Publication of a report on the status of the NW-European secondary markets for cross-border interconnection capacity (February 2007);
- The creation of a workstream on a "day ahead capacity pilot" (February 2007),

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[9] All relevant documents for this workstream are published on the ERGEG website:
http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Interconnections_secondary_market

[10] This new (sub-)objective resulted in an additional workstream, "day ahead capacity pilot", which will be discussed later on in this document.

- Publication on a report on releasable capacity procedures (July 2007), fed into primary market congestion management work.

Obstacles encountered

Please refer to the “day ahead capacity pilot” part of this report.

2.5.3 Future process and expected achievements

As was already explained in the previous section, the “interconnections: secondary markets” workstream will, for the time being, merge with the workstream “day ahead capacity pilot”.

2.6 Regulatory Coordination[11]

2.6.1 Background and initial objectives

Achieving a regional market will require effective regulatory coordination – particularly on cross-border issues. This will help foster market integration , cross-border trade and competition across the region The initial objective of this work stream, in June of 2006, was therefore to help the RCC to assess where political, regulatory or legal barriers exist and make proposals to address any issues arising if appropriate.

2.6.2 Process so far and key achievements

Process

The Irish CER and the Northern Irish Authority for Utility Regulation (NIAUR) started the workstream process by sending out a questionnaire to market participants seeking views on potential issues assoociated with regulatory coordination. The responses from this questionnaire were analyzed and the results published ahead of the Bonn workshops in February 2007. In addition the CER drafted the first deliverable of the workstream: a matrix of regulatory powers. This matrix presented an overview of the regulatory powers of the different NRAs in the NW-European region. This work was based on a questionnaire to all regulators undertaken by CEER in 2005. In parallel the NW-European operators produced the second deliverable of the workstream: a paper presenting their vision on the current issues involved in regulatory coordination in the NW-European region – in particular the impact on investment.

The comments received during the Bonn workshops on the matrix of powers were incorporated into a final document on the matrix of powers, which was published on the ERGEG website in March of 2007. Further work was done on the analysis of the responses to the questionnaires, which resulted in the work stream's third deliverable: a conclusion paper. This conclusions paper was presented at the Dublin workshops, April 2007. At the same time an initial "code of practice" (the work streams fourth deliverable) on regulatory coordination for the NW-European regulators was developed and published..

The "code of practice' was subsequently developed into a Memorandum of Understanding (MoU) which all of the regulators in the NW have agreed to sign and take steps to ensure its effective implementation. The signing of the MoU is scheduled for the SG meeting in The Hague, the 23rd of October 2007. The MoU is intended to fill the current regulatory gap that exists in legislation for regulators to coordinate on cross-border issues and it includes arrangements for how regulators should share information and consult each other on issues that impact across more than one market.

Key achievements

- Key deliverables:
    - Matrix of regulatory powers (March 2007)
    - Paper by the operators on their vision on regulatory coordination (January 2007)
    - A conclusion paper on the questionnaire
    - A draft code of practice for the NW-European regulators, which is the basis for the MoU
- Developed an understanding of each NRA's current powers, focusing on areas of regulatory overlap, interconnection, cross border flows and investment and published this in a report.
- Approved MoU to formalise a commitment to regulatory co-ordination in the region (to be signed on the 23rd of October 2007).

[11] All relevant documents for this workstream are published on the ERGEG website: http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Regulatory_coordination

Obstacles encountered

No significant obstacles were encountered but there were time delays due to the necessity for wider consultations. Some of these were due to legal differences and differing responsibilities among NRAs and the need to find compromise wordings which satisfied legal requirements of all parties.

2.6.3 Future process and expected achievements

- The NIAUR will draft a contact database for regulators in the NW-European region
- The work stream will monitor implementation of the MOU in the Region

2.7 Transparency[12]

2.7.1 Background and initial objectives

Transparency was identified as one of the key priorities for the NW-European gas regional initiative – and this was strongly supported by all stakeholders. It was therefore that the workstream "Transparency" was initiated in June of 2006. The aim was to improve transparency in the region by publishing information that the market needs and also on improving the use of the less than 3 rule.

2.7.2 Process so far and key achievements

Process

As with the other workstreams of the GRI NW region, this workstream kicked of with the distribution of a questionnaire among the stakeholders in the NW-European gas market – this sought to understand what information was potentially available along the gas value chain:

- Gas balancing
- Gas Storage
- Interconnectors
- Hubs
- LNG
- Upstream
- Distribution

The response on this questionnaire was discussed at the Bonn workshops in February of 2007, together with a facilitation paper and data appendix on transparency issues that was prepared by the RCC and the possible next steps in the workstream.

The outcome of this workshop and discussion with the RCC was that an Enabler Group (EG), consisting of stakeholders, was to be created, which would focus on the following key tasks:

- Development and implementation of Action Plan for transparency for storage and transmission
- Consideration of best practice on transparency for storage and transmission to feed into development and implementation of Action Plans
- Development of "guidance" to help improve better application of less than 3 rule and also for publishing information in some form (e.g. aggregated) even when there is less than 3.

Storage companies have since then proactively developed plans to deliver improvements in transparency which are now being realised – these represent real and practical improvements in the operation of the gas storage market in the region (see below).

Since then, at the request of TSOs, it was decided that it was important that the market specified their detailed requirements for information provision which would allow them to respond. An initial questionnaire was sent to the TSOs in May 2007 and a revised version to improve responses was sent in June 2007 – these were prepared by EFET and IFIEC. It was agreed at a workshop on 19 September that the two main areas to focus on to deliver improvements would be the provision of daily information (at cross-border points) on capacity and flows. Work is now being undertaken by TSOs on developing plans which will set out how these improvements will be delivered – these plans are due to be published ahead of the October 2007 SG meeting.

[12] All relevant documents for this workstream are published on the ERGEG website: http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Transparency

Key achievements

- TSOs responded to a questionnaire relating to the market's requirements for transparency prepared by EFET and IFIEC.
- TSOs agreed to deliver firm timetable for delivery of plans to provide daily capacity and flow data – plans were sent to the RCC on 17 October 2007 and published afterwards for stakeholders to review
- Conducted a survey to Regulators requesting information on the application of less than 3.
- Initial draft of less than 3 guidelines published for consultation in June 2007. Final version published in October 2007.
- Published the Project plan of Storage operators to improve transparency
- Initial improvements in storage transparency (inventory levels, available capacity, investment plans) have been already been delivered.

Obstacles encountered

The main obstacles have been on bringing the various parties together to agree on what improvements can be made to the information provided by TSOs. This has involved significant input from all parties – including EFET and IFIEC to help drive the process forward – and although it was hoped that plans would be further advanced by now on transmission transparency there are now firm foundations in place to deliver significant improvements going forward.

2.7.3 Future process and expected achievements

Future plans expected in this area are:

- effective implementation of less than 3 guidelines across the region
- further improvements in storage transparency – more accurate, detailed and frequently updated data and information on available capacity and inventory levels
- delivery of plans (subject to agreement by RCC) to provide daily capacity and flow information by TSOs at interconnection points
- agreement by RCC as to the plans delivered by the TSOs
- TSOs to deliver against their plans to improve transparency
- further improvements in transmission transparency to meet market requirements in due course.

3 'Spin-off" Workstreams

3.1 Day ahead capacity pilot[13]

3.1.1 Background and initial objectives

The workstream "day ahead capacity pilot" is a 'spin-off' workstream of the 'interconnections: secondary market" workstream. The work stream was initiated in February of 2007 on the basis of a position by paper by EFET, in which EFET proposed the set-up of short-term day ahead auctions of capacity on a number of (NW) European interconnection points. EFET's original proposal foresaw in the creation of auctions for primary interruptible as well as secondary frim capacity rights.

3.1.2 Process so far and key achievements

Process

At the workshops in Bonn the NRAs, EFET and the operators agreed to work together on making the EFET proposal possible. In addition two platform operators, Trac-X and APX, offered their expertise to make the pilot a success. It was decided to hold regular 'Jour Fixes', with DTe acting as a chair, in order to facilitate the process of making a pilot possible. Furthermore, the scope of the pilot was reduced from a number of international cross-border points to the cross-border points Bunde/Oude Statenzijl (D-NL) and Ellund (D-DK).

During the first Jour Fixe it became clear that a short term auction of primary firm capacity would prove to be practically and legally impossible. This because Dutch as well as German regulation states that the auctioning of primary capacity rights is not allowed. It was therefore decided that the primary focus of the workstream will be on establishing a platform on which short term, day-ahead, secondary capacity trading is possible.

Up to October 2007 a total of six Jour Fixes have been organised, during which a number of achievements have been made. First of all some legal conditions for the trade on secondary capacity have been listed, recorded in German regulation (price cap and single platform). These conditions apply also on the trade via a platform. The possible effects for market participants were enlighted in a letter of the German BNetzA by Mr. Matthias Kurth, and provided suggestions for dealing with these conditions[14].

In parallel to the legal discussion the workstream also focused on the design specifics of the platform for secondary trading. In this context a short questionnaire was sent out to all relevant market parties in the NW-European region, requiring after their preferences for a platform for secondary trading. Inspired by the response on this questionnaire Trac-X and APX individually presented their perspective on the design of a platform. Both an auction as well as continuous trading will be possible. The platform will not have the role of a CCP. The kind of contracts that are traded will be "transfer".

A lack of standardized contracts for the transfer of capacity rights between shippers proved to be an additional barrier towards the trade in capacity rights. EFET has committed itself to drafting such a European standardized capacity trading contracts based on the Dutch standards.

[13] All relevant documents for this workstream are published on the ERGEG website: http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Interconnections_secondary_market/Day%20ahead%20capacity%20pilot

[14] However, for the platform operator APX (on the issue of the single common platform), Mr. Kurth's letter and the supplementary explanation by the BNetzA proved to be insufficient to take their uncertainties away. It was therefore that APX has sent a letter to the European Commission (DG TREN and DG COMP), questioning the compatibility of the German legislation with European competition legislation.

Key achievements

- The commitment of NRAs, operators, EFET and two platform operators (Trac-X and APX) to the workstream;
- The publication of a legal paper, presenting the potential legal bottlenecks in the participating member countries and the subsequent letter of Mr. Matthias Kurth;
- A commitment by the TSOs involved in the pilot project to reduce the implementation lead time for a transfer of secondary capacity to a maximum of three hours;
- Commitment of EFET to draft a standardized contract for the transfer of secondary capacity rights between shippers.
- The questionnaire on the market parties' preferences for a secondary market platform and the subsequent presentations by Trac-x and APX.

Obstacles encountered

- The provisions in Dutch and German regulation on the auctioning of primary capacity rights were a set back for the primary interruptible part of the pilot project.
- The German regulation concerning a price-cap for secondary trading and the prescription of one common platform for trading is a potential setback for the secondary trading part of the pilot project.

3.1.3 Future process and expected achievements

The workstream will remain focusing on having the secondary market part of the pilot go live at the beginning of 2008. This means that the remaining legal bottlenecks will need to be tackled. In addition the two participating platform operators (Trac-X and APX) will, independently, start with designing, in cooperation with the TSOs involved, their trading platforms. Regulators will write a short project plan to support the project going on its own legs (before the 24th of October 2007).

In addition the future Jour Fixes will be more focused on the primary interruptible capacity product and will try to explore the possibilities of TSOs offering this product on a day ahead basis. The next Jour Fixe in this workstream, to be hold on the 16th of November 2007, will primarily focus on the primary interrutpibel capacity product.

3.2 Investment[15]

THIS PART OF THE REPORT HAS BEEND ELIVERED BY THE LEAD TSO OF THIS WORKSTREAM, GTS, AND REFLECTS THE OPERATORS VISION ON THE PROCESS IN THIS WORKSTREAM.

3.2.1 Background and initial objectives

From the launch of the GRI, the operators have expressed that investment related issues have a high priority to them and would like to address them in the Regional Initiative. Investment is a highly complex topic with a European, national but also regional dimension. While some aspects might best be dealt with at the national or European level, we believe that practical progress can be booked in the GRI because it unbureaucraticly brings together all parties involved and can provide a forum for finding pragmatic and realistic solutions.

3.2.2 Process so far and key achievements

Process

Case studies:
With this target in mind the GRI North-West performed a study on current and past investment related issues. A questionnaire was sent to the TSO's cooperating in North-West region with the request to clarify why investment in their current and future project is an issue. The response on this questionnaire was analyzed and the findings of this study were presented in the end of June in the operator group.
The most common problem was that the TSO's coped with regulatory uncertainty and an insufficient economic return in their investment projects. Multiple general solutions were suggested, but it was decided that if the GRI wanted to solve this issue specific investment projects had to be made transparent and analysed. Then perhaps it would be possible to work to a specific pragmatic solution and come to an investment decision in a case study.

Investment website
A subject for improvement of investment is 'investment transparency '. Implementation Group (IG) members recognize that the transparency associated with open seasons both in the North-West region and more widely might be improved.
At the IG meetings operators suggested that greater transparency might be achieved by developing a website facility to provide an overview of different investment initiatives in the North West region. In this way there can be a coherent and user-friendly design and overview of all anticipated open seasons and other major investment schemes. The stakeholders are being consulted about this initiative at the moment. With enough support from the GRI we will make a detailed plan and make a judgment of the costs and benefits of this initiative to be able to decide whether we should proceed with this initiative.

Key achievements

- Presentation of the response on the investment questionnaire (distributed amongst the TSOs) (July 2007)
- Consulting stakeholders for an investment website (October 2007)

[15] All relevant documents for this workstream are published on the ERGEG website: http://www.ergeg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/Gas_Regional_Initiative/North-West/Key_Achievements/Investment

3.2.3 Future process and expected achievements

The “investment” workstream will focus on the investment website and specific investment case studies.