Comments on the Consultation Paper of the Gas Regional Initiative – Region: South-South East - of ERGEG (An Action Plan for the South-South East Europe Natural Gas Market)

The company SPP – preprava, a.s., Bratislava, a transmission system operator, located in Slovakia, and hence one of the relevant stakeholders in the regional energy market, welcomes the opportunity to comment on the Consultation Paper, issued by the Energy Regulatory Group for Electricity and Gas (ERGEG), in order to outline an Action Plan for the Gas Regional Initiative (GRI), which was launched by ERGEG on 25 April 2006.

SPP – preprava is prepared to discuss these and further comments to the Paper in detail in the upcoming public and restricted meetings in Bratislava on 27 September 2006.

In general

The Paper correctly points out that the South-South East (SSE) region has been playing a unique role for the European gas market because of its extremely important transit contribution (chapter 2, page 4 of the Paper). This feature of the region has clearly given and immutable geographical, historical and economic reasons. A concomitant phenomenon of this situation is an indisputably strong predominance of the sole source of gas supplies, i.e. gas from the Russian Federation, in the region, in particular in its eastern outskirts.

The prevailing influence of the Russian supplier / shipper in the region translates into numerous aspects, as set out as priorities to be tackled in connection to the creation of a single competitive European market by the "Roadmap" published by ERGEG. Moreover, this tendency is anticipated to gain on importance, as the share of Russian gas in the total European consumption is expected to rise in the foreseeable future. Among the priorities of the Roadmap, e.g. availability of gas, quality of gas, or effective access to the network capacity are influenced. Therefore, the fact of the long-term predominance of one, non-EU gas supplier, in the SSE region, has to be taken into consideration as a leitmotif, even country-wise, when evaluating its energy sector. Such an attitude is to be seen as an application of one of the basic principles of the European gas industry legislative framework, contained inter alia in the Regulation 2005/1775 (e.g. Article 1, Section 1: "This Regulation aims at setting non-discriminatory rules for access conditions to natural gas transmission systems taking into account the specificities of national and regional markets with a view to ensuring the proper functioning of the internal gas market.")

No less should be taken into account that conditions of individual shippers, under which they are able to deliver or to transit gas quantities to / through the SSE region, are foremost predetermined by the provisions of their gas supply agreements with the supplier, which neither SPP – preprava nor any other TSO in the region are able to modify or mostly even to recognize. Under the given circumstances, the role of a TSO mostly lies with providing non-discriminatory conditions of network access and gas transmission to shippers, once they have crossed the border of the EU.

Ad Discussion point 1:

Disregarding the broad and rather heterogeneous scope of priorities, identified by the Regional Coordination Committee (RCC), SPP – preprava basically agrees on them. Nevertheless, there is one substantial priority to be added to the list: tools and incentives for a sound investment climate in the area of the gas industry infrastructure, as one of the prerequisites for security of supplies.

Ad Discussion point 2:

SPP – preprava does not see tariffs in the investigated markets as a focus of the GRI. Individual tariff methods and structures proved out to be fully guaranteeing non-preferential treatment of market users and thus cannot hamper liquidity of the market.

Ad Discussion point 3:

A general comment, concerning the purpose and status of the GRI per se: Neither part of the monitoring exercise, nor its findings can be interpreted with prejudice as for amendments to the wording of the Regulation 2005/1775 or any related legislative documents. As an example, SPP – preprava does not understand the purpose of the GRI in “verifying the scope and guidelines … concerning issuing detailed unbundling rules” (chapter 3, page 8 of the Paper).

Ad Discussion point 4:

Although one of the main objectives of the GRI is to monitor and remove barriers for gas market liquidity in four individual Regional Energy markets (REMs), since only this can form a basis for the establishment of a single EU market (e.g. chapter 1, page 3 of the Paper), the transmission profiles selected as case studies in the SSE region exclusively only include routes directing from the territory of the Russian Federation outwards of the SSE region. An inclusion of a transmission profile, connecting a non-Russian gas supply source with an output point within the SSE region should be considered. It can be assumed such an exercise would also plastically demonstrate the differences in comparison to the East-West routes, dominated by the only supplier, as mentioned in the introductory part of these comments.

Furthermore, when focusing on availability of individual services in the “check list”, the demand for these services, which is, for detached reasons, significantly varying in individual regions and / or countries, should be considered.

Ad Chapter 4, “Some preliminary conclusions”, section “Slovakia”:

The considerably high degree of the development of regulation in gas transmission in Slovakia could be remarked, including e.g. the unified pricing method for both transmission of gas to the domestic market, as well as transit of gas to third countries, secondary market with network capacities, availability of short-term services, etc. On the other hand, the dependency of the country on the sole supplier is reality, and the solution promoted by the Paper, i.e. interconnection to the transit routes in Poland, would currently mean an interconnection to the Yamal pipeline, which is also exclusively supplied by the same supplier, and as such does not eliminate the risk of lack of upstream gas for Slovakia at present.

Ad Discussion point 8:

See the standpoint to Discussion point 2.

Ad Discussion point 11:

Apart from the general standpoint to Discussion point 3, SPP – preprava currently does not see the idea of a regional intergovernmental MoU in whichever form viable.