



CIEP

Clingendael International Energy Programme

Regulatory Framework & Investment in Gas Transmissssion

The need for a 4th package?

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Larsen/EDF Colloquium
9 April 2010

Content

- **The package-outcome**
- **The new agenda?**



The EPE



Security of supply
„MOSCOW“

Competitiveness
“LISBON”

Sustainable
Development
“KYOTO”



**3rd Energy Market Package
Agreed may 2009**

**Green Package
Agreed march 2009**



**Strategic Energy Review,
november 2008, under
discussion**

New EU Commission: Full policy review: 2010

The outcomes (1)

Unbundling:

- **Choise between OU, ISO and ITO**
- **ITO:**
 - **Independent network operator, MS appoints**
 - **Full commercial and technical management TSO**
 - **Conformity programme & agent**
 - **Mgt-personnel not from commercial functions (3 years before, 4 after)**
 - **Reg. approval all contracts ITO-VIC**

So: ITO= legal unbundling 2nd directive, specified and detailed

The outcomes (2)

ACER, focus on CB-issues:

- **Assess & advise on proposed network codes**
- **Idem on Infrastructure-plans**
- **Supervise regional TSO-cooperation, new interconnectors**
- **Ensure compatibility bordering regulatory frameworks**
- **Settle conflicts in cross-border acces-issues**

But:

- **No clear mandate in setting the codes: EU-Commission**
- **No clear mandates in regulating regional markets**
- **Governance via a 27 member Regulatory Board**

The outcomes (3)

ENTSO-G

- **GTE becomes ENTSO-g: formalised institution**
- **Develop binding network codes (interoperability, operational procedures, emergencies)**
- **Develop 10-yr infrastructure plan, incl. cross-borders**

Consumer rights

- **Switching (<3 weeks)**
- **Compensation schemes**
- **Disputes/ombudsman**
- **Transparency**
- **Smart meters**

Special clauses

- **“Gazprom”-clause: no TSO-control unless certified by NRA regarding national or EU energy security**
- **“Dutch” clause: M&A check when non-OU company is involved**

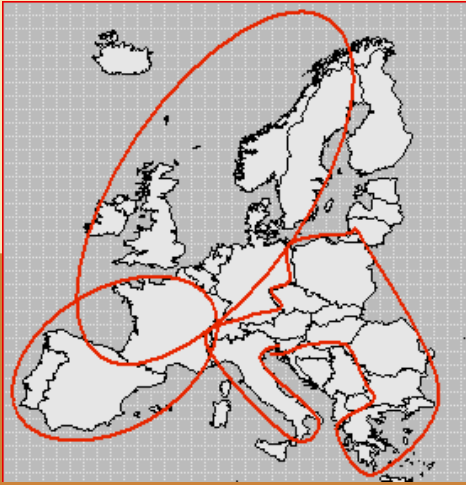
The worthwhile battle ?



- **OU: remains where it exists**
- **ITO: allowed, but more complex**
- **Look at Germany, France....**
- **Much ado about “nothing” ?**
- **ACER with no teeth**

- Commission will actively assist Member States by means of
 - >> Interpretative notes on key topics
 - i.a. unbundling, independence and powers of regulators, gas storage, retail issues

- **What does the market ?**
 - **Market coupling & hubs ?**
 - **Regional cooperation TSO's ?**
- **What is needed**
 - **Regulatory incentives new FID's for infrastructures**



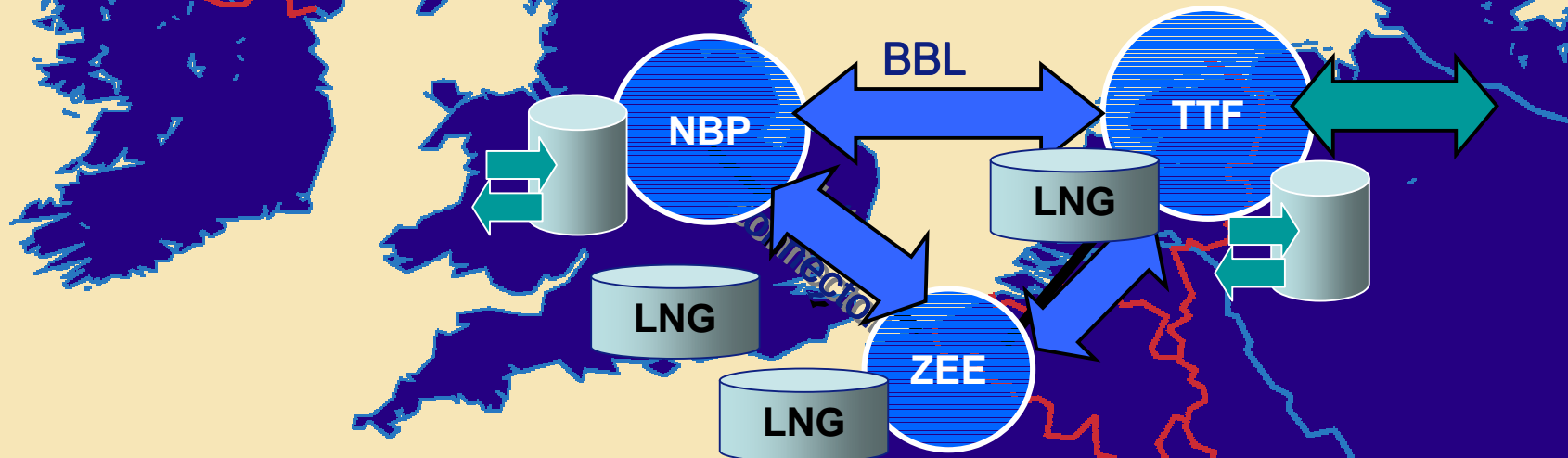
The new challenges ?

- regional markets
- new investments
- the role of regulators

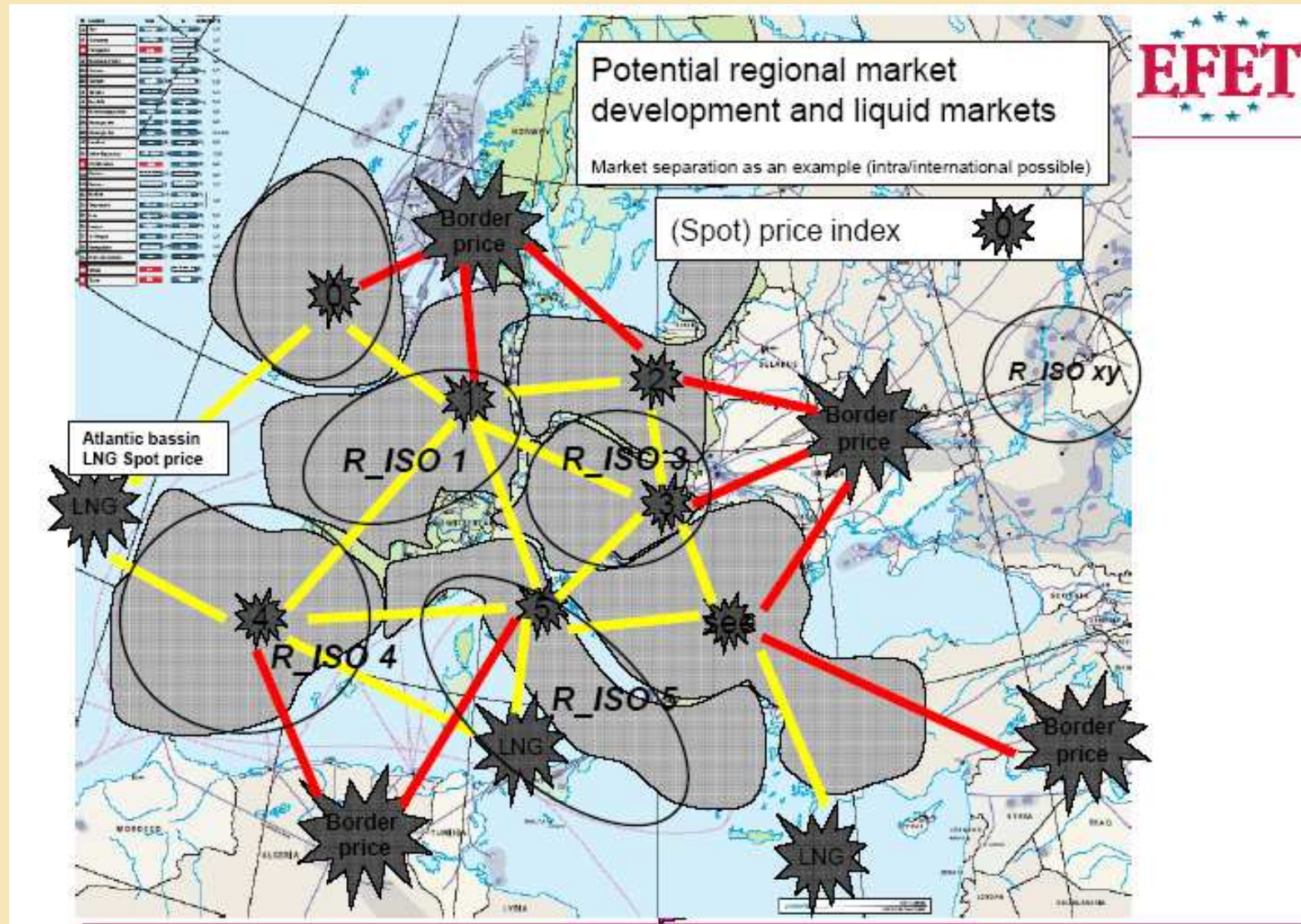


International Gas Market integration

Current products:
Balancing, Spot, Storage,
transport capacity,
Endex, TTF futures
-- More storage / transport -
-- Spreads / Swaps
-- Gas Market Coupling ?

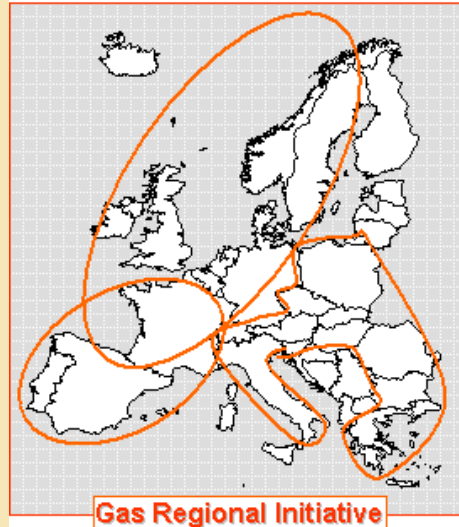


Regional Gas Markets.....



ERGEG- initiatives

Regional cooperation: sensible and required



Priority topics of common interest

→ **GAS**

- Interconnection and capacity
- Transparency
- Interoperability (including gas balancing)
- Development of gas hubs

There are some fundamental problems hindering the RI process:

- Insufficient **central direction (Reference Model)**
- Lack of an appropriate format for **Government involvement**
- Different level of **Stakeholders involvement**
- **NRAs powers** vary
- Weak **project management** in some Regions

The new approach?



From Regional Markets to a
Single European Market

A new role for the RIs?

- *Pilot testing*
- *Feeding regional specificities into ACER's Framework Guidelines process*
- *Implementation*

**ACER to play a
coordination role**

**Need for action to avoid a policy vacuum in the interim
period**

A two-tier approach should be implemented

1
**Where a vision
needs to be
developed**

- Identification of current issues
- Design of possible solutions
- Shared vision

**Governmental
Committee**

2
**Where a vision
is already
shared**

- Endorsement of a Reference Model
- No diverging developments allowed

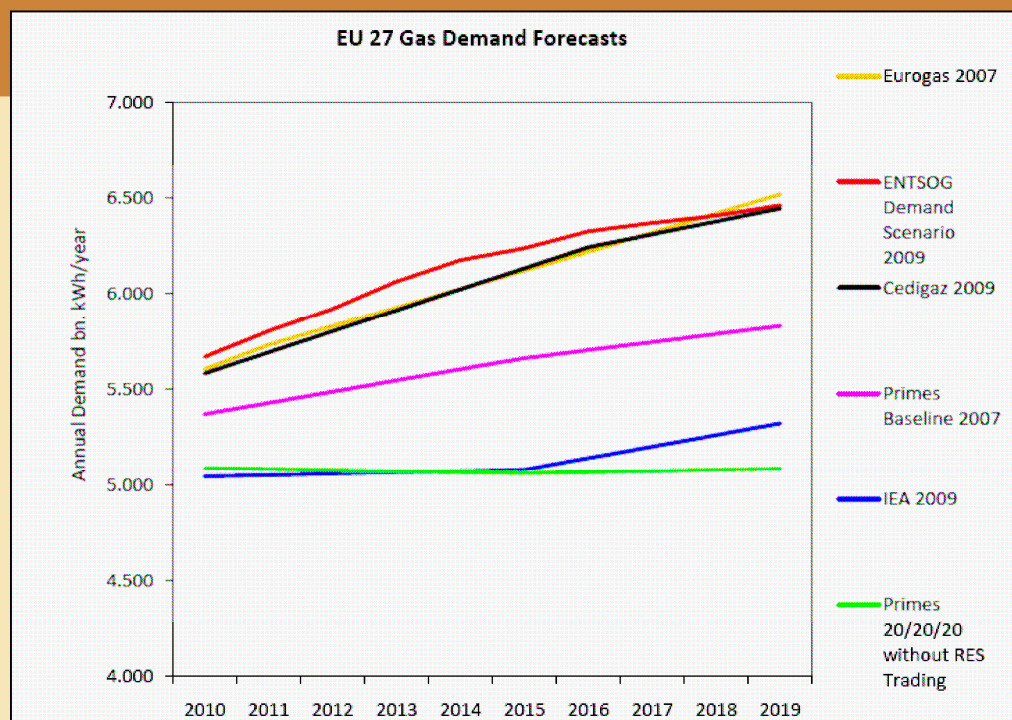
ERGEG & NRA

**Member States should have their own forum for
discussing policy and implementation issues (involving
changes in national legislation) at regional level**

- Governmental Committee for each Region to complement the RCC, IG and SG
- Formed by Government representatives and Regulators from the relevant Member States
- Meets in advance of the RCC meetings to discuss broader strategic and policy issues
- Coordinated by the Commission



The infrastructure question



What is needed:

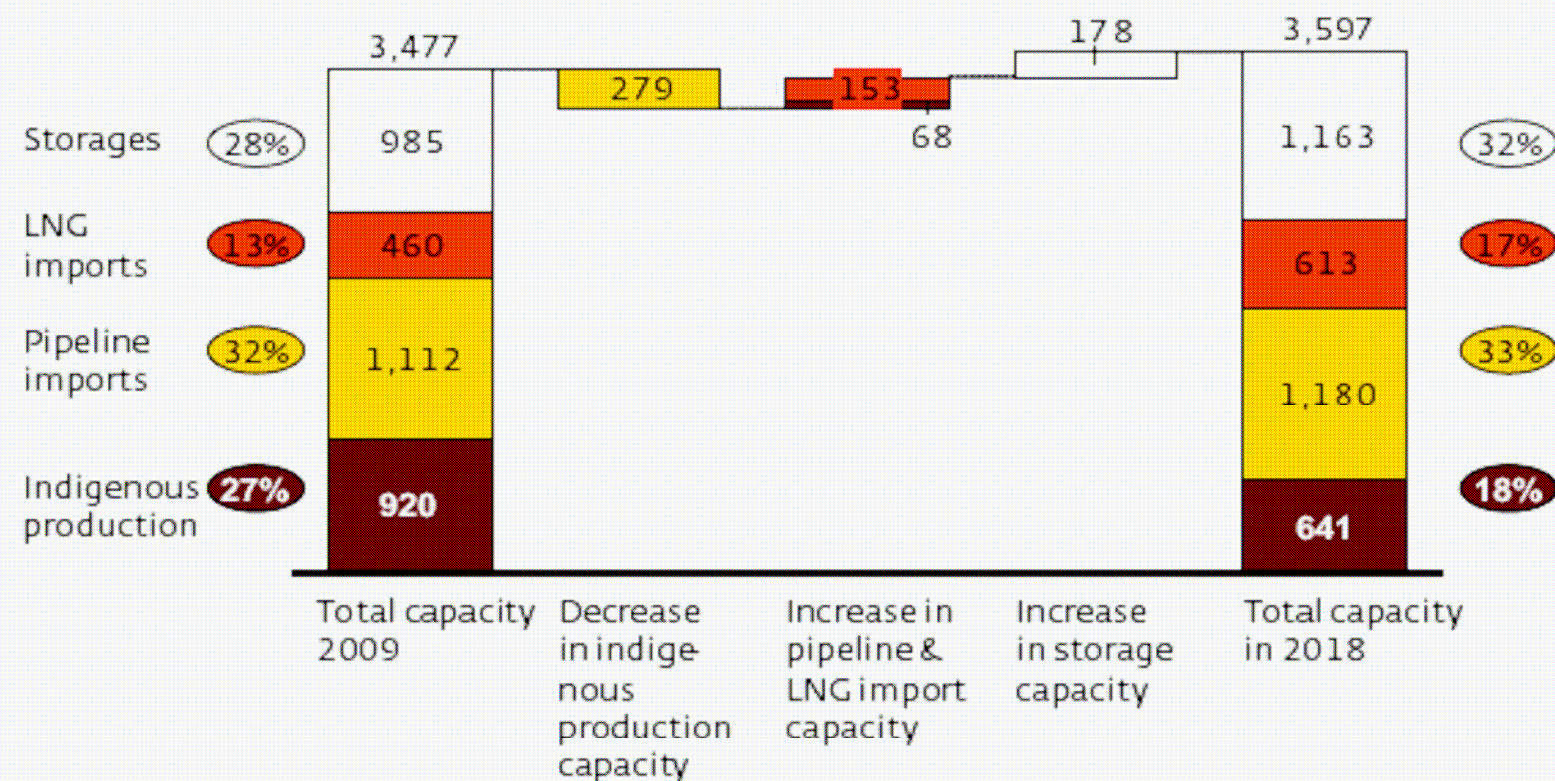
- For EU-imports?
- For intra-trade?

Changing structures.....

THE SUPPLY CAPACITY FOR EUROPE IS EXPECTED TO CHANGE SIGNIFICANTLY

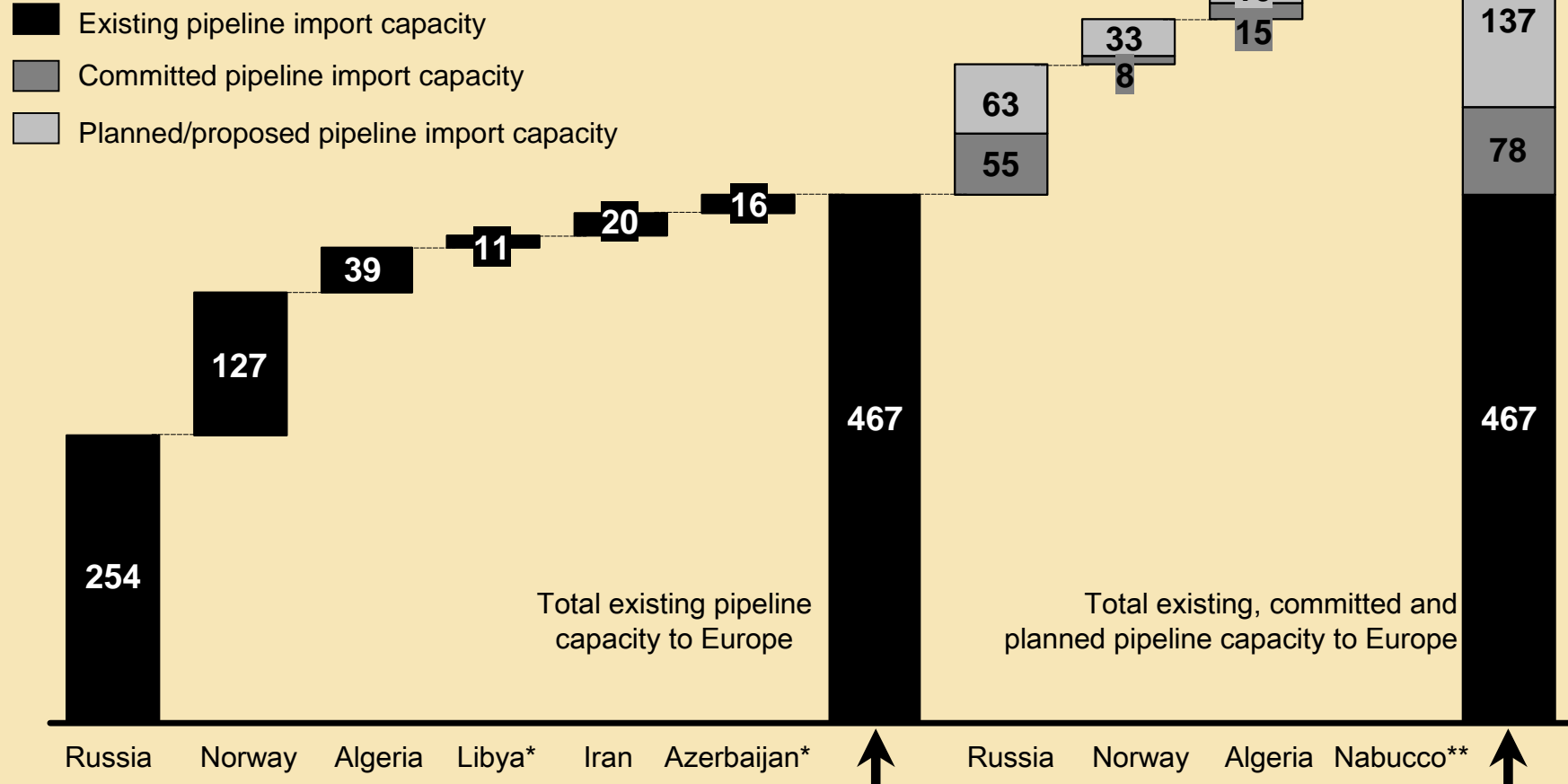
Million m³ per day

Capacity development for peak winter day



SOURCE: GTE + European Ten Year Network Development Plan; McKinsey analysis

Existing, committed and planned export pipeline capacity to the EU



* Including proposed capacity extension in the near future.

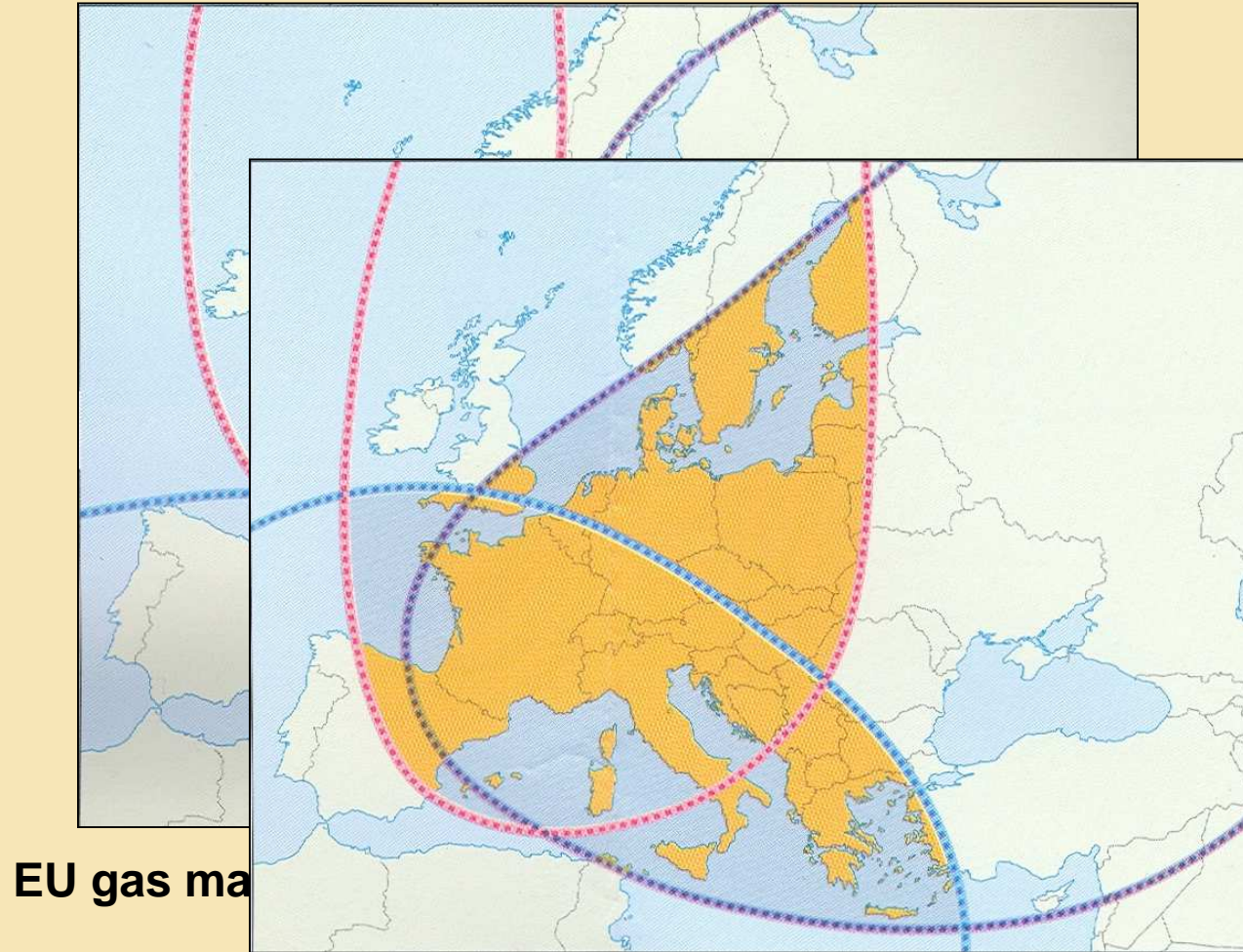
** Nabucco (or other so-called 4th corridor proposals) could use existing and new (yet to built) export capacity on the Eastern border of Turkey.

Note: Totals may not add up due to rounding.

Source: CIEP analysis, updated from CIEP [2008].

EU gas market & pipeline density

Source:
Gasunie-1999

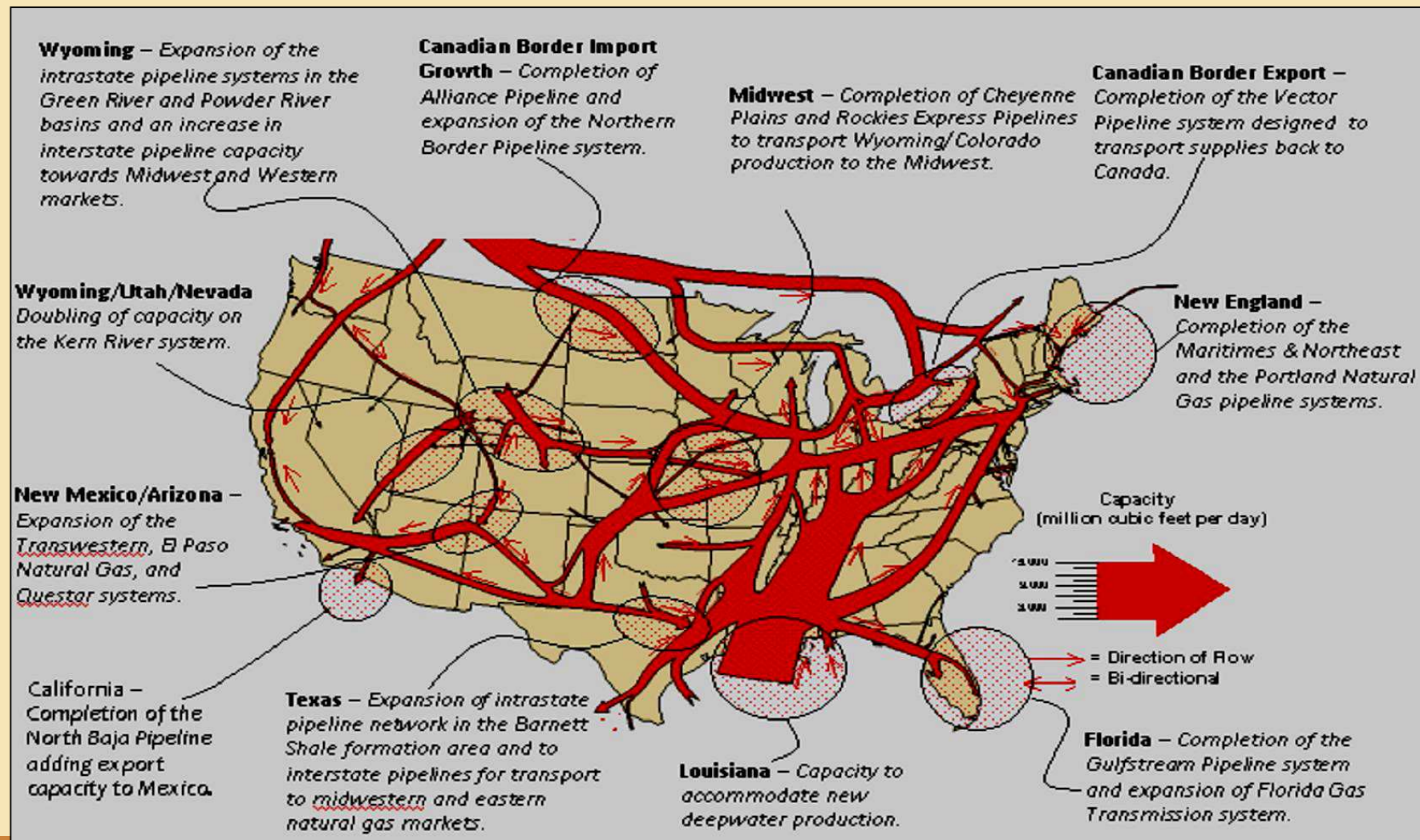


It makes probably sense to expand the internal European pipeline network in order to improve competition in the upstream commodity market

Abundant internal pipelines

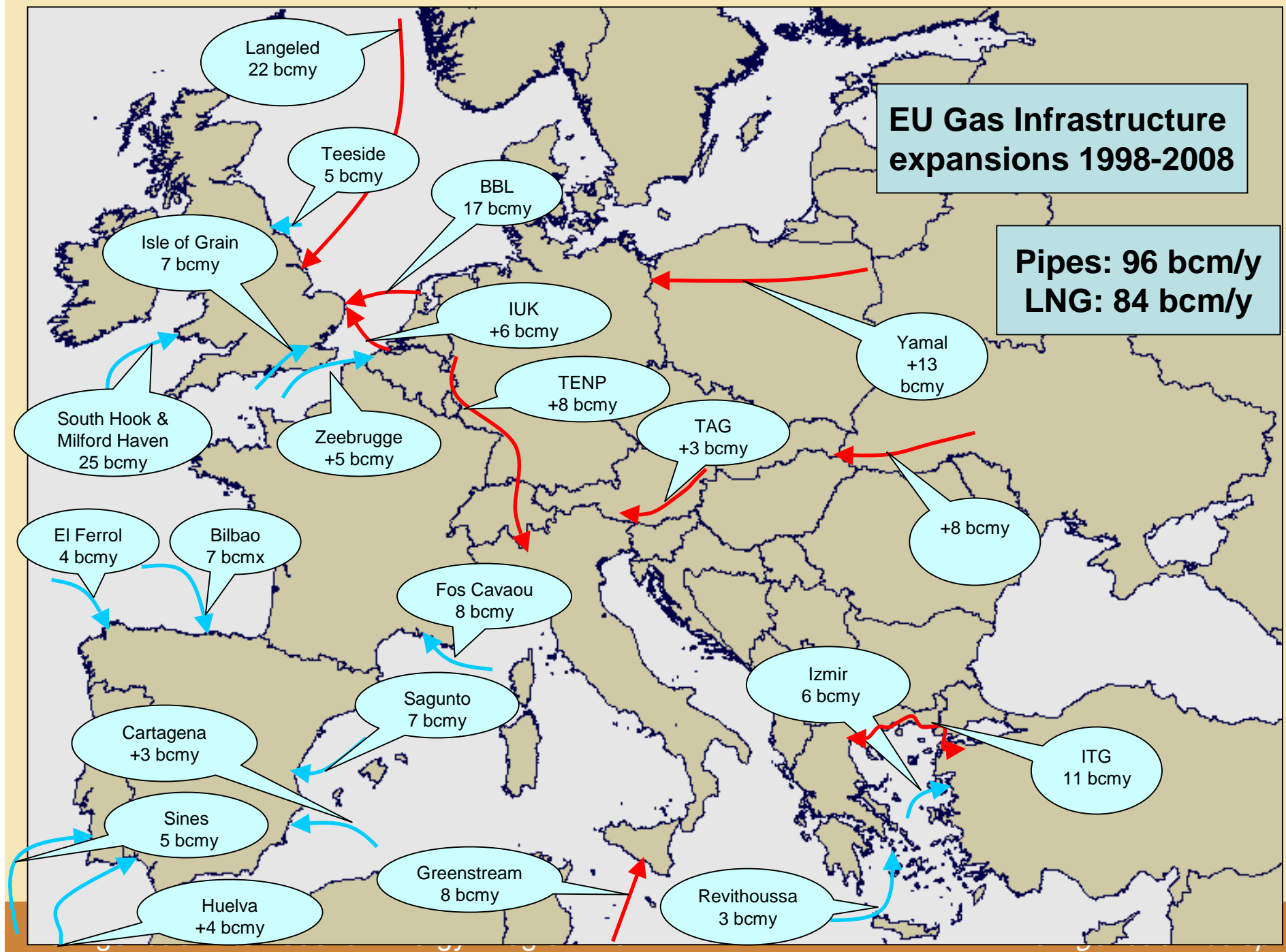
Lessons from the US?

Additions to US Transmission Grid 1998-2008



EU Gas Infrastructure expansions 1998-2008

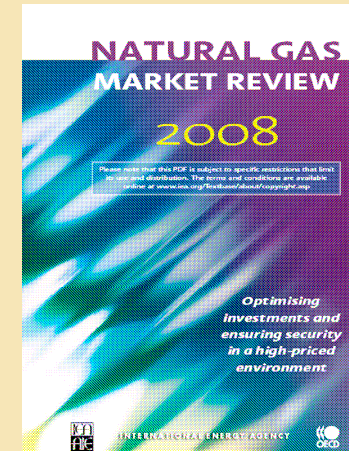
Pipes: 96 bcm/y
LNG: 84 bcm/y



.....?

2008 IEA Gas Market Review: “in marked contrast to North American pipeline investment, investments in internal connections and new supply projects in Europe continue to lag”.

“It is hardly possible these days to close contracts for the following year’s cross-border capacity anywhere in Europe....”



Issues & remedies (1)

- Many open seasons, expressions of interests, but little FID's in gas
- NRA's unable (?) to allow investments for facilitating cross border flows & transits....

- **Tariffs:**

- Shippers & TSO's, involved in new capacity via open seasons, should bear risks & rewards
- Tariffs for new cb-infra to be sufficient for viable economics
- Fixed (perpetual) tariffs, reflecting actual Capex.

- **Contracts:**

- LT standardised cap.contracts to be endorsed, linked to LT commodity contracts
- TSO's to offer customized non-standardised contracts as well

Issues & remedies (2)

Tariff differentiation:

- **Effective for improving economics in specific cases**
- **Non-discrimination to be applied**
- **Differ between old and new, ST & LT contracts**
- **Exit tariffs distinction between local use and transits**

Decision-making:

- **ACER's mission, "to promote the development of a strong and reliable energy infrastructure in the EU energy market"**
- **ACER, power to intervene in CB-issues**

Therefore .?

- **Crossing national borders: essential in securing an adequate supply of natural gas for the EU.**
- **It is time to construct the missing links.**
- **These recommendations most likely fit the new 2009 Directive and it's supporting Regulations**
- **Also, it is encouraging to note that NRAs have taken regional initiatives to jointly seek resolutions for cross-border matters**



the role of regulators

EU energy regulation 'at a turning point'

European energy market integration is happening, albeit slowly, Lord John Mogg, president of the European Regulators Group for Electricity and Gas (ERGEG), argued in an interview with EurActiv

New Regulatory Agenda?

Lessons from FERC:

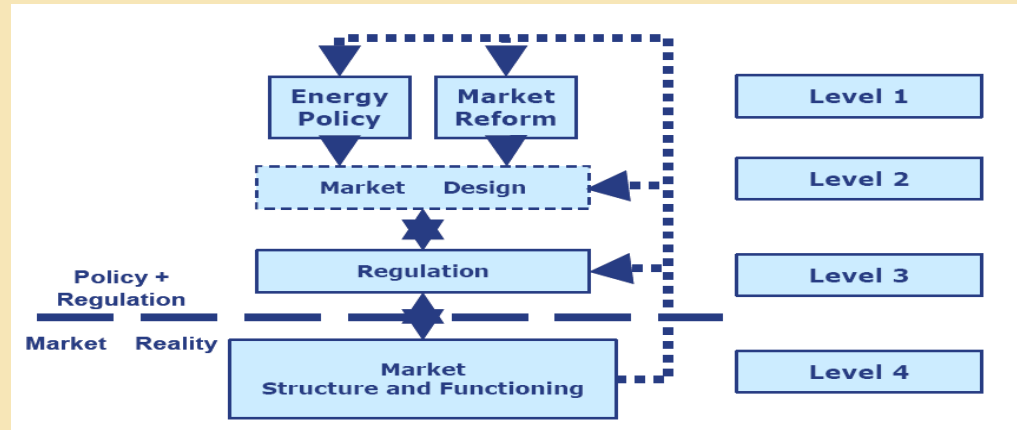
- *Interstate trade only*
- *Promote infrastructures,*
- *Support competitive markets*
- *Prevent market manipulation*

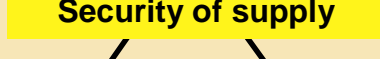
ACER-II ?

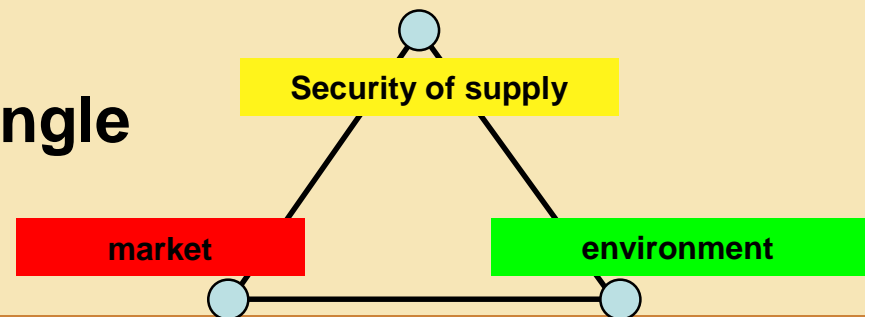
- *Promote pan-EU infrastructure, set cb-tariffs and coordinate licensing*
- *Promote competitive market, remove barriers and harmonise regulatory arrangements*
- *Use the CESR-la Rosiere approach, including binding mediation NRA's.....*

New roles for regulators ??

- **The regulatory/policy balance**



- **Broadening legal regulatory mandates?:**
 - “Effective Promotion of Sustainable Energy & Economic Efficiency”
 - Mastering the policy triangle
- 
- ```
graph TD; A(()) --- B[Security of supply]; B --- C[]; B --- D[]
```



# New models for regulation ?

- **Focus on process, not on outcomes**
- **Sustainable development:**
  - New entrants
  - Demand side
  - Local initiatives
  - .....
- **Focus on retail competition**
  - Households
  - Vulnerable consumers.....

Source:  
Michael Pollit

# So.....

- **OU in the 3rd Package:**
  - the wrong song
  - End result: much ado about nothing
- **Turning points:**
  - the regional approach
  - (external) supply security: the critical issue
  - Regulators, roles, ACER

***The 4th package....?***



# CIEP

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