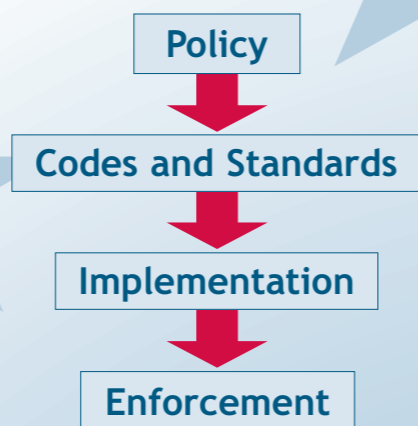


EFET fully supports the formation of an Agency for the Co-operation of Energy Regulators if it is given the powers to quickly resolve the cross-border issues that are currently keeping many companies across Europe in the slow lane.

The decision making process must also be based on equality between traders (producers, suppliers, large customers etc) who need to use the European gas pipeline network and the TSOs (the operators of the gas pipeline network). Our vision:

- ▶ Council, EU Parliament & EC establish policy.
- ▶ Grid access rules are agreed by grid users (traders) and grid operators (TSOs) with regulatory approval.
- ▶ TSOs jointly implement industry agreements.
- ▶ Regulatory Agency ensures consistent approach by TSOs across internal EU borders.



Together we can improve the coordination and access across the European gas network. Trading will deepen as regional gas grids are established and the European market is increasingly integrated. Whether the 3rd legislative package helps or hinders this process is now up to us all.

For further information:

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## The route to a Competitive EU Gas Market

The European Federation of Energy Traders (EFET<sup>1</sup>) actively supports the development of a competitive EU gas market, but access to pipelines across Europe remains a problem.



## Why is gas trading important?

Benefits of a competitive market are achievable only through the creation of robust wholesale gas trading in which there is sufficient 'liquidity' - a term that means it is possible to buy or sell a significant quantity of gas without unduly influencing the market price. If Europe's pipeline highways are optimally planned and operated to meet the needs of the pan-European market, then society benefits:



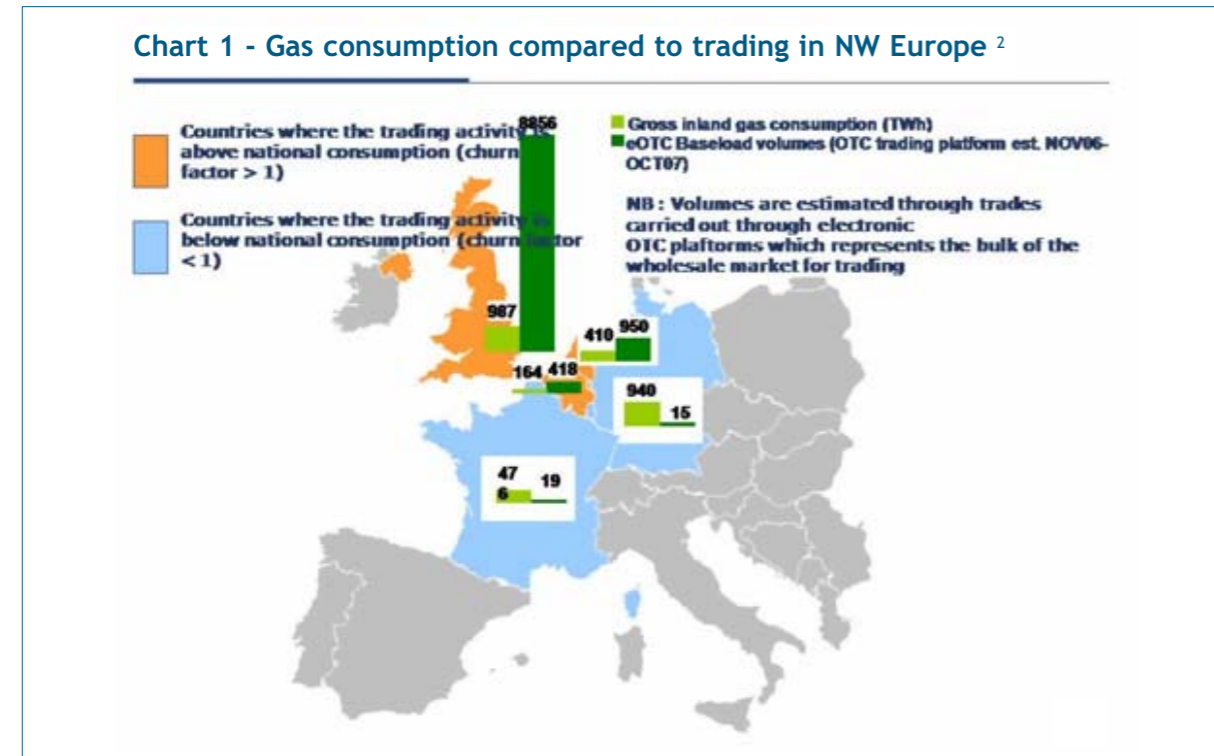
To achieve a competitive market, Europe needs many buyers and sellers that can trade gas from one location in Europe to another. At present the markets are fragmented; two main reasons for this fragmentation are:

- ▶ incompatible pipeline access causing geographical fragmentation between Member States or within regions
- ▶ inconsistent price formation for short-term and long-term gas delivery

<sup>1</sup> Established in 1999, the European Federation of Energy Traders (EFET) is an industry association representing over 90 trading companies operating in more than 20 countries. The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market. More information about EFET views and activities is available on [www.efet.org](http://www.efet.org).

## Progress in gas trading

The good news is that traded gas volumes are increasing, but much more needs to be done to establish robust wholesale markets that can support consumers' needs throughout Europe.



Source: Industry analysis based on electronic Over the Counter (OTC) trading volumes (Nov 2006 - Dec 2007), compared to gross national gas consumption.

Only in the UK, Belgium and the Netherlands have the volumes of gas traded in the high-pressure pipeline systems matched or exceeded the national consumption. Countries like Germany and France have recently made significant improvements in their internal network access arrangements, trading has begun at 'virtual points' in several pipeline system and there are plans to merge some market areas.

In Spain, where almost 70% of the supply is LNG, traded volumes are significant, but the development of a liquid market is constrained by limited interconnection capacity with the rest of the EU. Important gas trading developments are also underway in other countries, notably at the Italian 'virtual point' and in Austria on the border with the Slovak Republic, but access to capacity in the international pipeline routes remains a serious constraint.

## Four steps to improve liquidity in the EU gas market

### 1. Guarantee fair access to the infrastructure

Gas pipelines are natural monopolies. Regulators and the EC should regulate monopolies and encourage the market. We must keep in mind this clear distinction between the services provided for all by the regulated monopoly infrastructure operators (in particular the Transmission System Operators) and the competitive market of buying and selling gas to supply customers.

<sup>2</sup> This chart is exclusively based on directly quantifiable trading volumes and does not include any bilateral "voice OTC" transactions.

The TSO should be providing a consistent regulated service to all the users of the gas pipelines across Europe, so that gas market participants can have access across Europe and compete on an equal basis.

Problems remain at almost every high-pressure pipeline interface in Europe. Often the access to pipeline capacity between Member States is only possible for a few companies.

There is a continuing failure to ensure that sufficient capacity is built and that existing capacity is fully used. Capacity must be tradable between market participants. These issues could be addressed by some clear obligations on TSOs in the 3rd Energy Package.

### 2. Move beyond national boundaries

Markets are fragmented, split into many zones, with many different rules. Authorities must work to:

*Reduce the number of market areas in Europe to create supra-national gas grids and trading zones that transcend national borders*

*Simplify and harmonise market rules.* Allow network users to propose market rule changes and require approval by regulatory authorities.

*Establish Independent Operators* responsible for several combined pipeline networks

### 3. Improve information provision

Information on the physical use and availability of gas infrastructure is often not available or not provided in a consistent or useful form. To **build confidence and encourage trading**, market participants need to know:

- ▶ What capacity is available?
- ▶ What are the actual gas flows?
- ▶ How is infrastructure planned to be developed?

Information provision is not about individual transactions, nor is it necessary for regulation to be extended to the competitive gas supply market. But all information available to regulated pipeline operators must be available at least in aggregate form and on a consistent basis to regulators and market participants throughout Europe.

### 4. Streamline decision making on EU gas grid access

Regulatory reform to resolve the cross-border issues is needed, but Europe does not need a costly powerless energy bureaucracy, nor would it benefit from elevating the status of Europe's gas transporters in to an official European body without adequate obligations to provide what the market needs and sanctions if they fail to perform.

The EU pipeline grid needs to be developed for European consumers by considering Europe as a whole, not by adding together the isolated plans of local pipeline operators.