

EU Gas Market:

Turning hopes into reality

The 1st July 2007 deadline for fully opening European gas markets to competition has come and gone. Here, **Moffatt Associates'** Expert Panel* believe that new sources of gas supply and voluntary measures to improve wholesale market liquidity will help, but legislation is needed to force the pace of change.

Slow Progress on Liberalisation

Directive 2003/15/EC of 26th June 2003 requested full market opening by July 2007, but implementation is late or unsatisfactory in a number of EU states.

In Germany, (which is of crucial importance for the whole of Europe in terms of its volume, and the role it plays in transit and in price-setting),

incumbents declines and there is easier access for new entrants.

Countries where gas has only been introduced relatively recently, such as Latvia, Portugal, Finland and Greece, have been allowed to derogate from the requirement to open their gas markets until 2010, in the case of the first two, and as soon as certain conditions are met, in the case of Finland and Greece. Gas Regulation 1775/2005 of 28th September 2005 sets minimum obligatory requirements for access to transmission systems. These must be offered in a non-discriminatory way on terms that may also suit new entrants, for example firm or interruptible capacity, long- or short-term contracts.

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The Energy Sector Enquiry by DG COMP and DG TREN, completed earlier this year, made a number of recommendations for further action to improve competition in the EU energy markets. These included ensuring non-discriminatory access to networks through unbundling, improving the regulation of network access at national and EU level, and coordination between TSOs.

Other proposals covered reducing the scope for unfair competition and strengthening the enforcement of competition law, including rules governing market concentration and market integration.

TSO Unbundling is Essential

Many of our expert panel believe that full unbundling of integrated companies is necessary if liquidity is to be developed in the wholesale market, as this will create more market players and increase transparency. There is also

gas competition has scarcely developed and there is a lack of transparency in the market. This has serious consequences for the establishment of a liquid and transparent gas market in the EU. The European Energy Exchange (EEX) started trading gas on 2nd July 2007, but believes that it will take up to three years in which to get a gas reference price, during which time the volume trading will increase only slowly. Liquidity in the European gas market is really only expected to improve if the dominance of the

a tendency for capacity that could be used to be kept idle, and this practice could be ended if vertically integrated incumbents were required to separate out transmission and supply.

The European Commission is in favour of full ownership unbundling, but this idea is strongly opposed by the European gas industry and by some Member States, principally France and Germany. Indeed, some energy companies, particularly in Germany, have threatened to challenge full unbundling in the courts if it goes ahead, and have warned that such a course of action could be construed as expropriation of assets, and therefore illegal.

The Commission has acknowledged that the gas market differs in certain ways from the power market, and that these differences need to be taken into consideration when addressing effective unbundling. These include the nature of gas flows, which allow the