



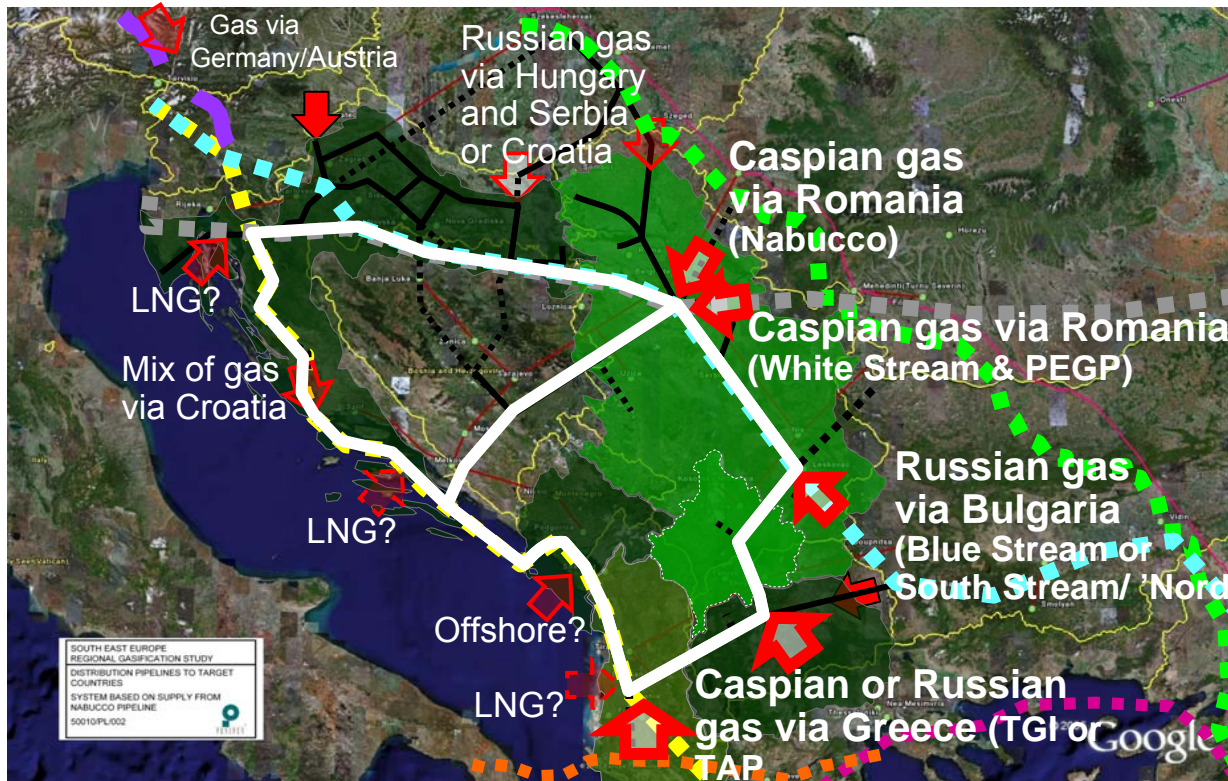
**A Common Regulatory Approach
for the Development
of the Energy Community Gas Ring**

**3rd Energy Community Gas Forum
Ljubljana, 16 October 2008**

The Gas Ring Concept

- **Linking all Energy Community Contracting Parties**
- **Benefits of the Gas Ring widely agreed:**
 - connect the markets of the CPs, and link them with EU neighbors;
 - gasify deep into currently ungasified areas, triggering economic, social and environmental advantages;
 - enhance security of supply, by allowing supply of each market from multiple sources and permitting mutual assistance among CPs and their neighbors;
 - linking up existing and potential storage sites of the region;
 - allow balancing on a regional basis;
 - facilitate meaningful regional SEE gas trading in future and improve the relevance and attractiveness of the otherwise limited SEE market
 - foster regional economic co-operation in energy;
 - enable the quick development of gas-fired power plants in the whole region,
 - eventually, foster the development of the “SEE Gas Hub”.

The Gas Ring: Proposed Paths



SOURCE : ECA, SEE Regional Gasification Study World Bank and KfW

The Gas Ring: Status

- **Gas Ring Concept supported by World Bank and other Donors**
- **Contracting Parties presented gasification programmes, based on or related to the Gas Ring Concept**
- **Directive 2003/55 largely implemented**
- **Regulation 1775/2005 under implementation**
- ***Sound regulatory framework needed, also to attract investors***
- ***Institutional and legislative arrangements of the Gas Ring to be defined***

The Gas Ring Developments: Issues

- **Regulatory framework**
 - Scope of harmonized regulation
 - Access and operational rules
 - Tariffs

- **Infrastructure development**
 - Relevant market and anticipated demand
 - Stepwise or simultaneous development?
 - Dedicated or shared infrastructure?
 - Financing infrastructure development

- **Institutional arrangements**
 - Gas Ring path definition
 - Gas Ring operation

Scope of harmonised regulation

- **Implementation of Directive 2003/55/EC and Regulation No. 1775/2005 is the starting point**
- **Development of harmonized access rules and tariff methodologies**
- **Need for common regulatory measures which will be applicable to the Gas Ring**
- ***The Gas Ring should be defined as transportation capacity (Virtual Gas Ring Concept)***
- ***The Gas Ring may partly use pipelines used for other purposes***
- ***Potential gradual development of the Gas Ring, using capacity of pipelines developed for other (national or transit) purposes, also of the neighbouring countries***

Key issue: how the Ring will be financed?



- **Who will undertake the risk of the market ?**
- **Potential solutions:**
 - **Single owner of the infrastructure**
 - **Multiple (national) entities collaborating for the development of the infrastructure and willing to share the risk**
- **In all cases subsidies may be required (grants, low interest loans, guarantees)**
- **Taking into account the immaturity of the markets, the interest of the private sector may be limited**

Gas Ring access and operational rules/1

- **The “ideal” regulatory framework:**
 - **Gas Ring capacity will be fully open for TPA**
 - ***No exemptions needed or appropriate***
 - ***The Gas Ring will be the backbone of a single Energy Community Gas Market, not an interconnector***
 - ***Exemptions not applicable***
 - ***However CPs may award Art. 22 exemptions to other parts of the pipelines that host the Gas Ring capacity***
 - **One stop shop services may be agreed by Ring Operator(s) and offered to network users**

- **However, financing and market risk issues are closely related to how much of the “ideal” framework can be implemented**
- **The more donors (i.e. Donors, governments, gas entities, etc.) are willing to support, the more the “ideal” can be implemented**
- **With less public support, Ring infrastructure may have to be financed mostly by private parties, who may require exemptions from TPA, and fail to provide harmonized services**

Gas Ring access and operational rules/3



- **Capacity contracts should be harmonized throughout the Gas Ring**
 - Same durations, gas day, measurement units, booking protocols
 - Towards common network code
- **Gas Ring capacity should be available to all applicants**
 - Congestion not expected for a long time
 - In case of congested entry points, auctions or prorating may be used
 - In case of permanent congestion, open season should be launched
 - Capacity reserved but not used must be released at least on an interruptible basis
- **Backhaul transmission must be permitted**
 - Each entry point from the Ring should be also regarded as exit point and (if applicable) vice versa

Tariffs

- **Should be cost-reflective and provide revenue stability**
- **Should be set by National Regulators following harmonised criteria**
- **Should be capacity-based**
- **Would apply to the Gas Ring capacity**
- **Any subsidies or grants should not be included in the cost base**
- **Each TSO would charge a separate tariff for access to its other pipelines.**
- **For backhaul transportation, discounted tariffs should be offered**

Gas Ring path definition

- **Discussion at governmental level should define:**
 - **Involved Contracting Parties and timeframe for implementation**
 - **Minimum capacity for each section of the Ring**
 - **Non exhaustive list of entry and exit points**
- **National TSOs will collaborate to define:**
 - **Exact path within each CP**
 - **Technical specifications**
- **Capacity to be ensured to downstream users**
- **ECRB would intervene in case of controversies**
- **Gas Ring may temporarily be closed through pipelines laid in neighbouring EU Member States (e.g. Hungary, Greece, Slovenia) or existing ones in the CP territories**

The Gas Ring: Institutional settings

- **Options presented for discussion:**
 - 1. Single operator owning, developing and operating the Ring**
 - 2. Ring developed, owned and operated by national TSOs but managed by a single operator**
 - 3. Ring developed, owned, operated and managed by national TSOs under harmonised regulatory regime**

The Single Owner and Operator Option

- **Single Owner and Operator owning and developing the Ring:**
 - **Would own and operate dedicated pipelines**
 - **Could control dispatching and balancing of the Ring**
 - **One stop shop services offered**
- **But:**
 - **Requires very strong political cohesion**
 - **Hard to define shareholdings, governance**
 - **May overlook economies of scale from using larger pipelines**
- **Neither likely nor necessary**

The Single Ring Operator Option

- **Ring developed and owned by national TSOs but operated by a single operator (ISO model)**
 - **Single Ring Operator may hold and manage capacity for the Gas Ring**
 - **The SRO would hold virtual Ring capacity, i.e. capacity of larger pipelines would be partly transferred to the SRO**
 - **One stop services would be offered**

- **But:**
 - **Establishment and governance of SRO would require significant political consensus and clear definition of relationship to national TSOs**
 - **Difficulties experienced with the Co-ordinated Auction Office for electricity market to be considered**

The Multiple Ring Operators Option

- **Ring developed, owned and operated by national TSOs, under harmonised regulatory framework**
 - **Co-ordinated services offered**
 - **Capacity traded by each TSO**
 - **Common agreement on the framework by all TSOs involved (including the neighbouring countries)**
 - **One stop services could be offered on voluntary basis**
 - **Fewer political consensus problems**
- **Useful starting point**
- **SRO may be established later, if necessary**

Legal issues

- **Preliminary analysis**
- **Which tool of the Treaty should be used (Measure under Title III could be a possibility)**
 - **Applicable to CPs and neighboring countries where the Ring is based**
 - **No application outside the Ring capacity**
- **MC Measure should define:**
 - **CPs and other States connected by the Gas Ring**
 - **Scheme for the financing of the Ring and the corresponding institutional concept for the development of the Ring**
 - **Concerned TSOs and their obligations including developing the Gas Ring capacity**
 - **Minimal Gas Ring capacity by section and direction (task may be handed over to ECRB)**
 - **Scope of regulatory harmonisation (may be handed over to ECRB)**
 - **Main access and tariff setting criteria (may be handed over to ECRB)**

Conclusions

- **Development of the Energy Community Ring can be proven crucial for the acceleration of the gas market development in the Energy Community**
- **ECRB invites the Gas Forum and the PHLG to accelerate discussions on the above, with a view to define the overall concept as soon as possible**
- **ECRB will continue to elaborate on these ideas and provide the corresponding regulatory input, including an indicative list of actions and time schedule**