

Question 1: What are your views on the economic efficiency of cross-border gas flows between GB, Belgium and the Netherlands? How important do you consider this review into cross-border flows to be?

The cross-border gas flows between GB and Belgium represent, in our opinion, by far the most economically efficient gas flows through any interconnection point in Europe. IUK allows shippers in GB and Belgium to quickly and flexibly nominate gas flows between the respective NBP and ZEE gas hubs, in response to price differentials. As one of the leading energy trading companies in Europe, RWEST nominates its gas flows solely in response to these price differentials. When the marginal cost of flowing gas from one market to the other is less than the break even spread cost, RWEST will maximise its flows through its IUK capacity accordingly.

IUK has undoubtedly contributed to the high levels of liquidity seen in both the GB and Belgium wholesale gas markets. It is the principal reason why there is a very high level of price correlation and convergence between NBP and ZEE prices and is a contributing factor in the increasing price correlation and convergence between NW European gas hubs. IUK also significantly enhances security of supply in GB and Belgium.

Bearing in mind that IUK is a textbook example of the possibilities and benefits arising from hub-to-hub trading, which is what the Internal Energy Market and Third Energy Package are predicated on, we are slightly surprised the Regulators have directed so much attention to possible inefficiencies in its use. We understand the Regulators have been in communication with IUK about flow efficiency during the course of this year, and that IUK provided evidence to demonstrate that flows were both logical and highly efficient before this call for evidence was issued. IUK's presentation to the public workshop on 21st November restated and reinforced arguments made previously to the Regulators, we are told, and has cast significant doubt about the robustness of the Regulators' data analysis.

Clearly the role of regulators is to monitor wholesale markets and economic efficiency is important. RWEST is a leading advocate of energy market integrity and transparency. However, we see no additional benefits arising from any attempts by Regulators to intervene in IUK flow arrangements to try and improve efficiency, for example through some form of implicit capacity allocation. On the contrary, we think any such action risks compromising the current high levels of efficiency and confusing the EU regulatory picture.

Question 2: What is your experience with cross-border gas trading between GB, the Netherlands and Belgium? What, if any, are the key barriers to economically efficient gas trades happening across our borders? Please provide any evidence or analysis that would contribute to our understanding of the observed behaviour of cross-border gas flows.

Cross border trading between GB and Belgium is highly efficient. Liquidity and transparency at the NBP and ZEE physical trading hubs are sufficient to enable traders to efficiently arbitrage price differences between these markets, as can be seen from the high levels of price correlation and convergence. Within day liquidity is higher at the NBP than at ZEE due to the GB's daily balancing regime, which tends to make the responsiveness of import flows more visible to GB price signals. However, gas exports from GB into Belgium reach further into the gas markets of Netherlands and Germany (NCG), so the responsiveness of export flows extend to more than just within day liquidity and price signals in Belgium. Greater prevalence of within day TSO balancing, resulting from implementation of the Balancing Network Code, and greater access to within day cross-border capacity, resulting from implementation of Congestion Management Guidelines and the CAM Network Code, will act as a boost to within day liquidity throughout Europe.

The transaction costs of trading at NBP and ZEE in the OTC market are low and the fact that both markets trade in the same currency eliminates foreign exchange risk for traders (unlike at the new ZTP virtual trading point). Entry/exit capacity does not need to be acquired separately if gas is bought or sold at ZEE (unlike at the new ZTP) and entry/exit capacity at Bacton is readily available and easily accessible for low, or zero, cost. IUK goes out of its way to offer as much flexibility to its shippers as possible and shippers are, in most cases, able to renominate flows in either direction subject to a two 2 hour lead time from the next hour bar.

The existence of the NTS SO/TO Entry/Exit Commodity Charges undoubtedly influences IUK Shippers' flow decisions. Such commodity charges (with the exception of the new TO Exit Commodity Charge) have been an established feature of the GB tariff regime for over 10 years and so traders have learnt to consistently factor them into their trading decisions as a matter of routine. To the extent they were to be removed flows through IUK would, all other things being equal¹, be more prevalent in either direction. However, we do not regard commodity charges as barriers to trade, as such, in the same way as we do not regard high short term capacity charges as barriers to trade. We will still continue trading efficiently regardless of these factors but will obviously factor them into our trading and capacity booking decisions. Clearly, these factors will also directly influence the extent to which prices converge with those in adjacent markets.

As regards the shorthaul tariff, this also clearly influences the decisions of those IUK Shippers landing physical beach gas at Bacton. Rather than pay the TO and SO Entry Commodity Charges to bring beach gas to the NBP, it is significantly cheaper for an IUK shipper to pay the shorthaul tariff and export gas landed at Bacton straight to Belgium. These commodity costs currently account for about 80% of the break even NBP import cost. IUK Shippers that ship gas to NTS Exit Points in the Bacton vicinity can also reduce the break even NBP import cost by

¹ Removing commodity charges will have a knock on effect on capacity charges, the effect of which would be equally factored into IUK Shippers' trading and flow decisions.

matching the daily consumption at these points to IUK imports at Bacton, thereby only paying the shorthaul tariff on this quantity of gas. RWEST adopts this approach when shipping gas to Great Yarmouth Power Station, although currently our daily flows at Bacton from offshore supply contracts more than cover the daily power station consumption, so we currently receive no commercial benefit in relation to our IUK import flows.

Question 3: How could current market arrangements be improved so that they better promote the objectives of promoting a competitive internal market, eliminating restrictions on cross-border trade in gas and enhancing the integration of national markets as well as security of supply? In your response, please specifically refer to a) IUK, b) BBL, c) the adjacent market arrangements and d) whether more common arrangements are needed where relevant and possible.

Following publication of the results of the sector enquiry into gas and electricity markets in January 2007, EU Member States spent considerable time and effort developing a legislative and regulatory framework intended to promote a competitive internal gas market, eliminate restrictions on cross-border trade, enhance the integration of national markets and increase security of supply. These took the form of the Gas Directive and Regulation contained in the Third Energy Package of July 2009 and the Security of Supply Regulation of October 2010.

Provisions contained in this legislation have now been implemented (e.g. TSO unbundling, TSO, storage and LNG information transparency) or are in the process of being implemented (e.g. development of EU Guidelines and Network Codes and Emergency and Preventative Action Plans). European Regulators and TSOs are also now effectively cooperating to achieve these objectives through ACER and ENTSOG.

These developments over the last 5 years have already had positive benefits for competition, liquidity, price convergence and supply security in a number of EU markets, particularly those in NW Europe. We fully expect these benefits to continue and to extend more widely to gas markets in the South and East of Europe once EU Network codes start to be implemented. We are encouraged by the fact that ENTSOG is working pro-actively with its members to ensure they understand what will be required of them going forward. It is also appears to be assisting them in addressing the difficult challenges they face in changing their outlook and their operations in such a way as to promote competition and liquidity. ACER should ensure that it too works collaboratively within its membership to ensure EU Network Codes are efficient, interpreted consistently and implemented in a timely manner across all EU Member States.

The wholesale gas markets of GB, Belgium and Netherlands are already easy to enter, highly competitive and secure. The TSOs operating in these countries are also well aware of their crucial role in promoting competition and cross-border trade. The Regulators should resist the temptation to intervene in these markets

to try and further improve competition and cross-border trade or to force market integration, or coupling, at least until such time as harmonised market rules and operational arrangements are more of a reality across the EU. Doing otherwise is likely to be counterproductive. It will also divert scarce TSO, regulatory and stakeholder resources away from the more important goals of developing and implementing harmonised EU market rules and supporting regulators in laggard Member States (e.g. Italy, Spain, Bulgaria, Romania etc) to remove what are far more obvious barriers to entry and cross-border trade than any which exist in NW Europe.

Question 4: Should we try to proceed with minimum necessary changes or should the regulators be looking more holistically at a wider review of arrangements that may present barriers? Should we be considering piloting some deeper regional integration or joining initiatives that are already going on in Europe?

We do not think it is necessary for the Regulators to proceed with any changes to market design or rules, other than those which will be necessary to ensure compliance with the binding EU wide Guidelines and Network Codes that will be enacted in the coming years.

Based on the evidence presented by the Regulators in this call for evidence, which has already been convincingly refuted by IUK, there is no basis for the Regulators looking more holistically at a wider review of arrangements at IUK, or in the respective GB and Belgium gas market rules. Regulatory intervention in the current IUK contractual and market arrangements in order to remove barriers to trading which have not been credibly demonstrated to exist would be wholly inappropriate. It risks seriously compromising the high levels of market liquidity currently seen in GB and Belgium for very little tangible benefit. It may also lead to restrictions being introduced on the extent to which shippers can trade continuously between the respective markets. This would reduce the flexibility which GB and Belgium are expected to be increasingly dependant on in the future, due to greater renewables penetration in electricity generation.

We firmly believe that deeper EU regional integration should be allowed to occur organically in response the demands of the market, not driven by top down regulatory intervention. Imposing integration is possible within a Member State, and may be appropriate where there is an abundance of separate market areas acting to stifle competition and liquidity, as was the case in Germany. However, we do not think it is practical or appropriate to force integration of market areas in different Member States at this stage. Regional integration initiatives driven by the market have previously been attempted, for example the "Eurohub" initiative in the early 2000's. Harmonised market rules and operation, in the form of binding EU wide Guidelines and Network Codes, will further stimulate competition, liquidity and price convergence. This will make regional integration easier and create greater benefits for Member States and stakeholders where the absence of physical congestion supports this.

Question 5: What process may help us to achieve the best outcome? What role should regulators, market parties and TSOs have in this process? How would it interact with pan-European policy initiatives?

In our opinion the best outcome can be achieved by the Regulators continuing to play an active role in development and implementation of EU Network Codes and Guidelines through ACER. As representatives of the three most competitive and liquid wholesale gas markets in Europe, the Regulators have valuable knowledge and experience, going back many years, on the conditions and measures which are necessary to promote effective hub development. The Regulators should also work to ensure that existing legislation and future binding obligations are fully and consistently enforced within their own Member States.

As regards any further monitoring of the efficiency of flows through IUK, in the unlikely event the Regulators still perceive there to be some form of material inefficiency in shippers' flows following this call for evidence, we do not think it would be productive undertaking any further retrospective flow analysis based on historic published market prices. Explaining the rationale behind flow decisions made on specific days becomes increasingly difficult the further back you go, due to fading corporate memory. If absolutely necessary, RWEST would be prepared to conclusively demonstrate the efficiency of its IUK flows by logging the reasons associated with its daily flow decisions, say for a month, and discussing these individually with the Regulators thereafter. Whilst such a measure represents a significant inconvenience for us, we would be prepared to do it, in conjunction with other IUK shippers, to remove any lingering suspicion Regulators may continue to have about the inefficiency of IUK flows once and for all, and to clearly demonstrate that further intervention is not necessary.