Organisation of the natural gas market and the development of prices

EU4Energy Governance: High-level Policy Talks on the Natural Gas Market of Georgia, Tbilisi, 4-5 October 2018
The „traditional“ gas market

Upstream

Production

Import

Wholesale (trading & supply)

Trader

Supplier

End-supplier

Retail

Households

Industry, district heating, power gen.

Energy Community Secretariat

TSO

DSO
The „ideal“ gas market according to EnC acquis

Upstream

Wholesale (trading & supply)

Retail

Production

Trader

End-supplier

Households

TSO* (balancing)

Organization market

Sellers

1.
2.
3.
4.
5.

... Clearing & Settlement

Buyers

A.
B.
C.
D.
E.

... Industry, district heating, power gen.

Production

TSO

Energy Community Secretariat

TSO

DSO
**Different phases of hub maturity**

- **Established hub**: broad liquidity with sizeable forwards and price reference indexes.
- **Advanced hubs**: higher liquidity but 'spot/prompt' dominated.
- **Emerging hubs**: Low but improving liquidity. High reliance on long-term contracts.
- **Illiquid-incipient hubs**: Diverse group with organised markets in early stage, embryonic liquidity.

**Changes in 2016 versus 2015:**
1) VOB (CZ): from emerging to advanced hubs
2) OTC (SK): from illiquid to emerging hubs

(Source: 6th ACER Market Monitoring Report)

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**In general positive hub development**

- **Increasing trade and liquidity on some hubs**
- **Implementation of regulations (gas network codes)**
- **Gas glut & stagnating demand**
- **Future?**
A long way from OTC to trading on the exchange
Barriers to market functioning*

In the initial phase

- Weak political support for wholesale market development
- Lack of trust from the market players
- Absence of a VTP/exchange
- Insufficient scope and flexibility of products offered
- Weak gas trading mechanism

In more advanced and emerging hubs

- Too high / not transparent transmission tariffs (vs. level of bid-ask spread – cross-border arbitrage?)
- Long-term capacity reservations
- Inefficient congestion management (use it or lose it)
- Few competitive short-term products
- Too high administrative burden on market participants

(Source: 6th ACER Market Monitoring Report)
Price correlation

(Source: OIES study)
Transporting the commodity – transmission tariffs

- EU4ENERGY project – TA to GNREC on transmission and distribution tariffs

- Network code on Tariff Methodologies:
  - To become part of the EnC acquis in Nov 2018;
  - Revenue generally from capacity-based transmission tariffs;
  - Cost allocation (intra-system & cross system network use, degree of cross-subsidization, cost drivers);
  - Reference price methodology (approved by NRA, consultation, capacity weighted distance);
  - Adjustments for LNG and UGS;
  - Calculation of reserve prices, multipliers;
  - Reconciliation of revenue (under- and over-recovery of revenue)
  - Regulatory account
  - Calculation of clearing price and payable price
  - Transparency requirements
The regional context
The regional context

TR
Prod: 500 mcm/y
Cons: 50 bcm/y

RU
Prod: 700 bcm/y
Cons: 420 bcm/y

AZ
Prod: 28 bcm/y
Cons: 10 bcm/y
Conclusions

• Georgia is located in a region with **abundant gas supplies** on the route of the SGC surrounded with neighbours of **sizeable gas markets**;

• Market opening serves SoS and would bring **competition** into the market, overall benefiting the Georgian consumers;

• Functioning exchanges do not evolve overnight. Start with small steps…ASAP;

• Strive to generate **confidence** from market players - have the legal and regulatory framework in place without delay;

• Convert isolation to uniqueness – use the **EnC acquis** to trigger changes in the region.
Thank you for your attention!

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