Quo vadis, gas?

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13th Gas Forum of the Energy Community
Ljubljana, September 20, 2018
Main issue

Will the full implementation of the Third Package lead to a fully integrated IGM?

- N

Will ACER Gas Target Model (voluntary, bottom-up market couplings) do it?

- N

What additional, welfare improving regulatory measures to apply in order to improve market integration?

- N

IGM is completed, „end of history”

Source: REKK/EY
Insufficient internal market integration increases local market power and prices

Wholesale prices (EUR/MWh) and market structure, 2016

Trade barriers:
Lack of infrastructure, CB tariffs, transmission access problems, MS level regulatory differences
Present regulation is insufficient to effectively address...

• Upstream market concentration
  – EU-Russia Strategic Partnership
  – LNG

• Tariff pancaking
  – Tariff Reform

• Long term contract related market foreclosure risk
  – Combined capacity- and contract release program (50-50-50)

• Promoting market liquidity in more isolated markets / CSEE
  – Combined capacity- and contract release program (50-50-50)

Source: REKK/EY
Schematic representation of Tariff Reform

REFERENCE

TARIFF REFORM

Revenue neutrality:
TSO Compensation Fund

Source: REKK/EY
Scheme for Combined capacity- and contract release program (50-50-50)

Could be completed by modifying present regulation

CAM NC: increasing the TSO obligation to offer short term capacity

Gas release programs

50-50-50 can be effective if applied separately

Source: REKK/EY
Main findings

• **Tariff Reform Scenarios – Smart move**
  – Support for price convergence and market integration
  – Support for voluntary market mergers
  – Insurance against sensitivities with negative welfare impacts

• **Combined capacity-commodity release (50-50-50) – Targeted help**
  – Remedy for market foreclosure risk
  – Fosters product market competition and improves the efficiency in using the EU gas transmission infrastructure
  – Helps high price countries without hurting low price countries

• **EU is supply shock sensitive**
  – LNG is most effective competitive threat for pipeline suppliers
  – LNG shortage / high oil price will hurt the EU
  – The impact of Nord Stream 2 on EU depends on Ukrainian transit strategy of Russia

Source: REKK/EY
LNG glut – highest positive welfare impact

- LNG glut boosts EU welfare
- Significant RU profit decrease despite adjustment
- Increased price divergence
- Increased congestion to the East

- Total welfare change: 17,858 m € /year
- Consumer welfare change: 21,429 m € /year
- Average wholesale price: 15.8 € /MWh (-4.3)
- Price divergence indicator: 13% (+6%)

Source: REKK/EY
Nord Stream 2 with no spot trade via Ukraine

- Decreased EU welfare
- Sharply different price impacts along the new NW-CSEE divide

• Total welfare change: -654 m € /year
• Consumer welfare change: -256 m € /year
• Average wholesale price: 20.1 € /MWh
• Price divergence indicator: 16% (+9%)

Source: REKK/EY
Main recommendations

• Amend paragraphs 6 and 7 of Article 8 of Regulation 2017/459 to increase the share of existing and new technical capacity that TSOs are obliged to set aside and offer for auctioning to 50% or more.

• **Consider the full implementation of the Combined Capacity-Commodity Release Scenario.** This would entail the amendment of Regulation 2017/459 as indicated in the former recommendation and the implementation of gas release programs for existing and future LTCs in the EU countries of entry for LTC commodity.

• **Consider the implementation of the Tariff Reform Scenario after further refining the design and implementation conditions of it as presented in the study.**

• **Include the concept of a potential Strategic Partnership** – and the corresponding liberalization of the Russian gas sector – **on the agenda of future EU-Russia energy dialogue**
Follow ups

• Gas regulatory package revision - a job for the new Commission (2020)
  – Conclusions from different studies (LNG and storage strategy, QV, Future of gas - et al.)
  – Stakeholder feedback

• DG ENER at Flame 2018
  – greening of gas
  – tariff pancaking to be addressed by TNC / benchmarking
  – market foreclosure to be addressed
To the attention of the Energy Community

• Upstream concentration: apparent issue for the EnC
  – LNG: KrK, Italy and PL compete for supplying EnC countries
  – Significant new LTCs between Russia and member states

• Tariff pancaking
  – CB tariffs seriously affect regional cooperation efforts (UA with neighbours, HR-HU, better utilization of existing storage)

• Market foreclosure risk by capacity contracts
  – Arrangements for the Southern Corridor project?

• Delivery point shift closer to the entry of gas to the EU/EnC border could boost liquidity
Thank you for your kind attention!