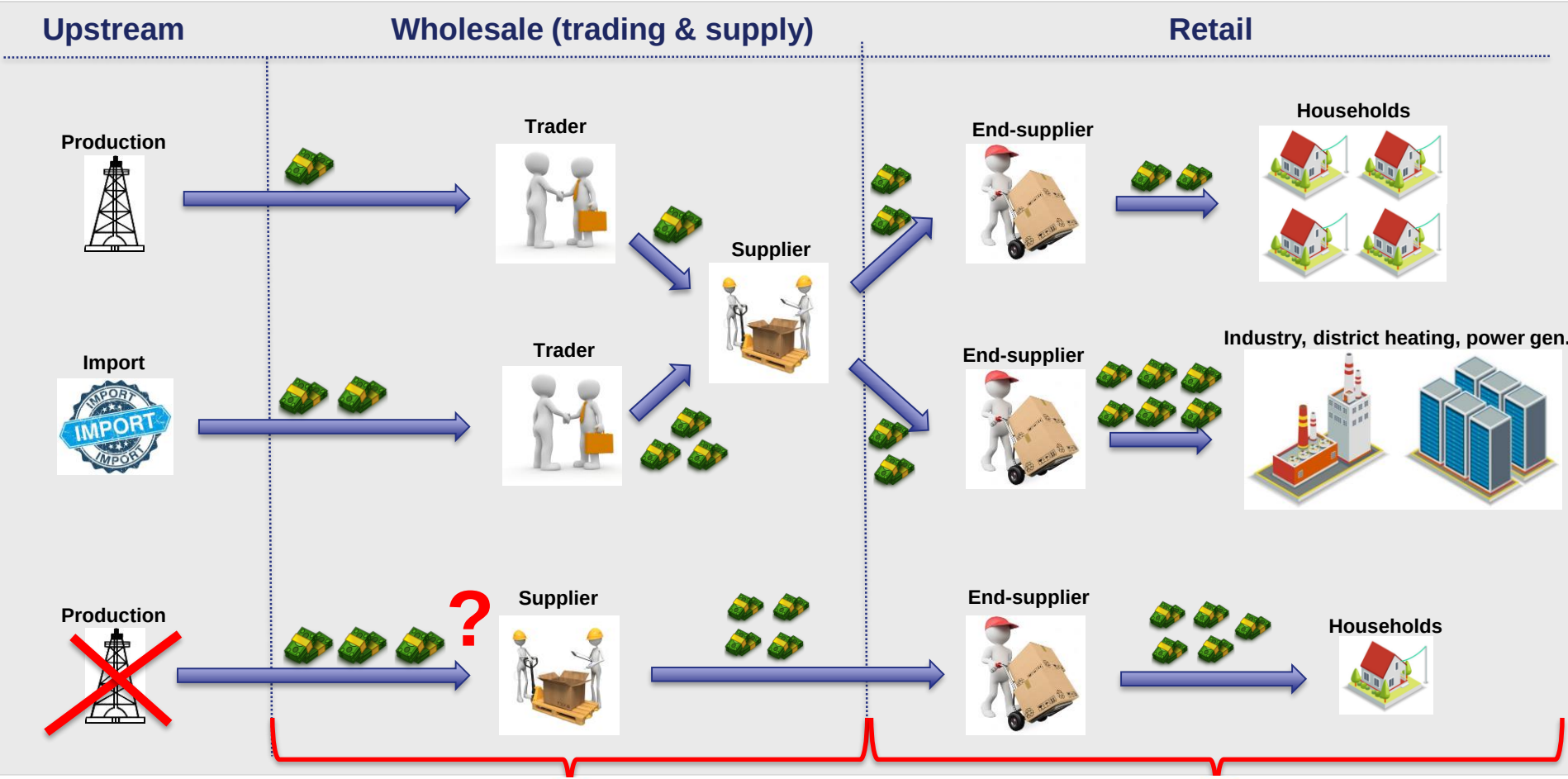
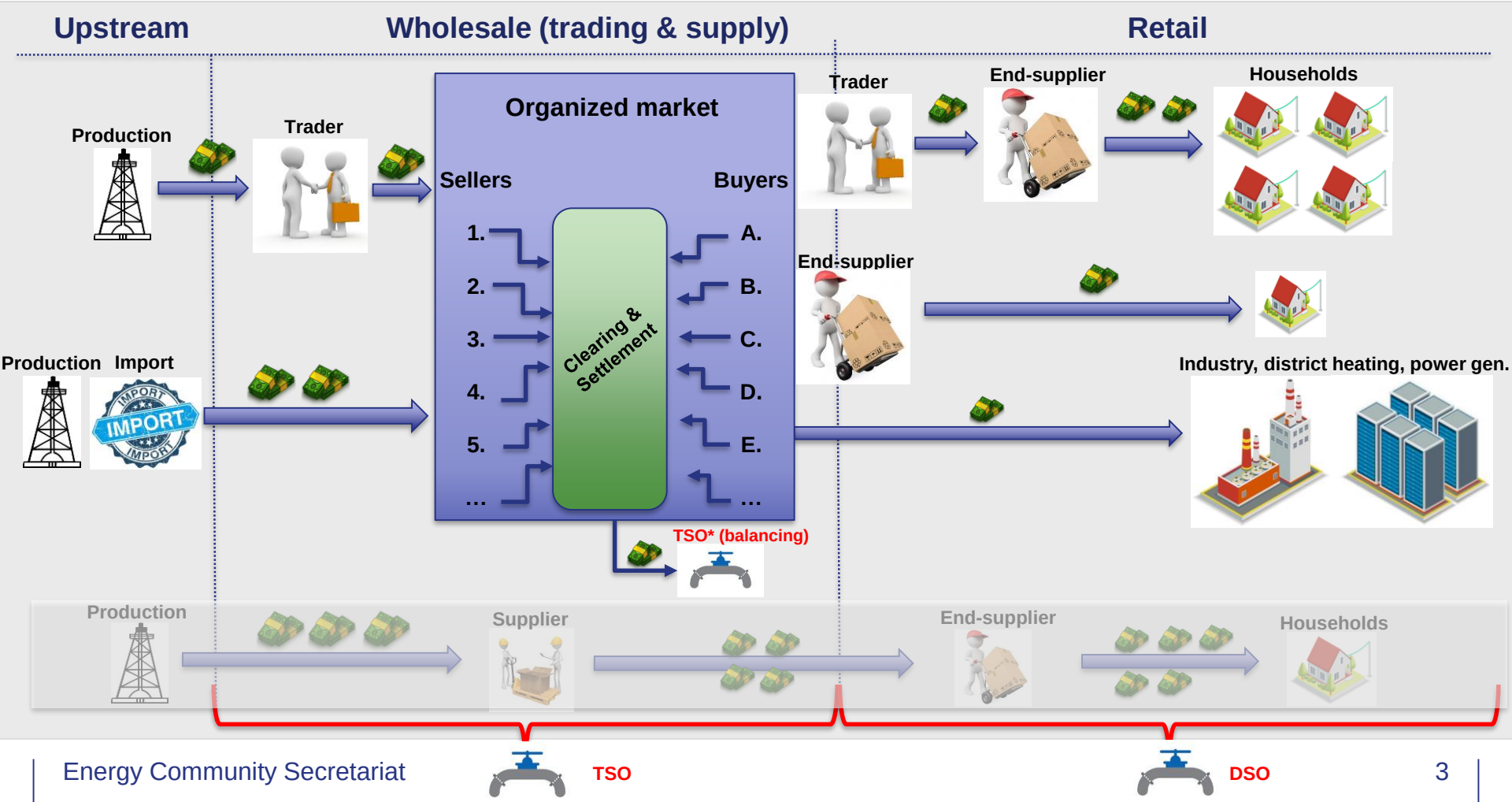
Organisation of the natural gas market and the development of prices

EU4Energy Governance: High-level Policy Talks on the Natural Gas Market of Georgia, Tbilisi, 4-5 October 2018

The „traditional“ gas market



The „ideal“ gas market according to EnC acquis



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.

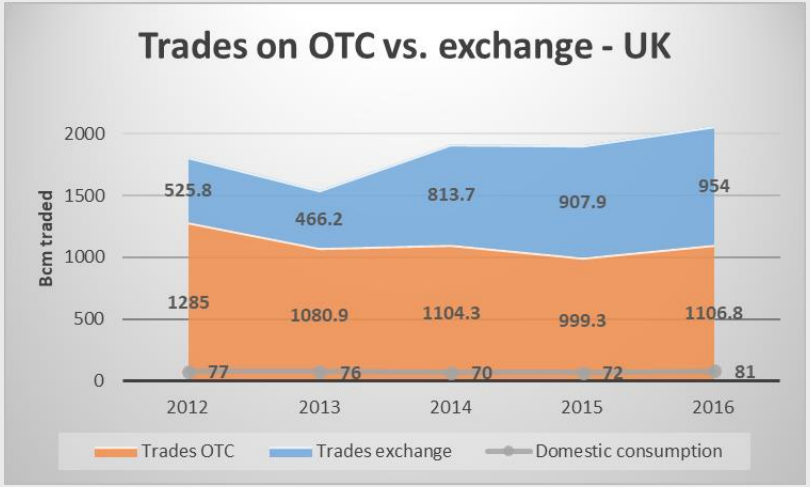
Changes in 2016 versus 2015:
1) VOB (CZ): from emerging to advanced hubs
2) OTC (SK): from illiquid to emerging hubs

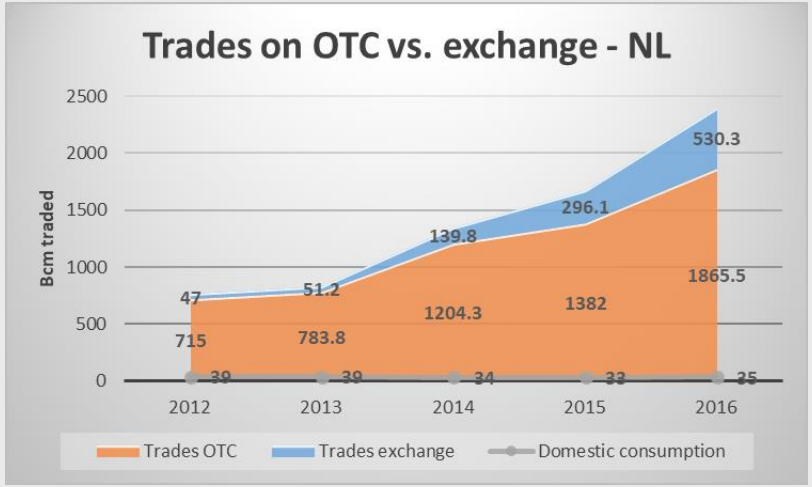
(Source: 6th ACER Market Monitoring Report)

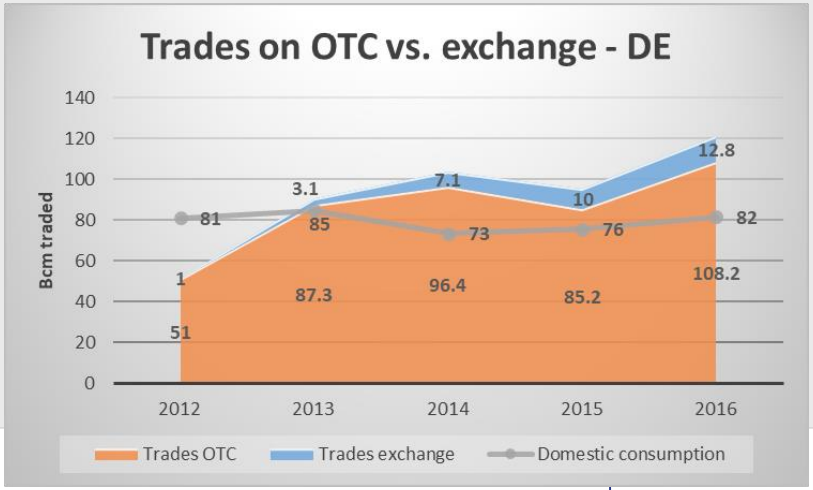
In general positive hub development

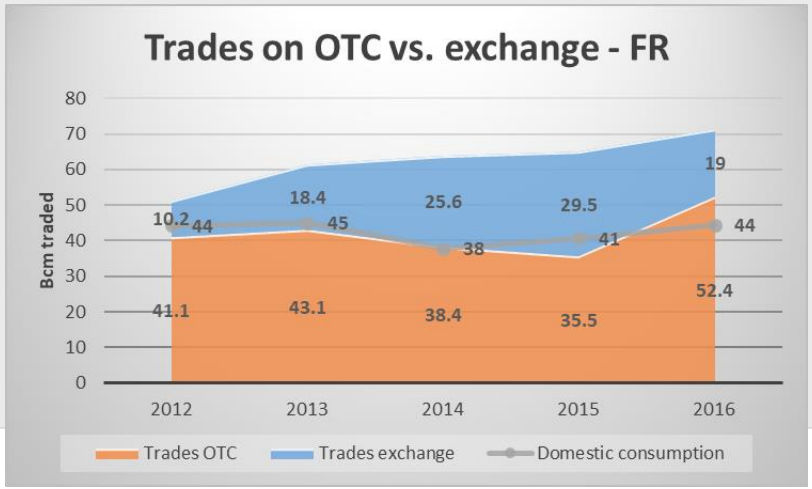
- ***Increasing trade and liquidity on some hubs***
- ***Implementation of regulations (gas network codes)***
- ***Gas glut & stagnating demand***
- ***Future?***

A long way from OTC to trading on the exchange









*Barriers to market functioning**

In the initial phase

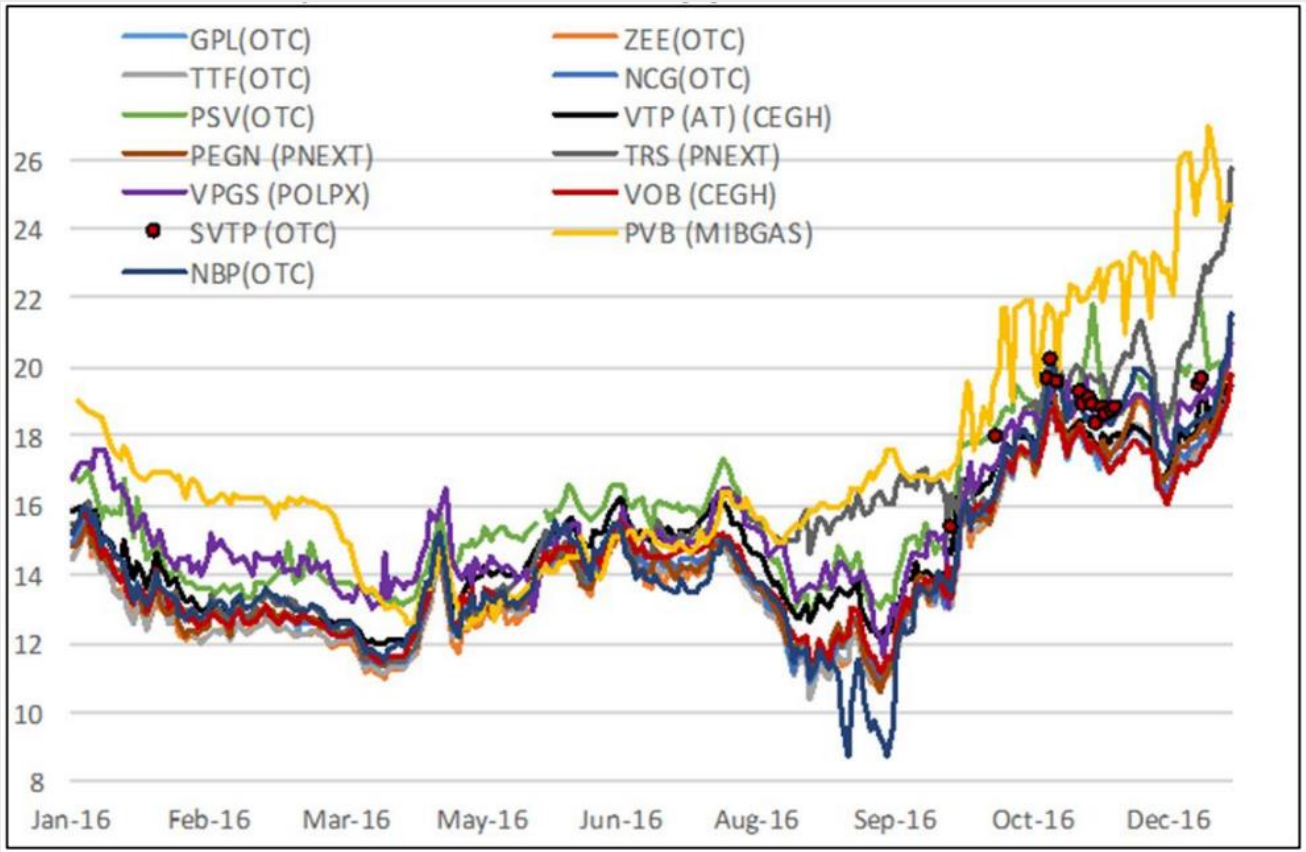
- Weak political support for wholesale market development
- Lack of trust from the market players
- Absence of a VTP/exchange
- Insufficient scope and flexibility of products offered
- Weak gas trading mechanism

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 GNERC 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

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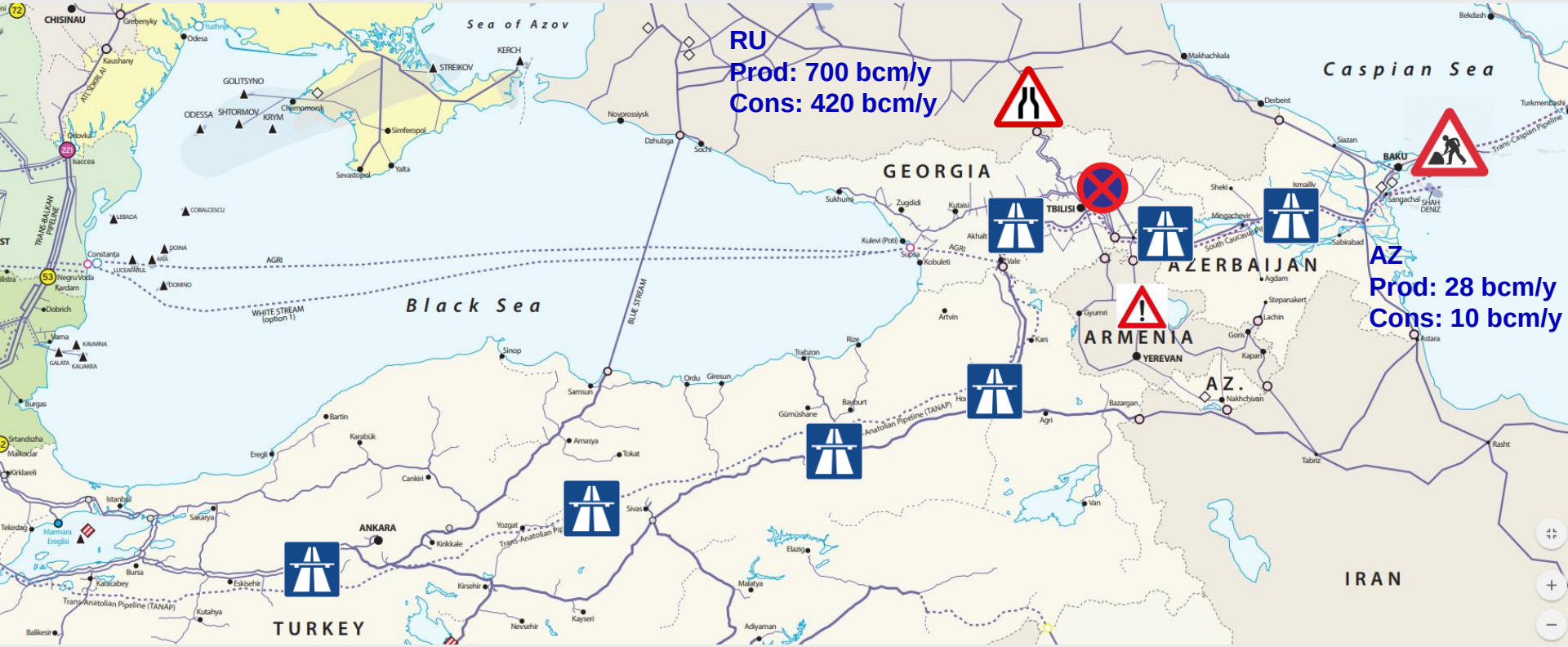

Conclusions

- 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 benefitting 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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