INNOVÁCIÓS ÉS TECHNOLÓGIAI MINISZTÉRIUM

Quo vadis, gas?

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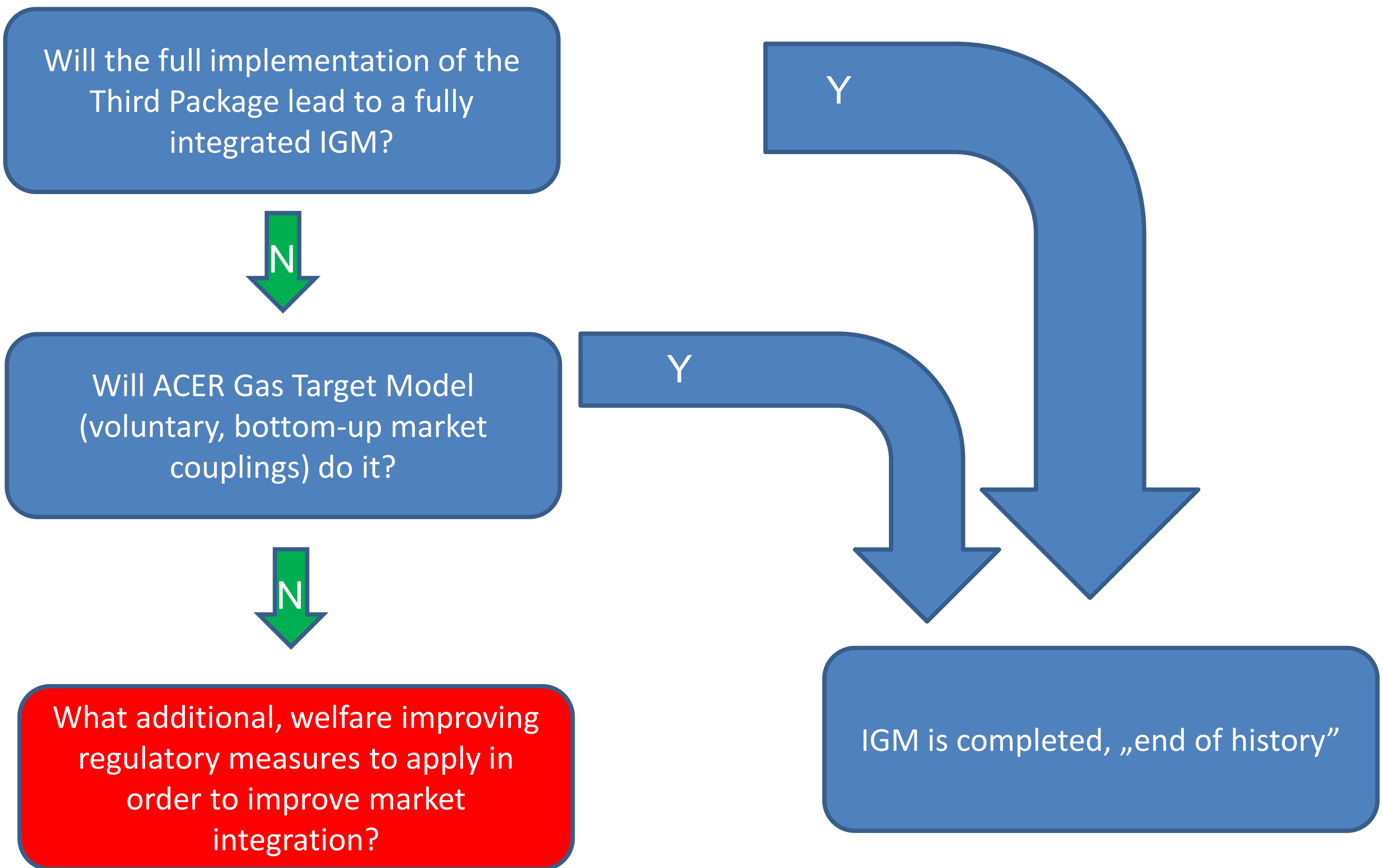
13th Gas Forum of the Energy Community

Ljubljana, September 20, 2018

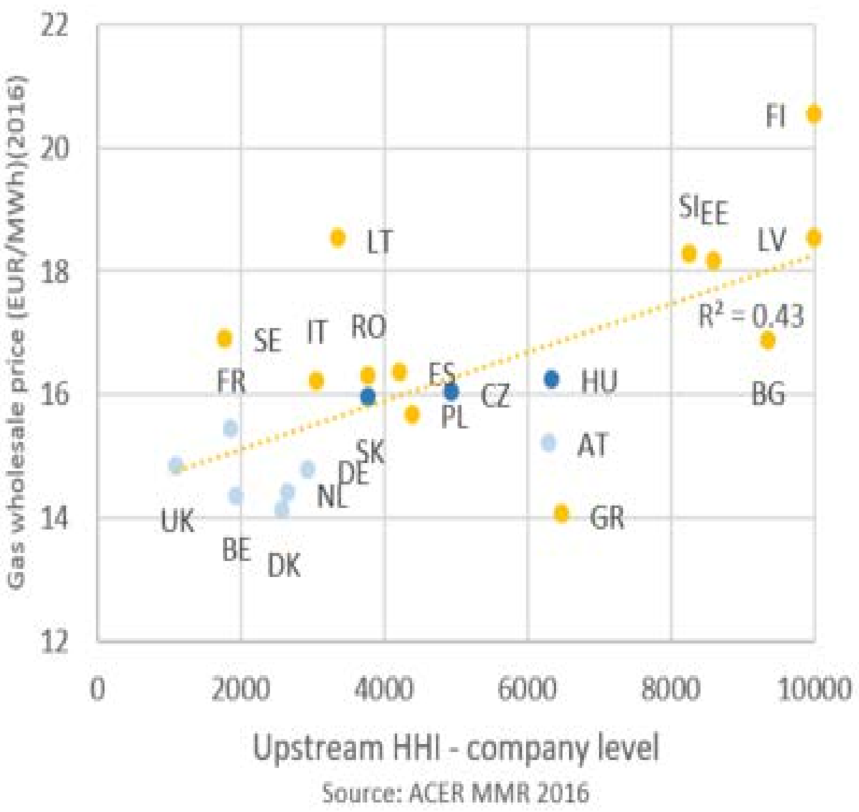
Main issue

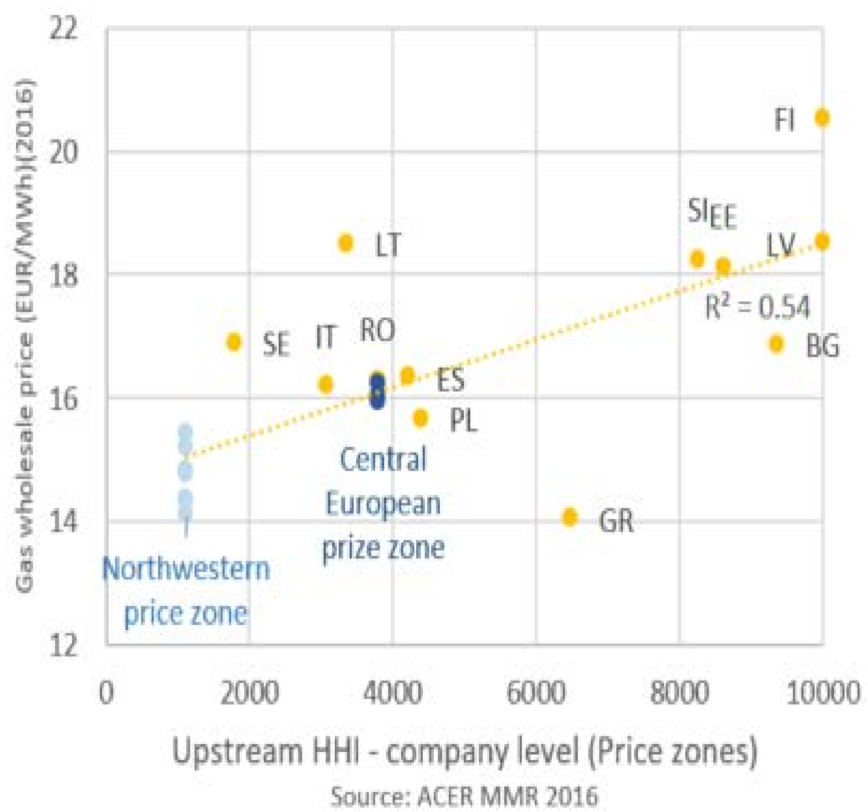


Source: REKK/EY

Insufficient internal market integration increases local market power and prices

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



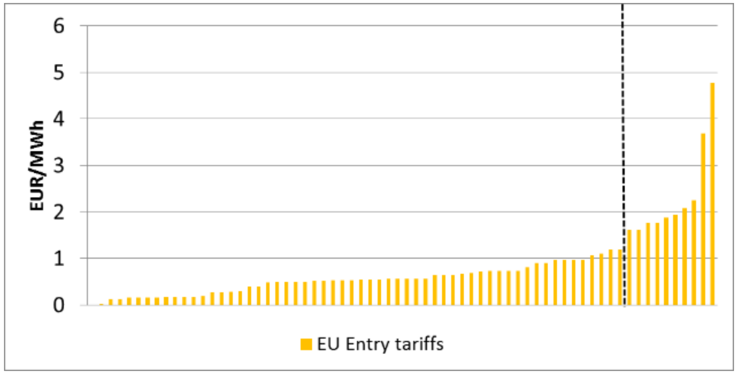


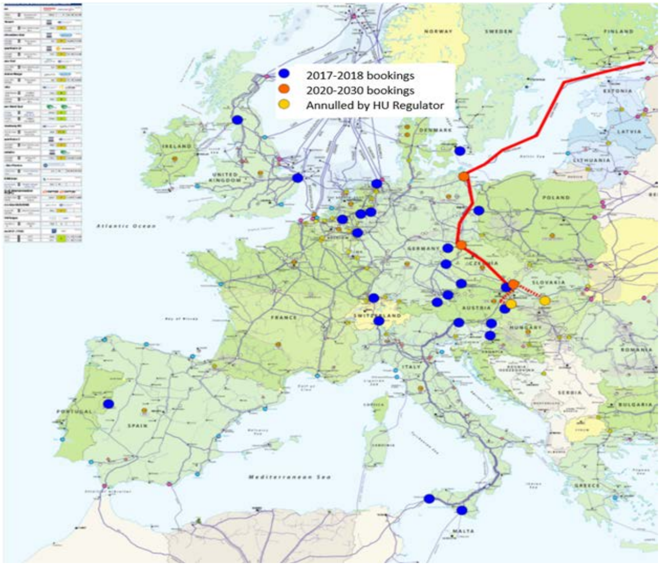
Trade barriers:

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)



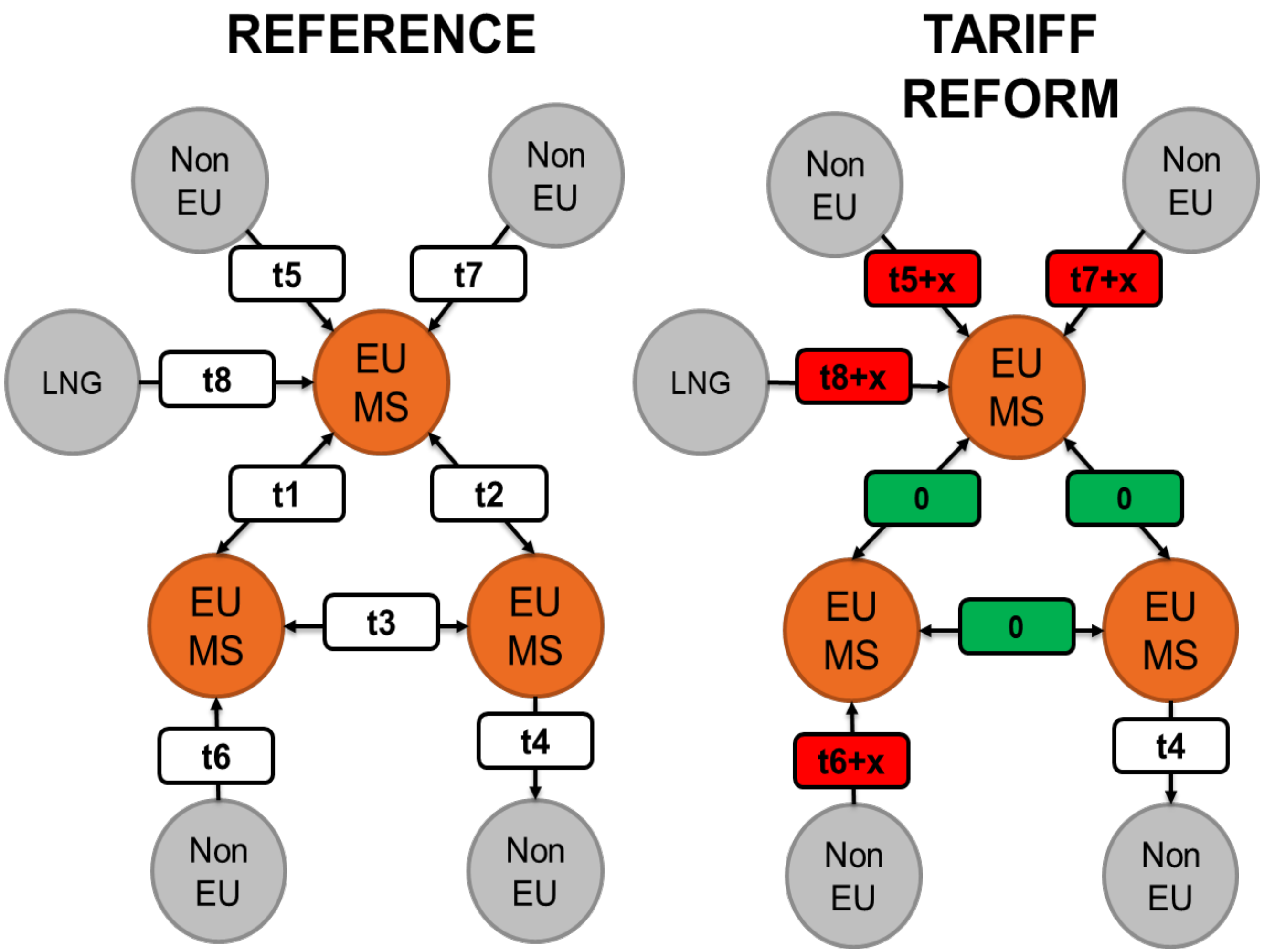


Location of booked IPs in 2017-2018 and after 2020

Source: REKK based on PRISMA, RBP and ENTSOG capacity map

Source: REKK/EY

Schematic representation of Tariff Reform

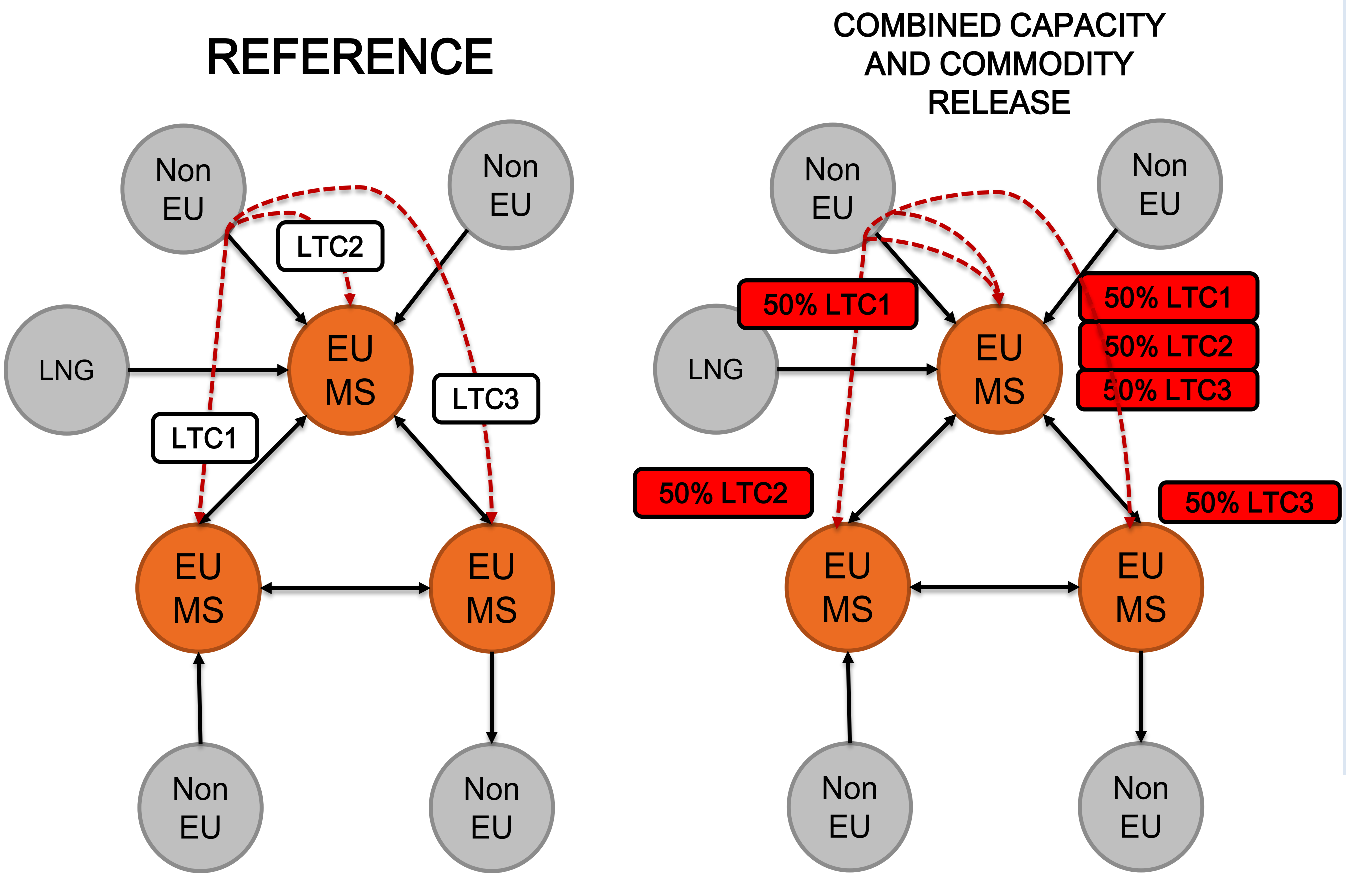


Revenue neutrality:

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

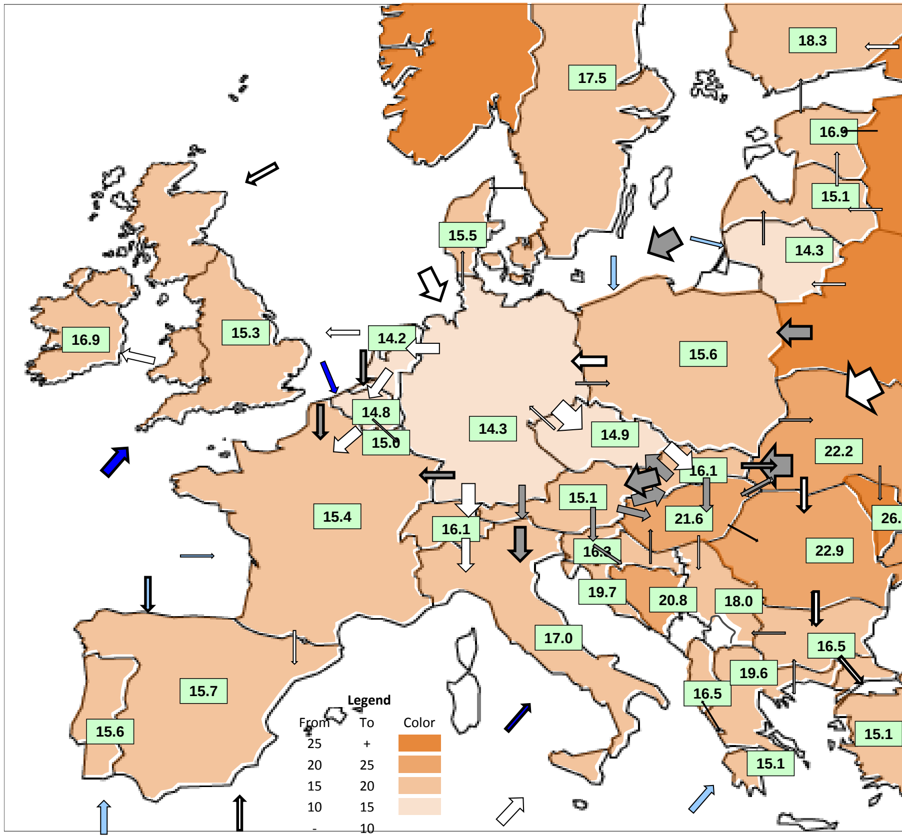
Source: REKK/EY

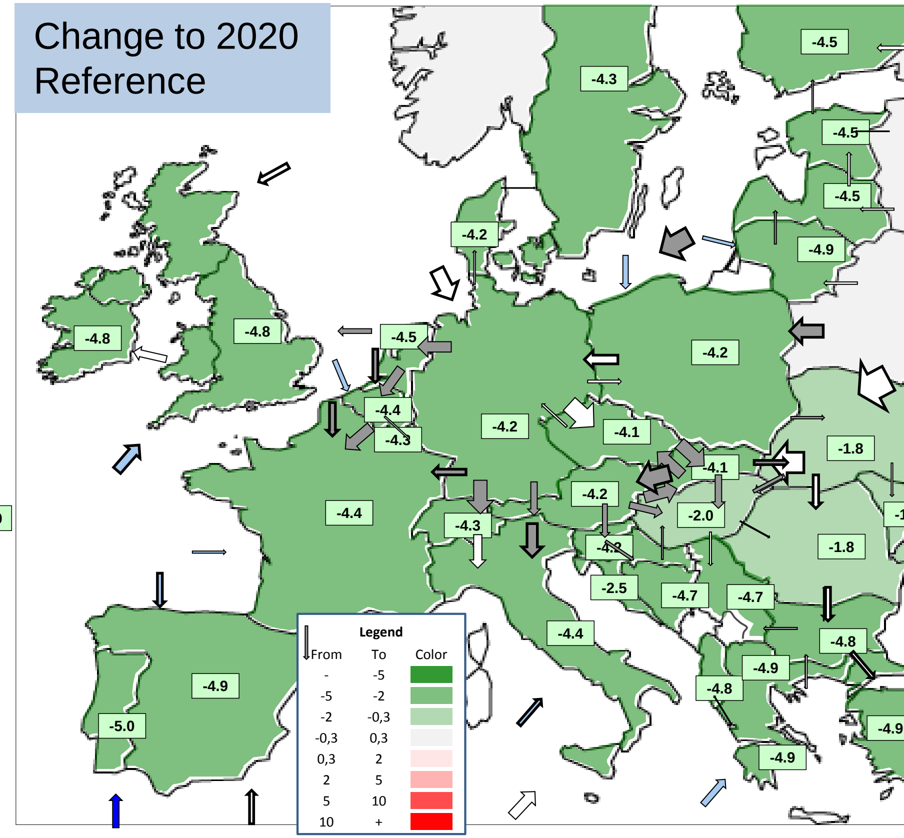
Main findings

- **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



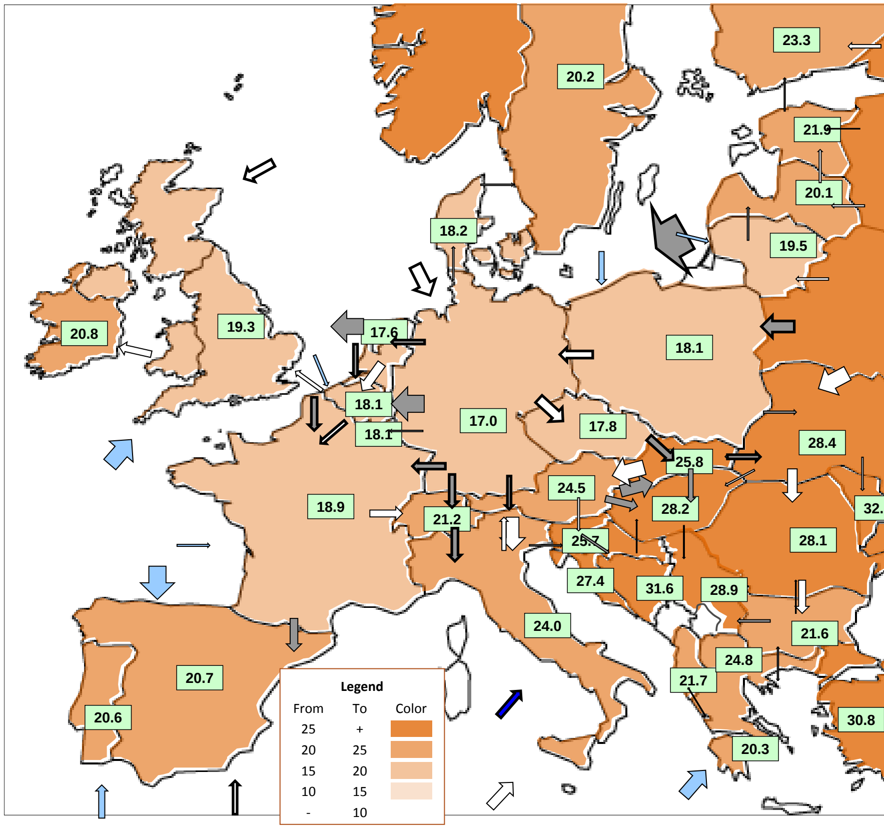


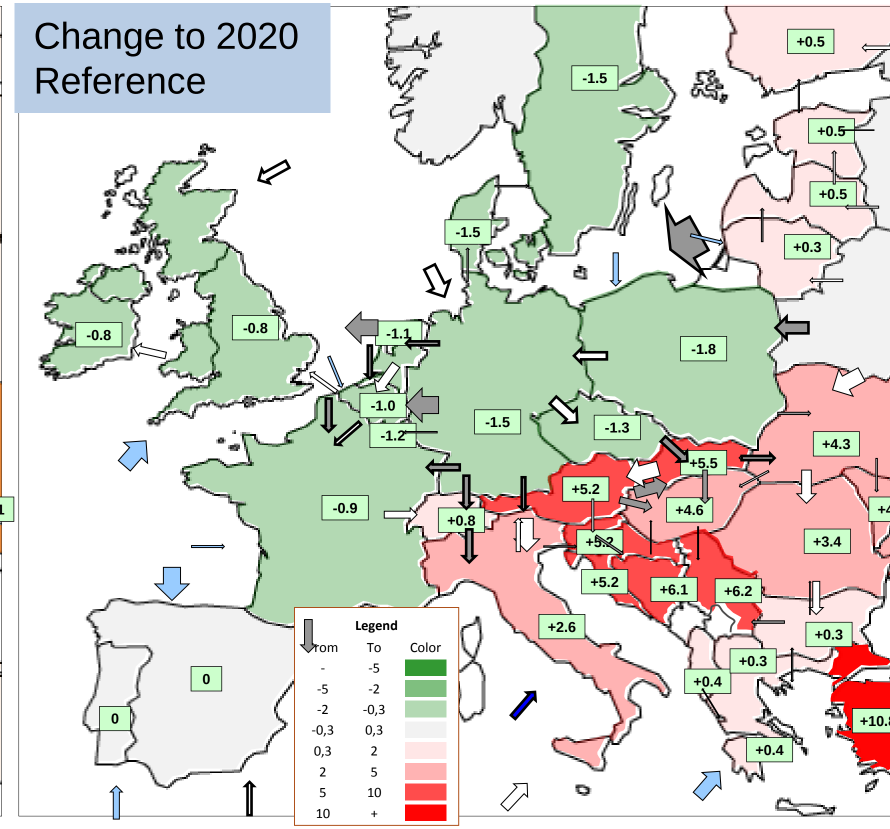
- LNG glut boosts EU welfare
- Significant RU profit decrease despite adjustment
- Increased price divergence
- Increased congestion to the East

- 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

Innovációs és Technológiai Minisztérium

Thank you for your kind attention!