

# Slides from ACER presentation at Madrid Forum

## Demand

- Industrial demand very dependent on competitive gas prices
- Use in power generation will continue but role will change and volumes will decline sharply
- Use of gas in heating likely to decline
- Potential for new demand in mobility
- Very likely gas demand will not surpass pre-crises levels

## Supply

- Conventional EU production will decline
- Dependence on imported gas will grow
- LNG will continue to grow but fluctuate according to prices
- Uncertain potential for unconventional sources in Europe

## Sustainability

- Gas is the cleanest of the fossil fuels – should replace coal in electricity generation, industry and oil based transport fuels
- Gas will achieve this role only if the price is “right”
- Gas-fired power can complement growth of wind and solar energy – but again price is key

## Gas market characteristics are changing

- Continuous growth in gas demand until 2008 → declining gas demand since then (wholesale and retail)
- Oil-price indexation → more than 50% of gas is priced according to hub prices, or other price baskets
- Long-term contracts → clear trend to more flexible and more short term oriented contracts

## New challenges

- Growing interrelations between electricity and gas
- Higher flexibility requirements to back-up intermittent renewable electricity generation
- Will gas be the fuel of choice for this?
- Changing role of gas storage and LNG

## Difficulties

- Declining gas demand
- Massive price spread between Europa and US
- Structural problem: need for gas fired power plant to back-up intermittent RES generation → ← gas is priced out of electricity generation – will this change?
- Retail markets: no real competition

# Why do we need a GTM review

**3<sup>rd</sup> package is not the end of the process**

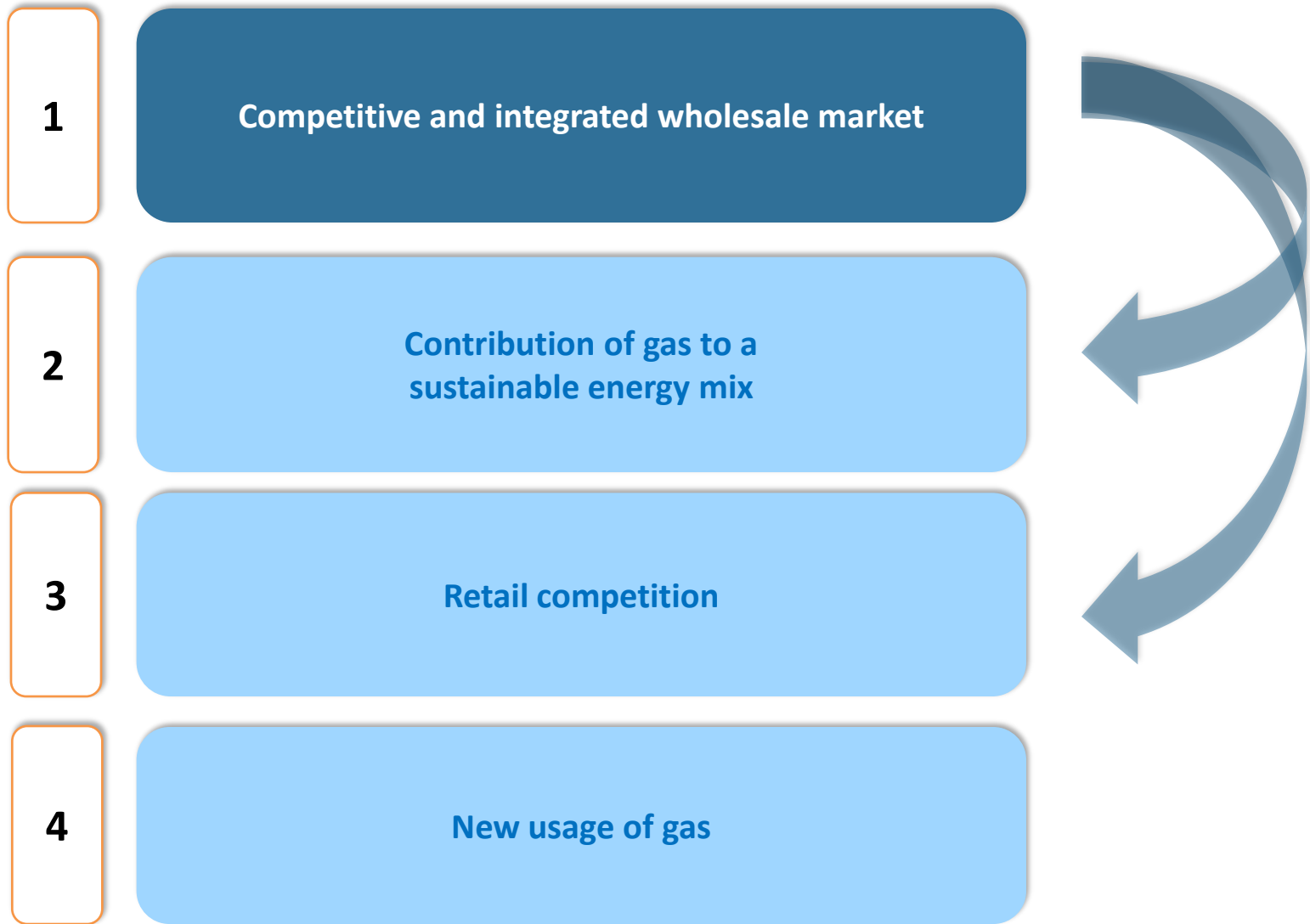
- Some current weaknesses justify further action beyond measures in the 3<sup>rd</sup> Package (e.g. upstream competition not as effective as it could be)
- Gas sector has also evolved and further change can be predicted
  - Declining demand in general and especially in power generation
  - Global price effects of shale gas in US (EU?)
  - Growth of LNG trade will link Europe more closely to the global market
  - New usage of gas

**Timescales are long**

- New measures take a long time to conceive, develop and translate into legislation and be implemented – cannot wait until we know complete outcome of 3<sup>rd</sup> Package

**Need for early start**

- We need to start work now
  - on measures that address predictable problems and weaknesses
  - on developing a concrete idea in which direction the gas market develops



## Increasing diversity of gas sources

- Historically gas sources have been limited → market dominance of one or two suppliers
- Need to encourage new sources and diversification
  - LNG, pipelines from new areas, European production, biogas...

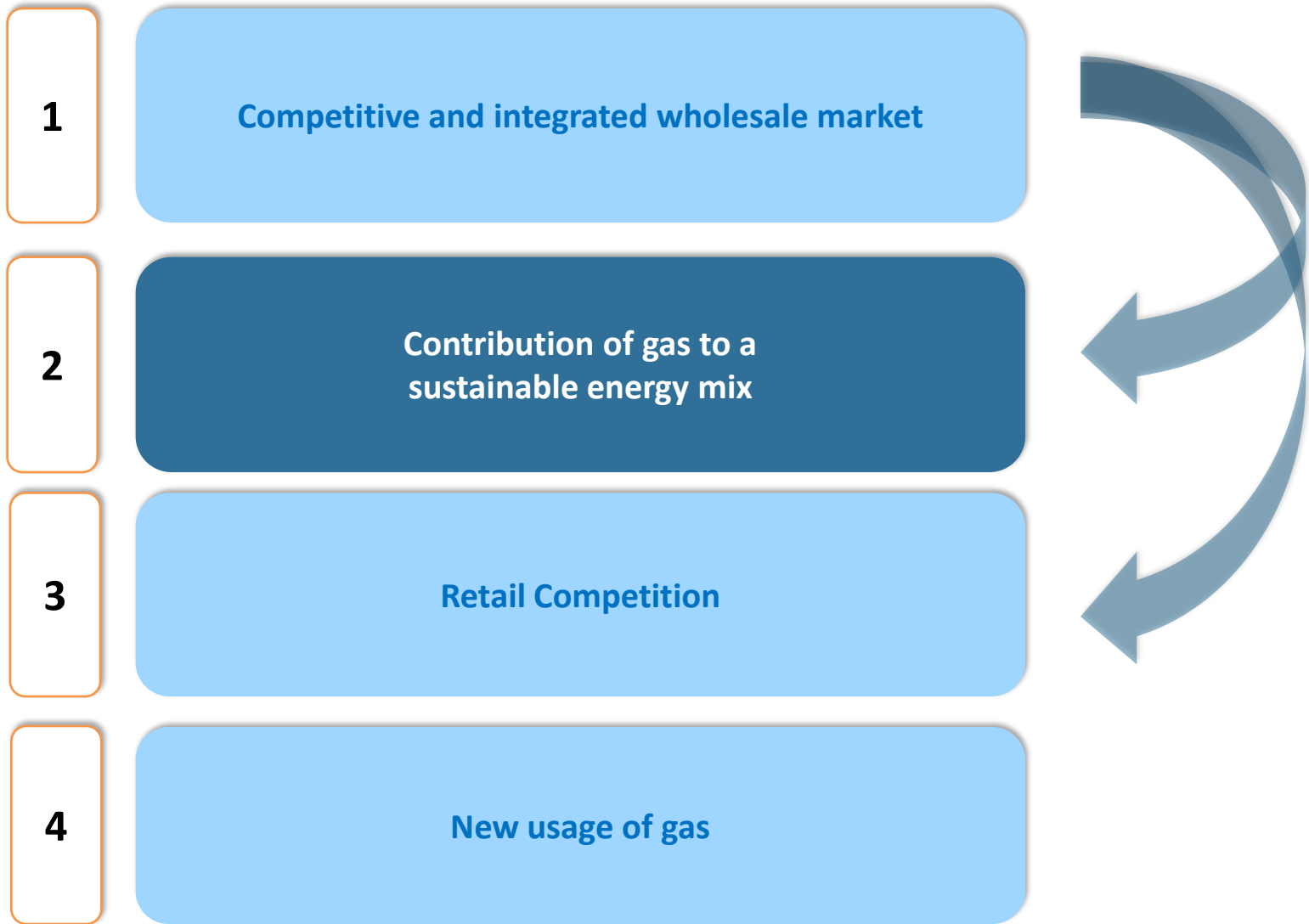
## Creating alternative infrastructure

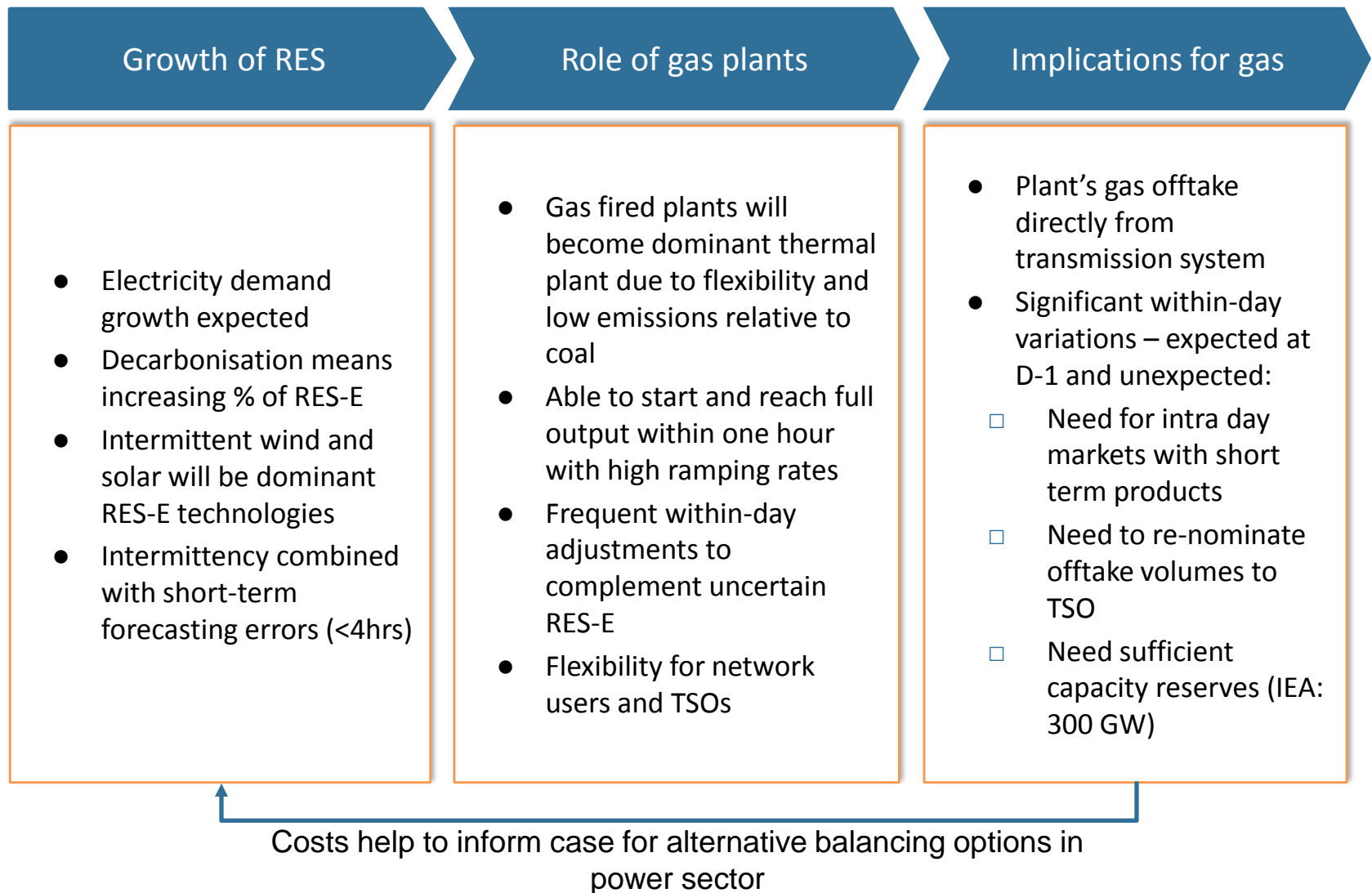
- Without alternatives in transportation capacity, sources of gas cannot compete
  - Many markets still rely on one source/transport route for the majority of imports
  - In markets with declining demand, TSOs might need incentives to maintain infrastructure in order to promote competition

## Access arrangements to facilitate competition

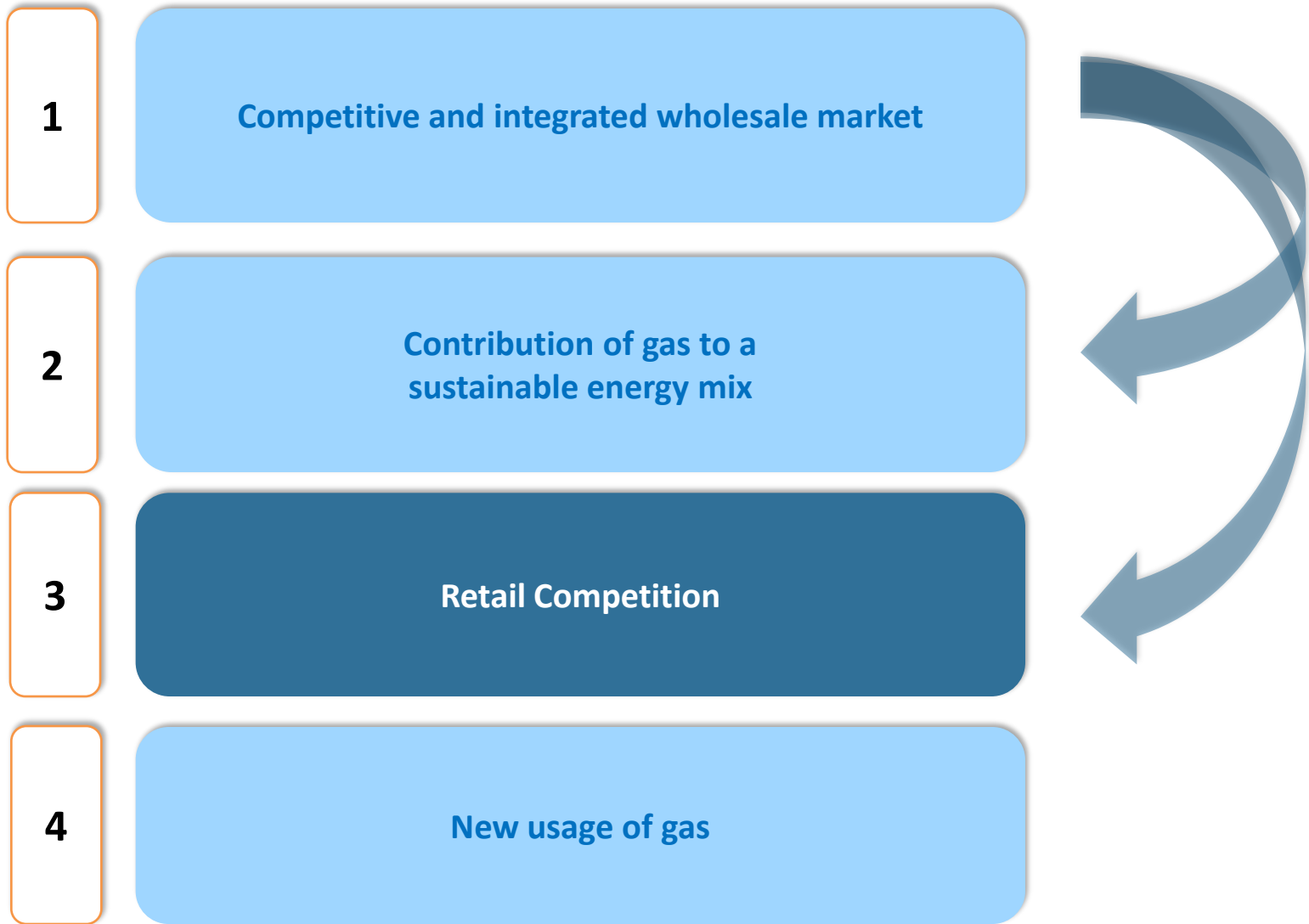
- Physical capacity needs to be complemented by tariff arrangements that facilitate competition over longer distances

**..to complete vision of IEM**









## Price regulation - is still reality!

- 16 MS in gas (and 17 in electricity) with end-user price regulation for household customers

## Price regulation - obstacle towards competitive markets

- IEM Communication: phase-out of regulated prices „taking into account universal service obligation and effective protection of vulnerable customers“
- Prevents suppliers from offering attractive services, tailor-made and dynamic pricing schemes
- In some countries even regulated at a level below market costs, threatening SoS
- Discourages new entrants
- No signal for efficient energy use
- Economically unsustainable

## Switching rates are still on a low level in most MS

### Competitions instead regulated prices

- Phase out price regulation at least on retail level
- Where price regulation exists it has to be in line with market conditions
- Price regulation for all household customers is no adequate means to help the poorest → improve the social security systems

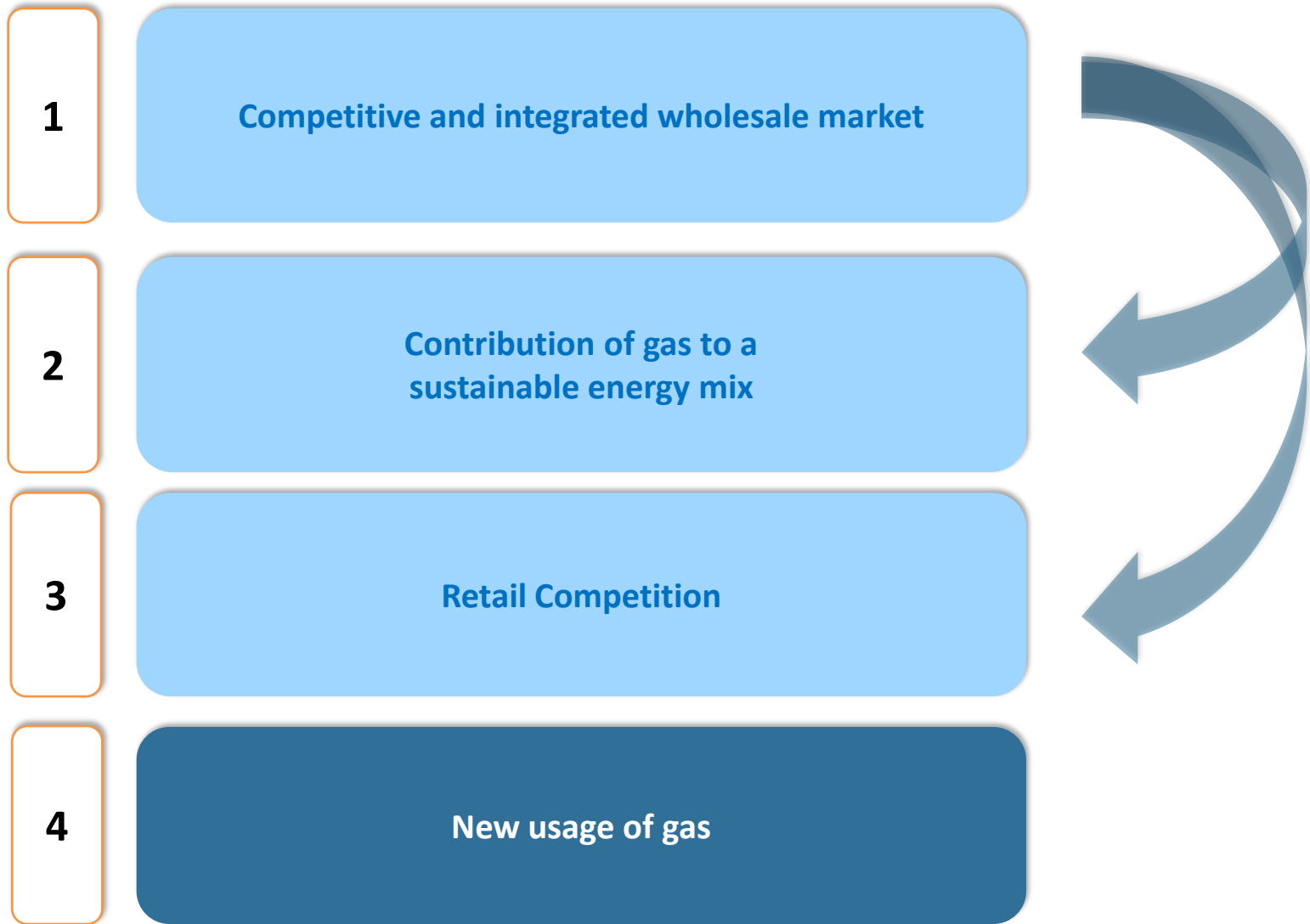
### Facilitating entry through harmonisation

- Harmonised market arrangements and regulatory framework to facilitate market entry
- Further harmonisation arrangements for consumer switching
- Recognition of retail licenses from other MS?
- Integration of DSOs in balancing zone to facilitate retail competition

### Harmonisation of retail markets

- What do we mean with ‚internal market‘ when we talk about retail markets?
- Cross-border supply: great opportunity for small MS
- A real Internal Retail Energy Market: political commitment necessary

**..to the benefit of customers**



# Timings Update

1. Justification and problem identification document by November/December 2013
2. By January 2014 first outline of draft of GTM review and update.
3. Advisory panel meeting Vienna/Brussels - February 2014.
4. ACER Workshop, Ljubliana – March 2014
5. By May 2014 final draft proposal.
6. In June-July 2014 finalisation and publication of the updated GTM

## Tariffs

**Nathan Macwhinnie**  
02/12/13

ofgem

# Final agreement wasn't easy

- Foreseen as being relatively straightforward.  
23/10 GWG - > BoR 5/11 sign-off.
- However, intermediary steps necessary to get agreement needed.
- A number of issues to work through.

# FG/NC Tariffs and GB in future

- Action from last meeting for Ofgem to consider how GB stakeholders assess the impacts of the tariff FG.
- The 'GTCR Stakeholder Forum' will takeover what was the Tariffs subgroup.
- It is considering in the round NGG's Gas Transmission charging regime and the European context.
- 4 December – We will give a further update on final FG text.



## Gas transmission charging review: stakeholder workshop

To update stakeholders on next steps in the Gas Transmission Charging Review.	From	Victoria Volossov	4 December 2013
	Date and time of Meeting	04/12/13 14:00-16:30	
	Location	Conference Room 9 9, Millbank SW1P 3GE	

- |   |             |
|---|-------------|
| <b>1. Welcome and introductions (Judith Ross)</b>   | 14:00-14:10 |
| 1.1. We will give you an overview of consultation responses and the opportunity to explore issues raised. We will also update you on GTCR progress. |             |
| <b>2. Consultation Responses (Rhianne Ogilvie)</b>  | 14:10-14:20 |
| <b>3. Refined aim and scope of the GTCR (Alena Aliakseyeva)</b>   | 14:20-14:45 |
| <b>4. Update: European developments</b>   | 14:45-15:15 |
| 4.1. Tariff Framework Guideline (Nathan MacWhinnie)   |             |
| <b>5. Breakout groups (Victoria Volossov)</b>   | 15:15-16:00 |
| 5.1. To focus on selected issues raised in consultation responses   |             |
| <b>6. Next steps (Alena Aliakseyeva)</b>  | 15:45-16:15 |
| <b>7. AOB (Judith Ross)</b>   | 16:15-16:30 |

## CAM Workshop – stakeholder comments

1. ‘If Bacton is split into 2 (or possibly 3) entry/exit points, existing Bacton capacity holders need to assign capacity to one of the new points’.
2. ‘Shippers need to understand impact on price paid/reserve price when assigning existing capacity holdings’.
3. ‘Will Bacton entry capacity that has been bought before implementation of the tariff NC at a fixed price and before the splitting of Bacton still have this fixed price as the payable price for capacity?’

### **4. Other points?**