Potential future developments of the gas sector

30th meeting of the Madrid Forum

Intervention by IOGP

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Quo Vadis (EC) study

- Need a well founded problem definition before proposing solutions
  - IOGP is not convinced that there is a major problem with the gas market design, although implementation of the rules needs further attention
  - Tariff NC has flexibility that can be used to avoid cross-border issues

- Questionable modelling assumptions may be critical for study results
  - Fixed price of commodity long-term contracts at 2016 level
  - Limited analysis of regional specificities leads to one-size-fits-all approach
  - TSO revenue and end-user exit tariffs are fixed
  - No costs assumed for hub mergers

- Avoid that issues at national level or between single Member States are used to justify new pan-EU rules
  - Focus on effective implementation of the existing rules
  - Let's see if it works before changing the rules again

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Quo Vadis scenario "Tariff reform"

- Claimed benefits of tariff reform result from modelling assumptions
  - Decreasing revenue due to cross-border tariff reduction is recovered 100% from EU entry points, and is only partially passed on to end users,
  - whereas, if the costs to the marginal supplier would increase the whole market could suffer

- Tariffs should i.a. be cost-reflective, non-discriminatory and support efficient investment
  - Recently adopted rules on incremental capacity specify economic test
  - Test determines whether network users' binding capacity bookings justify cost of incremental capacity investment
  - Without cross-border tariffs this process is flawed
  - Also, cross-border tariffs enable network users to recover capacity costs

- Limited to regions with mature infrastructure, tariff reform could have benefits when:
  - Focus is on efficient use of existing infrastructure, not on new investments
  - Long-term capacity bookings can be managed

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Quo Vadis scenario “Market merger”

- Some market mergers have undisputed benefits:
  - Merging of market areas that are well connected
  - Where at least one of the markets is considered too small to be viable
  - Benefit to the end-users exceeds the loss of cross-border tariff income (before possible reallocation of costs to entry or exit tariffs)

- There are however limits to the benefits of market mergers:
  - Merging of market areas that are not well connected result in loss of firm capacity, or require significant investments which are not market-based
  - Merging markets which are viable as stand-alone markets eliminates market response to locational signals
  - Re-allocation of costs to entry tariffs on the outside border increase the barrier to enter the merged market

Quo Vadis scenario “Delivery at EU border”

see separate IOGP kick-off intervention

Future role of gas (CEER) study

- IOGP welcomes the CEER study on the Future role of gas
  - The use of CNG and LNG in transport raises the question about the potential role of regulated entities to start-up certain activities
  - Infrastructure regulation may require adaptation for new gases

- Longer-term, the new gases might be important in a 2050 perspective
  - Biogas, bio methane, synthetic methane and hydrogen already exist, on a limited scale
  - Industry-scale applications for conversion of natural gas to hydrogen (with CCS) are feasible and could be used either for power generation or to supply hydrogen as fuel
  - This supports the case that the gas infrastructure has a role beyond 2050

- From a regulatory perspective it is important to
  - Take a pro-active approach to avoid that new developments would be facing regulatory barriers
  - Keep an open mind to the future use of the gas infrastructure

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