International Association of Oil & Gas Producers

# Improving market functioning

30th meeting of the Madrid Forum

Intervention by IOGP

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# Balancing market & SoS interests in storage regulation

- The GB balancing regime applies market-based cash-out prices
  - Standard trades at the NBP are firm with no force majeure provisions
  - Suppliers which fail to meet their obligations are cashed-out
  - This allows the TSO to continue gas supply to consumers and effectively buy gas from the cheapest then available source
  - VOLL-pricing has been evaluated, with some industry concern

- With SoS storage obligations, the 'missing' gas is taken from storage
  - This excludes market based alternatives
  - Costs of the SoS storage are fixed and charges are obligatory
  - Dedicated SoS storage cannot be used for commercial purposes

- Follow-up study to the EU's LNG and storage strategy suggests to replace existing storage obligations with EU-wide VOLL-obligation
  - IOGP supports the conclusion that storage obligations distort the market
  - We do not support new EU-wide VOLL-obligations, but promote the use of agreed market-based balancing rules
  - Where storage obligations are considered to address specific issues in a local area they should be designed to minimise distortions

# Getting the VTP right

- IOGP supports the work by EFET on the gas hub study
  - It is good to see that the hub scores have increased year-on-year
  - Criteria seem to be most helpful for emerging hubs to improve their score

- Experience shows it takes time for trading liquidity to develop
  - Market framework needs to evolve over time with logical steps (e.g. supply diversification; start with short term trading; standard products available; balancing information to be available)

- For hubs with (close to) maximum score:
  - There is still room to improve liquidity

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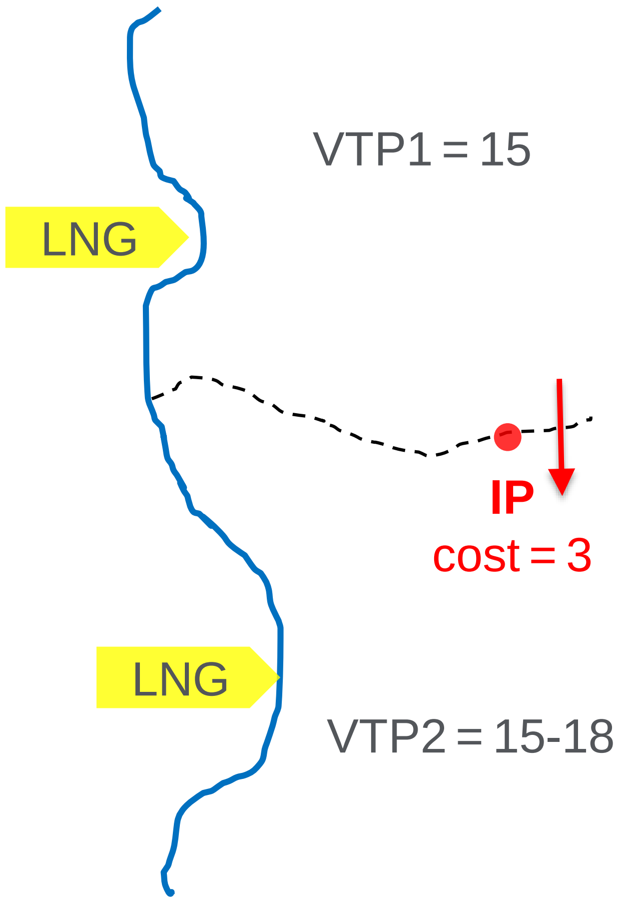
# Market spread vs. transportation cost/implicit auctions

Scenario 1: Market spread > transportation costs:

- Network user is willing to book transport when higher price at VTP2 achievable
- If transmission capacity is constrained the price at VTP2 could be higher
- In case of historic long-term booking the network user may flow gas even if costs are not recovered

Scenario 2: Market spread < transportation costs:

- Assume LNG could supply both markets
- May result in same price at both VTPs
- Reduces value of IP capacity to zero
- Transportation costs cannot be recovered from IP tariff




Message: Transportation tariffs should take account of the specific situation: one-size does not fit all

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# Remaining national regulatory barriers

- Gaps versus full and effective implementation of the Third Package
- Lagging implementation of the network code requirements
  - National implementation may not always be well co-ordinated with neighbouring Member States
- Price regulation at retail level
  - Retail price regulation limits competition at the retail level and also acts as a barrier for the development of a liquid gas wholesale market
- Storage obligations and strategic gas stocks
  - While storage obligations may have a short-term benefit in shielding national consumers from price increases, they may distort the market

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