Single European Gas Market… Dream or Reality?

Alpiq Energy SE, Prague

ETCSEE2016, Bucharest, June, 15th-16th,2016

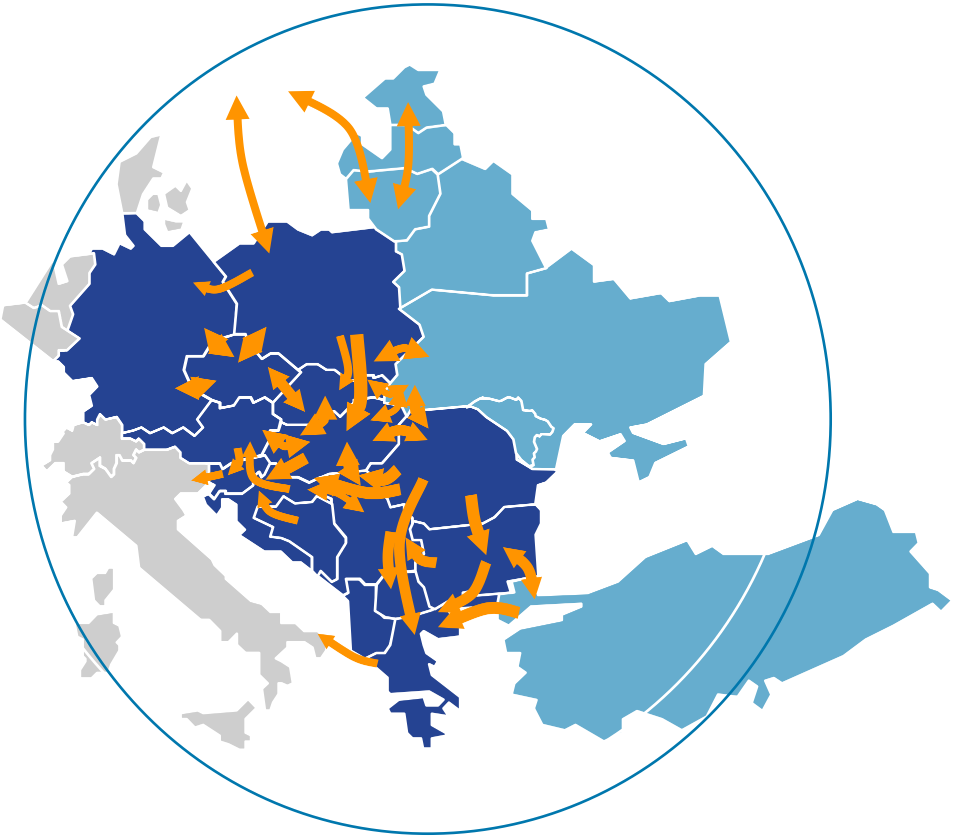
Agenda

1. Introduction – Alpiq in the CESEE region

ALPIQ

Leading international wholesaler in CESEE, with one of the largest and geographically most diverse contract portfolio and the only one active from the Baltic States to Turkey

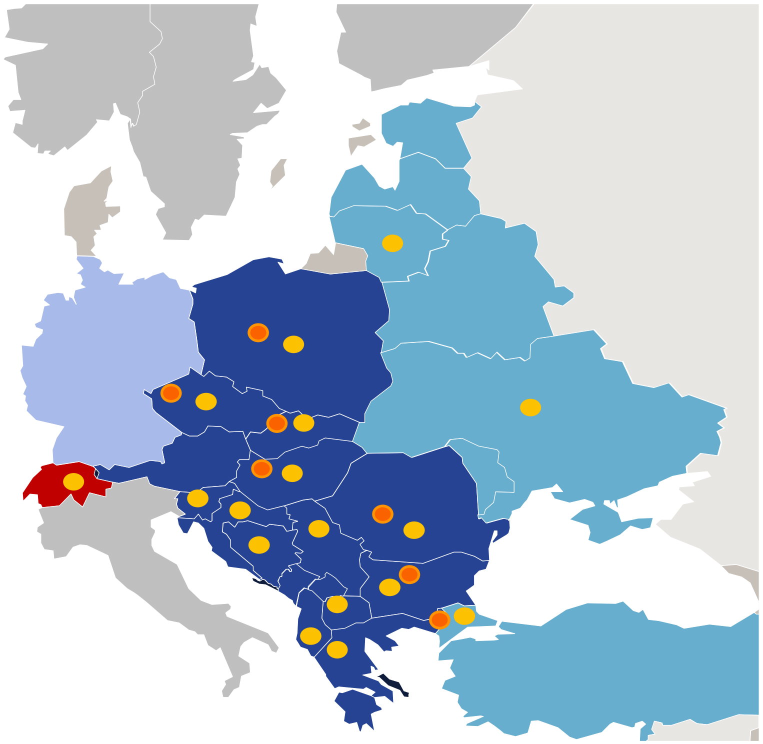
- Integrated business model built on 3 pillars: centralized wholesale, origination in local markets and new markets & projects (business development)
- Business concept based on a physical optimization of the fragmented and illiquid markets of CESEE, using geographic, temporal and product arbitrages
- Access to cross border transmission capacities in all CESEE markets (80 optimized borders)
- Offering improved security of supply for partners by connecting liquid with illiquid markets and capitalizing on its large international portfolio



2. Local presence and highlights

Net Revenue 2015	**~3.3bn. EUR**
Physical Volume 2015	**~81 TWh**
Employees 2015	**95**

- Active in 22 countries across the whole CEE region
- Czech Republic
  - Largest representative office in CESEE
  - Wholesale and origination
  - CEE Service Center
- Poland
  - Wholesale and origination
  - Balancing and purchasing electricity from RES
- Hungary
  - Wholesale and origination
  - VPP – bundling & dispatch of distributed generation
- Romania
  - Sales to large industries and SME
  - Contracts with RES (PV) – ~115 MW



Management functions

Core CESEE markets

New markets

Hedging markets

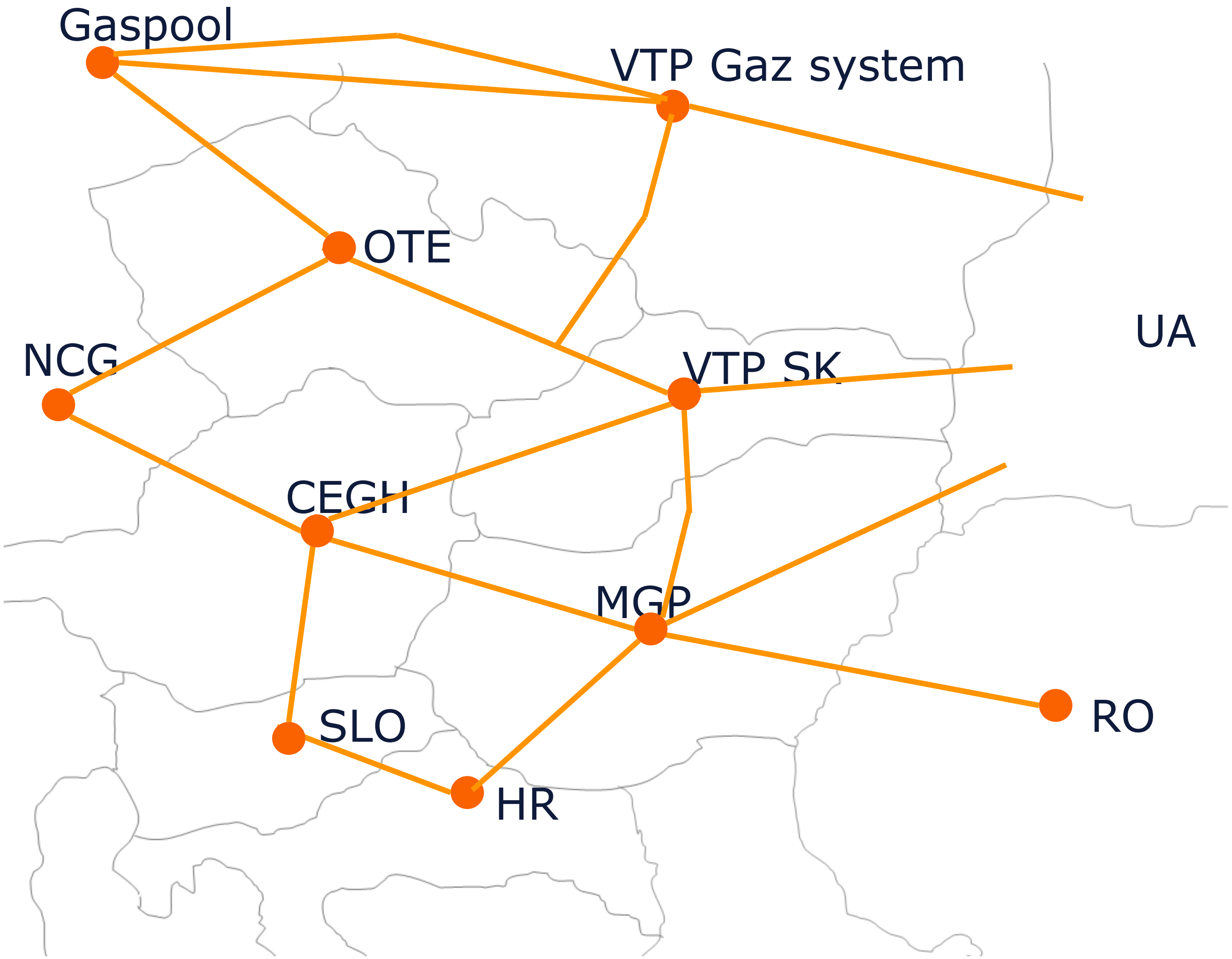
Local presence

New startup gas activities

3. Alpiq CEE Gas Wholesale Activities

Current setup:

- Include TTF financial products
- Target – replicate the physical presence in power
- Establish cross-commodity operations
- Stepwise development in the Balkan markets (deal by deal)



4. Regional Gas Market Balance & impact on pricing

Drivers:

- International markets
- Increasing supply vs. till now falling consumption in Europe
- (pre-crisis) GEX contracts with typical high take or pay
- Ex-post price compensation in long term contracts
- CEE sitting on key gas highways
- Cross border flow driven by physical world – economic incentives less important in the region
- Fixed transport fees/minimum price is not reflecting market situation

Impact:

- Distorted economy of flows (forced out)
- Fixing non-transparent market
- Missing market based price signals
- Bad signal for international trade

5. Comparison of cross-border gas and electricity flows

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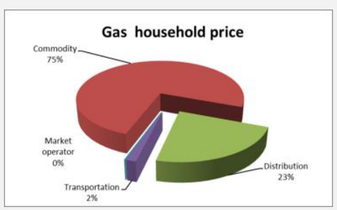
Market insights

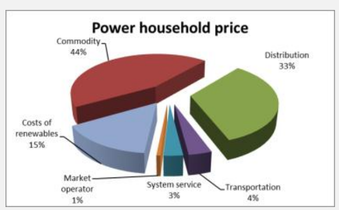
Power	Gas
Auction office	TSO/Platform
Marginal bidding	Fixed min. price
Spreads reflected	Spreads neglected
Zero price possible	Not possible
Interventions low	Interventions high
Utilization of infrastructure high	Utilization of infrastructure low

Still new projects for new pipelines existing.

Do we need change of pricing or additional stranded costs in infrastructure?

Who and how will pay the costs?





Shipping costs

Regulatory insights

- Rationale (according to Framework Guidelines) for Harmonized transmission Tariff Structures
  - Network Code (NC TAR) targeted for 01.10.2017
  - High degree of inconsistency across local tariff structures (lacking objectivity, not reflecting system costs)
  - Low transparency, need to address charging methodologies, revenue recovery, reserve and payable price
  - Need to provide for cost-reflective, non-discriminatory market access
  - Promote efficient utilization and development of the gas network

Can we expect fast progress?

What does the power story tell us?

6. Progress of the unified regional market to date

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Auctions and nominations

- Harmonization of CB auctions (e.g. calendars)
- Harmonization of gas standards – unit, temperature, calorific value, gas day…)
- OBA introduced on majority of border points
- Trading at Virtual points (easy accessible for traders)
- Reverse flows introduced
- More gas storage auctions

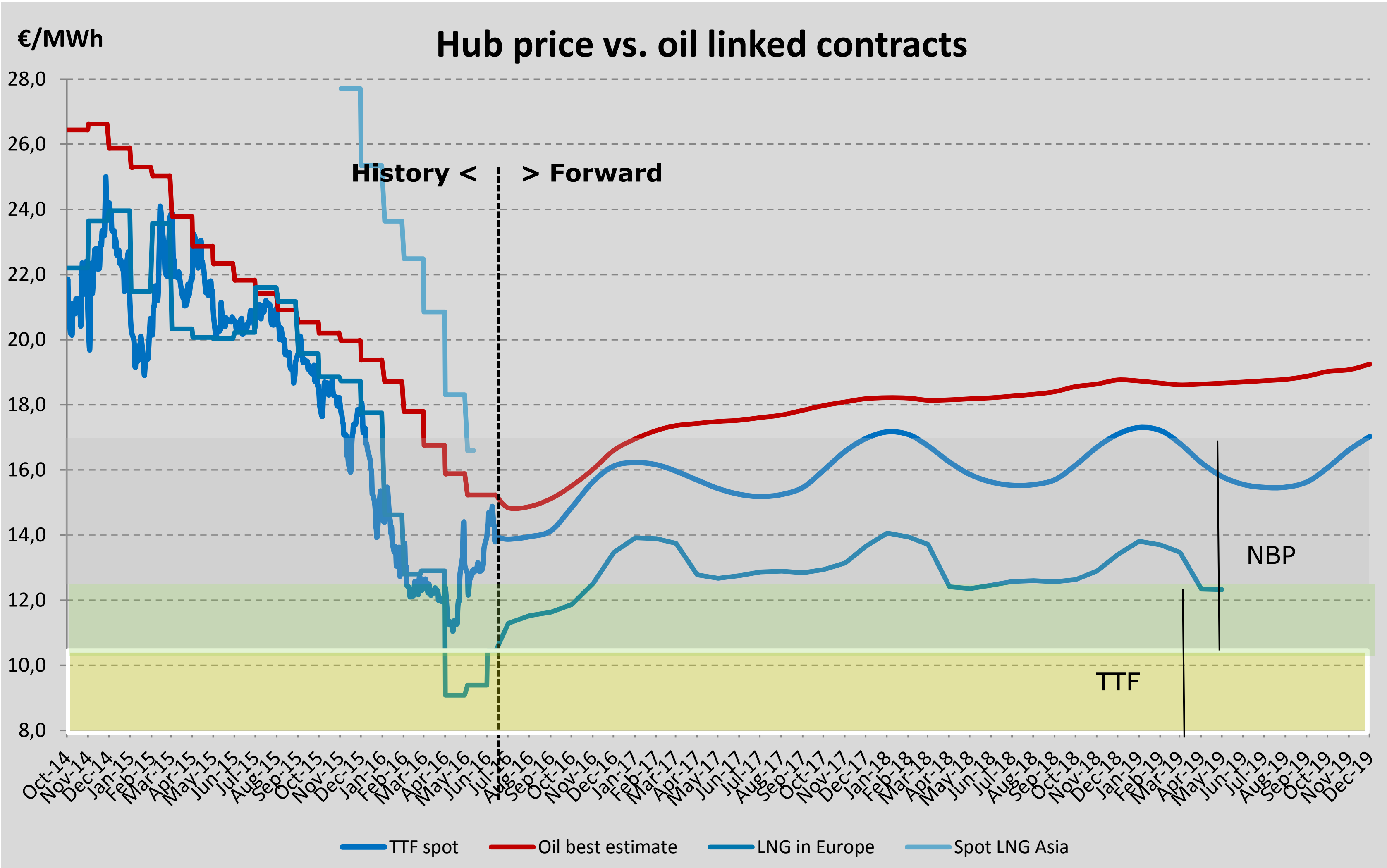
BUT

- Not stable environment – RO/HU case
- Remaining long-term non-bundled capacity
- Different balancing products provided by TSOs
- Nomination rules however remaining problematic
- Administrative rules in bundled capacity auction

Single market for gas?

- EU rules target "one market"
- **Power single market (2014) still not in place!**
- **Long way to go for GAS single market…!**
- Production concentrated in RU, NOR…but LNG
- Change of CB pricing and gas TSO cost coverage
- Logic of gas flows
- More LNG terminals
- Logic of gas flows

7.Price outlook - anchors



7.Price outlook - drivers

- ETS rules reshaping (taxation)
- Other measures supporting coal/gas switching
- Japan/China/Indian gas consumption
- LNG projects
- Changes in definition of price in mid-/long-term contracts
- Strategic goals of gas producing countries

There is a bumpy road ahead of us…!

Thank you for your attention

Martin Pich
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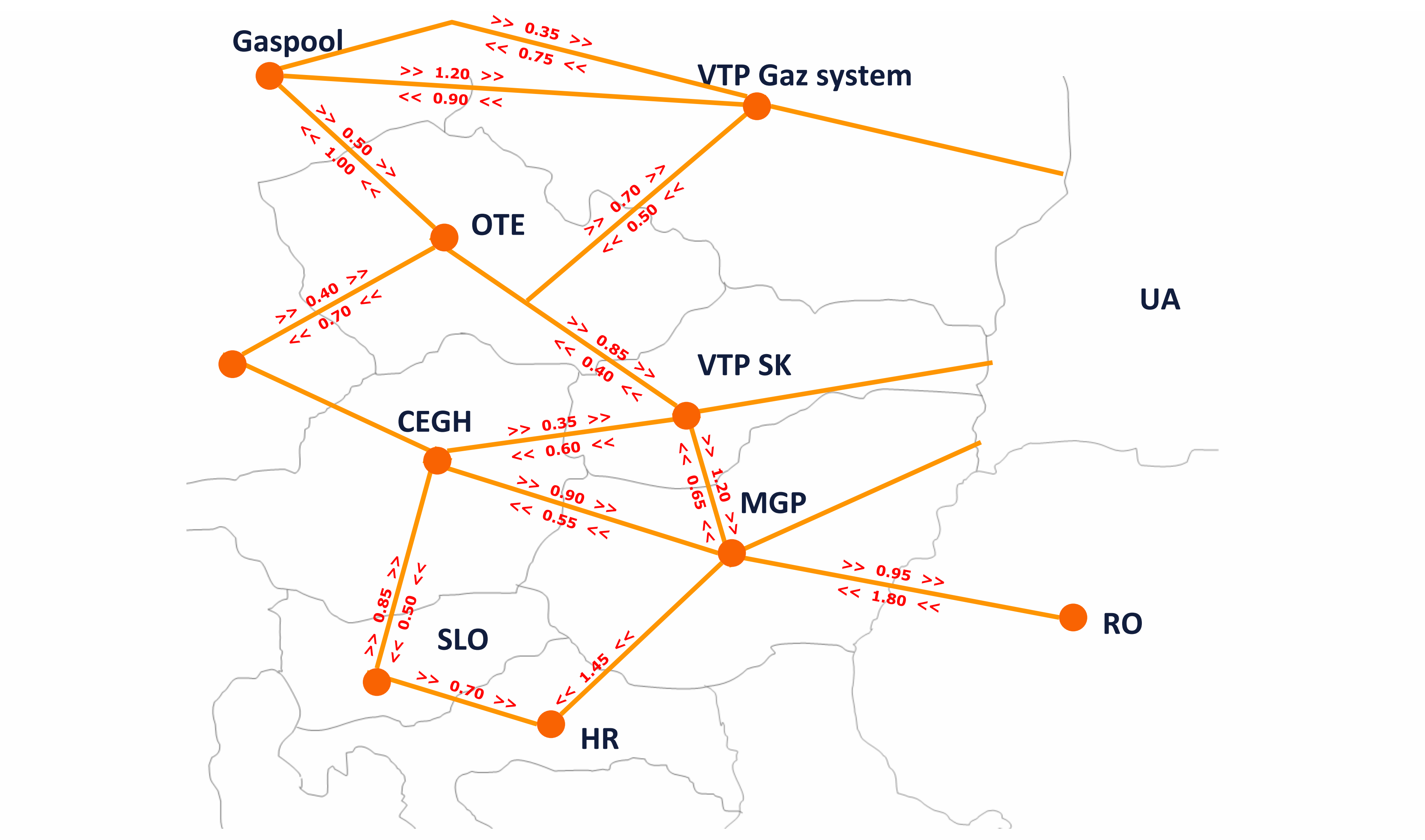
Shipping costs overview

Yearly tariff



Household price structure
Czech republic