

GOLDEN AGE OR DARK AGE FOR GAS IN THE EU?

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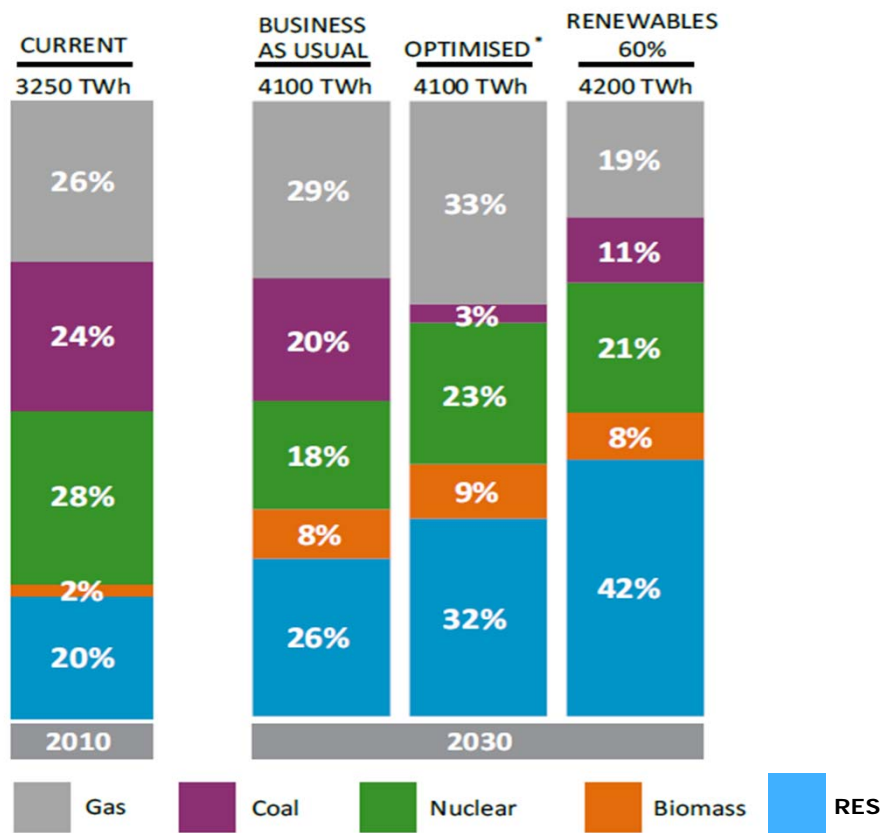
*The role of gas in the future energy mix
24th Madrid Forum, Madrid, October 15 2013*

Analysing EU gas market by Porter's Five Forces



Threat of substitutes – electricity generation

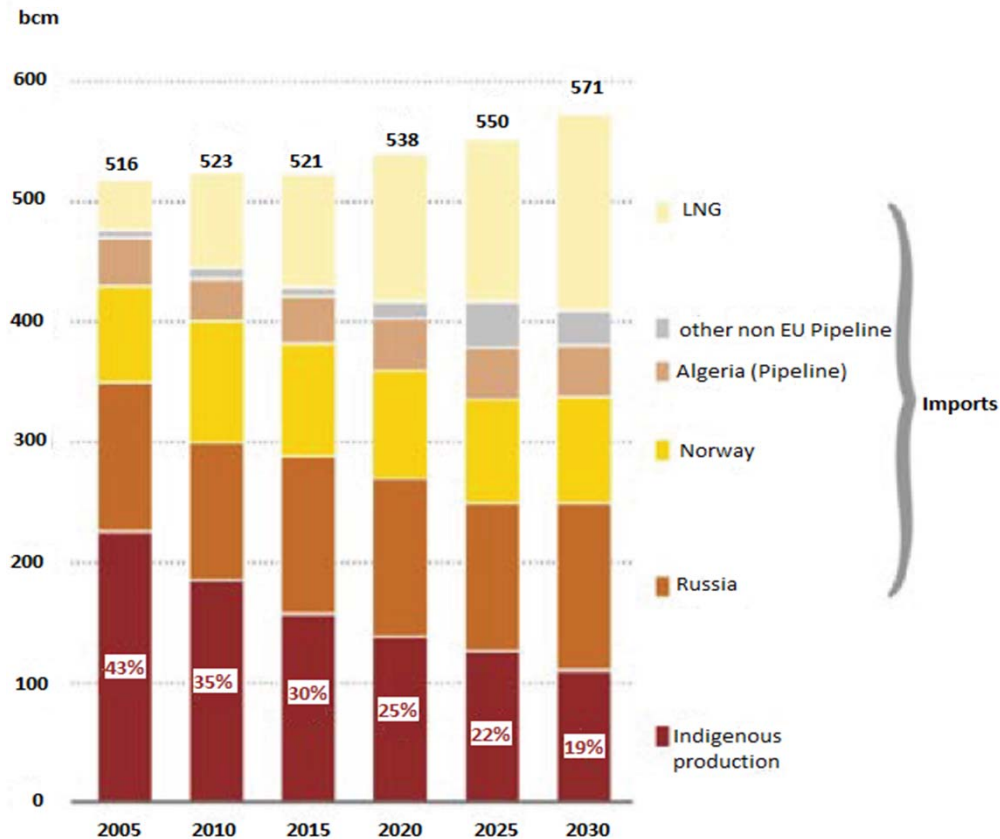
Scenarios for EU electricity generation in 2030



Source: *The Future Role of natural Gas, European Gas Forum, 2013*

- Increase of **RES** for electricity generation could reduce gas to a more back-up role
- **Coal**/gas spark spreads currently make electricity generation with coal more profitable
- In longer run, gas as the cleanest of the fossil fuels could/should replace coal in electricity generation, if prices are 'right'
- Influence of capacity payments?
- **Reduction in industrial production** (short term?) and **Energy efficiency** (long term) lower gas demand
- N.B. In **transport**, gas looks likely to substitute oil-based fuels – will this be piped gas?

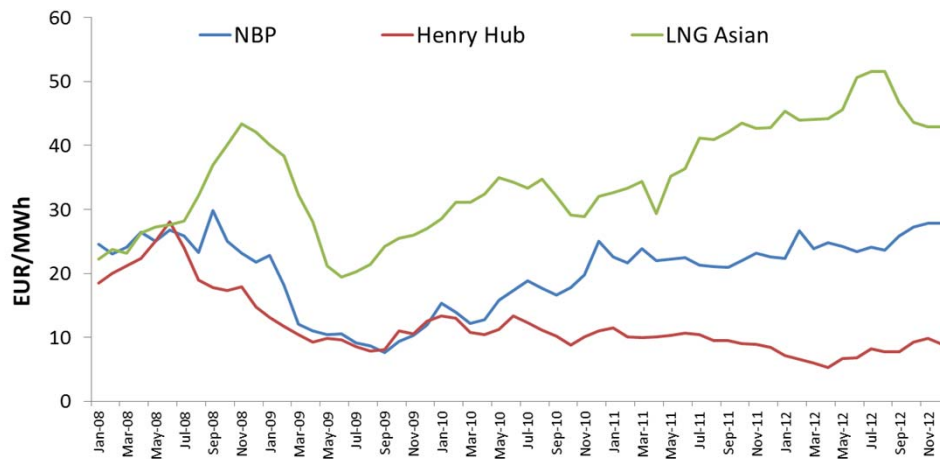
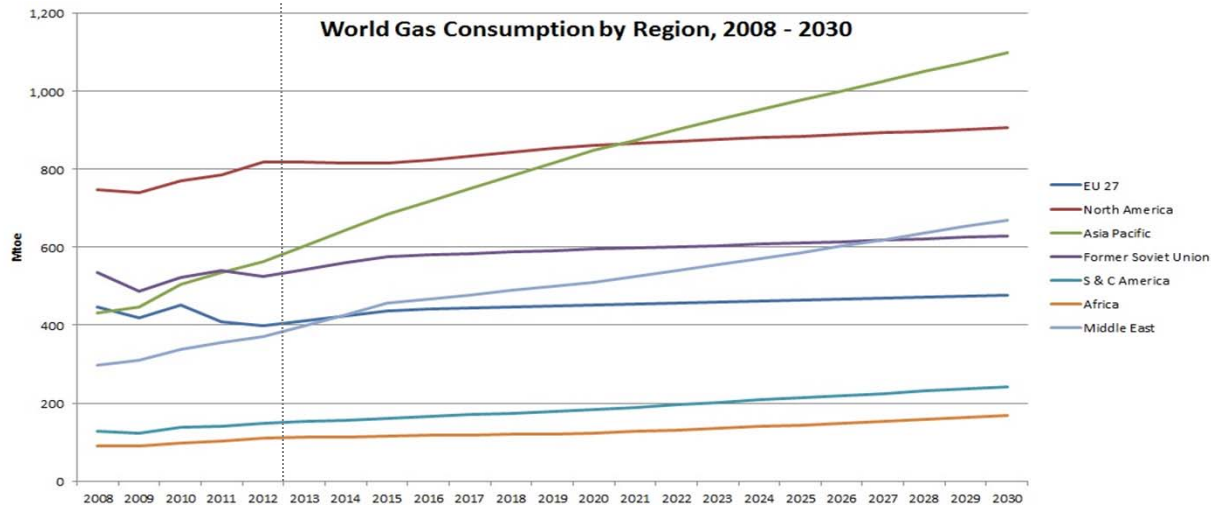
Threat of new entrants



European Commission, Eurostat, 2011

- Conventional EU production will decline, dependence on Russian, Norwegian and Algerian gas to remain
- Uncertain potential for unconventional sources in Europe
 - Shale gas
 - Biogas
- **New suppliers and new routes to EU:**
 - Caspian area (TAP)
 - LNG exports (US, Australia)
- Changing role of LNG and gas storage
 - LNG will continue to grow but fluctuate according to prices
- Power to gas?

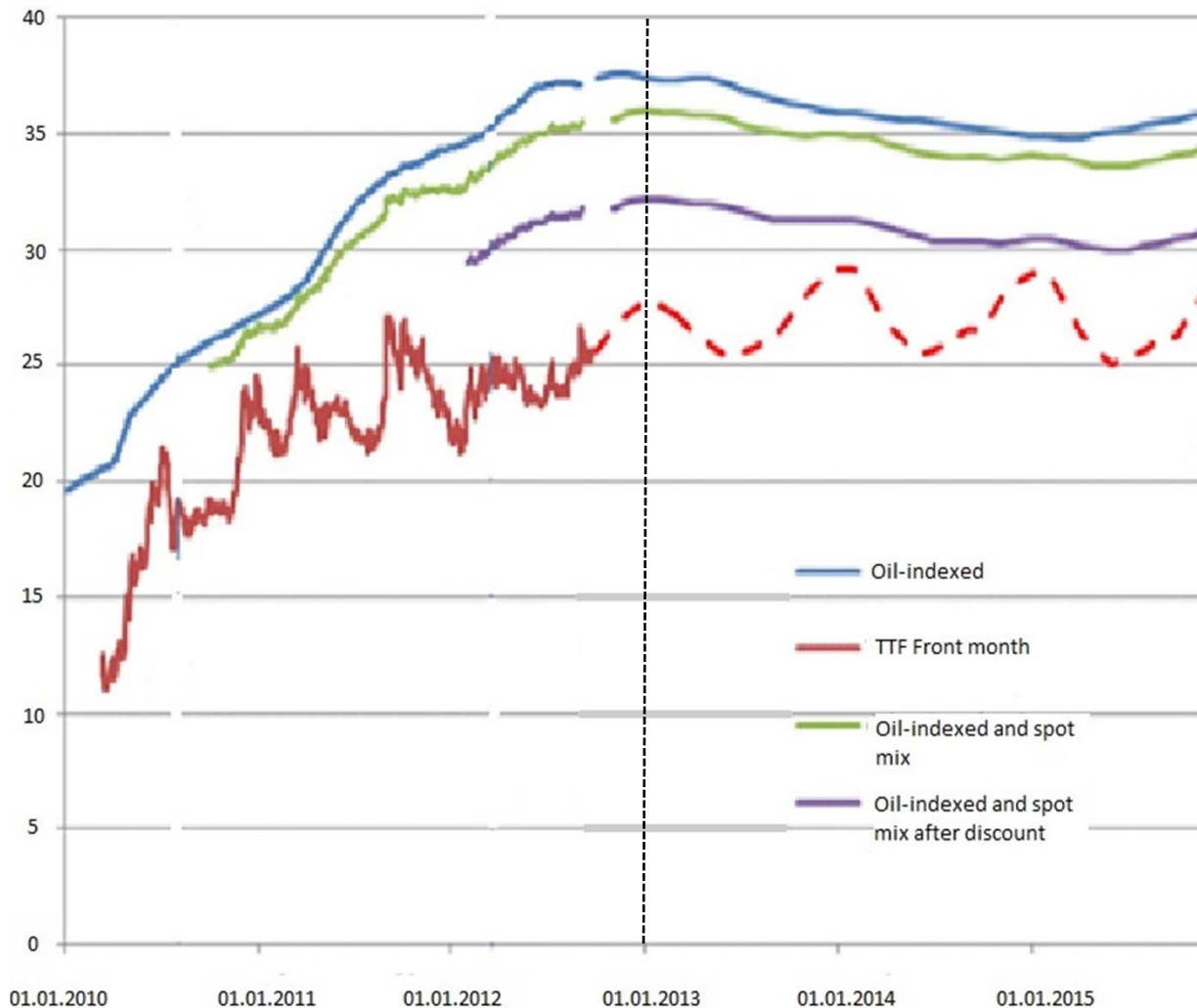
Bargaining power of suppliers



Source: Platts, ACER

- Massive price spreads between Asia, Europe and US
- **Increase of demand** of other **global** areas will put upward pressure on gas prices and increase **bargaining power of suppliers**
 - EU demand continue to decline?
- EU pricing:
 - **lack of competition on supply side** causes higher prices
 - Oil-price indexation → more than 50% of gas **hub-based prices**
- **Diversification** of origins – arguably shale gas - and LNG trade to **increase competition at supply level**

Bargaining power of buyers



Source: Reuters 2012

- **EU demand**
 - Very likely gas demand will not surpass pre-crisis levels
 - Industrial demand very dependent on competitive gas prices
 - Potential for new demand in transport
- **EU gas-on-gas competition** will progressively delink gas prices from oil prices
 - clear trend to more flexible and short term oriented contracts
 - existing **LT contracts renegotiated:** convergence to hubs prices
- **IEM deployment** favor bargaining power of buyers

Policies and regulation influence many forces

Major policy influences

- CO2 emissions reductions obligations
- Energy efficiency and RES promotion
effect on gas: 2020 targets
- Environmental policies preventing shale gas in EU
- Capacity markets
- Biogas promotion

The role of energy regulators

- Supporting alignment of electricity and gas sectors?
- Enabling more gas producer competition?
- Supporting the increased diversity for gas sources?
- Elimination of market entry barriers – facilitating entry through harmonisation and other regulatory measures?
- Phasing-out end-consumer price regulation and improving price structures?

Thank you for your kind attention



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