



ACUE Federation of Associations of Energy Utility Companies

Roadmap for a sustainable liberalization of the gas market in Romania

CESEC Plenary Meeting

Brussels, October 8th, 2019

Romania's security of supply at peak gas demand

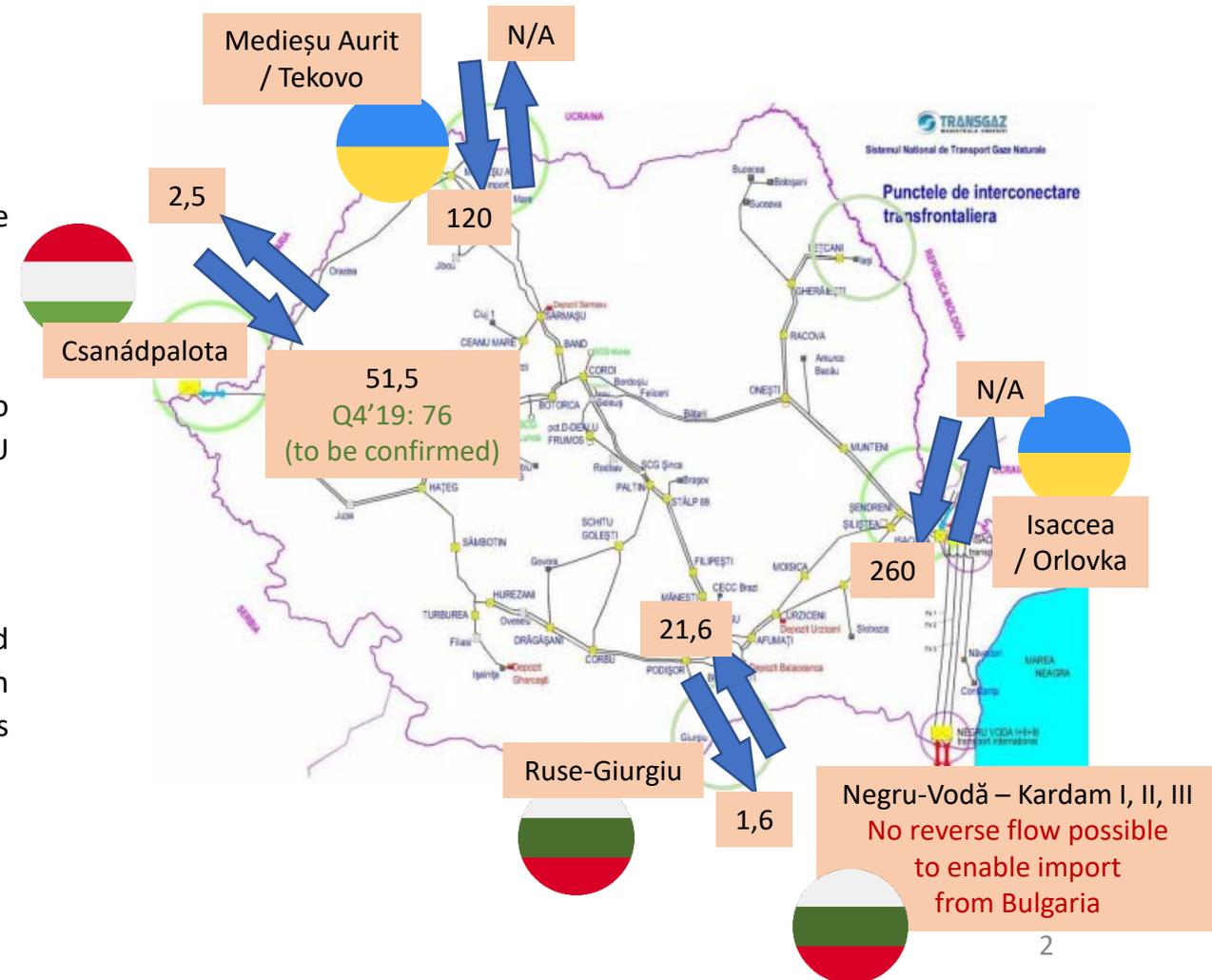
Interconnectors and their maximum available capacity, in GWh/day

Data source: ENTSOG (<https://www.entsog.eu/maps>)

Map source: Transgaz TYNDP 2019-2028 (<http://transgaz.ro/sites/default/files/PDSNT%202019-2028.pdf>)

Flows through the NTS (National Transmission System), >90% of total:

- ▶ Peak winter demand: 760 GWh/day
- ▶ Daily local production (Q2-Q3 2019 average): 267 GWh/day
- ▶ Maximum estimated storage withdrawal: 300 GWh/day, normally possible only in early winter, when facility pressure allows high output
- ▶ This means about **200 GWh/day should be covered by import sources**
- ▶ Considering there are talks (so far unconfirmed officially by any TSO) to supplement Csanádpalota import capacity up to 76 GWh/day, imports via EU member states next winter will be max 100 GWh/day
- ▶ The ~100 GWh deficit could only be avoided with gas coming via Ukraine
- ▶ In case of Russian gas transit disruption in January 2020, options are limited or inexistent, as there is currently no interconnection agreement between Transgaz and Ukrtransgaz, and therefore no cross-border capacity booking is possible on either Isaccea or Medieșu Aurit



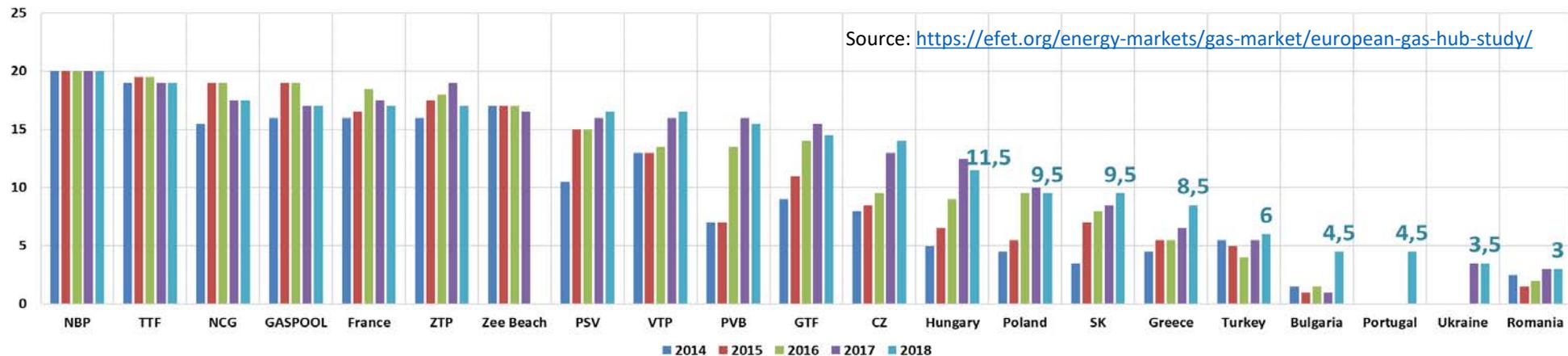
Romanian gas market regulation, recent past & present (1/2)

▶ Main market players:

- ▶ Two major producers, sharing over 90% of total domestic output (roughly 10 bcm / 110 TWh per year).
- ▶ On the regulated retail market for households (over 3.5 million consumers): two major suppliers, covering over 90% of household demand.
- ▶ On the free retail market for non-households: no “leaders”, numerous players, with smaller suppliers gradually earning more clients.

▶ Wholesale market:

- ▶ Recently deregulated (April 2017), only to record a sharp increase in prices in 2018.
- ▶ Yearly CMO (**Centralized Market Obligation**) for **wholesale** trading imposed to all market participants since 2014. In 2019:
 - ▶ Producers must close at least 50% of sales on exchange auctions;
 - ▶ Suppliers must also close at least 50% of sales as well as 40% of purchases on exchanges;
- ▶ However, the usual auction sees one, at most two sellers, and multiple buyers – the **over-demand often leads to price increases**.
- ▶ Romania was constantly ranked last in **EFET’s annual gas hub scoring** (0 = worst, 20 = best, based on hub liquidity, contracts, regulation etc.):



▶ Retail market:

- ▶ **Regulated final consumer price for households**, with price adjustments delayed relative to market evolution.

Romanian gas market regulation, recent past & present (2/2)

- ▶ **Government Emergency Ordinance (Romanian abbreviation OUG) 114/2018, published in December 2018, amended in March 2019 by OUG 19/2019, included a set of energy-related measures:**
 - ▶ From May'19 to Feb'22, domestic producers must sell at a (maximum) price of 68 RON/MWh a part of their gas to suppliers whose portfolios include either of two segments: **households** and **district heating or CHP plants, for the thermal energy supplied to households**.
 - ▶ These are flat daily deliveries meant to cover the two segments' needs, not only in terms of daily demand, but also storage injection to meet the obligation level by the beginning of the cold season.
 - ▶ The remainder of the market is the third segment, **non-households**, which is the free market segment, with no gas price or volume restrictions on either wholesale or retail.
 - ▶ The volumes each producer must sell at 68 RON/MWh (and the suppliers to which it should sell them) have already been set for the period May'19–March'20 by the regulator, based on both producers' estimated output and suppliers' estimated demand for those segments.
 - ▶ All commercial operations were adapted to the new rules and market segmentation, for example:
 - ▶ The regulated final consumer price for households now uses 68 RON/MWh as the reference gas cost.
 - ▶ Centralized wholesale trading is only for non-household gas; sourcing for OUG-regulated segments is exclusively from the ANRE-defined volumes.
 - ▶ Daily balancing is done separately on the three segments.

De-regulation rationale & roadmap (1/2)

- ▶ OUGs 114/2018 and 19/2019 imposed measures which need to be adapted (or removed) to comply with European standards and regulations.
- ▶ **Alternative #1 for undoing OUG measures:** the “destructive” scenario – full (and immediate) repeal of gas market measures related to the OUGs:
 - ▶ Implies **cancelling volumes contracted until March '20**, from producers to suppliers, for households and heating-for-households
=> market disruption and distortion, with an inherent security of supply risk.
 - ▶ Full de-regulation of both wholesale and retail: based on latest trades, **the final household consumer price could increase by 30% at once.**
For comparison, in 2018, the regulated household consumer price increased in three steps, with an overall 22%
=> impact on the affordability of gas and heating bills as well as on macroeconomic parameters (inflation), risk of social reactions.
 - ▶ De-regulating the wholesale price only: suppliers will seek the volumes on the free market, while final household prices stay regulated. Due to the **sudden rise in (artificial) demand**, and with no guarantee of liquidity, those volumes might be secured at very high prices
=> price squeeze and cash drain risk for gas suppliers and heat producers, unpredictable consequences on the gas and heating systems.
- ▶ In its interactions with Romanian authorities, the European Commission did appreciate and understand the risks of such a scenario and showed openness to a more gradual approach.

De-regulation rationale & roadmap (2/2)

- ▶ **Alternative #2 for undoing OUG measures:** the “constructive” scenario – gradual de-regulation and alignment with free market standards:
 - ▶ Keep the current routines and volumes already contracted over winter, until **March 31st, 2020**.
 - ▶ **Free market component for households:** from April 1st, 2020 to March 31st, 2021, only **50%** of households and heating-for-households needs (demand + storage injection) will be covered following the same rules; suppliers will compete for the rest on the free market.
 - ▶ To facilitate credible price formation, a **gas release program** should be introduced, with producers selling standardized gas products in pre-scheduled auctions. Ideally, auctions would start on April 1st, 2020, for products with delivery from January 1st, 2021, to ensure liquidity and price references during the 50% transition phase.
 - ▶ Extra capacity is crucial: due to limited access via Hungary, this summer’s fall in CEGH prices had no echo in the Romanian VTP.
 - ▶ A support scheme for vulnerable consumers will ensure the financial shelter of the regulated price will only be for those that need it:
 - ▶ Vulnerable consumer definition by Q1 2020, with financing secured before the adoption of the 2021 State budget.
 - ▶ Implementation starting from Q1 2021, based on prior training of all involved authorities.
 - ▶ Full gas market deregulation at the latest by July 1st, 2021.

Conclusion

- ▶ Despite undeniable progress in a number of areas, the Romanian natural gas market remains immature.
- ▶ The necessary steps towards full market liberalization and deregulation shall be determined and, at the same time, well designed and thought through as well as gradual, balancing all market participants' needs, to ensure sustainability and avoid stop-and-go policies.
- ▶ The development of both gas transmission infrastructure and interconnectors as well as Black Sea gas production is key for Romania and Europe. Both will, most probably, only materialize in due time and in a sustainable manner if the consequences on the welfare of the Romanian population and economy are properly assessed and dealt with.