

Task Force meeting on Gas Market and Regulation

Meeting Minutes

Introductory Remarks by Mr. Scott Foster

The United Nations General Assembly agreed in September of this year to a set of 17 Sustainable Development Goals. Goal number seven is all about energy, to ensure access to affordable, reliable, sustainable and modern energy. Indeed, achieving all of the Sustainable Development Goals depends on having access to sustainable energy -- it is the golden thread that connects them all. We need to attain goal number seven in order to be able to reach the other goals. Natural gas will play a fundamental role in the future energy system.

Within the UNECE there are two broad perspectives on what is meant by "sustainable energy". On the one hand there are countries for which sustainable energy is about meeting the climate change imperatives. On the other hand, there are many countries who are worried about getting the energy needed for their development. Our challenge is to satisfy both objectives in an integrated way.

When scenarios about the future social, economic, and environmental situation are considered, there is no plausible scenario which does not include a significant share of fossil fuels for the near- and medium-term. The International Energy Agency has assessed a scenario that meets the 2°C objective, and even that scenario has a share of fossil fuels above 40%. Given the enduring importance of fossil fuels in the energy system, it is of utmost importance to improve the use of fossil fuels.

The Sustainable Energy Division at UNECE is working across the range of topics on fossil energy to improve its contribution to sustainable development and to reduce its environmental footprint. We have an expert group on resource classification that has developed and maintains the UN framework classification that bridges to the systems used by the oil and gas industry and by the solid minerals industry. The classification system includes not only the geological uncertainty and project risk dimensions of the other systems, but includes a third dimension that captures market risk and socioeconomic and environmental impacts. It has now been expanded to include nuclear power and renewables and will soon embrace underground storage. It allows governments to manage their national endowments optimally.

Our work on sustainable energy also includes development of best practice guidance for managing coal mine methane, recommendations to the UNFCCC regarding carbon capture and storage, and guidance for countries on the deployment of advanced fossil technology. The CMM work has inspired a broader agenda on managing methane emissions and leaks in the extractive industries.

In the area of natural gas, task forces under the Group of Experts on Gas are working on the best practice guidance for LNG, best practice guidance on reducing leaks along the gas value chain, best practice guidance on the role of natural gas in increasing the uptake of renewable energy and recommendations on removing obstacles to the use of natural gas as a transportation fuel.

On the issue of renewables, many observers object saying that natural gas has its own market role irrespective of natural gas. At UNECE we observe that natural gas is not being properly compensated for the flexibility it brings to the market. The flexibility provided by the infrastructure, markets and

technologies within the natural gas value chain could be a major supporter of the uptake of variable renewable thereby creating a partnership to replace the competitive relations that have existed. However, markets are not currently properly valuing the flexibility services, such as load following, frequency control, and voltage support, among others. Capacity markets as designed are not necessarily bringing "the right stuff". Regional balancing markets would go a long way to resolving market imbalances and would enhance the integration of markets across the greater European market. This approach would not only resolve the conundrum of US coal out competing gas in European markets, but would help resolve tensions that are apparent in the east-west dialogue.

The world is embarking on a major transformation of the energy sector to meet its environmental and developmental agenda, and as I have said, the gas industry has a fundamental role to play. It is therefore essential that the gas industry engage collectively with the UN and its member States to ensure that efficient rules for investment and operation are developed and deployed. This Task Force meeting is an example of that essential role. We will listen with great interest to the perspectives on the topic.

Introduction of participants

The meeting was formed by the following participants:

- Ms. Boyana Achovski, Vice-Executive Secretary, Gas Infrastructure Europe
- Mr. Parviz Babayev, Head of Investor Relations Department, State Oil Company of Azerbaijan Republic
- Mr. Abel Enríquez, EU Regulatory Affairs Manager, ENAGAS S.A.
- Mr. Scott Foster, Director, Sustainable Energy Division
- Mr. Neil Hedley, Head of Gas Business Development, Petrochina International
- Mr. Kamran Huseynov, Specialist of Investor Relations Department, State Oil Company of Azerbaijan Republic
- Mr. Ioan Ignat, Head of Technical Regulation and Authorization, S.N.G.N. Romgaz S.A.
- Mr. Jan Ingwersen, Business Area Manager, Market Division, ENTSOG
- Mr. Kristóf Kovács, Policy Officer, European Commission
- Ms. Marion Labatut, Advisor at Markets Unit, EURELECTRIC
- Ms. Margot Loudon, Deputy Secretary General, Eurogas
- Mr. Carlos Marin, UNECE Gas Centre Project Manager Consultant, Sustainable Energy Division
- Ms. Yana Tsybzhitova, UNECE Gas Centre Project Manager Consultant, Sustainable Energy Division

Presentation of Mr. Kristof Kovács

Natural Gas is a key energy resource now and in the future. Industry sees the European gas market increasing in the short and medium term. However, the role of renewables has been key on reducing the natural gas intake for power generation.

About 10 years ago the European Market had a consumption of 580bcm, currently it is 409bcm. This is explained by the economic crisis, coal replacing gas in the power generation sector and other factors. Though natural gas is much more attractive in terms of its carbon footprint than coal and other fossil fuels, it has not been competitive enough to be the fuel of choice by the market players.

Roughly, there are forty five billion euros available to subsidise renewable energy per year. Natural Gas is clearly an important contributor to the energy future but its place is not reserved. COP21 meetings at Paris will define the strategy to follow. However, until 2030 the EU policy view is conservative when compared to the UK strategy which focuses on Gas.

Within the EU, Shale project developments have not been promising. Romanian and Bulgarian projects are looking better however they will not play a key role in the European market. Hence, the region needs to have an access to various set of resources. Optionality is necessary but it has a price. Therefore, it is of main importance to identify the “sweet spot” of enough infrastructure and new sources of energy. We do not know which the exact mix of energy sources is or the availability required within origins of gas imports. However we need to have the infrastructure to enable the options. A new wave of LNG will be coming to the market and the EU can be able of capitalizing this opportunity. However, overbuilding the system would lead into increased tariffs which would decrease the competitiveness of gas as a fuel of choice. However we need to have the necessary capacity to enable the required gas requirements.

The majority of Western Europe is well interconnected. Nevertheless, Markets like Romania don't have an outlet for their available sources of natural gas. As a response to these issues, a Gas Target model and the discussions of zone mergers are currently being accounted as part of a bigger study on this issue, which will be published by the Commission during next year.

It is important to note what the incremental benefits of legislative and regulatory work are. The current work has focused on Network Codes, Balancing Markets and Tariffs Harmonization among others. Which are ancillaries to the TSO systems. Hence, enabling markets to work as efficiently as possible and allowing access to neighbouring markets.

Security of supply (SoS) may have a price due to the need of infrastructure but it also represents a task to start thinking on a broader picture. Stress tests have showed that the planning has been done at a national level. We need to find a middle ground to include certain elements that force an ex ante cooperation between member states which will provide help in times of crisis. SoS is relevant for both Eastern and Western Europe.

The European Commission is continuing their current work on market rules. Constant cooperation with ENTSOG and ENTSOE is required in the implementation of this new rules and regulations.

- Discussions for regional efforts jointly for infrastructure and regulation. There are opportunities to focus on regionalization, however the challenge is to get certain changes done.

Questions:

Mr. Ignat: DO you know if the ACER unified regulatory framework?

They can provide advice with the respective national regulatory with task forces and other measures. Unlikely ACER will become the unified regulatory agency. They are not focusing on this.

Rules of work export are being developed to reach a liberalized market. Romania could publish the storage regulatory framework. Certainly there is space to increase the cooperation with eastern markets.

Any developmetns Project from Blexi to Hungary?

No decision has been taken.

As we should not overbuilt infrastructure we are currently splitting the project with two phases. We are focusing on market integration issues.

Kamran Huseynov: reasons for withdrawin Brua-Romania- Hungary project from the second PCI' list.

There has been a vast amount of gas projects. However we don't need every single project presented. We are focusing on a set of crucial projects wich improve SoS.

AGRI project is viable but the PCI list needs to be crucial. No one will prevent Azerbaijan from doing it.

Import will play an important role however we need to be cautios with overbuilding. We need to have a market driven approach.

Scott Foster: ETS carbon prices have been modest. If COP agreements reach a real pricing on carbon, would you need to revise the list of priorities of the projects?

In long term studies, we assume an important development in the ETS system. From the gas perspective, we need to assure to get the most competitive sources.

Gas from Russia via Ukraine, due to its cost of production, will be likely the most competitive.

A lot of European level discussion will take place as an agreement will be needed.

We have focused on providing optionality

Abel Enriquez: Market integration has been mentioned as important. Hungary and Slovakia interconnector has not ben used. Should we focus on high operational rates or on value to the consumer. Pipelines can introduce sources which are more competitive.

Talin, Lituania is an example of competitive constraint. Currently is not used at ist fullest. However, the acquisition of gas at lower prices has certainly paid off the investment.

EC needs to focus on either significant improvements on prices for the wholesale market on reducing liability by increasing SoS. However, there are certain stream projects that implicate new routes with high investments. We don't want to see costumer paying increased prices due to this.

Margot Loudon:

Role and image of gas is at high importance in Eurogas. The rhetoric has turned against gas in newspapers. Policies in heating are not incentivizing gas. The gas industry made a mistake when

presenting gas as a destination fuel. In a European context, it is suggested as a lock-in process. Bridge is the concept as gas should be presented in the transition to a sustainable industry.

Gas should be presented as a flexible solution in the whole value chain. Increasing integration and synergies should be a focus in policies.

Current discussion of new policies are focused on the main drivers (slide 2)

Question: We are seeing the end of centralized power systems, National Grid CEO. How this policies will apply in this scenario?

Prosumers, consumers that are investing in their own systems.

Who will pay the infrastructure. Prosumers still rely on the grid. Current bills are including different charges and it is currently 3 times the cost of the Energy provided. Subsidies in the bill are pushing to this developments.

Centralised control of these assets. Monitor and uses is important. DSO should be able to provide this services.

Ignat: Impact of Prosumers to the network?

There is a financial impact on the operator's revenue. Operation charges should be fix if you are connected. Net metering does not incentivize an efficient consumption.

Scott Foster: How do we advance into reaching a better market in regards to SoS

There are continuing discussions with current participants of the conflict. Winter packages are in discussion. There is mutual interest and mutual dependencies that make participant to join the discussion.

From an infrastructure perspective, it is still crucial to overcome SoS situations.

Scott Foster: it seems that governments will never trust in markets. High price deviations are politically costly.

Scarcity prices in some countries don't happen. If the markets would be scarcer, it is unlikely that governments would allow scarcity price. There is a need to a European approach to have capacity markets that would reduce the volatility prices.

Jan Ingwersen: Overview of Network Codes

Neild Heid: What happens with existing long term contracts?

They are allowed to continue as it was negotiated.

Traders want a reset of the contracts as the capacity rules have changed. However, there is infrastructure that was built as a result of these contracts. Hence, these contracts have to stay in place.

Romania is implementing their CAM since 1/12

SOCAR: MOU with Albania for its gasification. How they can improve their proposal?

Get in contact with ENTSOG

ENAGAS: Participation Channels in the European Regulatory Development Processes

Kamran Huseynov: Overview of the Southern Gas Corridor

Mr. Ignat:

Gas is not exported but electricity from gas plant yes. Electricity Market is integrated with Czech, Hungary and Bulgaria.

Tariffs have increase to ensure the ROI and to attract new investments. However they are making Rumanian gas not competitive.

Abel Enriquez: Shale gas potential in Rumania

They are not continuing to explore. Decreased gas price and bad publicity. There is some tight gas production.

Margot Loudon: are there new entrants to the markets?

Everything is now working in the stock market.

Conclusion and recommendation:

We have heard about what is happening in the gas markets. We are going forward towards a more inclusive energy union.

Security of supplied can be guaranteed by sharing, flexible storage, energy efficiency and infrastructure.

Solidarity is a key point. It should be market based as an anticipation to market issues.

Security of supply should be in contact with security of demand needed by suppliers. This common ground establishes a field where discussions need to take place.