Security of supply and the regulatory environment in the gas sector

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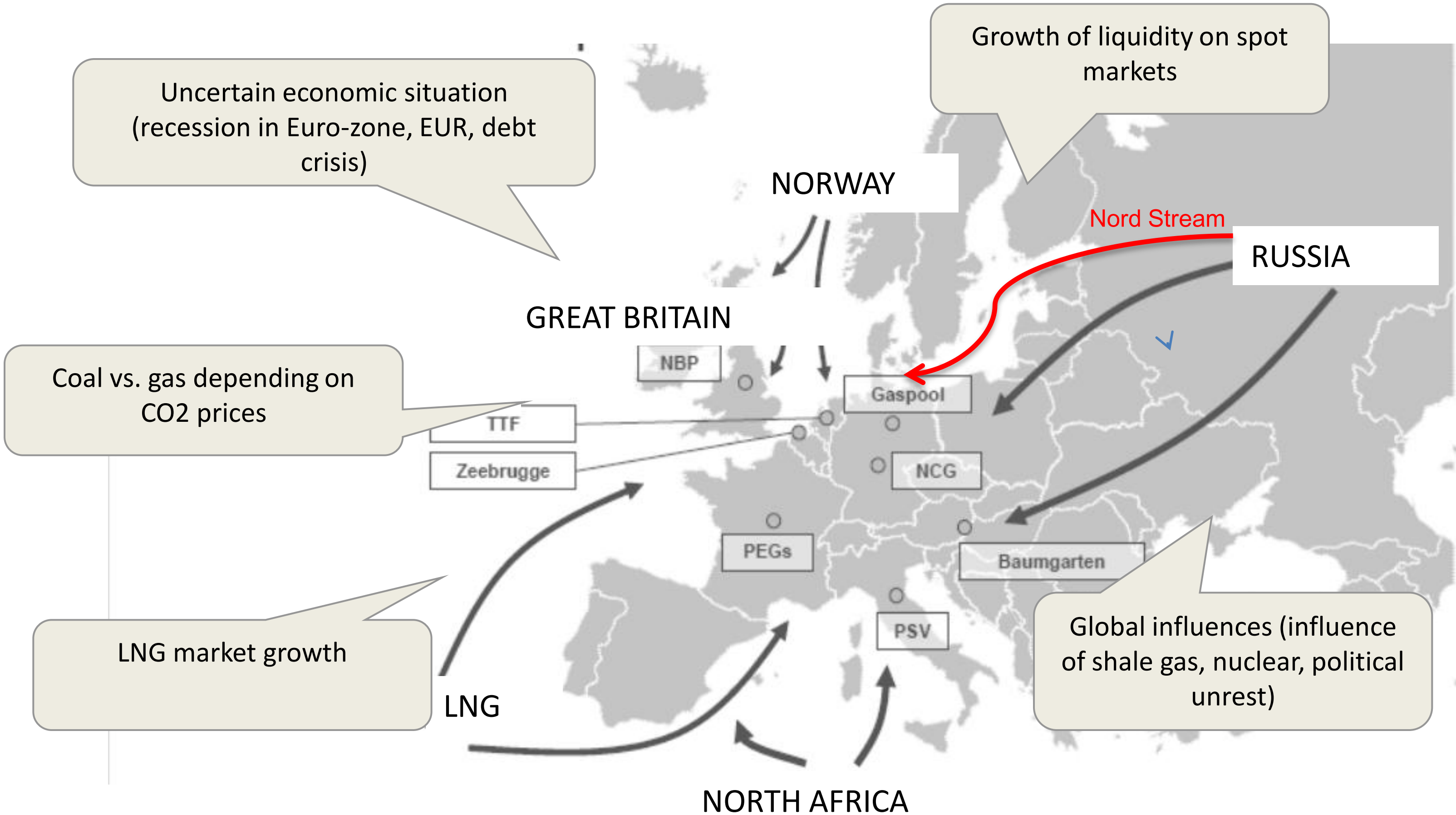
A truly functioning energy market needs:

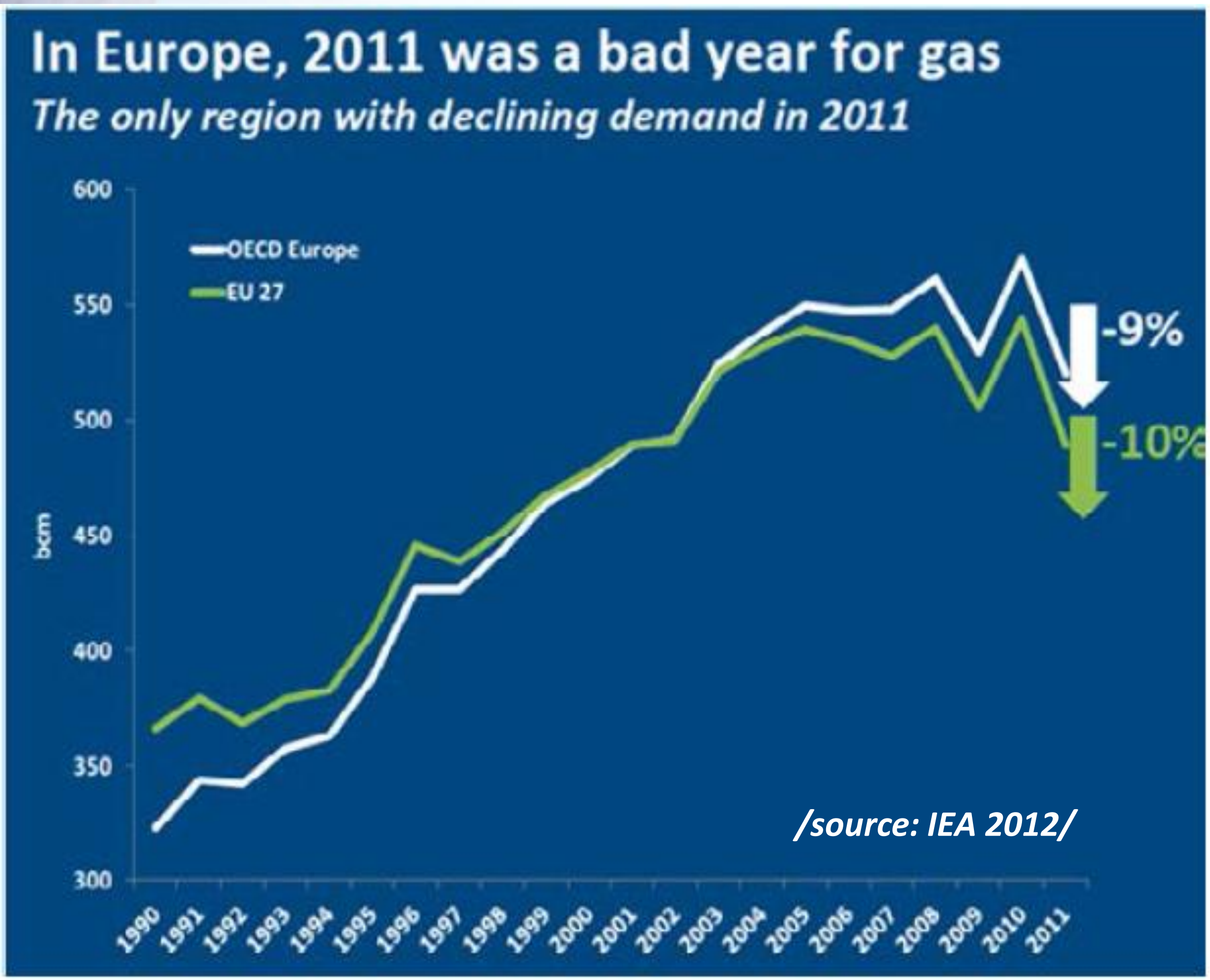
- ❖ **sufficient interconnection of energy networks**
- ❖ **stable, predictable and efficient regulation**

Where is Europe's gas industry today?



The concrete measures that would secure :
competitiveness, fair prices and improve SoS

Demand for natural gas in the European Union fell by 10% between 2010 and 2011, and by 4% between 2011 and 2012.



- heavily subsidized renewable energy sources

- imports of cheap coal displaced by shale gas in North America

- implementation of energy efficiency measures

- the dismal failure of carbon pricing policy

- the continuing economic woes of the Eurozone

Natural gas supplies to V4 /39 bcm, 2011/

Poland 38,1 mln people

Primary source of energy	Coal (61%)
Stake of gas in energy mix	13,4%
Gas consumption/ capita	394 m^3

Czech Republic 10,5 mln people

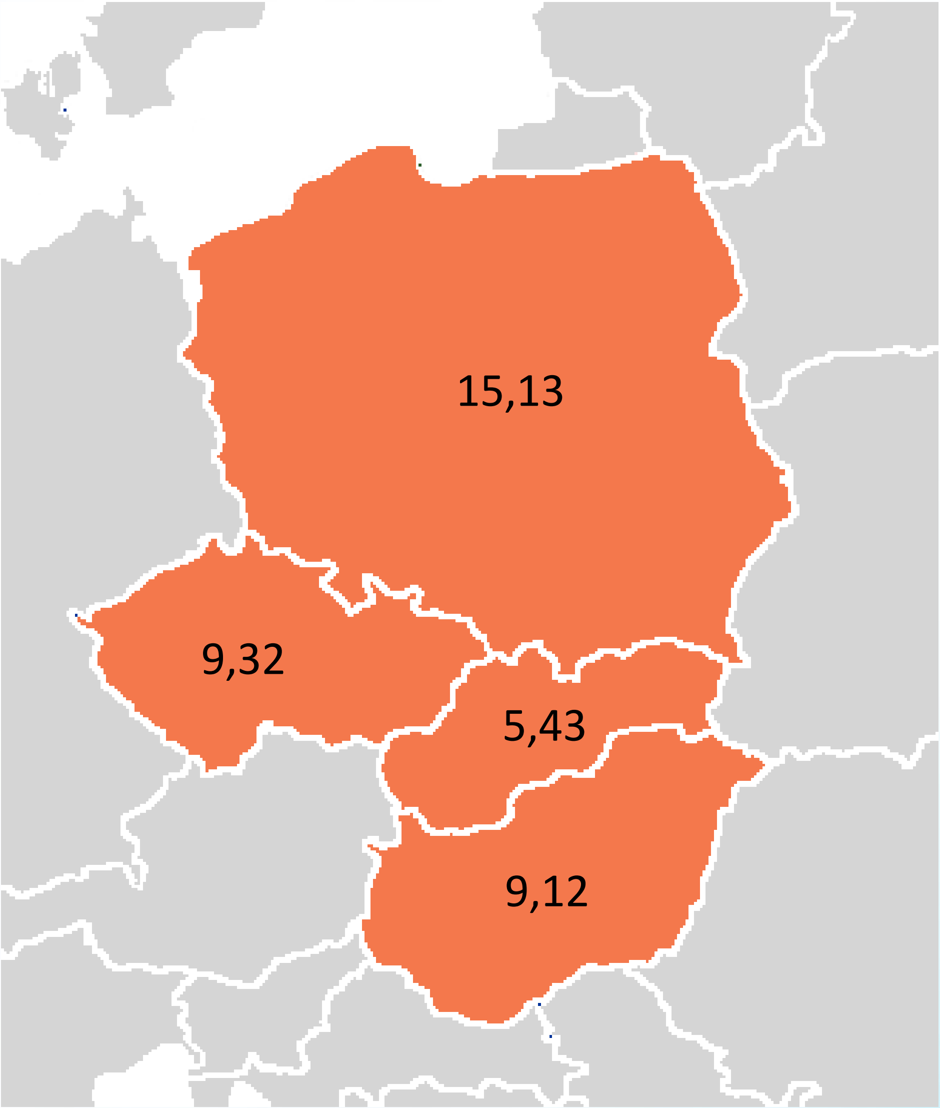
Primary source of energy	Coal (44%)
Stake of gas in energy mix	17,2%
Gas consumption/ capita	887 m^3

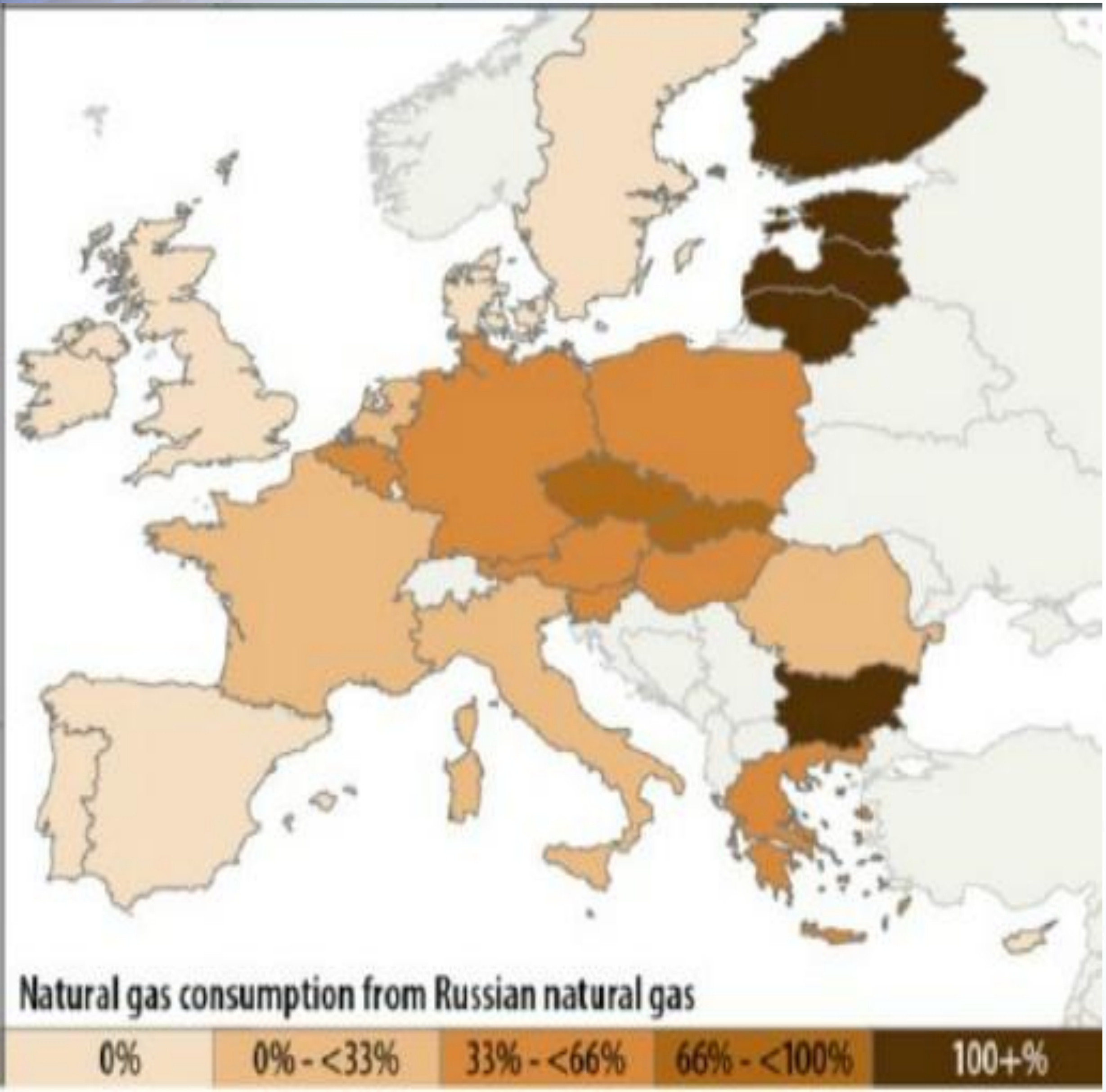
Hungary 10 mln people

Primary source of energy	Gas
Stake of gas in energy mix	40,4%
Gas consumption/ capita	912 m^3

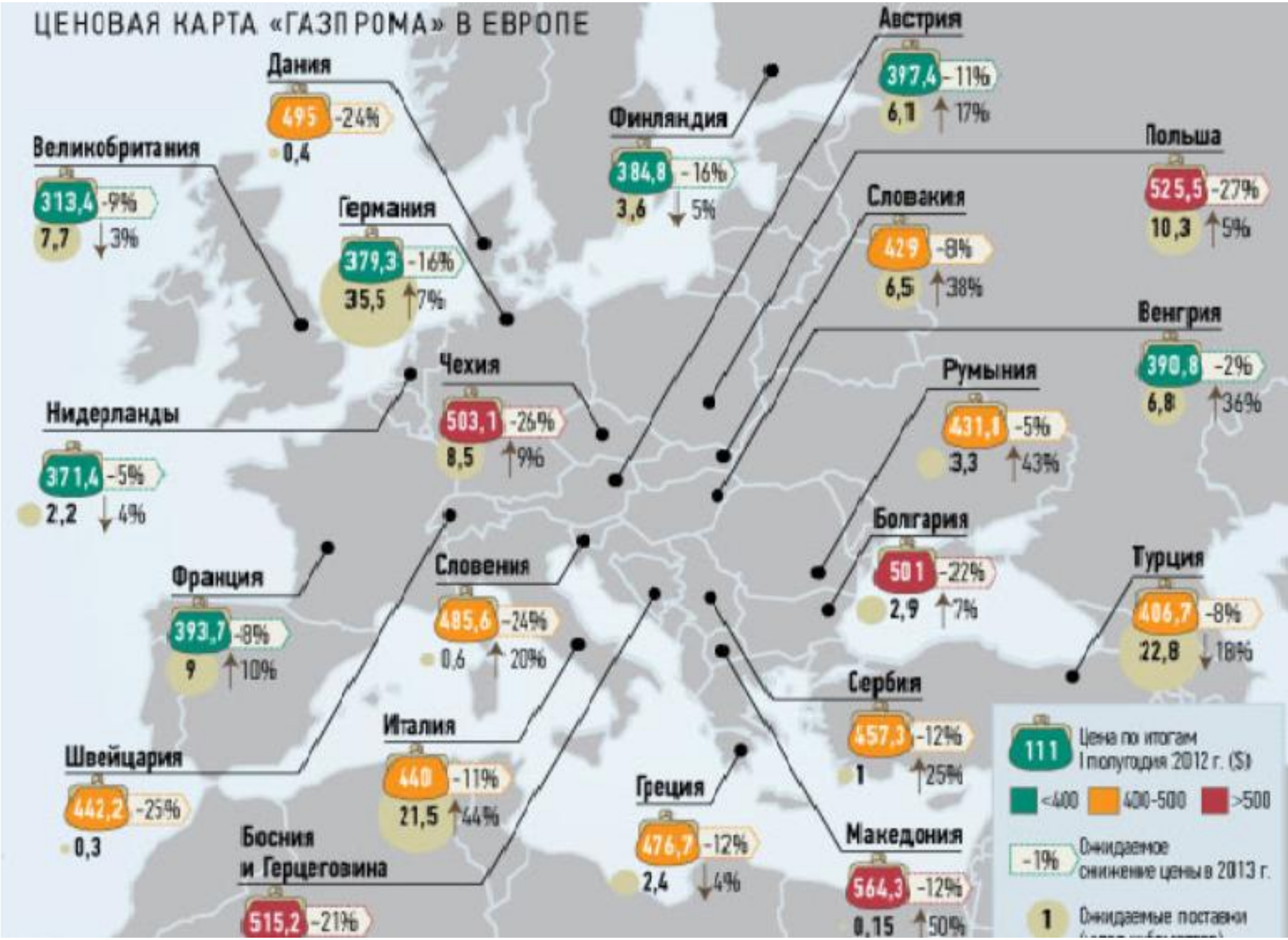
Slovakia 5,4 mln people

Primary source of energy	Gas
Stake of gas in energy mix	26%
Gas consumption/ capita	987 m^3





The characteristic feature of energy mix in Czech Republic, Hungary, Poland and Slovakia is a high degree of dependency on Russian energy sources.
What are consequences such of dependency?



Izvestija 1.2.2013

TABLE 1: **Average Price of Gas Sold by Gazprom in European Countries in the First Half of 2012 (USD per thousand cubic meters)**

W. Europe and Turkey	
UK	313.4
Netherlands	371.4
Germany	379.3
Finland	384.8
France	393.7
Austria	397.4
Turkey	406.7
Italy	440.0
Switzerland	442.2
Greece	476.7
Denmark	495.0
Eastern Europe	
Hungary	390.8
Slovakia	429.0
Romania	431.8
Serbia	457.3
Slovenia	485.6
Bulgaria	501.0
Czech Republic	503.1
Bosnia & Herzegovina	515.2
Poland	525.5
Macedonia	564.3

Diversify sources and don`t expect positive changes in Russia !

Definition of SoS

There is no legal definition of security of supply within the European community. SoS is a multi – dimensional phenomenon with a lot of different aspects

"The availability of energy /in whatever type or form/ at all times, in sufficient quantities and at reasonable and/or affordable prices or as the perception that nothing is going wrong with regard to such factors."

/Jepma – Nakicenovic/

Dimensions of security of gas supply

	Operational	Strategic	Long-term
Capacity	Capacity to transport gas to meet defined peak daily demand	Network supply capacity sufficient to meet peak firm demand in the event of defined loss of infrastructure	Network expansion designed to met the anticipated demand growth
Supply	Supply available to meet both the defined peak daily demand and to supply during a severe period/winter	Ability to meet firm demand in the event of severe disruption to the principal supply source	Supply available to cover the future projected demand

SWOT ANALYSIS

Slovakia Strengths

1. **High-performance transmission gas industry network**
2. **Highly-developed gas distribution network**
3. **Natural gas underground storage with adequate storage capacity**
4. **Professionally skilled and experienced staff**
5. **Important transport route of Russian natural gas to Europe**
6. **Political stability, member of EU, SK`s entry into Euro-zone 2009**

Slovakia Weaknesses

1. **Insufficient diversification of natural gas resources**
2. **Location of UGS only in western part of Slovakia**
3. **State interventions and infringements upon Regul. office`s rights**
4. **Absence of interconnections North – South**
5. **Corruption Perceptions Index rose to 5 /Transparency Intern./**

SWOT ANALYSIS

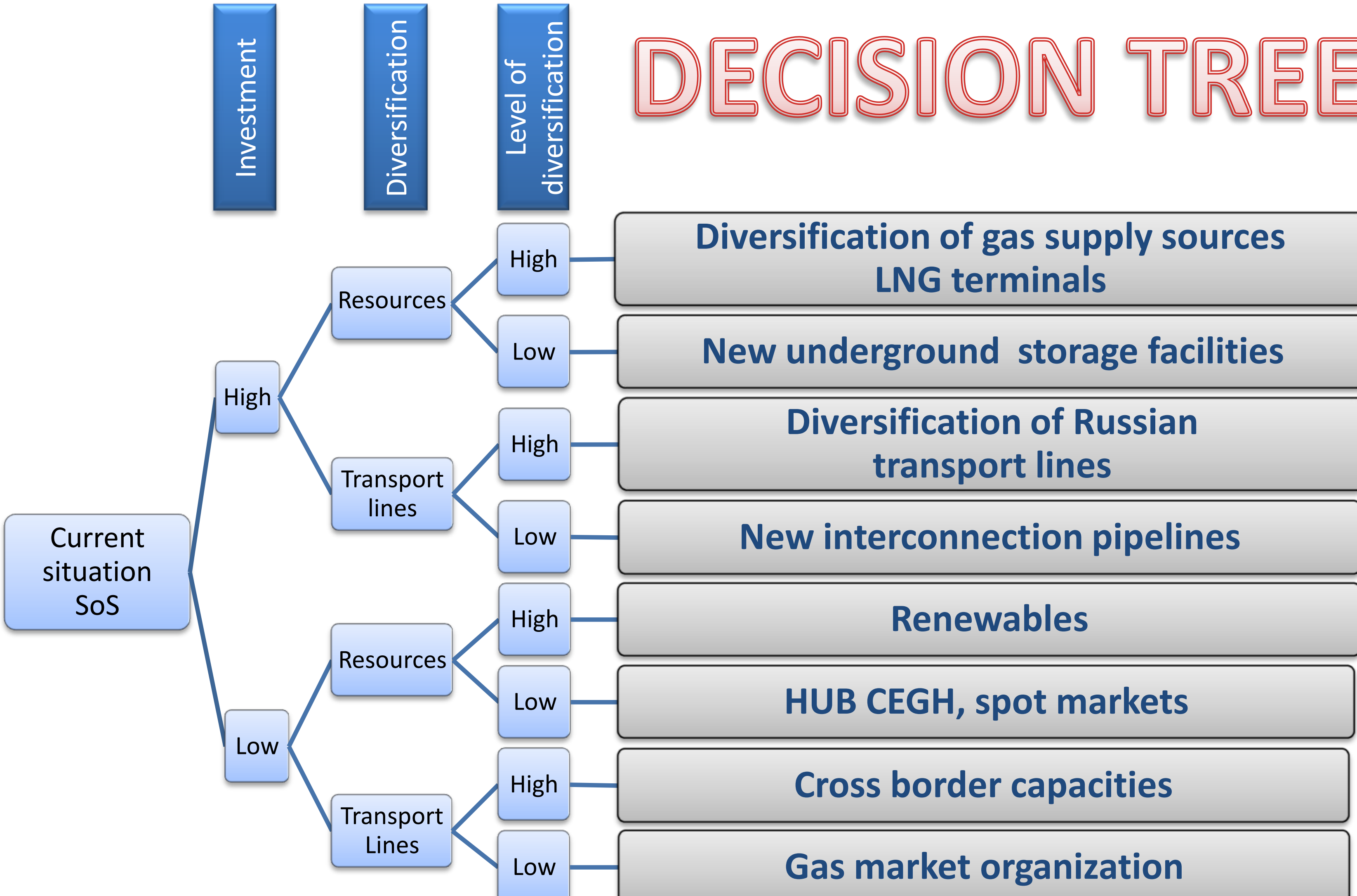
EUROPEAN UNION OPPORTUNITIES

1. **Energy policy harmonization of the EU member countries**
2. **Common European energy legislation, including SoS**
3. **EU`s economic power**
4. **Creating of a single European gas market**
5. **Solidarity among the EU member countries with respect to SoS**
6. **New gas pipelines and new gas infrastructure in European interest**

EUROPEAN ENVIRONMENT THREATS

1. **High dependency on natural gas**
2. **The country`s per capita gas consumption is very high**
3. **Threats of disputes between Gazprom/RF/ and Naftogaz /UA/**
4. **Selfish behavior of certain EU member states with respect of SoS**
5. **Strong lobby pressure on EU authorities in Brussels and ambiguity of certain directives**
6. **Construction of new competitive transport gas pipelines**

DECISION TREE



The crisis in January 2009 showed that Central Europe should concentrate on the most achievable, feasible and cost effective solutions:

- **Import of natural gas from a source other than Russia**
  - **Contracts with new suppliers /reverse flows/**
  - **New diversification projects /NABUCCO, WHITE STREAM/**
  - **LNG terminals**
- **Construction of North–South interconnection gas pipelines**
- **Extension of underground storage capacities**
- **Renewable energy and energy efficiency**
- **To use the possibilities created by EU space**

Security of supply
The North-South Gas Corridor

Planned SK-HU and PL-SK interconnectors

The Slovak-Hungarian Gas Interconnector

- 115 km of pipeline length
- 5 bcm/a of (design) capacity
- reverse flow
- investments app. EUR 160 million
- financing under EERP (EUR 30 million)
- start of operations planned for 2015

If South Stream comes online, Russia will have a capacity to export well over 300 bcm of gas to the European market - a capacity that is about twice larger than its forecasted exports to Europe in the medium term

Pipe-to-Pipe Competition

eustream SLOVAK GAS TSO — 93 bcm/a

EuRoPol GAZ s.a. — 33 bcm/a

Nord Stream — 2 x 27.5 bcm/a

NS III, IV + 2 x 27,5 bcm/a

South Stream — 63 bcm/a

NABUCCO GAS PIPELINE — 31 bcm/a

What about regulation? /European level/

The Gas Target Model proposed by the CEER envisages the creation of functioning, physically connected, wholesale markets structured as entry-exit zones to facilitate the development of liquid and transparent virtual trading hubs across Europe.

Europe's gas companies continue to come under pressure from energy regulators determined to create a single market, but also from financial regulators.

European Autumn Gas Conference 11/2012 Vienna:

"It all sounds good in theory, but practical implementation will be hampered by the differences between national markets."

"Single integrated competitive internal European gas market is an impossible dream."

"Markets need to be able to walk before they can run"

Regulators and politicians decide that things aren't happening quickly enough and disrupt the process through more initiatives.

What about regulation? /National level/

Main tasks of Regulatory authority:

- **to set up fair prices**
- **to back up new investment in gas infrastructure**
- **to create efficient gas market rules**
- **to monitor and exercise supervision of gas market players**
- **to be independent**

Access to the particular segments of gas chain:

- **UGS negotiated**
- **Transmission network regulated /entry – exit system/**
- **Distribution network regulated /revenue cap regulation versus price cap regulation/**
- **Gas supplies for industry non regulated**
- **Gas supplies for residential non regulated**
- **Gas supplies for households non regulated except vulnerable consumers which have to be strictly defined**

Conclusions

Stable and **predictable** regulatory framework is paramount to overcome the barriers to investment in efficient gas infrastructure and to create single European gas market.

6. STREDOEURÓPSKY PLYNÁRENSKÝ KONGRES

6TH CENTRAL EUROPEAN GAS CONGRESS

Pod záštitou ministra hospodárstva SR Tomáša Malatinského
Under the auspices of Tomaš Malatinský, the Slovak Minister of Economy

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Thank you for your attention

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