SJWS#4 – 23 February 2016

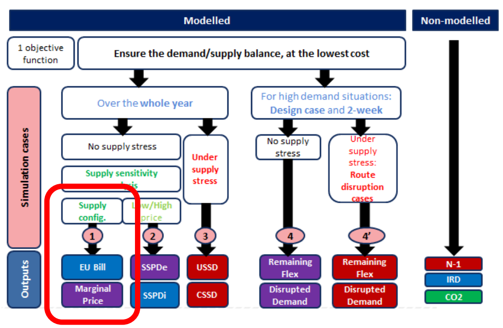
SJWS#4 – Import spreads configuration

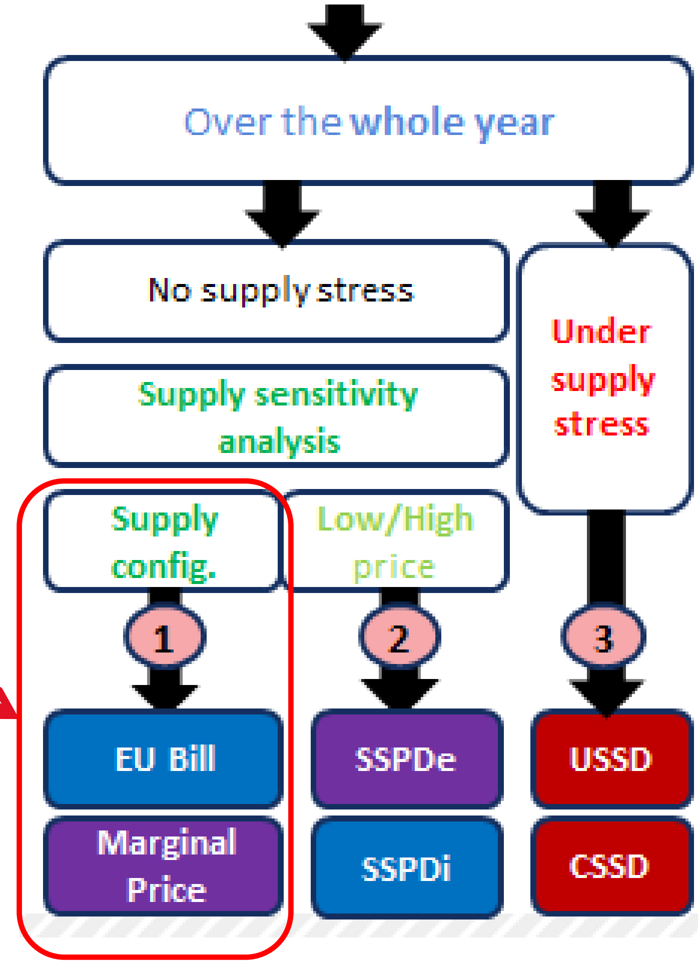
A specific price configuration allowing for further monetisation

ENTSOG System Development Area

Image Courtesy of Thyssengas

Overview of the whole year indicators





Reminder

- In SJWS#2 ENTSOG has proposed 6 “integrated market” configurations

Additionally, ENTSOG has developed a “non-perfect market” configuration

- It adds to, but do not replace, the integrated market configurations

Context

A need expressed by institutions:

European Commission

- is willing to support projects increasing **diversification and competition** for poorly diversified countries (high dependence to RU gas)
- Is looking for further monetisation

ACER

- has requested for further monetisation
- Has recommended that ENTSOG "consider a model which recognises the existing barriers, especially between markets where gas price differentials persist [...] as a starting point for the modelling"

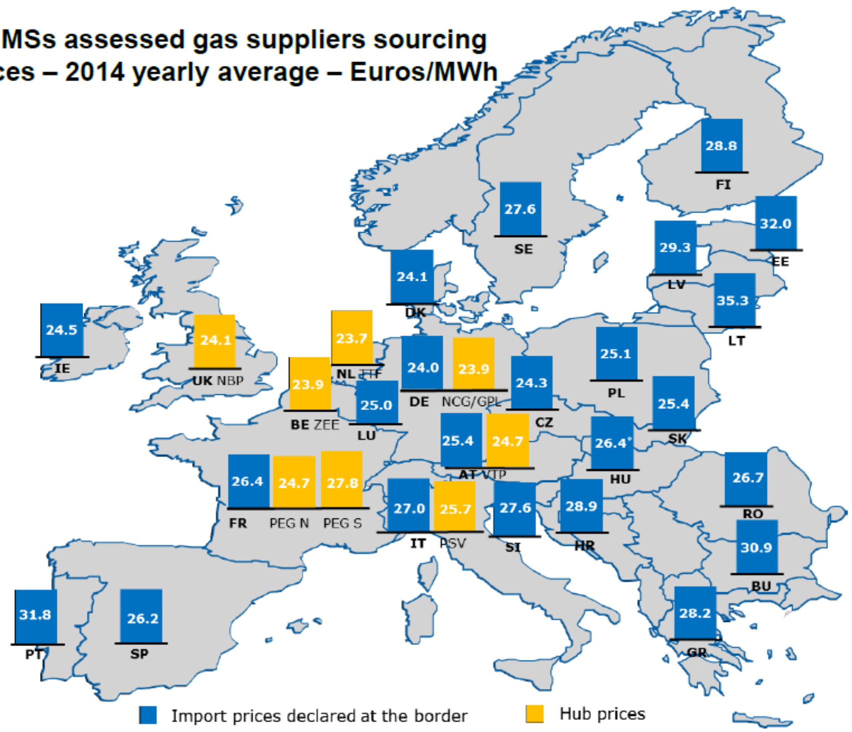
Context

Differences in suppliers’ sourcing price: an observed situation

ACER
Agency for the Cooperation of Energy Regulators

Countries with limited sourcing options and less developed hubs tend to have higher sourcing costs

EU MSs assessed gas suppliers sourcing prices – 2014 yearly average – Euros/MWh



- Differences in suppliers’ sourcing prices result in relevant gross welfare losses: MMR 2013, 7 billion euros
- Welfare gains to be obtained from further market integration

* Assessments work in progress pending final input/validation from some NRAs
SOURCE: Eurostat Comext, BAFA, NRAS, ACER methodology

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ENTSOG has developed a solution

It allows to reflect different supply prices depending on the import route

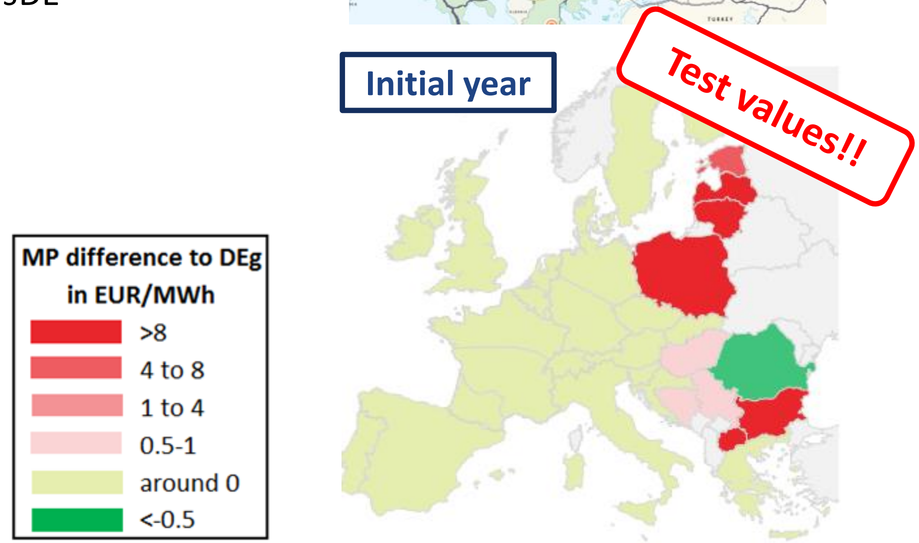
It allows to model projects' impact on monopolistic behaviour and value associated benefits

- It models a supplier's behaviour of preserving a sufficient market share (volume strategy) => a behaviour observed by studies (Oxford Institute) and market participants
- When a project bring a competing supply source, the supplier will align its price rather than loosing market share above a given level

The solution starts from an initial situation

- Based on **transparent information**, **different import prices** are set per route, at the border of EU
  - Import price to Germany (well-functioning market) set as the reference price (PRef)
  - For other importing countries, import price to each country will be set based on the price spread between this country and Germany (spread *AvsDE*)
    - Country A import price = PRef + spreadA*vs*DE

- Modelling of the initial situation will
  - Provide the countries marginal prices
  - Provide the initial import flows



The solution handles evolution of the situation

After the initial year, the situation will evolve when a project allowing access to a competitive source is considered

Assumptions retained to model the behaviour of the initially monopolistic supplier

> The supplier will maintain its import route pricing policy, although loosing volumes, up to the point of loosing **20%** of the volume delivered to the import point

> Beyond this point, the supplier will align its price to the competing source

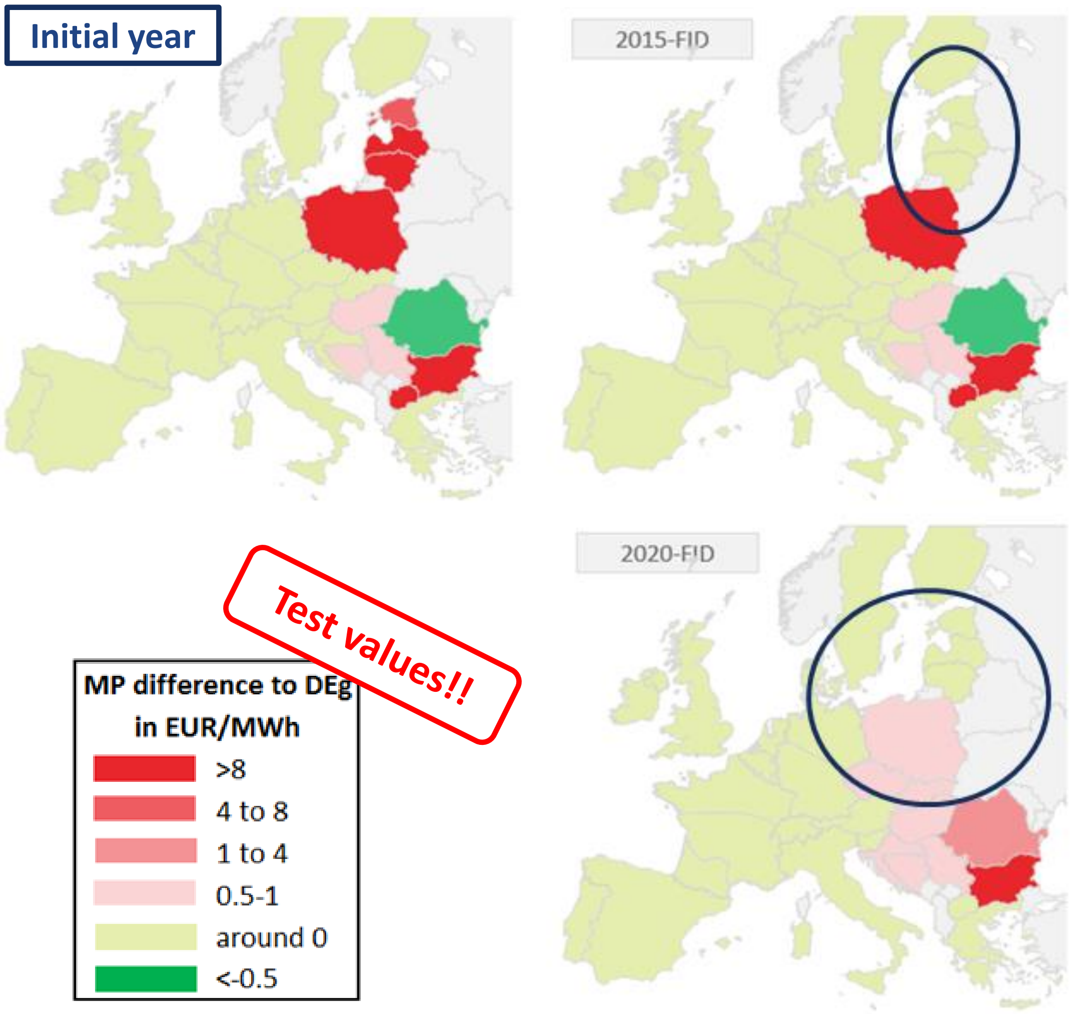
> The supplier adopts a **volume priority strategy**

Overview of results

The solution allows for modelling realistic impact of projects increasing competition

- At Energy-System Wide level in the TYNDP
- At project level in PS-CBA

- Modelled benefits for such projects will be monetised and will correspond to
  - The change in EU supply bill
  - The change in marginal price
  - The associated change in the consumer surplus



Conclusions

ENTSOG has developed a solution to the need expressed by institutions: a specific price configuration

- The solution has been tested and the ***outcome has been as one could expect***
- The solution allows to value projects increasing **diversification and competition** for countries with high dependence to a specific supply source
- Configuration's name:
  - **Import spreads price configuration**

This configuration is to be handled in addition to the existing « integrated market » ones

Thank You for Your Attention

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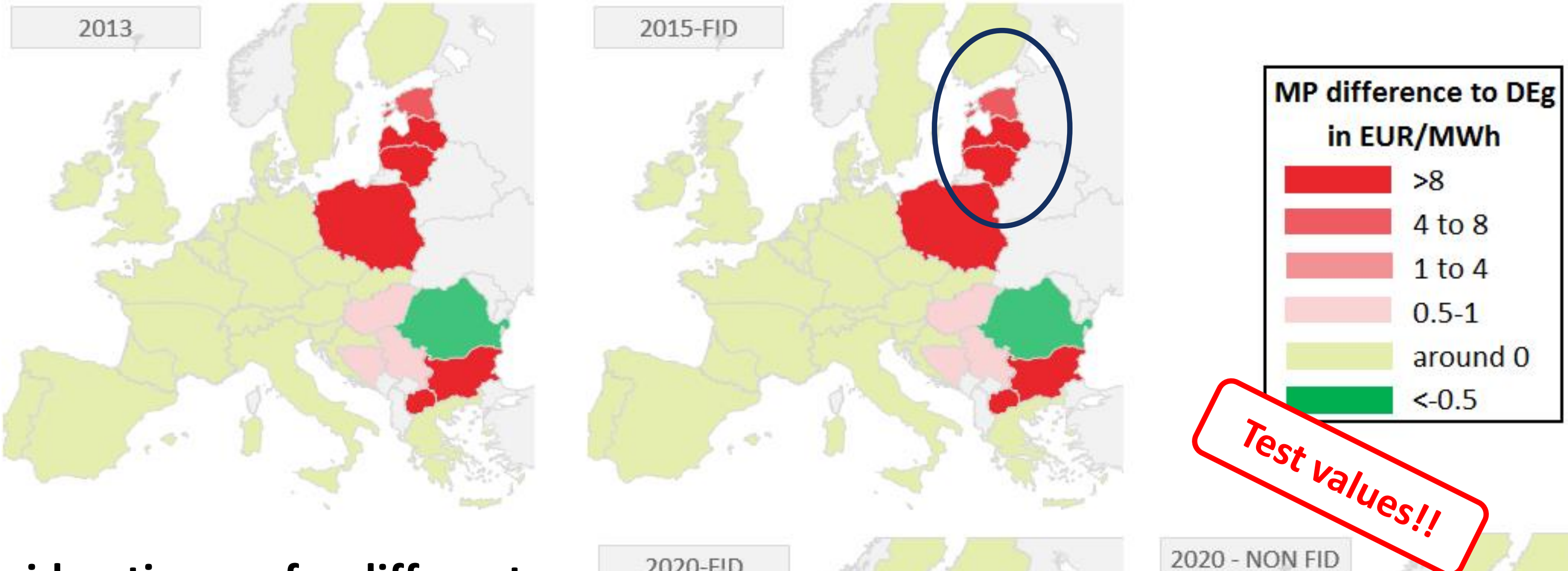
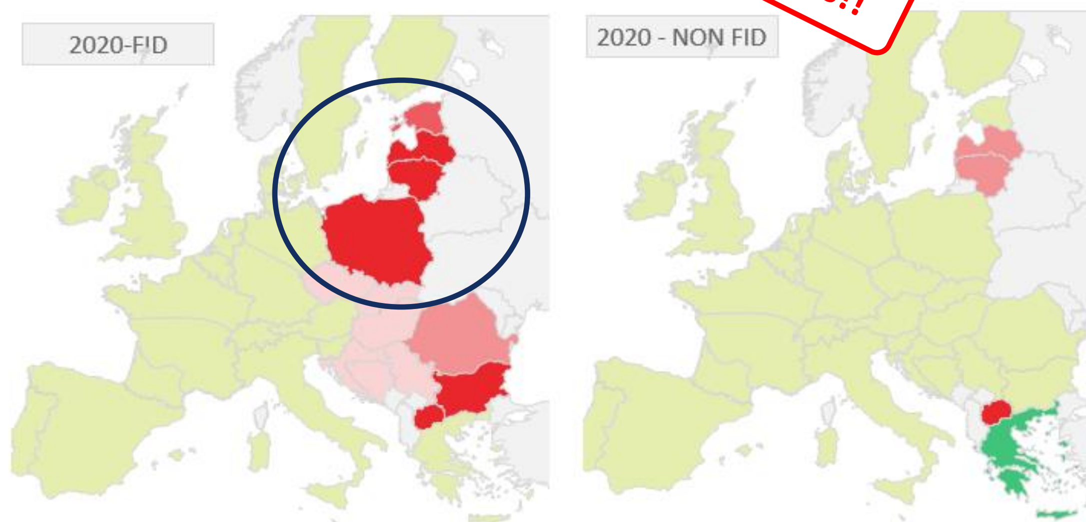
Back-up
Results under spread priority of supplier



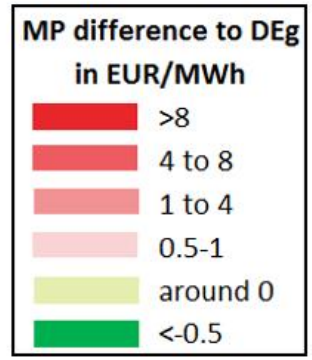
Consideration of different import prices:

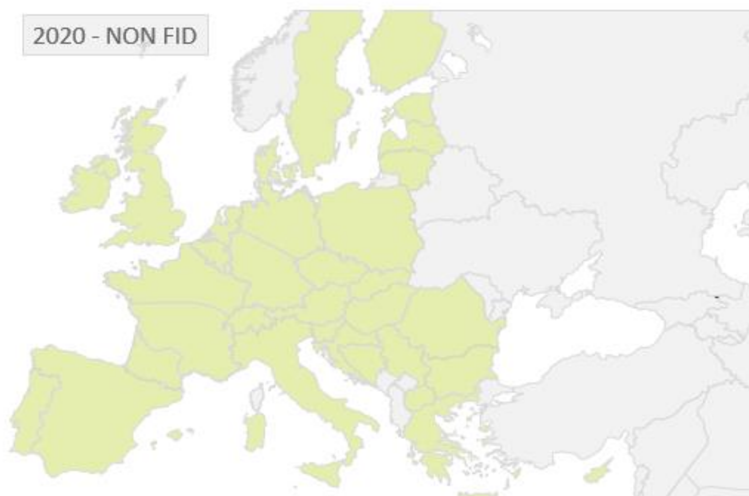
- Results if the supplier maintains its price, even when loosing volumes
- Marginal prices unchanged



Back-up

Results: standard RU expensive conf. (TYNDP15)





Standard price configuration:

- A single import price => All marginal prices aligned with Germany
- Does not reflect imperfect market integration