

# **GIE CONFERENCE VIENNA 2010**

**TSO COULD WORK FOR THE EUROPEAN  
PUBLIC INTEREST IN PARTICULAR FOR  
THE ESTABLISHMENT OF A GAS PRICE IN  
CONTINENTAL EUROPE**

# Who will pay the investments of the TSOs?

The investments of the TSOs have risen dramatically since the beginning of the deregulation process.

The corresponding costs are too high to be covered

- By improving the economic performance of the TSOs
- In lower margin of the wholesalers on the downstream market

# Who will pay the investments of the TSOs?

Arbitrage ( on short term basis) between suppliers could pay a large share of these investments, it is why open season were (are?) so successful

But:

- All suppliers and wholesalers use more or less the same price formulas indexed to oil in the LT contracts
- There was not enough non committed gas in 2008 and beginning 2009 to lower gas price except on a short term basis

Whereas, a drop in wholesale gas price ( on a medium term basis) compared to oil indexed LT contracts would far more than offset increase of transportation costs

European consumption 5000 Twh/year

A drop of 1€Mwh would pay 5 billion Euro of investment in infrastructure

# The wholesale price of the gas

Conditions are now there for this drop of gas price compared to oil indexed LT contracts

Two major changes :

- The shale gas in the U.S. created a ceiling price of gas beyond which the gas becomes available, the time to drill wells in the U.S.
- The start of LNG production in Qatar created the new gas that can be economically marketed at the price of shale gas

# The wholesale price of the gas

- The shale gas in the U.S. and the gas from Qatar create the conditions for a ceiling price of gas in Europe.
- If oil prices increase, the LT contracts may be too expensive relative to the medium term market

Nevertheless

→ This created the conditions for economic success of deregulation in Europe ... if Europe has a medium term market price in which suppliers and wholesalers have enough confidence to use it ( at least partially) in their LT contracts

# The wholesale price of the gas

There is no medium term relevant index in continental Europe

- The NBP is subject to capacity restrictions between UK and the continent and the fact that the UK stores its gas on the continent
- The short term markets in continental Europe are too volatile and are as much the price of the flexibility that the price of gas. It is not relevant to LT contracts. There 's no real futures market on the continent

# What could do the TSOs?

- Remove physical network congestion
- Enable easy access to each network (i.e. get easy use capacity and balancing rules)  
→ That is ENTSOG's rôle
- Promote ease of cross-border gas flow (e.g. bundled products and medium term say 1 year ahead means to confirm cross-border flows)  
ENTSOG's , GRI's or TSO's role?
- Develop or at least support transnational gas exchanges/platforms

# The regulatory framework needs an adjustment

- As the TSOs are rewarded only for investment (pipes and compressors stations) they will cut costs and will separate from knowledgeable team that could facilitate the establishment of cooperation
- The TSOs should be rewarded for doing the right thing, supporting the European public interest. The expected return by lowering the relative price of gas is no relation to the cost of the teams who could participate in the creation of a real gas market in continental Europe

# Conclusion

**I suggest to set up a project between TSOs,  
backed by regulators to identify issues of  
European public interest, including notably the  
creation of this medium term index of prices in  
Europe**