Poland's Dystopian Gas Market: Analysis

Poland's gas market has not liberalised to the extent that many of its neighbours have; and prices are several euros/MWh higher than in the closely correlated northwest-European hubs as the national incumbent PGNiG has such a strong grip on the market. This would explain the Stockholm arbitration tribunal's decision not to grant PGNiG's request to move its Gazprom contract from oil to hub pricing, former RWE Transgaz CEO Wolfgang Peters told *NGW* in an interview July 4.

"By locking up their market, they have deprived themselves of the most powerful argument you can have in a price review arbitration: the 'demonstrably achievable price', namely the wholesale traded market price at the point of first sale, the wholesale market."

While he was at RWE Transgaz he had to watch as the 9bn m^3/yr Czech market was flooded with gas from the 40bn m^3/yr transit system, when the EU entry-exit system was introduced by the regulator and unbridled virtual reverse flow from the German NCG hub was unleashed. "At times we were losing in the millions per day," he said. "But in hindsight, the key thing was that we had to draw blood first before we could have an arbitration with Gazprom with any prospect of success. The equalisation of Czech wholesale prices with Germany's NCG enabled us to prove that that was the best achievable price, against which the Gazprom price could be measured by the tribunal. Poland has done the opposite."

His consultancy *The Gas Value Chain Company* has written a study on Poland's gas market, describing it boldly as a 'failed state' in gas trading. He began it as a personal search for transparency, but the more people he spoke to, he said, the more offers of advice and data he received: "The enormous feed-back and additional information I got saw the intended paper evolve into a market study."

From whatever perspective you look at it, the market is not working there, he says. Traders, who normally can be relied on to arbitrage price differentials between adjacent hubs away, have left the country as the government's compulsory storage booking terms are up to four times more expensive per unit than in other countries where storage is moreover mostly optional. Moreover, the alternative use of cheaper foreign storage was to be combined with firm transport booking not to be used for other purposes, creating potentially millions of losses. This aspect is being investigated by the European Commission on grounds of 'unduly distorting competition and hampering the functioning of the internal market'.

According to Peters, the country has five distinct sources of supply but can theoretically meet all its demand of some 19bn m^3/yr from domestic production and non-Russian import sources alone. Hence, the repeatedly alleged 'Russian dependency' is groundless. Nonetheless, it has received public money for new infrastructure, not least an expansion of its LNG terminal and also the so-called 'Baltic pipe', which would tie into the existing Norwegian Europipe 2 offshore Denmark.

Peters says this ignores the achievements of the single European gas market, in that the same result could be achieved for a few cents/MWh by booking entry into the German Gaspool hub at Dornum and exit at Mallnow into the Polish hub. “I cannot help but call this ‘ideological physicality’”, he says. Besides a substantial investment into the various parts of the Baltic Pipe considerable investment in the Polish grid would also be required.

Moreover, the respective feasibility studies appear to have overlooked the most important element of this scheme: Europipe 2 itself. The sober Norwegian offshore pipeline operator Gassco would only take money in hand if backed up by the sale of additional Norwegian gas: “PGNiG claims to have ‘firmly booked’ 80% of the Baltic pipe capacity for 20 years at a cost of some €1.8bn ($2,1bn). Absent a corresponding commodity purchase, this looks like a looming multi-billion commercial blunder,” Peters says.

Peters suspects Poland is pursuing a ‘hidden agenda’ by aspiring to become the ‘pivotal hub’ for the Baltic and neighbouring central-European states as well as possibly Ukraine. “If Poland were, for the sake of argument, indeed allowed to become *the* ‘pivotal hub’, it would be like putting the ‘fox in the henhouse’ in that Poland might charge above-market premium to these countries as is the case in Poland now.”

Nord Stream 2

PGNiG’s other attacks on Gazprom have been directed at its Nord Stream 2 project, which it has portrayed – apparently convincingly – in presentations to US government and European foreign ministries as a military fashion ‘pincer movement’ aimed at Poland (and Europe at large), which Russia may use to cut off Poland from competitive markets in the west. This though is fanciful, Peters says, as the free flow of gas across Europe makes molecules ‘anonymous’ once they are in the grids comprising virtual trading points.

“All I can see is further increased liquidity in the German hubs Gaspool and NCG, which will shortly merge. Poland could take advantage of this by enhancing virtual reverse flow from these markets into the Polish hub by back-haul in the Yamal transit line.” Poland, unlike Ukraine, has conducted a ‘vitriolic’ campaign against all Russian gas not matter what and appears not to care for a continuation of its Yamal gas transit business, and the revenues it brings.

Poland is isolated by its own hand, he says: The absence of market integration is merely the consequence of the barriers to free cross-border trade and free trade at the Polish wholesale market put up by Poland. This has consequences also for the Polish retail market, which must qualify as the ‘perfect storm’ of a commercial ‘no-go’ area due to ‘margin squeeze’ or ‘predatory pricing.