



Gas and the Energy Union – Roads ahead - Three Observations -

SWP Expert Talks: European Gas Markets – Getting the Balance Right between
Demand and Supply, Geopolitical Challenges and Market Realities
Berlin 13 September 2018

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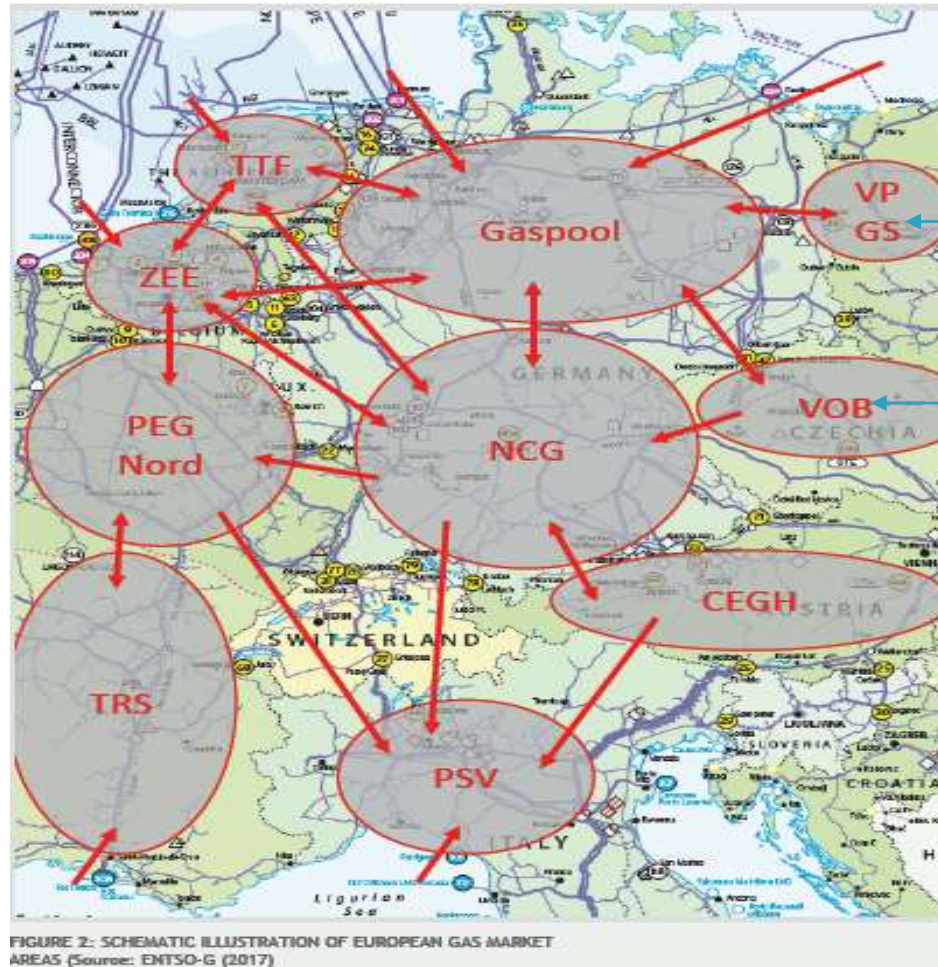
Managing Director, The Gas Value Chain Company GmbH, Germany

Three Observations

- ▶ **Single European gas market: more than meets the eye**
 - Progress of market integration and price convergence
 - Security of supply turned global: LNG ‘revolution’
- ▶ **‘Disbelieving Thomas’ not trusting own achievements**
 - Those who helped achieve: lack of confidence in markets
 - Those who obstruct: barely challenged, collecting further subsidies
- ▶ **Energy Union: gas in the ‘dirty fossil corner’**
 - Role of natural gas in energy transition underrated

Single European gas market: more than meets the eye

OIES: NWE 'integrated transnational market behaving like a single price area' – only **Poland is not part of it**



Source: ewi Central European Gas Market Congestion Analysis

Single European gas market: more than meets the eye

Proliferation of narrow hub price correlation year on year

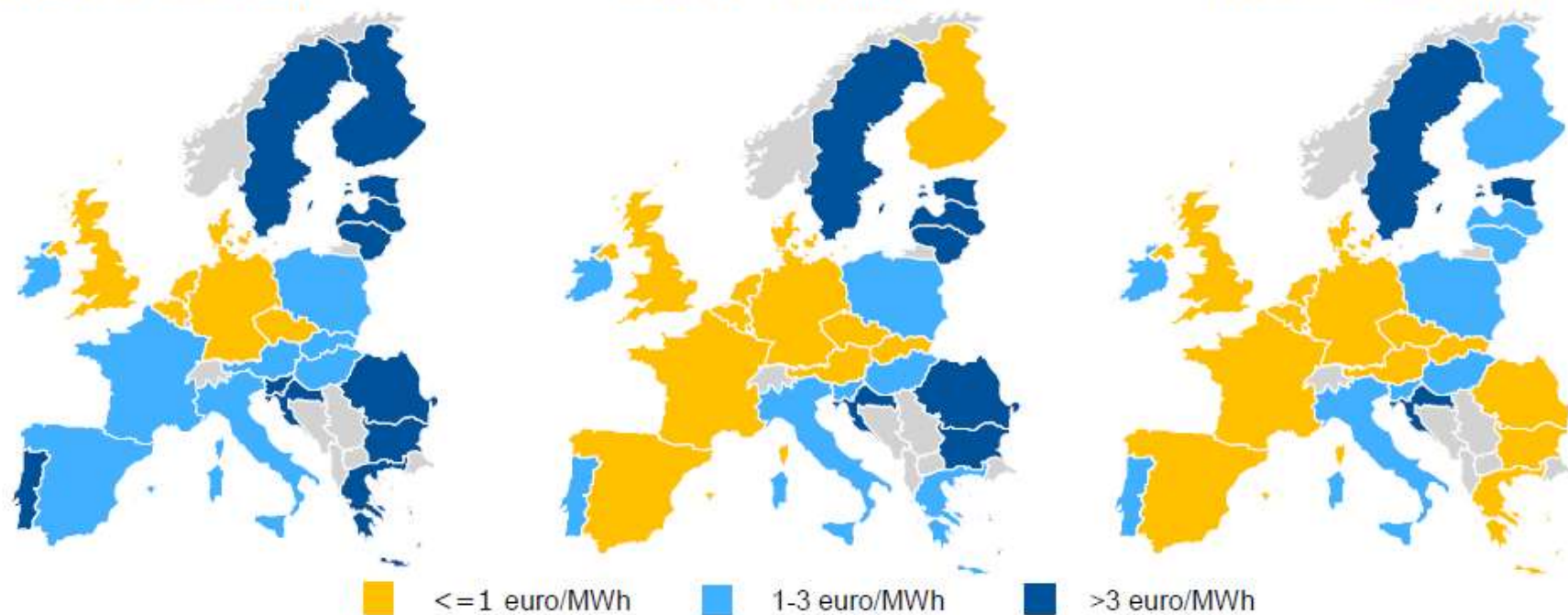
Gas supply sourcing costs continue to decrease and converge

Calculated gas sourcing cost* compared to TTF - estimates

2014: TTF = 23.7 € /MWh

2015: TTF = 21 € /MWh

2016: TTF = 15.5 € /MWh

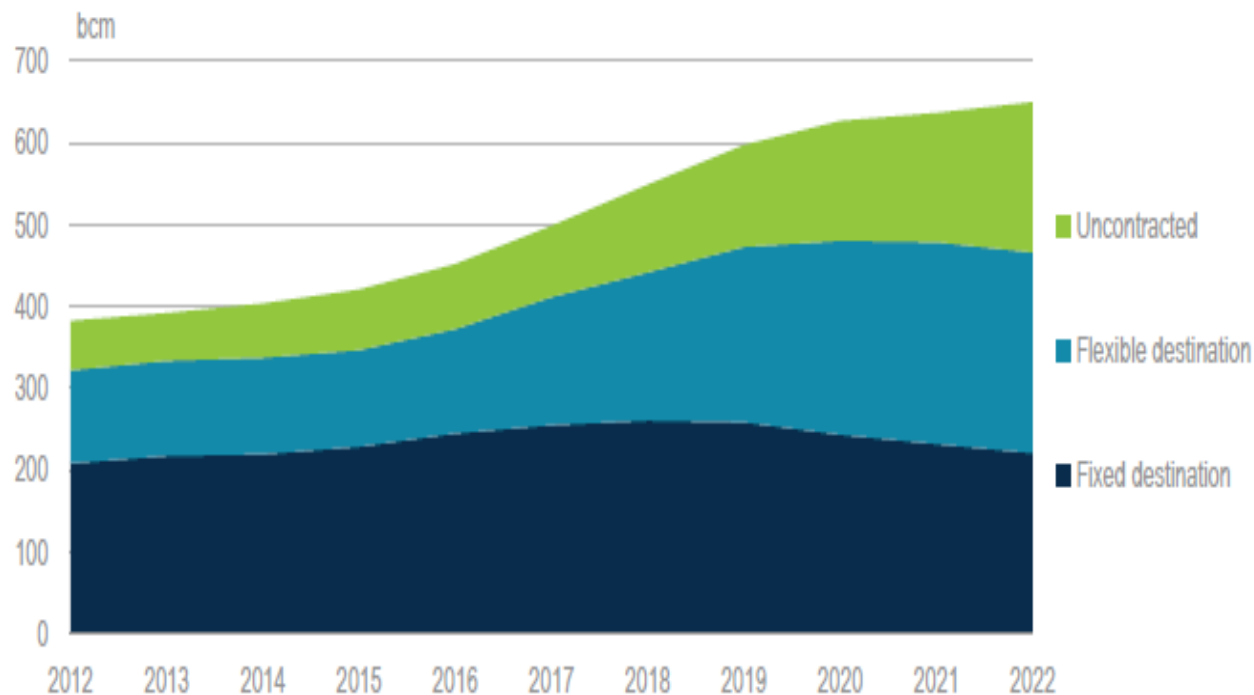


Source: ACER MMR 2017

Single European gas market: more than meets the eye

Security of supply has turned global: LNG increasingly 'destination-flexible', responding to price signals

Figure 2.10 • LNG export contract volumes by destination flexibility, 2012-22

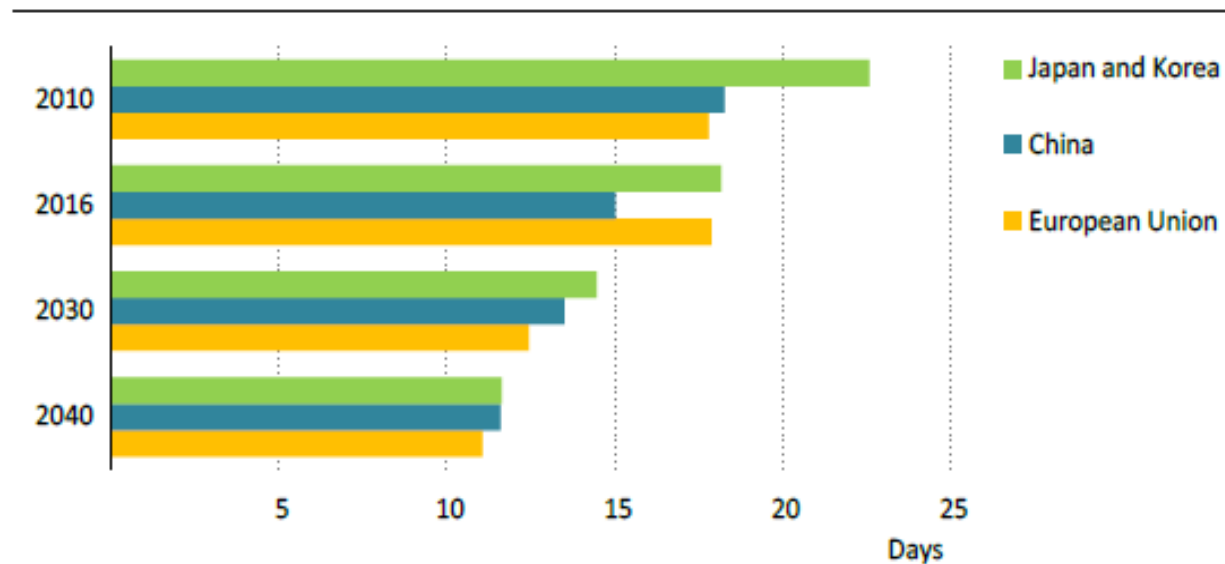


Source: IEA Global Gas Security Review 2017

Single European gas market: more than meets the eye

LNG response time significantly reduced

Figure 9.14 ▶ Estimated average time to procure an extra 10% of LNG import volumes by selected importer in the New Policies Scenario

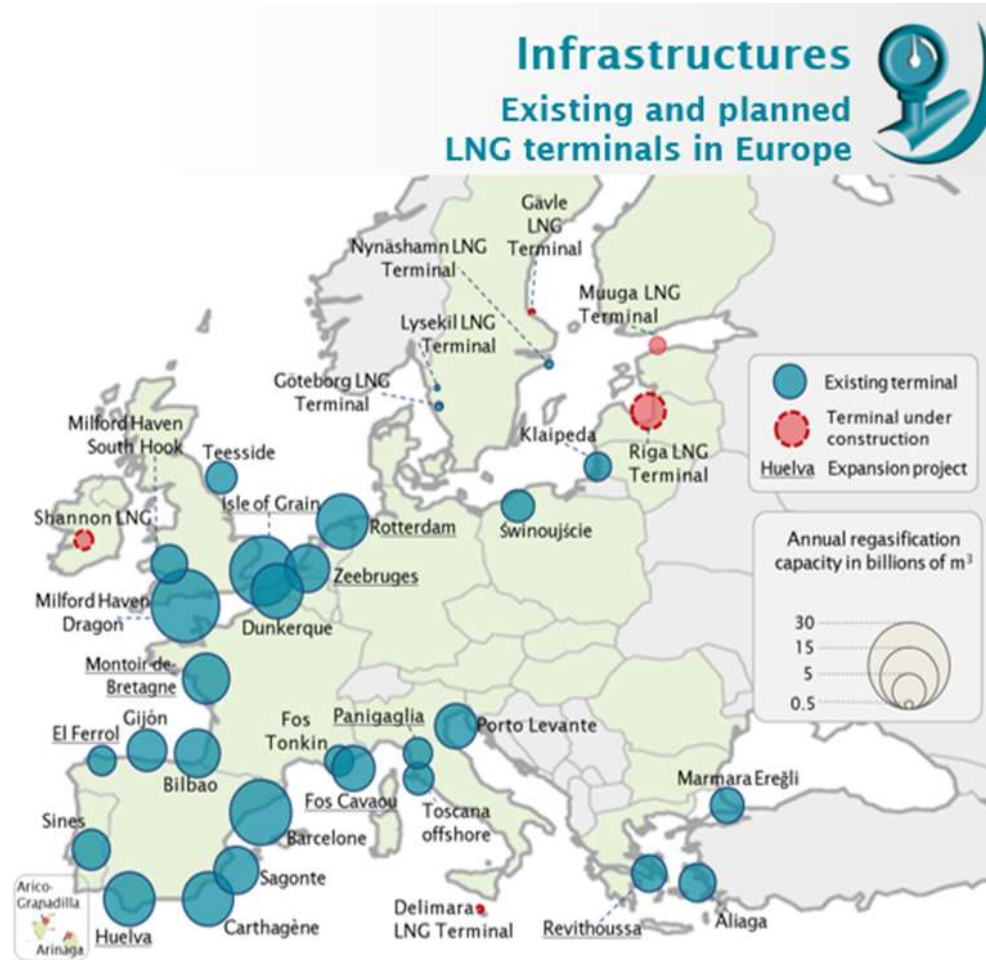


As LNG trade expands and becomes more diversified, major LNG importers are able to meet an unforeseen 10%-spike in their LNG import demand in much less time than today

Source: IEA WEO 2017

Single European gas market: more than meets the eye

Redundant import capacity: 210 bcm/a of LNG regas terminals (~75% idle)



Source : GIIGNL (2016), GLE (2015)

Source: GIE LNG Map 2018

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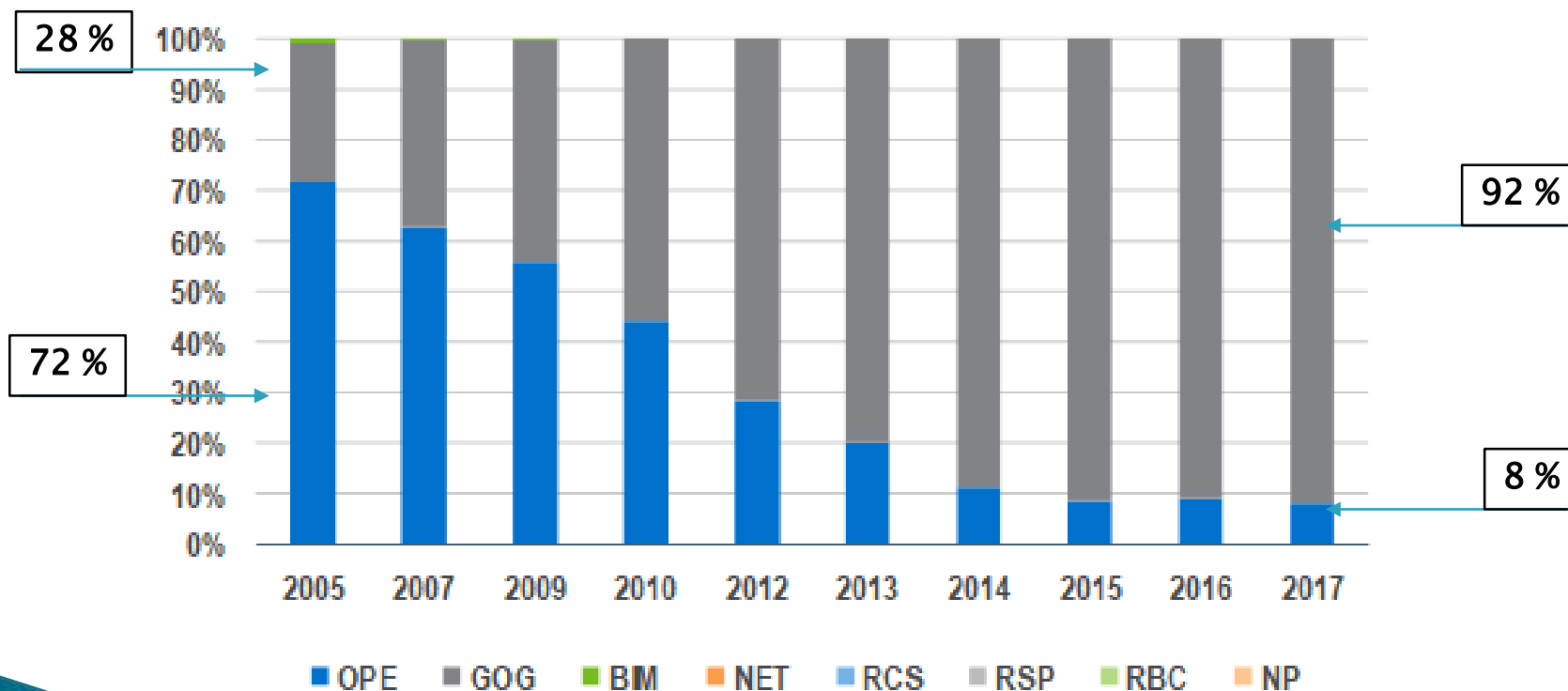
Disbelieving Thomas not trusting own achievements

Those who helped achieve: lack of confidence in markets

E.g. the Russian physical market share (dominance-) phobia

IGU: 92% GOG, only 8% OPE (Russian supply share >30%)

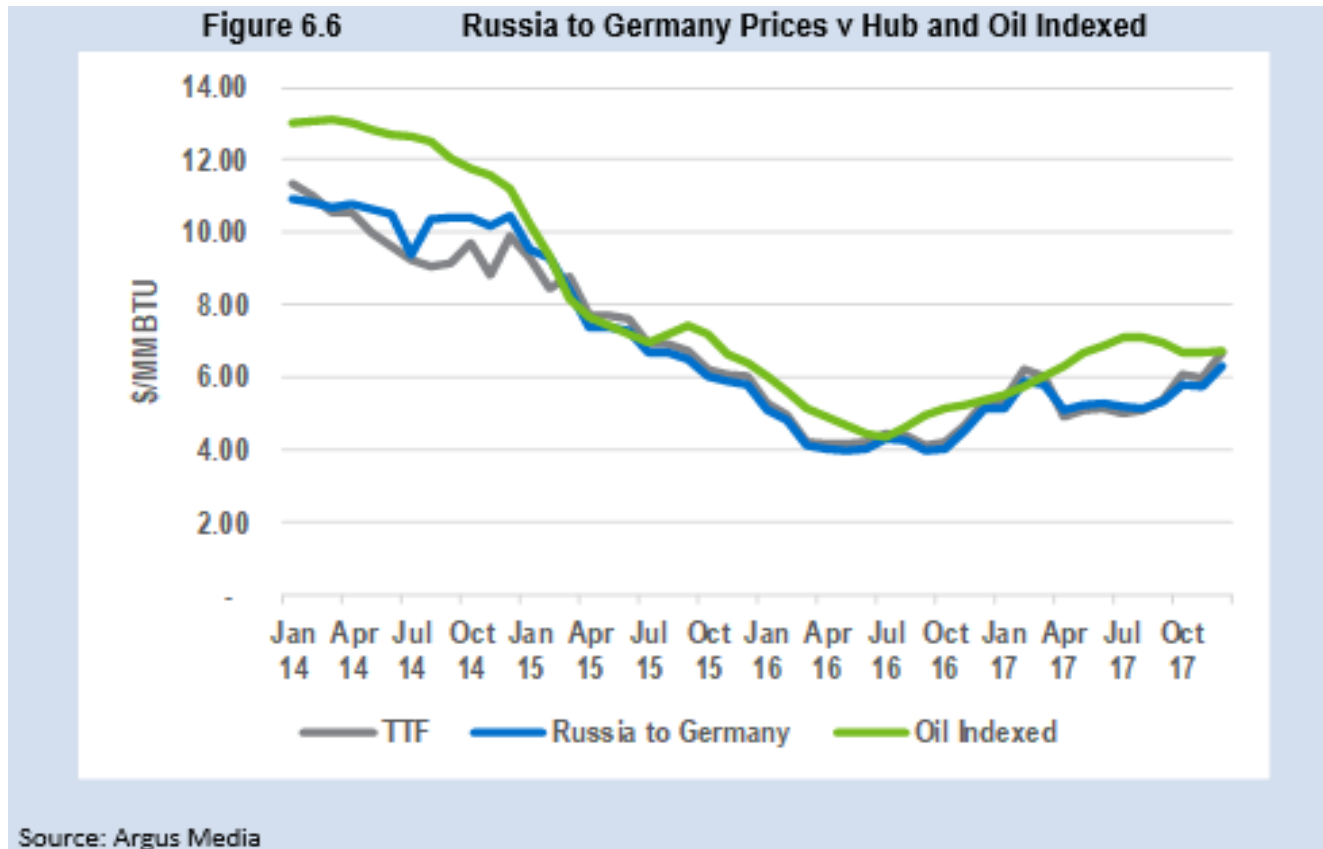
Figure 6.5 Northwest Europe Price Formation 2005 to 2017



Source: IGU Wholesale Gas Price Survey 2018 Edition

Disbelieving Thomas not trusting own achievements

Russian gas to Germany 2017: >30% share; 100% TTF correlation
Crucial: how the receiving market deals with price formation



Source: IGU Wholesale Gas Price Survey 2018 Edition

'Disbelieving Thomas' not trusting own achievements

Those who obstruct: barely challenged, collecting further subsidies

E.g. Poland market lock-up: >20 traders surrendered licence

PGNiG market concentration & price spreads rising

PGNiG GROWS SHARE OF POLISH GAS IMPORTS FROM EU

	EU hub imports (TWh)	% of which under PGNiG
Q1 '16	7.79	6.2
Q2 '16	5.03	0.9
Q3 '16	7.33	30.4
Q4 '16	8.43	6.3
Q1 '17	6.03	21.9
Q2 '17	8.27	44.4
Q3 '17	16.23	74.9
Q4 '17	11.94	67.6

Source: GAZ-SYSTEM, GASCADE, PGNiG, ICIS assumptions

POLISH HUB PREMIUM TO GASPOOL RISES

	Average VPGS M+1 premium to GASPOOL (€/MWh)
Summer '15	1.27
Winter '15	1.29
Summer '16	1.00
Winter '16	1.58
Summer '17	1.41
Winter '17	2.15

Source: ICIS, TGE

Source: ICIS Heren, EGM 25.09 of 15 May 2018

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Those who obstruct: barely challenged, collecting further subsidies

GVC market study:

Poland, a 'failed state' in gas trading

Poland's deliberate obstruction of European traded gas market integration and its misguided quest for diversity hinging on 'ideological physicality'

by Wolfgang Peters, in June 2018

<http://gasvaluechain.com/cms/wp-content/uploads/2018/07/GVC-Market-Study-Poland-06-18.pdf>

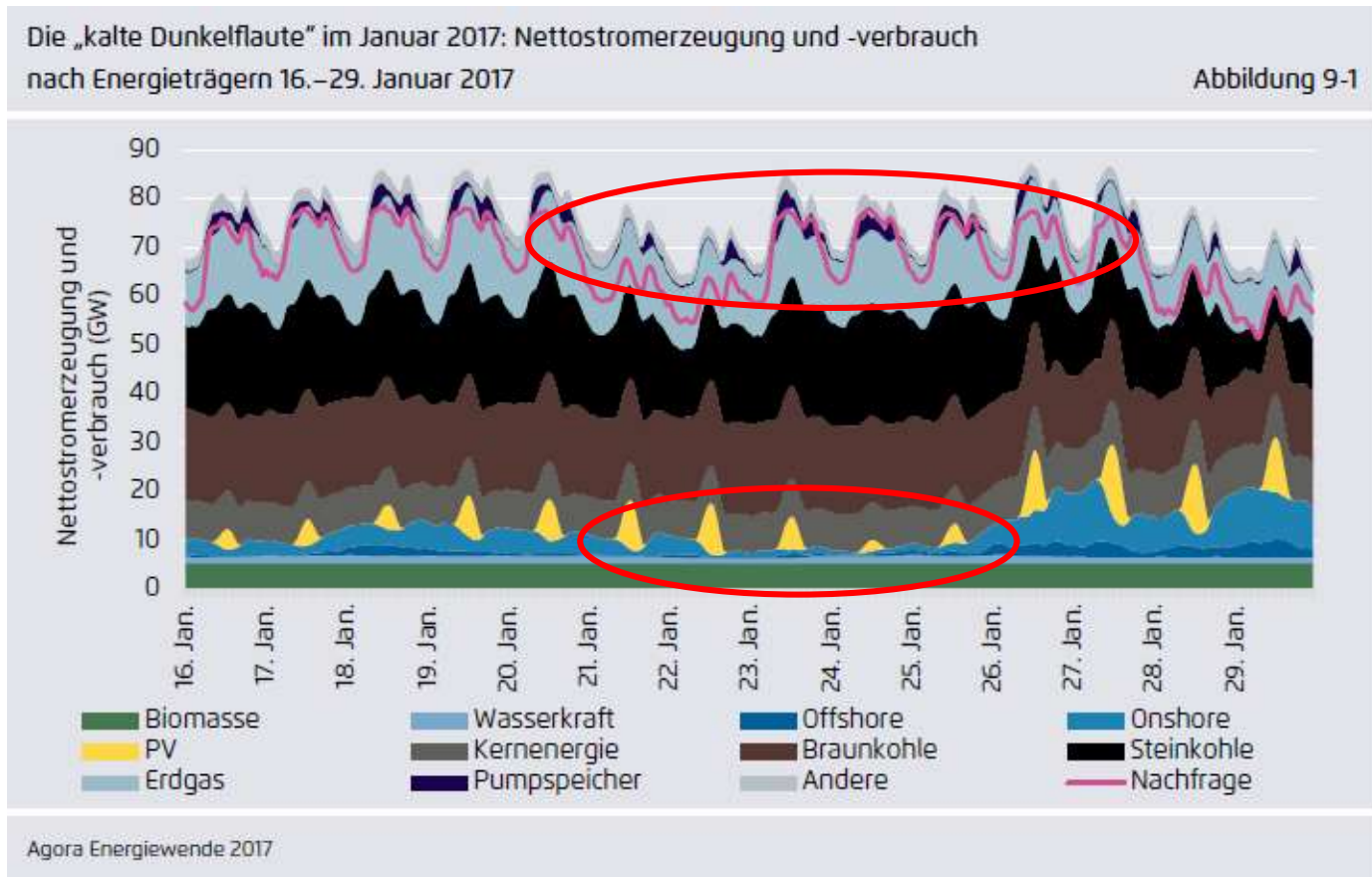
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Energy Union: gas in the 'dirty fossil corner'

Role of gas in energy transition underrated:

'Kalte Dunkelflaute': no wind, no sun – gas saves the day



Source: Agora Energiewende 2018