

# EUSERS SUMMER SCHOOL

Performance and Governance of Services of General Interest.

*Critical perspectives on Energy, Telecommunications, Transport and Water Reforms in the EU*

*June, 27<sup>th</sup> – July 1<sup>st</sup> 2016*

## *The complex equation of the gas free market : The energy Icarus ?*

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**Milan, 29 June 2016**



JEAN MONNET NETWORK

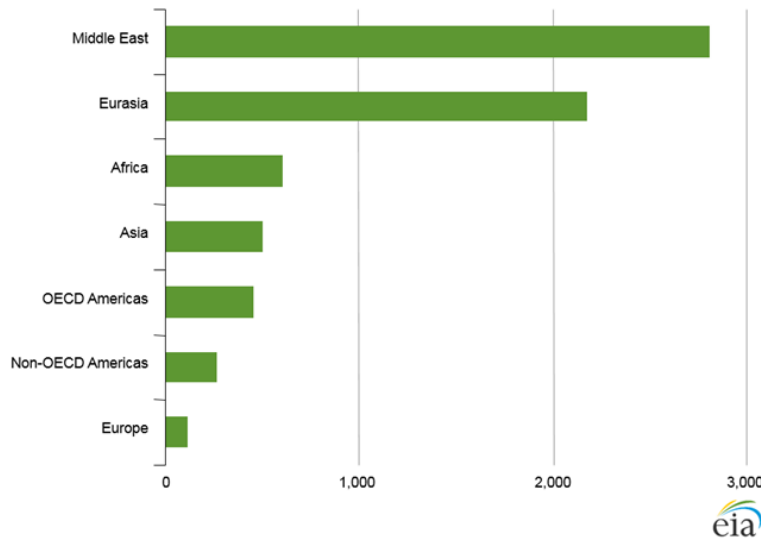
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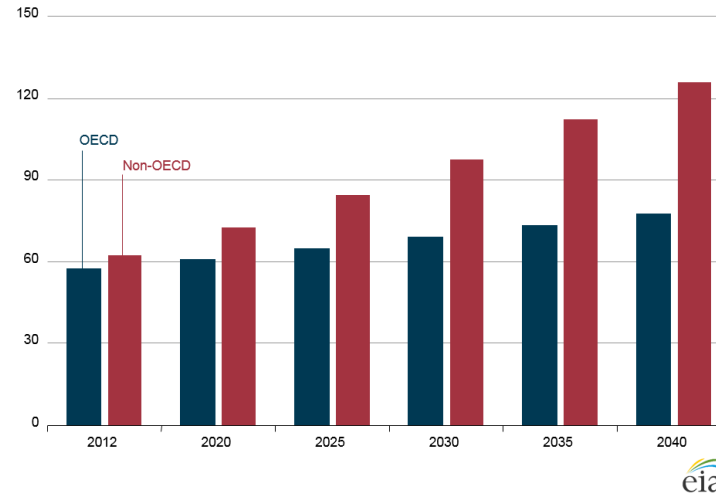
# Overview of the gas market : nothing can be done without the (far) neighbors

Figure 3-38. World proved natural gas reserves by region as of January 1, 2016  
trillion cubic feet

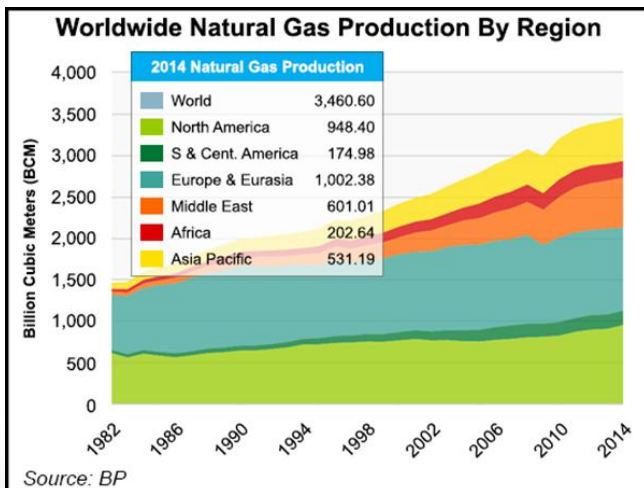


Gas reserves unequally distributed in the World

Figure 3-1. World natural gas consumption, 2012–40  
trillion cubic feet



Slight increase of consumption in Europe



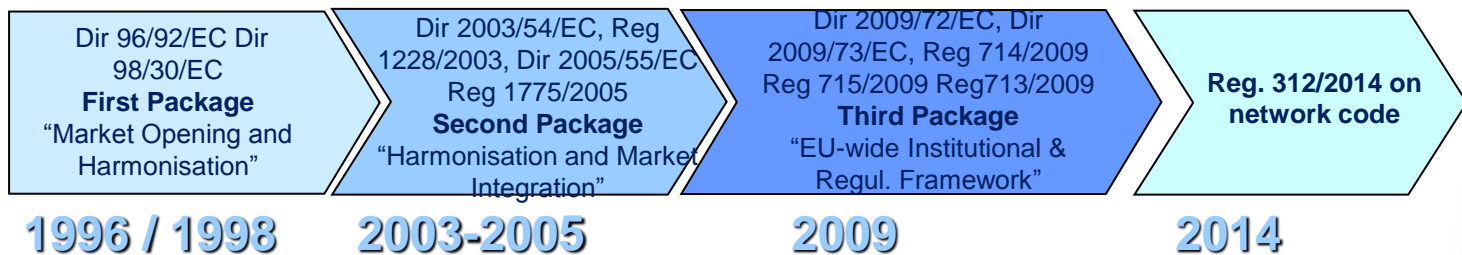
Gas production unequally distributed in the World

*The EU imports 53% of all the energy it consumes at a cost of more than €1 billion per day. Specifically, the EU imports 66% of its natural gas*

# The main steps of transition to a free market in Europe...

- 1990: EU Council Directive 90/377/EEC Transparency on gas and electricity prices for industrial end-users
- EU Competition law (*ex post* control, especially since 2007) : E.On and GDF Suez gas market sharing cartel (2006) ; Distrigas and Belgian gas market (2006) ; Gazprom (2012) etc...
- Gas sector inquiry by DG Competition (June 2005)
- EU gas sector regulation (*ex ante* control) with the aim to create a free market where customers would have plenty of supplier choice in the EU :

**Time chart of main EU laws on energy markets liberalization**

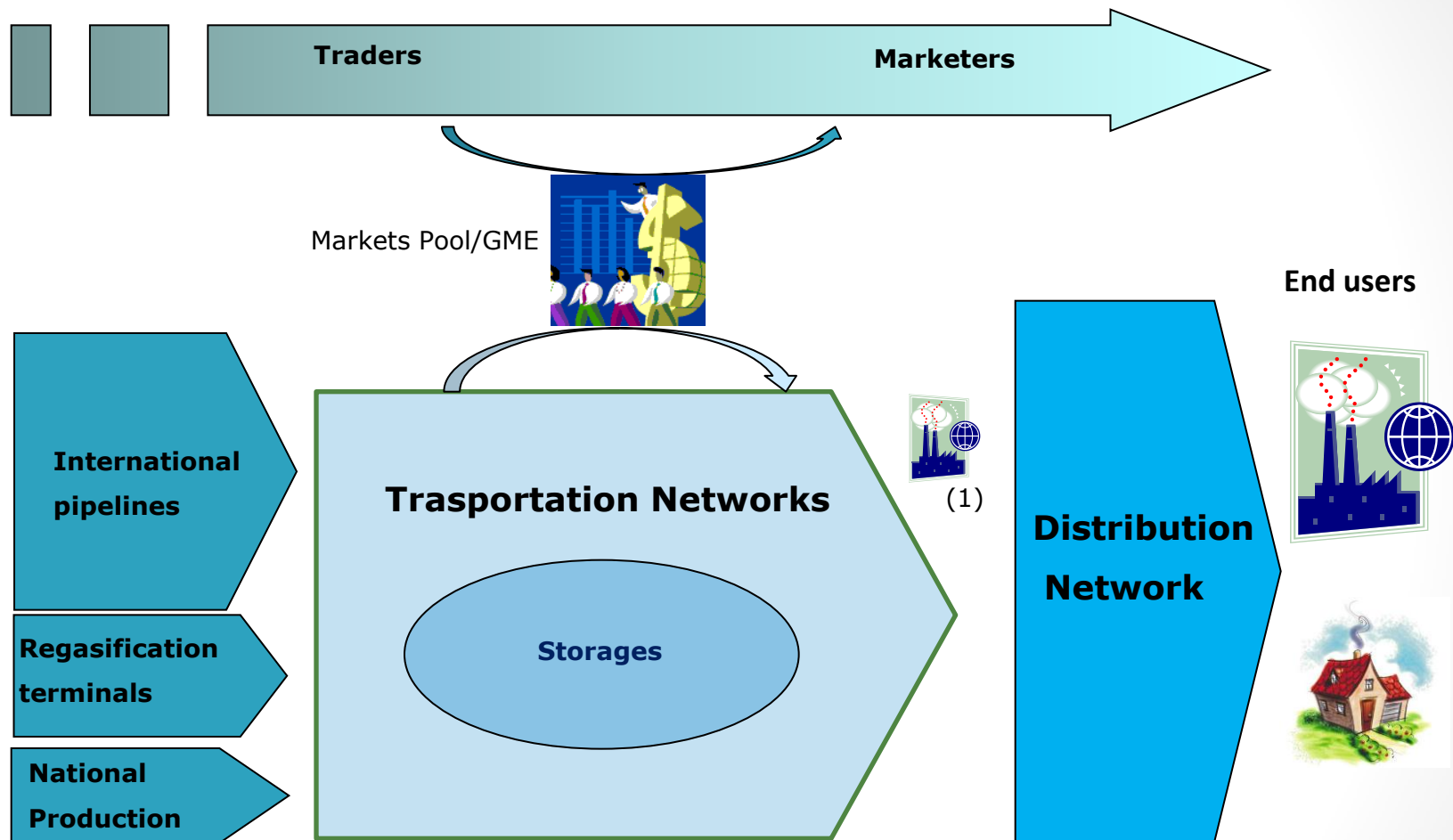


## **Security of supply :**

- Regulation (UE) n. 994/2010 dated 20 October 2010 concerning measures to safeguard security of supply ;
- Energy security stress test in 2014

**Transparency :** REMIT (regulation on wholesale markets integrity and transparency, 25 October 2011)

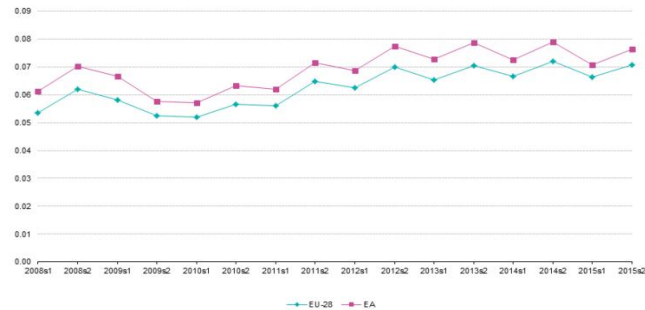
# The gas market organization (example of Italy)...



(1) Some industrial end users are directly connectd to the trasportation network

# The results for households...

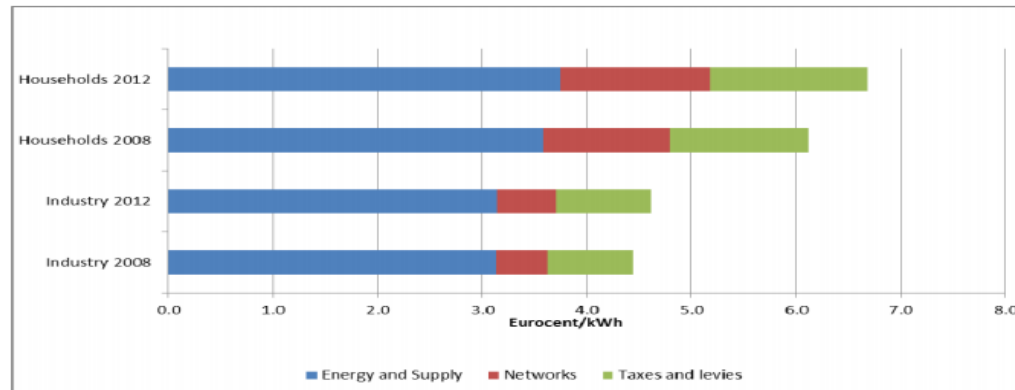
Evolution of Eu-28 and EA price of natural gas for households in the last 8 years, source : Eurostat



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“In the EU on average, household electricity prices have risen 4% a year for the last five years (2008- 2012). In most Member States, this is an increase above inflation. **For gas, household prices have risen 3% a year**, again above inflation for most Member States” (COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Energy prices and costs in Europe , 29 January 2014)

Gas price evolution by component 2008-1012



Source: EC, Metadata Member States. Includes taxes in the case of households; excludes VAT and other recoverable taxes in the case of industry.

Who's guilty ?...

## The remaining regulated price ?

«In retail market opening is still held back by end-price regulation» (EU Commission, price developments on the EU retail markets for electricity and gas 1998 – 2011)

“On the basis of this analysis, the Commission has come to the preliminary conclusion in its Statement of Objections that the specific price formulae, as applied in Gazprom's contracts with its customers, have contributed to the unfairness of Gazprom's prices: Gazprom's specific price formulae which link the price of gas to the price of oil products seem to have largely favoured Gazprom over its customers.” (Commission DG Comp statement of objection to Gazprom, 22 April 2015)

## The dominant companies ?

## The wholesale market vs retail market ?

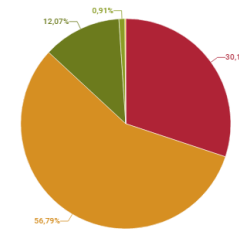
“ In contrast to these retail developments, in the period 2008-2012 wholesale electricity prices declined by between 35% and 45% on the major European wholesale electricity benchmarks. **Wholesale gas prices have fluctuated, falling and then returning to earlier levels, so no price increases were evident over the whole period (...)** price competition in a number of retail markets is weak, allowing suppliers to avoid passing on wholesale price reductions to retail prices. “ (Idem Communication from the Commission dated 29 January 2014)

...There's no clear answer but likely a combination of factors.

# The « role » of the incumbents... splitting and fighting

The State divestitures, eg. ENI from full control in 1995 to 30,1% share in 2016 – But special powers through Law n. 474 dated 30 July 1994 (*golden share*)

Struttura del capitale sociale risultante dal pagamento del dividendo in acconto dell'esercizio 2015 (aggiornamento 11/01/2016)



● Azionista Pubblico ● Investitori Istituzionali ● Investitori Retail ● Azioni proprie ● Segnalazioni nominative non disponibili



The split because of unbundling obligation per EU Directive, eg. ENI vs SNAM (transportation, storage and regasification) started from full control in 2001 to 0,02% share in 2016

Like any competitor fight with foreign suppliers, eg. Gazprom and Sonatrach

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**E.ON reaches settlement with Gazprom on long-term gas supply contracts and raises Group outlook for 2012**

07/03/12 | Filed in: [Gas](#), [Finance](#)

- Settlement includes retroactive adaptation of pricing conditions for price review period since Q4 2010
- For the full year 2012 E.ON now expects an EBITDA between €10.4 and 11.0 bn in 2012 (until now: €9.8 to 10.2 bn) and an underlying net income between €4.1 and 4.5 bn (until now: €2.3 to 2.7 bn)

3 questions and thinkings for the future...

nationalgrid



...are the sc. *facilities* company (transportation, storage, regasification, distribution for the gas market) the new «State company» ?

TIGF



...is the «*security of supply*» the new boundary of public – private partnerships ?



...is the end of the regulated price for households the very last try ? What happens if it fails and gas prices continue to rise ?





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