



## **A Road Map towards a competitive gas market**

### **Preamble**

Romania has committed to liberalize the gas and electricity markets this decade. A significant legislative and regulatory effort is required to allow the country to move smoothly from a regulated market to a more free and competitive gas market. As part of the market liberalization process, a calendar of deregulating the prices of domestically produced gas has been agreed with the international organizations. The commitment of the Government to the implementation of this calendar, especially regarding sales to the household and the heat production sectors, is important. Such a commitment will give trust into an effective transition to a fully competitive market. The Foreign Investors Council would also like to draw the attention to the importance of timely and adequate implementation of several policy instruments, which are currently missing or underdeveloped, and which are equally essential for the functioning of a free and competitive gas market.

### **1. The definition of vulnerable consumers**

To facilitate the transition from regulated to market-based gas prices, an effective support mechanism for vulnerable consumers in need of direct financial support should be enforced. The current system of addressing consumer protection through regulated prices for all is inequitable, detrimental to the security of supply as it discourages natural gas exploration and production and deferring improvements in energy efficiency. FIC recommends that authorities should implement, with priority, a support scheme for clearly defined vulnerable consumers.

### **2. Development of the wholesale market**

The wholesale gas market remains very illiquid (in terms of number of transactions and volumes) despite the opening of two commodity exchanges and the large quantities either offered by gas producers or requested by suppliers since 2014.

The development of the wholesale market, which must implement diversified and flexible products to allow suppliers to balance their portfolios, will also provide indications about settlement prices of the market, ensuring adequate transparency of transactions, by providing also information signals to be used for bilateral transactions and increasing competition in the wholesale and retail market. In this respect, Romanian Authorities should take the lead and in cooperation with centralized market operators and the industry to develop different trading products on the centralized trading platforms in order to increase the attractiveness of the centralized platforms for gas trading. In competitive markets with penalizing balancing regimes, the long-term contracts should be complemented by a liquid gas trading hub for domestic and import gas where suppliers could easily access intraday, day-ahead, week-ahead, month-ahead, quarter-ahead or year-ahead contracts

To facilitate the development of trading at wholesale level, the effective implementation of a daily balancing regime as recently consulted by ANRE is essential: such regime will create the need for shippers to buy or sell gas on a daily basis to balance their portfolios, and will kick-start a corresponding short term trading



### **3. Emergency rules in case of security of supply issues**

Romania needs a coherent and easy to implement emergency plan in order to cope with clearly defined situations in which the system's security is at risk.

This emergency plan should allow network operators to operate securely the gas networks at time of constrained gas supply and should include a clear identification of protected customers, incentives that are transparent and proportional for customers which could contribute to the system stability by postponing their supply, clear milestones and responsibilities for the key stakeholders and commercial conditions under which emergency measures are implemented.

### **4. Storage policy**

The gas storage policy must be revised in order to reinforce the security of supply and avoid market distortions. Correct market behaviour for all market participants should be stimulated, while unfair practices should be penalized under the current rules, the current level of penalties is not sufficient to incentivize market players to fulfil their storage obligations, which leads to distortion of the retail gas market. Furthermore, in the context of the transition to a liberalised market it is important that incentives for investments are provided for gas storage to accommodate the increasing needs of gas suppliers for flexibility.

Another option is to incentivize storage stocks ensuring secure network operation of the TSO through a transparent and non-discriminatory financial mechanism, while commercial function of the storages should be subject of market mechanisms.

### **5. Transparent balancing market**

International experience has shown that the development of wholesale markets is supported by the establishment of a daily, transparent and non-discriminatory balancing regime. A functional gas market presupposes that market players have regular information about their market position and there are cost-reflected charges which determine market players to maintain their portfolios balanced. Since an operational balancing market is inexistent today, it is important that the new balancing rules and mechanisms are known and tested before being fully applied.

### **6. Network code**

Romania needs to implement a modern Network Code in order to support an effective transition to a well-functioning liberalised gas market. This Network Code should provide the adequate mechanisms (capacity booking, nomination, congestion management etc) to ensure the flow of gas to the market and it should be coordinated with the provisions of the European Network Code. Because of complexity of such regulation, it is important that the provisions are thoroughly reviewed in cooperation with market participants and the final decision properly addresses the concerns of stakeholders. At the same time, it is paramount that these measures are properly tested before being fully enforced in order to eliminate the risk of introducing major dysfunctions in the gas market.

### **7. Interconnectors and investments in natural gas**

FIC encourages the integration of Romania's gas market with the neighbouring markets and the wider CEE region in line with principles of an Energy Union. To this extent, current and planned investments in upgrading gas



infrastructure and operating pressure for the completion of functional physical interconnections need to be duly progressed so that reverse flows become operational without further delays. Political support in this respect is key to increasing Romania's long term security of supply through diversification of sources, as well as to contributing to the diversity of supply for the region. Institutional efforts should be strengthened to streamline the implementation of Projects of Common Interest, such as the Romanian section of the Bulgaria-Romania-Hungary-Austria corridor, a project with energy security implications both for Romania and the SEE region.

FIC also recommends a stable and predictable tax regime for spurring further investments while avoiding ad hoc special taxes such as special constructions, monopoly or windfall taxes which are detrimental to this objective. Energy independence and the attractiveness to invest in the gas sector is in danger in case the actual system continues to be applied.