

## Position paper

### Energy Task Force

29 April 2014

#### Liberalization and deregulation of gas prices

##### **I. Context**

Romania is engaged in a process of liberalization and deregulation of its gas prices which arises from its obligations as a European Union Member State as well as from its commitments towards the International Monetary Fund, the European Commission and the World Bank.

Though challenging for the economy and the Romanian population, the gradual alignment of local gas prices on international prices is an unavoidable adjustment that will also significantly contribute to the development of new gas reserves, help Romania foster new growth and generate new revenues for the State's budget.

However, the way in which this adjustment will be implemented is absolutely crucial. The equation is extremely complex, the goals being not to overwhelm the manufacturing industry with massive additional costs without giving them time to adapt and not to push more household consumers into fuel poverty whilst avoiding the creation of market distortions and still incentivizing market players in the gas value chain to invest.

Whatever solutions will be chosen to implement those changes, it is of utmost importance to be aware that the Romanian gas system is, by essence, based on redistribution. This is due to the fact that there are currently three "de facto" levels of wholesale prices: the moderate price of local gas for the population, the higher price of local gas for industrial and commercial users and the significantly higher price of import gas. Any change in the current balance of cost sharing between consumer categories, leading for instance to a preferential treatment for some consumers, will therefore have to be compensated by the other consumers.

##### **II. Changes planned by the authorities and consequences to be considered**

There are announced plans to implement a specific support scheme to protect certain gas intensive users from further increases of the price of local gas. The authorities are also considering full deregulation of the non household prices as from July 2014, letting a market that still has to emerge set the prices for the approx. 170,000 industrial and commercial gas users that currently benefit from regulated prices.

It is of course Romania's sovereign decision to drive the pace of deregulation and liberalization, taking its European commitments into account, and to propose specific support schemes, provided that they are compliant with EU legislations and do not create market distortions.



However, beyond the undeniably challenging pace of alignment of local gas prices onto international prices, which will lead to cost increases for all consumer categories, the key questions to answer are whether Romania is ready for such change and what will happen on the day after full deregulation of industrial and commercial gas prices.

So that the 170,000 industrial and commercial users, that are affected by this deregulation and span across the whole Romanian economy, have effective and competitive solutions to source the gas they need, there are a number of prerequisites, such as:

- the need for a well functioning and structured wholesale market, that offers appropriate liquidity as well as products and maturities which meet customer requirements (ie annual, quarterly, monthly, weekly, working days/weekends and daily trading products);
- an operational network code, setting out provisions with respect to balancing, interoperability, nomination and allocation procedures as well as management of imbalances;
- an effective balancing regime, providing for clear responsibilities between network operators and network users and offering adequate market tools to ensure both physical and contractual balancing of the gas system;
- a clear acknowledgement that, though they have decreased recently, gas imports are absolutely necessary to ensure the country's security of supply and proper balancing of the system at each and every point in time throughout the year and a clarification of who will have to bear the costs associated to import obligations.

At this stage, none of these prerequisites are fulfilled and their implementation will undoubtedly take time. Rushed decisions that have not been sufficiently thought through are therefore likely to lead to extremely significant disruptions and to adverse consequences for the Romanian economy and its population.

### **III. Recommendations**

While it is important that Romania does not lose sight of its international commitments and that it sends adequate investment signals to gas producers, the decisions related to gas price liberalization and deregulation could have such far reaching consequences that following steps are of utmost importance:

- performing a detailed impact assessment addressing the above mentioned concerns before any major decision is taken;
- carrying out an appropriate consultation of stakeholders before any major decision is taken;
- managing carefully the transition from a regulated to a market-based system, whilst testing in parallel newly introduced market tools and ensuring non discriminatory access to the commodity.

