

**Coalitia pentru dezvoltarea României**  
**Position paper of the Energy Task Force**  
**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, which is currently at or around the level of European wholesale prices, and the significantly higher price of import gas delivered to Romania. 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

The authorities were initially 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. Coalitia having raised the attention of the Government of Romania to the risks associated to such calendar, the responsible decision to postpone the full deregulation of gas prices for industrial and commercial users until at least the beginning of 2015 was taken by the authorities.

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 has already led to significant cost increases for all consumer categories over the past two years, the key questions to answer are whether Romania is now 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 major prerequisites are fulfilled and their implementation will undoubtedly take further time. Some progress occurred since those issues were raised by Coalitia in April 2014. First wholesale transactions took place on the Opcom and BRM platforms. However, taking into account that, once the market of industrial and commercial consumers will be fully deregulated, more than 100 TWh of gas will have to be sourced on the free market every year (including those volumes that are already on the free market and the approx. 20 TWh consumed by industrial and commercial customers that are still benefiting from regulated prices), the approx. 2 TWh traded so far on wholesale platforms (and on the short term only) are by far not sufficient to meet the market's requirements and liquidity is nearly inexistent. As to the network code and the balancing regime, intense discussions with market participants have taken place, but the current status is far from allowing a workable fully deregulated market. 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. This has to be put in a context where many other European countries have, from the onset, taken more time to gradually liberalize and deregulate their gas market and where security of supply issues arising from geopolitical tensions in neighboring countries such as the Ukraine are unfortunately not just a remote and unlikely scenario.

### 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;
- if necessary, deciding a further postponement of the full deregulation deadline for industrial and commercial users;
- managing carefully the transition from a regulated to a market-based system, whilst testing in parallel newly introduced market tools, ensuring non discriminatory access to the commodity and avoiding market distortions or cross-subsidization.

