THE OXFORD INSTITUTE FOR ENERGY STUDIES

Pricing & Competition In Mature & Liquid Markets

Dr Thierry Bros

Senior Research Fellow

Flame – 14 May 2018

Gas markets work

Date	Event	Market Results	State intervention
2011	Fukushima: 7% of global LNG rerouted to Japan	Higher prices in Asia and Europe with demand destruction	No
2014	US Polar Vortex	Short-lived higher HH prices with fuel substitution in power generation	No
2015	Groningen cap: loss of 9% of European supply	Lower prices	No
Winter 2016/2017	Cold weather & nuclear shortages in France	Short-lived higher prices in Southern Europe	Greece and Italy declare alert
12 Dec. 2017	Baumgarten blast	Very short-lived spike mainly in Italy	Italy declares emergency
Jan 2018	US cold bomb cyclone	Short-lived spike in New York (First Yamal LNG cargo to Boston)	No
Feb 2018	Siberian weather in EU	Short-lived spike in EU	No

EU sentiment changes vis-à-vis gas…

- Gas demand growing since 2014
- Gas infrastructure is the batteries of the new energy system
- Complete electrification will not work
- Gas is not just a bridge fuel for renewables, but it has its own future in Europe
- EU hasn't stopped already all public funding for new interconnections

Source: Florence School of Regulation

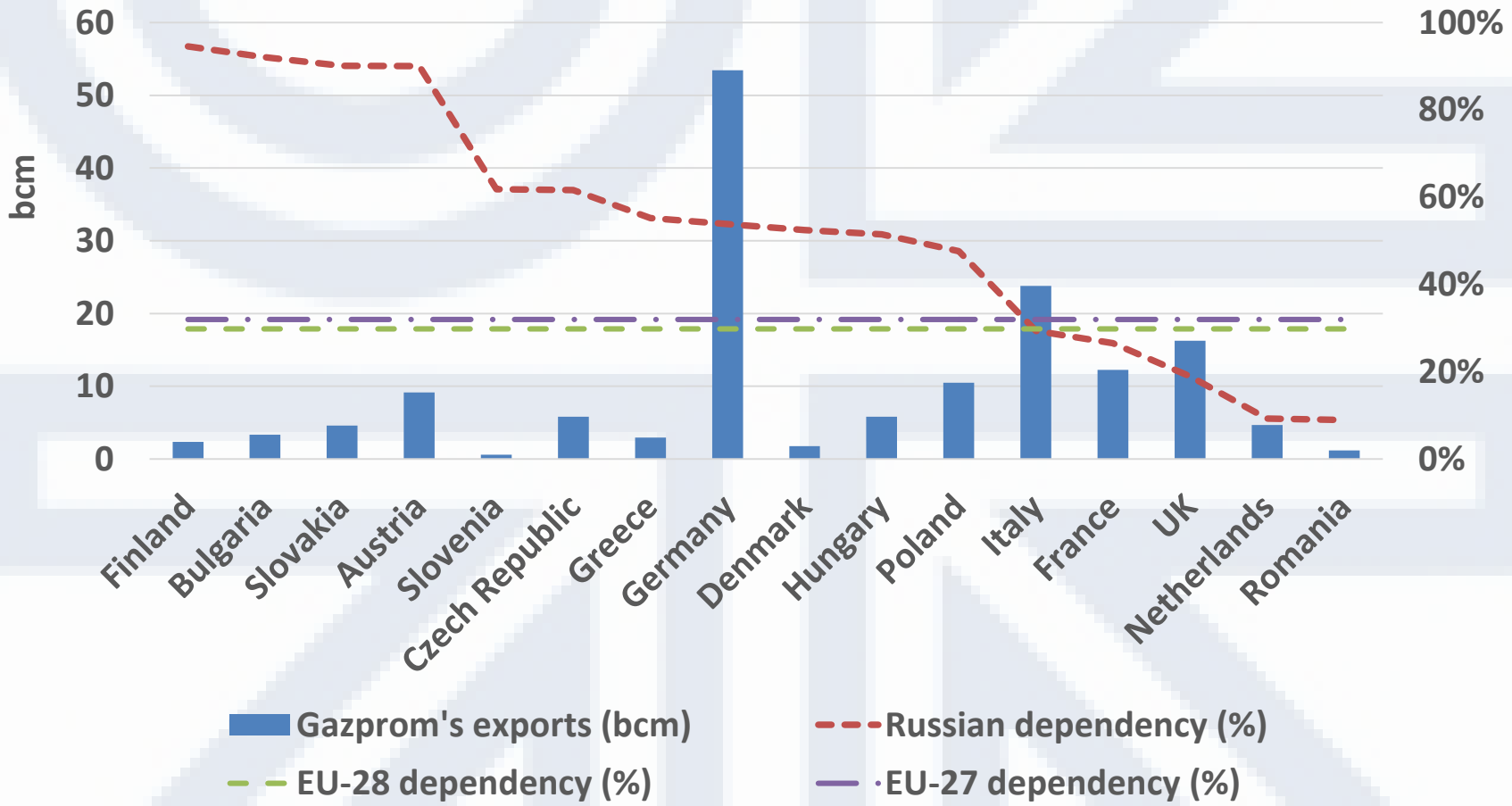
… But Europe's schizophrenia remains

Policy makers	Energy managers
On a foreign policy side, Russia is not an EU friend…	…but on the energy side Gazprom is the cheapest gas supplier than can, on top, provide any additional gas we may need.
EU Commission focus on consumers benefits (unbundling or roaming charges in telecoms)	Traditional energy managers focus on today's P&L (integration, etc.)

With increased interdependency, how is Europe's schizophrenia going to evolve?

Who's going to decide?

Gazprom exports and Europe dependency (2017)

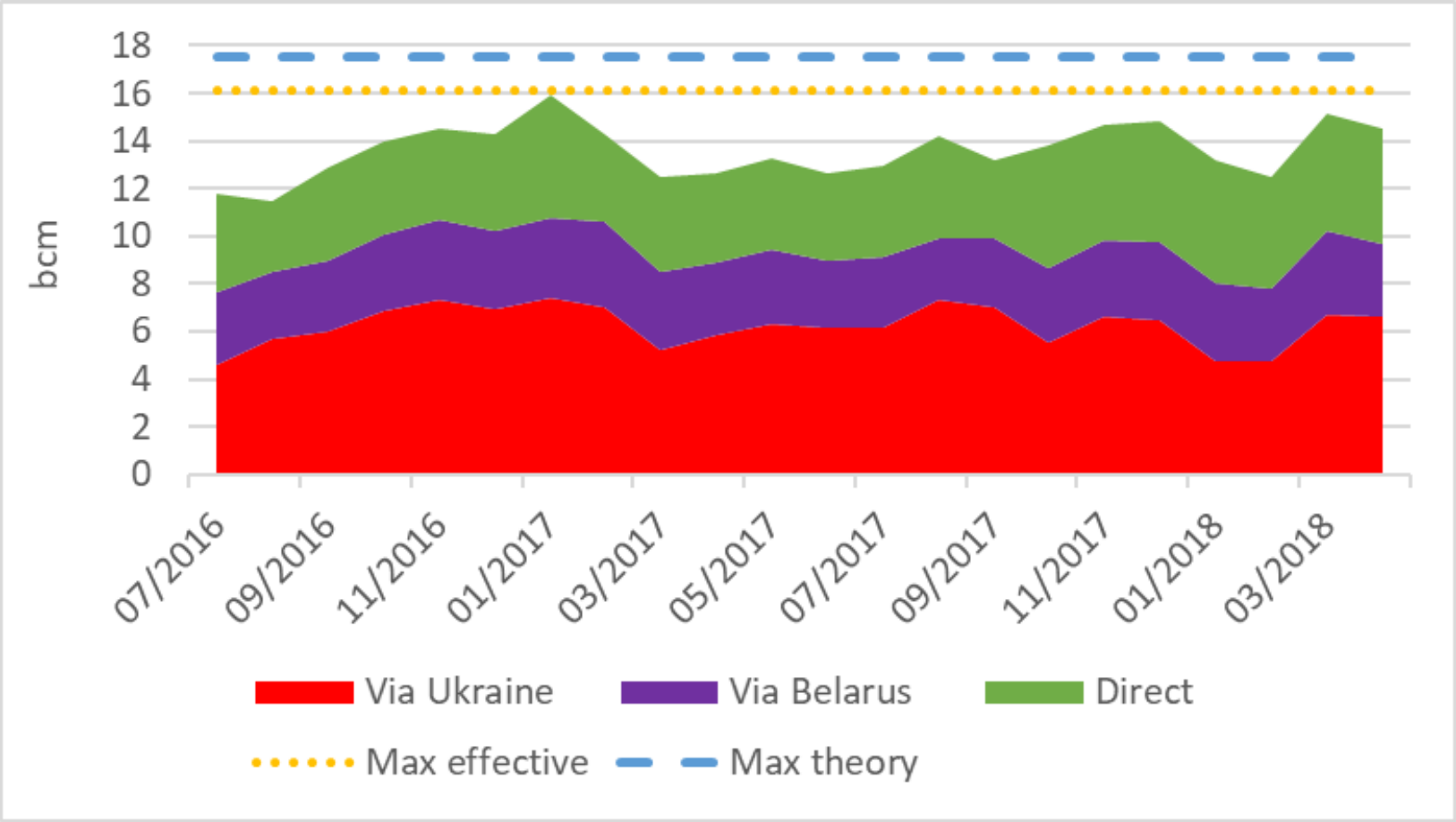


Source: Gazprom Export, JODI est., thierrybros.com

#FactCheck

	Facts	Fake News
If global gas markets were to tighten, Russia could quickly ramp up pipeline gas exports to Europe and displace some LNG there that could then be re-routed to alleviate shortages elsewhere.		✗
Thanks to several comparative advantages, primarily the size of its reserves, the proximity of its current markets, its spare capacity (…) Gazprom is in a position to deploy strategy designed to create uncertainty about the price of gas.	✓	

Gazprom doesn't flood EU



Source: Gazprom, Entsog, thierrybros.com

3 options for Russia to manage prices

High

7.5$/Mbtu min

- Tightening supply - Increasing producers' rent
- Demand destruction but no impact on exports
- 2012-2013
- **Prompted new FIDs**

Med.

c.6$/Mbtu

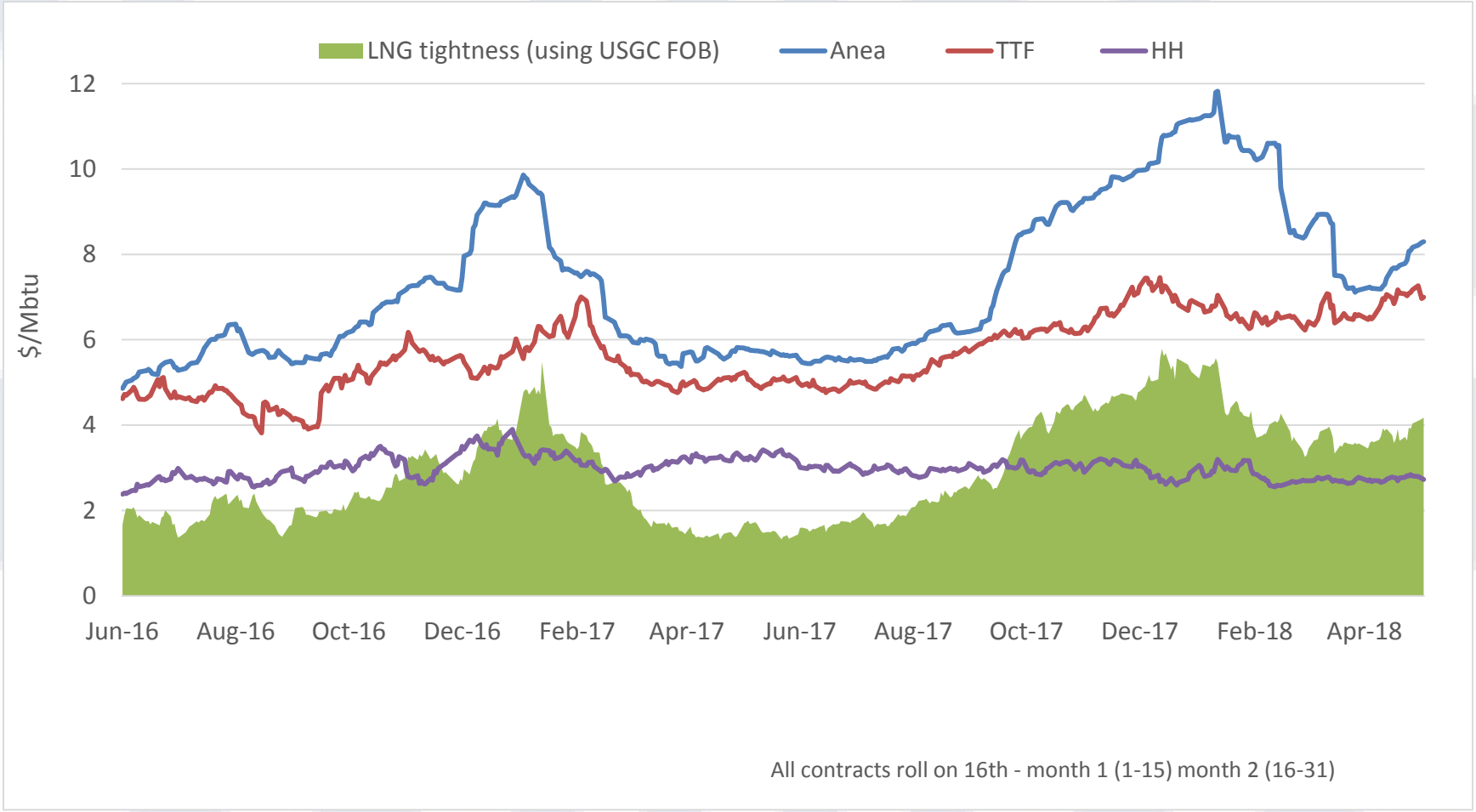
- Swinging supply
- Since 2014
- **Most profitable in the long term**

Low

4.5$/Mbtu max

- Use of spare capacity
- Price war to shut in US LNG
- Lower revenues
- **Can be done sporadically**

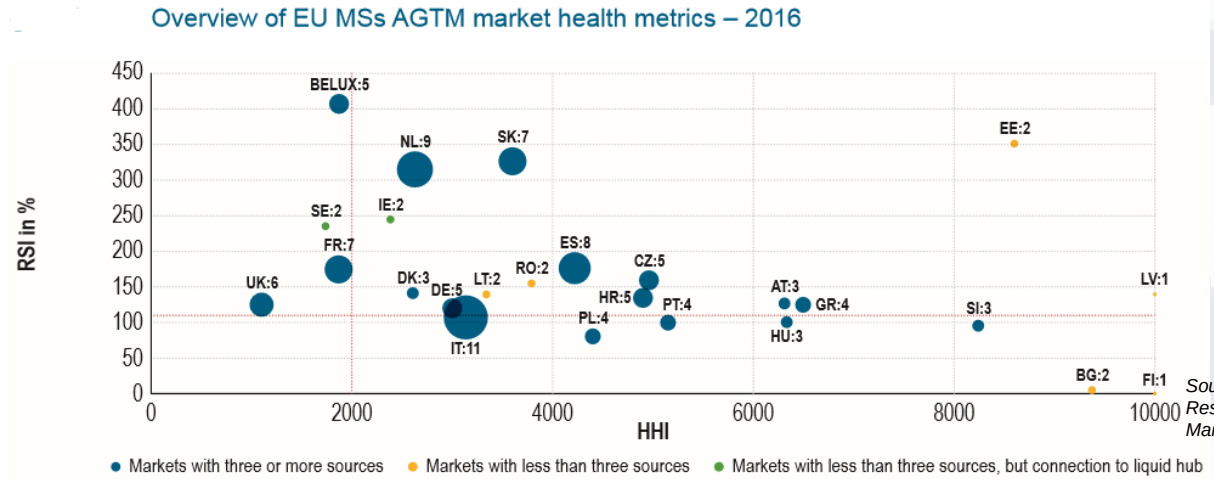
Month-Ahead Gas Prices



Source: Argus Media, thierrybros.com

Preservation of competition

- US Sherman Antitrust Act 1890
  - "An act to protect trade and commerce against unlawful restraints and monopolies"
- ACER 2017 Report on the Results of Monitoring the Internal Markets
  - "Markets in NWE tend to score better on metrics related to diversity of supply and upstream concentration. This results in better performing hubs"
- EU DG Competition
  - "Competition policy in Europe is a vital part of the internal market. Its aim is to provide everyone in Europe with better quality goods and services at lower prices. Competition policy is about applying rules to make sure companies compete fairly with each other. These are the reasons why the EU fights anticompetitive behaviour and encourages liberalisation."



Source: ACER 2017 Report on the Results of Monitoring the Internal Markets

What to do with our diversification metric?

- Either the diversification of supply rule is relevant and must be enforced. If this entails too much work for energy regulators, perhaps the EU's Directorate-General for Competition should take a more active role.

- Or the rule is irrelevant and must be cancelled.

Restriction of competition?

Poll on @thierry_bros

Sept. 15
- Gazprom, BASF, E.ON, Engie, OMV & Shell sign shareholders agreement to construct Nord Stream 2

Nov. 15
- Change in Nord Stream 2: Engie moving up from 9 to 10%; Gazprom moving down from 51% to 50%.

Dec. 15
- Application sent by Gazprom and its 5 European partners to Polish Office of Competition and Consumer Protection (UOKiK) to approve the creation of Nord Stream 2 joint-venture

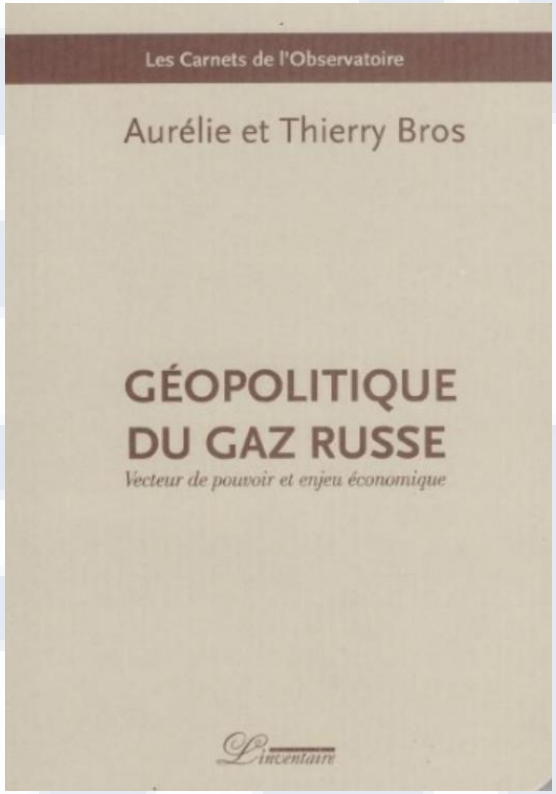
July 16
- UOKiK issue objections to a concentration as it **might** lead to restriction of competition
- Companies have 14 days to present their views on the objections

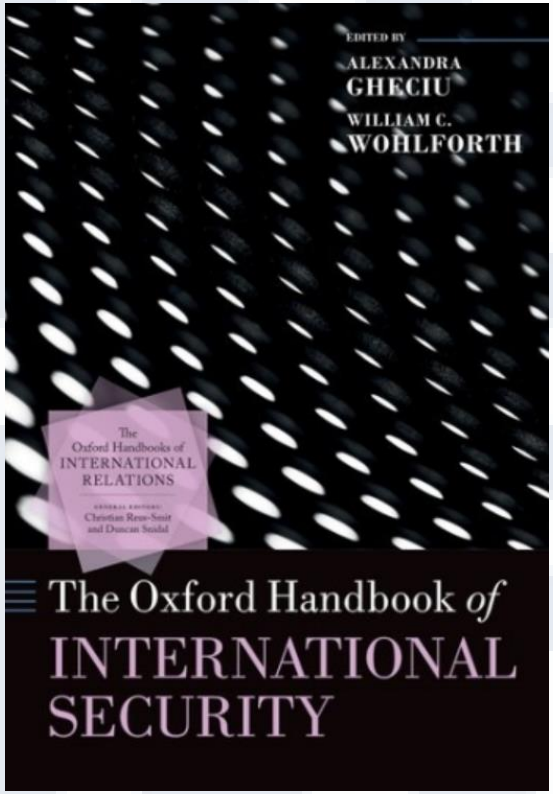
Aug. 16
- **Companies withdraw their merger control notification in light of UOKiK objections**

Apr. 17
- European companies provide long-term financing for 50 % of the total cost of the project (€9.5bn)
- Gazprom is and will remain the sole shareholder of Nord Stream 2

May 18
- A lack of response to competition authorities doesn't mean restriction of competition doesn't exist
- UOKiK against Nord Stream 2

Thank you





thierry.bros@oxfordenergy.org
Twitter: @thierry_bros