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Response of Eustream to Public Consultation on European Energy Regulation: A Bridge to 2025

Eustream agrees that further gas market development to the benefit of end consumers should be of the utmost priority of ACER. The document as such is an exhaustive document from which Eustream would like to underline the role of gas infrastructure, namely new has interconnectors in CEE region as a sine-qua non condition for more liquid trading and further progress in opening of the markets as well as security of supply for the CEE region and Ukraine.

Taking into account the aim and spirit of the document, we believe that the first and essential precondition in order to create developed and cross-regional markets is to have sufficient physical interconnections in between these markets with access to alternative sources (developed trading hubs and alternative gas sources). Thus, we feel that the identification and promotion of appropriate interconnections (with available regulatory and supportive tools) should be in the best and foremost interest of all EU stakeholders.

We understand that ACER shares this goal that regulatory actions should significantly focus also on the aforementioned listed above - as mentioned in Annex: Summary of possible regulatory actions under point *'We will assess whether additional incentives are needed to promote necessary (but higher risk) investments with significant social benefits and, if so, how such incentives should be funded; We will continue to identify barriers to entry in national retail markets and examine how they can be removed'* – and sees the urgent need to implicitly design such incentives and regulation so that the projects truly bringing benefits to the EU gas industry are promoted.

For reaching the aim of common and integrated market with price convergence we see of primary importance the existence of:

- (i) Appropriately located and
- (ii) sufficient

physical interconnections that truly allow for price convergence across Europe - given that every price setting mechanism or trade (save for old long term contracts) is proxied to the nearest liquid point (if it has not been the case than effective arbitration opportunity would exist and would be exploited).

This causes that even in countries where long term take or pay contracts exist, or no direct gas exchange is located in their territory – the transactions between participants are derived according to the principle mentioned above. This is only possible at times where available capacity to access these regions is available. Further unification, harmonization and correct implementation of points such as: *'We will review the Gas Target Model to ensure that it remains a flexible regulatory framework for gas wholesale markets'* is only possible in regions with well founded physical interconnectivity.

Examples of such appropriate interconnection in final stages of development is the SK-HU inter-connection which shall alleviate limits to market access in Hungary (which was notoriously restricted from HAG pipeline) together with the contemplated Slovak-Polish project aiming to link the CEE countries with the Polish Market which shall have access to additional sources of liquidity – LNG, stronger NCG capacity or prospectively even shale gas. In case of future interconnection of CEE region with Polish market we see very strong added value in SK-PL project since Eustream as an operator of Slovak gas transmission system does not face capacity bottlenecks to further distribute the imported gas to countries of Western and Southern Europe in the traditional directions. Moreover, bringing additional liquidity to the interconnection point Velke Kapusany shall allow also easier access of Ukraine to new gas sources on its border.

To a significant extent the CEE region is lagging in creation of open market behind the Western Europe due to its dependence on one source of gas. Unlocking these markets definitely requires some sort of diversification of import routes allowing access to EU spot markets. On the contrary to this, we see as incompatible those projects, which if implemented, are to the detriment of the gas industry of Europe and in addition are not compliant with present EU regulation in multiple areas at the same time such as (i) ownership unbundling in countries implementing the project, (ii) unrestricted non-discriminatory third party access (and a generic principle not to pursue parallel but rather complementary infrastructure). An example of this is implementation of South-Stream in its full scale (four pipelines). Implementation of South-Stream in its full capacity shall not contribute to the security of supply but rather replace the existing transit capacity (of Ukraine and consecutive EU systems) with another redundant capacity – used primary in pursuit of geopolitical reasons. Such situation would effectively:

- (i) Disrupt long term gas balance in those CEE countries where wholesale prices are already market-proxied (these countries would turn from transiting countries to countries of end consumption only, without any leverage or gas flow netting potential);
- (ii) Prevent prospective development of gas industry of Energy Community CEE members (including massive opportunities in Ukraine);
- (iii) Eliminate the chances for further development of EU-Ukrainian gas synergies lying in: utilization of immense storage potential, further development of exploration in Ukraine with eventual prospects of being an additional liquidity source and having security of supply potential;
- (iv) Cause loss of transit revenues on side of Ukraine and EU based systems with increasing pressure on their systems' financing (which may lead to decommissioning of capacity higher than South-Stream);
- (v) Jeopardize the incentives for North-South interconnections (as liquidity would be regulated to southern and northern regions separately).

Lastly, we are of the opinion that - should EU (and EU regulation) ultimately foresee implementation of South-Stream and grant the required exceptions the implementation scale should not exceed two out of the four pipelines in light of the aforementioned arguments (first dedicated to Balkan countries and second to Turkey). This, in order to avoid consequences listed above resulting out of complete Ukraine bypass and facilitate a solution which may keep our common targets to develop a liquid, secure and fully functioning market on track.

Eustream a.s., is a certified gas transmission operator on the territory of Slovak republic.

Contact persons for the purpose of the Public consultation response:

Miroslav Bodnár
Strategy Director
miroslav.bodnar@eustream.sk

Milan Sedláček
Head of Regulation and Business Concept Development
milan.sedlacek@eustream.sk

Michal Lalík
Specialist for Strategy
michal.lalik@eustream.sk

eustream, a.s.
Votrubova 11/A
821 09 Bratislava
Slovak republic



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