



Publishing date: 22/09/2014

Document title:

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**Position OMV Gas & Power
to
ACER – European Energy Regulation: A Bridge to 2025**

Introduction

- ▶ Par. 1.1 On ACER's orientation towards consumers at the centre of market design, it is important to note that by consumers, one understands not only households and other vulnerable customers, but also large industrial consumers. In our opinion, all market participants – buyers and sellers alike - should be given a fair and equal treatment. A balance should be struck by regulators, including ACER, between the legitimate interests of producers and suppliers on the one hand, and the interests of consumers, on the other hand. A healthy energy sector also requires reasonably profitable margins for energy sector actors, to drive investments forward, to ensure security of supply and job creation, in the end driving benefits for consumers and society as a whole.

- ▶ Par. 1.3 Regarding developments such as those linked with the implementation of REMIT and EMIR, the OMV Group considers that one key criterion against which to measure their relevance is the degree of administrative burden these regulations create, contrasted with their effectiveness.

Energy Sector Trends: Gas Wholesale Market

- ▶ Par. 2.12 On future gas needs in the power sector, it is expected that old coal-fired generation will be decommissioned in many member states. This needs to also be factored in, as it will most likely lead to a resurgence in gas-fired generation, due to its lower pollution levels, higher efficiency and flexibility.
- ▶ Par. 2.15 Regarding new sources of domestic EU gas supplies, the role of Black Sea natural gas as a major new source with the potential of reducing uncertainty of internal EU supply should be acknowledged. Also, regulatory priorities for upstream development in general should be included in order to support indigenous production in Member States, as noted by the Commission's Communication "An Energy Strategy for Europe".
- ▶ Par. 2.16 Regarding reinforced concerns about the dependence on a limited number of import sources, the trend may reverse due to the emergence of new sources such as the Eastern Mediterranean, the Black Sea and US LNG.
- ▶ Par. 2.18 On facilitating gas-fired plants' ability for quick response for system security, the supporting regulatory framework must primarily support existing investments, which are currently losing money and have either entered conservation or risk entering conservation.
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- ▶ Par. 2.25 Energy Companies are investing heavily in the respond of the new developments at high costs in a highly volatile market environment. Therefor tax incentives for successful companies would be appreciated.

Energy Sector Trends: Infrastructure Investment

- ▶ Par. 2.21 The OMV group shares ACER's observation on the difficulty of allocating investment costs of a cross-border project between individual countries. We consider that ACER must take more decisive steps in this regard, by engaging from an early phase in the discussion processes between project promoters and regulators as well as TSOs (if the case) on cross-border cost allocation, in order to prevent large delays in infrastructure projects.

Energy Sector Trends: Consumers, retail markets and the power of DSOs

- ▶ Par. 2.23 Regarding the significant increases in taxes and levies, it is important to add that there are high differentials from country to country in the shares of network costs in final energy prices. These high differentials require further investigation, explanations towards final consumers and they highlight the need to harmonize tariff rules.
- ▶ Par. 2.24 Regarding consumers' opportunities to manage their energy bill, a recent presentation by ACER given at the 3rd ACER GTM workshop in Brussels, held on 15 May 2014, highlighted that persistence of end-use price regulation is not bringing significant benefits to consumers. On the contrary, in some countries such as Poland, Hungary, Bulgaria, and Latvia, the end-user price regulation is preventing retail consumers from sourcing their gas cheaper under free market conditions. Thus, elimination of regulated end-user prices should be seen as an opportunity for consumers and promoted more.
- ▶ Par. 2.30 The OMV Group believes that the costs for rolling out technological innovation such as the ones outlined in the Bridge must not be undervalued. All support for technological innovation must be subject to cost-benefit analysis.

Regulatory Impacts: Gas Wholesale Markets

- ▶ Par. 3.14 OMV considers that long-term directly negotiated bilateral contracts should not be completely dismissed to the detriment of hub trading, as long-term contracts provide benefits for both consumers and suppliers and also for the TSOs. The price formation for gas and its linkage to oil must be examined. All gas consumers should be able to access functional OTC markets.

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