

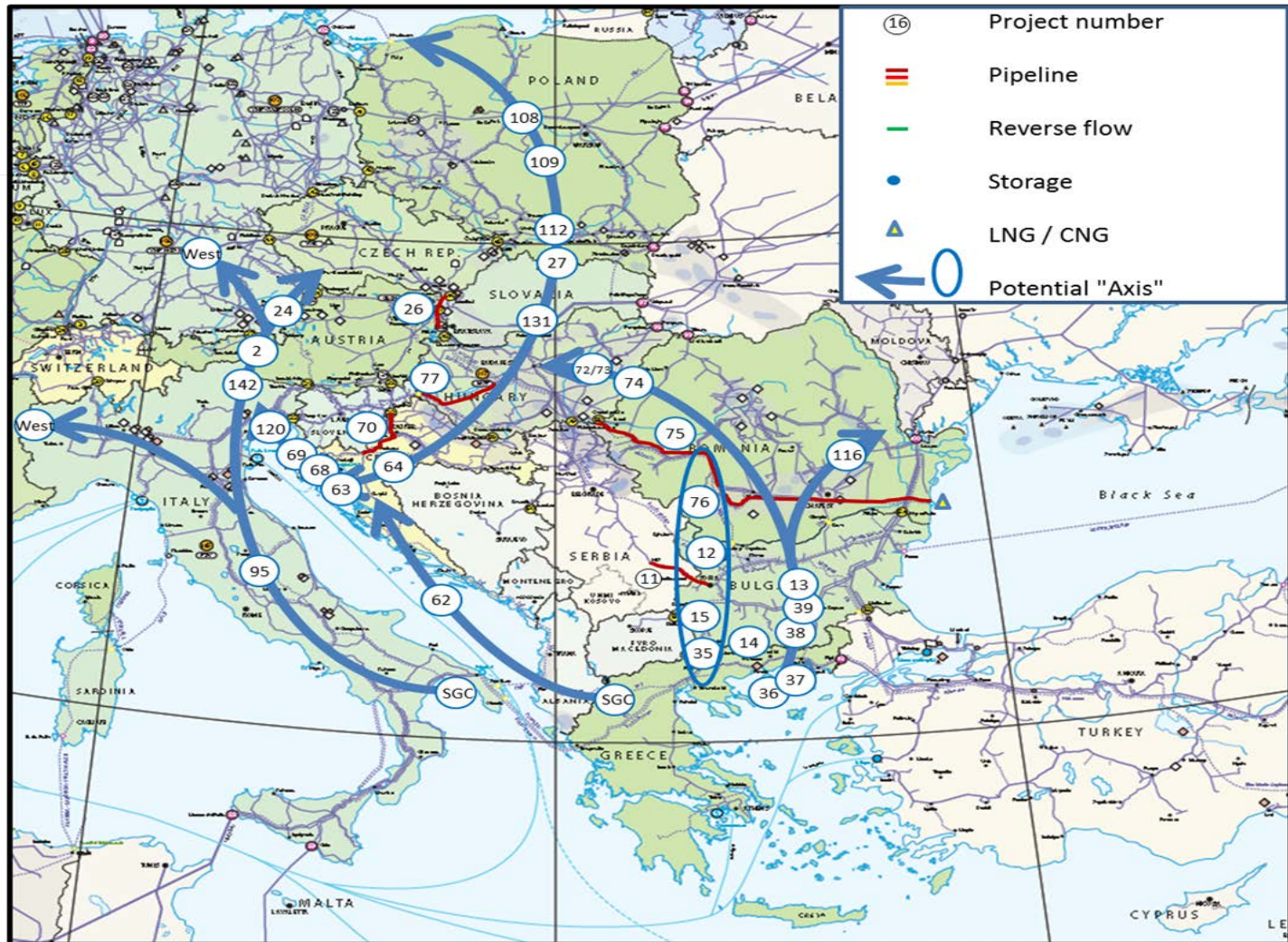


# ***Tackling uncertainty in developing gas infrastructure in South East Europe***

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# The Southern Gas Corridor-PCI list





# The “vicious circle” of the SEE gas markets



- Small national markets hardly able to support additional or new investments
- Strongly dependent on a dominant supplier and very limited access to third party supplies and routes
- Poorly interconnected; existing interconnectors not open
- Small room for synergies: No real trade between the countries and no competition, i.e. difficult to support market development
- With substantial differences in import prices and –some times– heavily subsidized retail prices!
- Linked through the Energy Community and committed to implement EU Acquis on Energy

# Requirements

## **Investors on infrastructure**

- Reasonable certainty that they will get a fair return on their investment in order to justify their investment decision
- Regulatory stability

## **Gas Suppliers**

- Security of supply
- Reasonable market prospects
- Opportunities for the future

## **Gas Consumers**

- Competitively priced energy
- Security of supply
- Quality of service

# The challenge

- How to accommodate the business case of the investors and achieve as many benefits for the regional gas market as possible?
- What are the obstacles to attracting private capital investment?
- Essential to identify the risks posed to successful investments – investors and financial institutions do this and base investment decisions on the results
- Regulators (and governments) can assess the investment risks and then examine whether the risks identified can be managed
- Successful risk management can enable investments to happen

# The risks

- Political risk in the SEE has substantially decreased (but not eliminated) over the past few years
- Regulatory/legal risk is progressively being removed through the implementation of the EU legislation
- The main risks are the price and volume risk; these are the most important (and difficult) risks to mitigate
- Commercial risks (size of investment, business case, etc.) should fall mainly to the investor to manage; not transferring such risks to rate payers is crucial

# Risk mitigation tools

- Identify which capacity for what needs:
  - Tier A: for national and regional consumers
  - Tier B: for anchor loads and commercial interests
  - Tier C: for future expansion and market development
- All types of capacity may exist in a single project and be cross border
- Identify if there are sponsors willing to take (at least some of) the risk of “Tier B” and then
- Identify what form of risk management mechanisms would enable development of Tier A and Tier C capacity

# EU Gas Legislation

## **EU legislation already provides the necessary tools:**

- The EU Gas Directive and developing Network Codes address the rules to regulate open access for Tier A and Tier C consumers (capacity allocation and remuneration, incremental capacity development, tariffs)
- It also provides for the possibility of a well justified time limited derogation from the implementation of such rules (exemptions) for Tier B capacity
- A Hybrid business model, combining the above, can enable exploitation of commercial interest for the development of the necessary infrastructure (and gas market) in places like the SEE





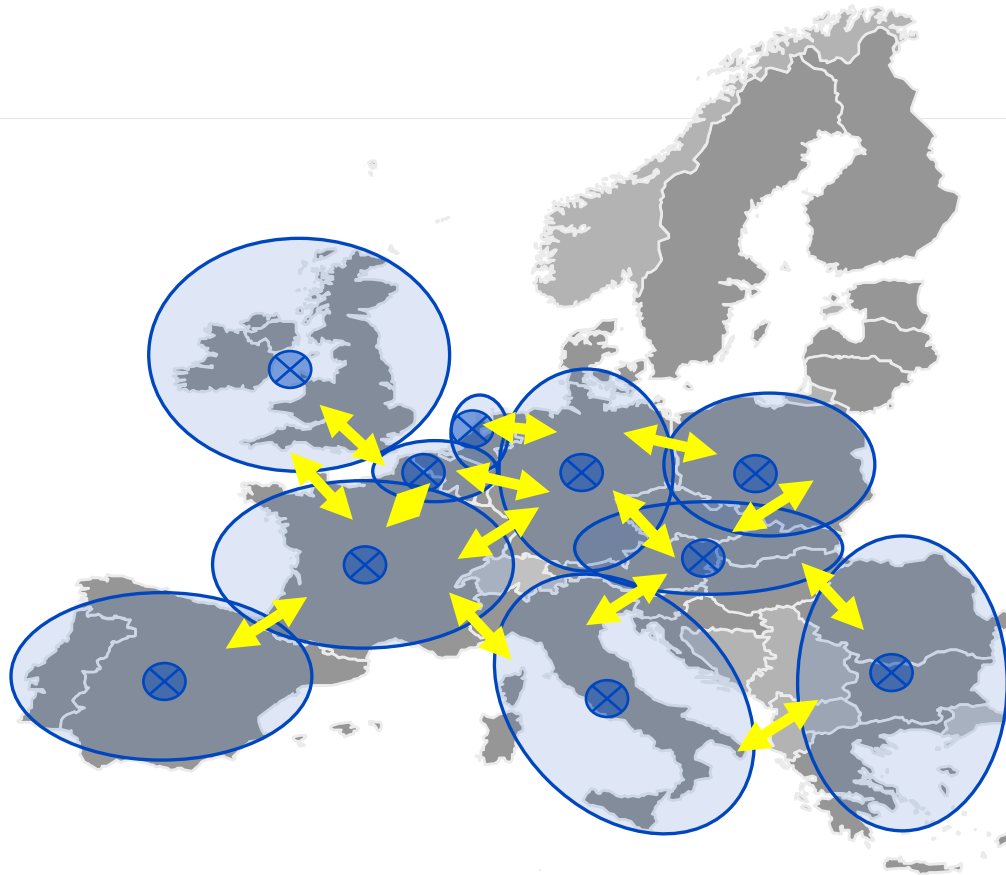
# Strong political support



- SEE is in the focus of evolutions regarding the EU gas market
- Many EU initiatives now incorporate the SEE countries:
  - Connecting Europe Facility and “Juncker package”
  - Security of Supply Regulation (reverse flow considerations)
  - Gas Regional Initiatives (3 pilot projects for SSE),
  - Central East South Europe Gas Connectivity (CESEC, North-to-South)
  - Enhancement of the Energy Community initiative (IAP, Gas Ring?)
  - Eastern Partnership
  - Energy Union
- All are relatively recent evolutions, with an ambitious timetable

# The aim is to “fill the gap”

## The EU IEM completion - the Gas Target Model vision



- ✓ Liquid hubs with sufficient and efficiently used interconnectors
- ✓ Functioning markets of sufficient size
- ✓ Efficient access rules in Entry points
- ✓ Functioning hubs increase SoS
- ✓ There is an evident gap in the SEE region

# In conclusion

- In SEE there will be no private investment in new gas infrastructure unless there are guarantees in place and the support of governments, IFIs and the EU
- A flexible regulatory framework along the lines of the 3<sup>rd</sup> package, which combines the national and regional market needs to the business case of the project sponsors is a prerequisite
- The role of the Regulators (national and ACER) is fundamental:
  - to develop and implement the appropriate access and market rules, sufficiently harmonized to support uniform operation of cross border infrastructure
  - To provide the appropriate cross-border rules, incentives and remuneration for the infrastructure needed



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