

The V4 seems to desire common gas market more than anything else, but it will not get it

(the story of the V4's natural gas market integration project)

Jan Osička

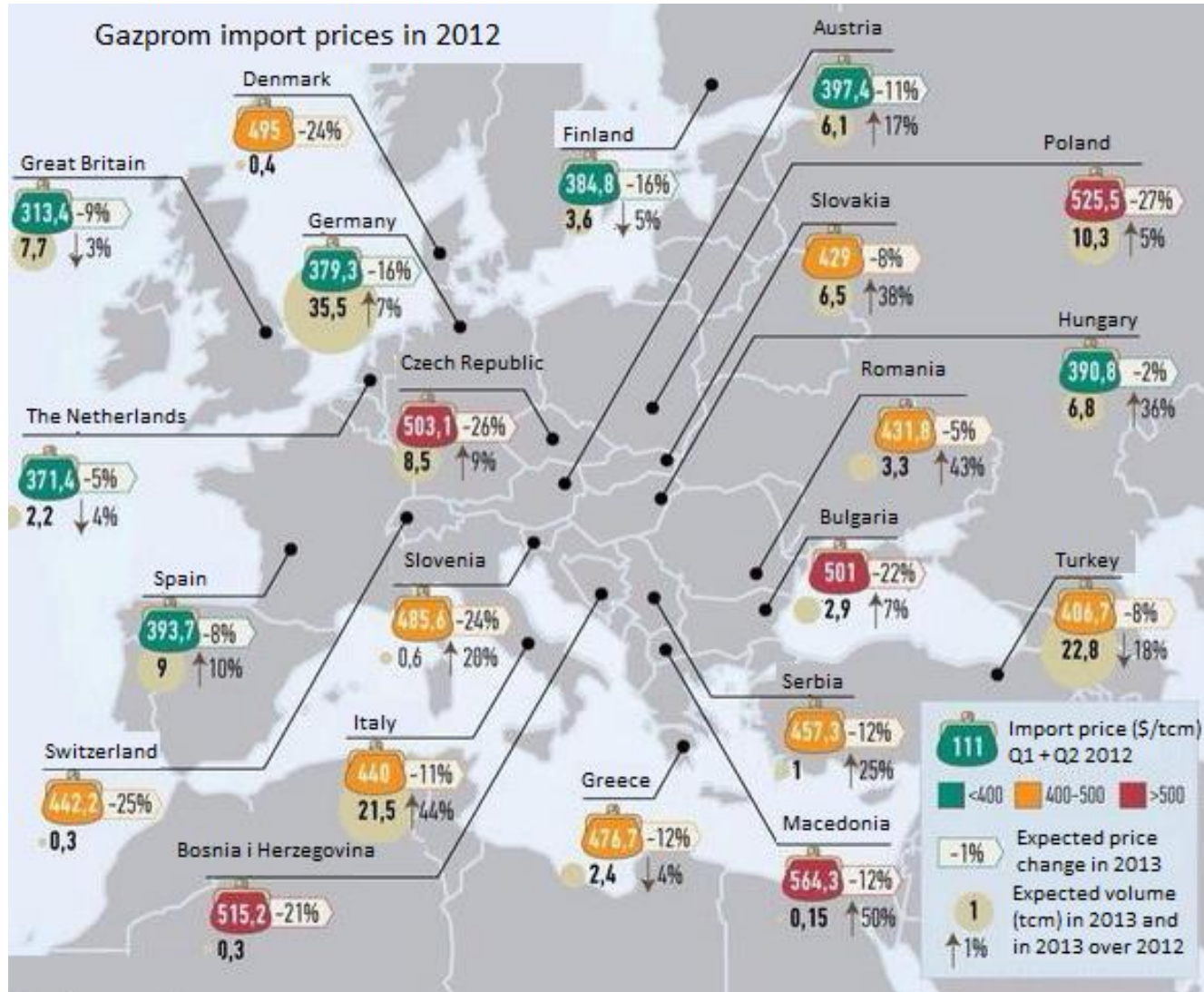
What is a market integration?

Why would you want this?

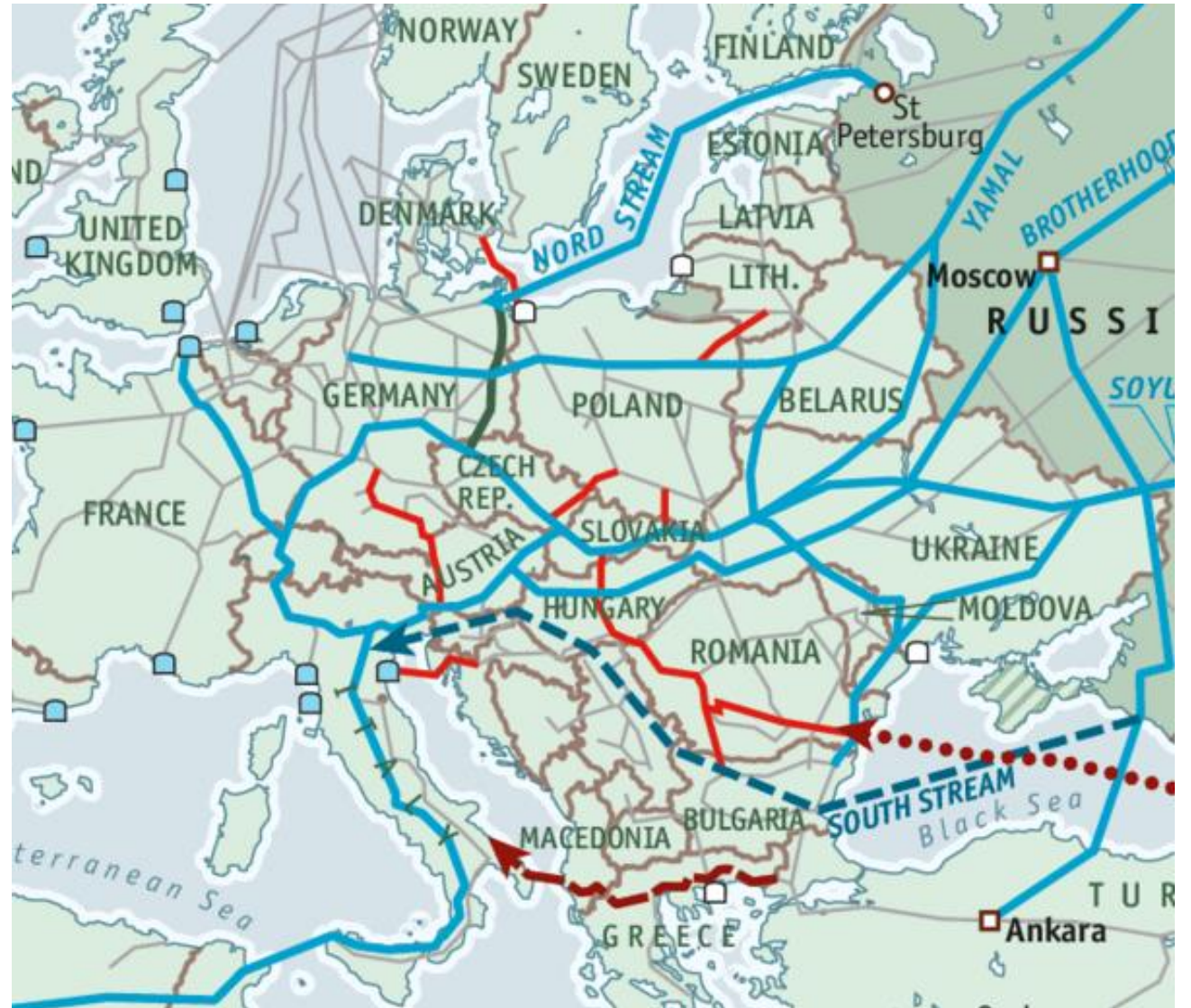
Why would you want this?

- The price benefit
- The energy security benefit

The price benefit



The energy security benefit



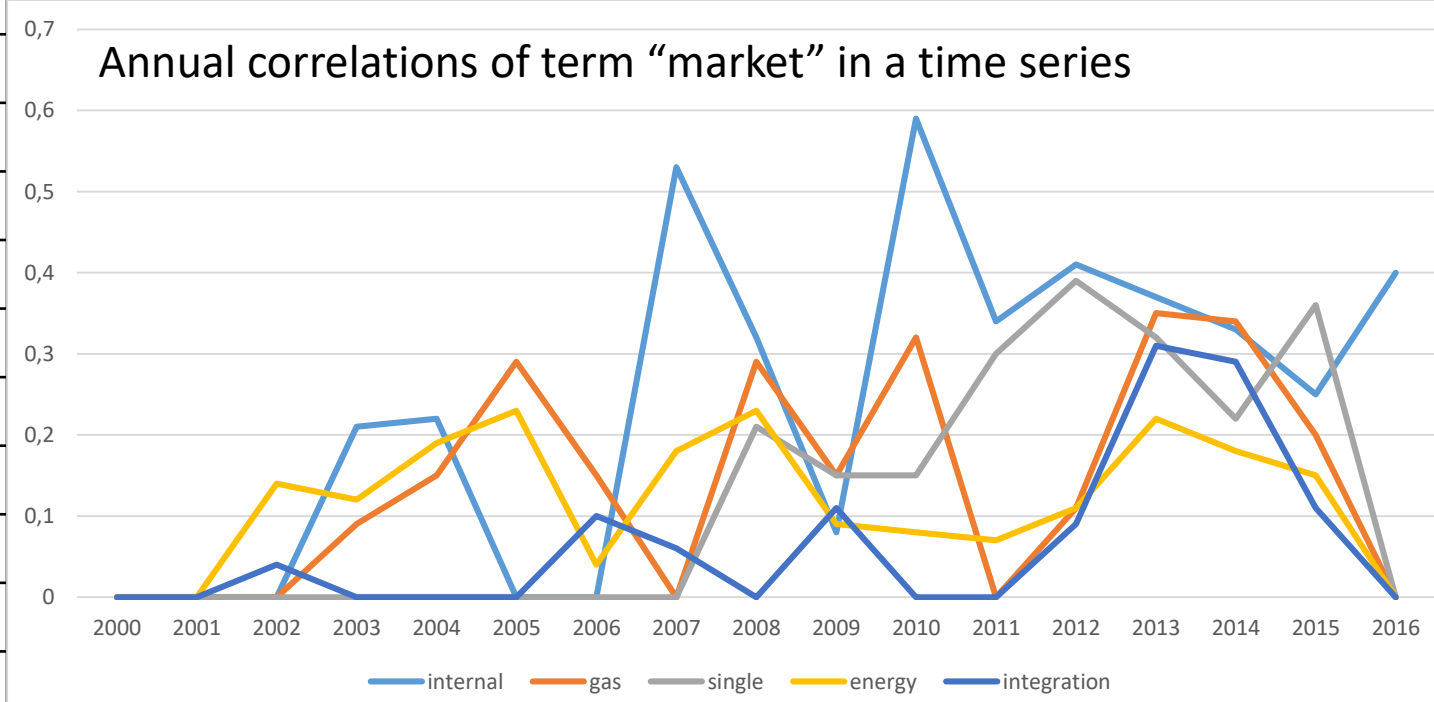
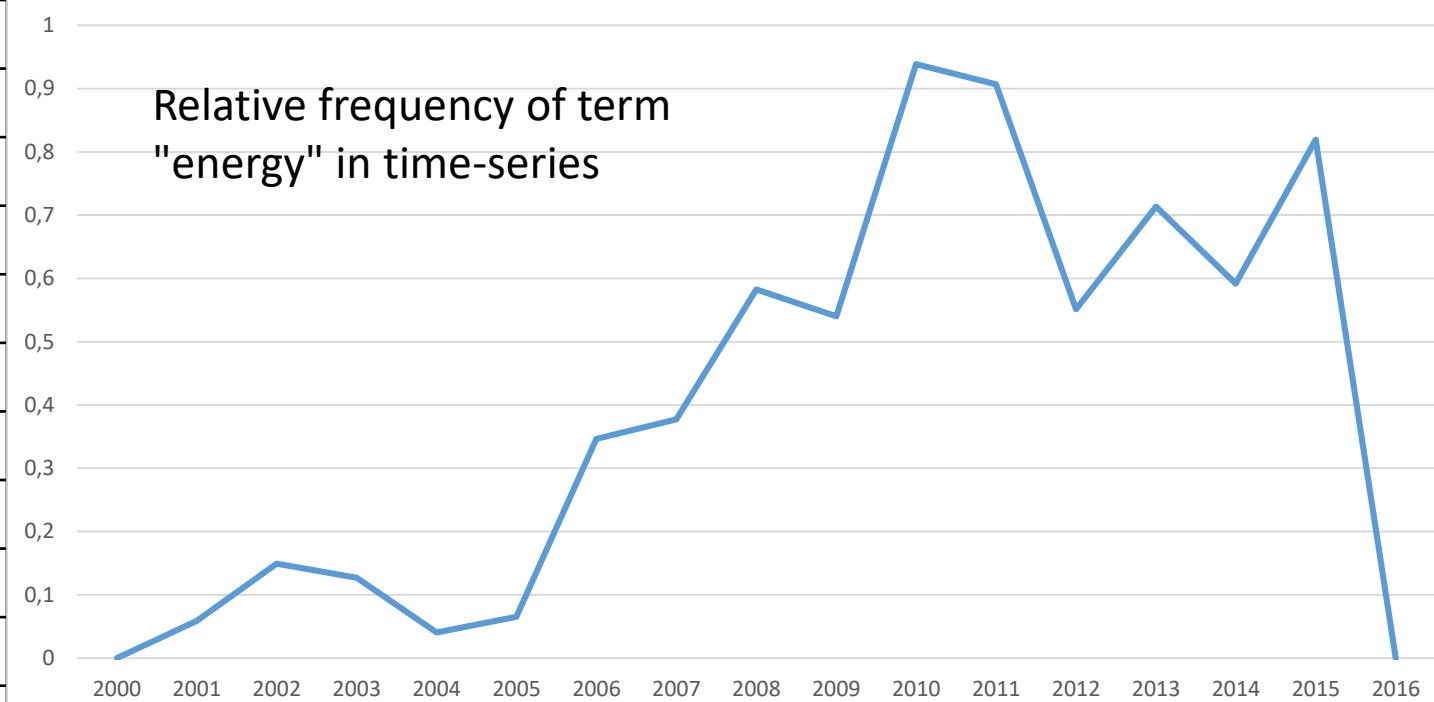
How does the process look like?

The V4 integration project

The V4 integration project

- Energy is the area in which the platform performs best (Kořan, 2011; Kořan et al., 2016; Törő et al., 2014)
- Integrated gas market ranks among the top priorities
- “The Road Map towards the Regional Gas Market“ (2013)

Term	Frequency (words)	Representation in corpus (%)
Country	3982	1.923
Cooperation	2759	1.332
European	2556	1.234
Visegrad	2532	1.223
Meeting	2354	1.137
Group	1950	0.942
Presidency	1625	0.785
Ministers	1489	0.719
Policy	1406	0.679
Minister	1393	0.673
Support	1382	0.667
Development	1375	0.664
State	1230	0.594
Energy	1175	0.567
Republic	1154	0.557
Joint	1084	0.524
Project	996	0.481
Common	947	0.457
International	914	0.441
Issue	912	0.440



What stands in the way?

- Material factors: the attractiveness of the market(s) for the traders
- Ideational factors: perceptions and expectations

How large the market actually is?

- V4 combined consumption: 39 bcm/y
- Imports: 33 bcm/y
- Import contract flexibility: 30%

- => the actual market size is around 10 bcm/y

How interconnected the market is?

Interconnection	Indicated capacity (bcm/y)	Reverse capacity (bcm/y)
CZ => SK	29.2	61.3
SK => HU	5.0	5.0
CZ => PL	0.5	0.0
PL => SK	0.0	0.0



How compatible the individual markets are?

Key indicators (2012)	CZ	HU	PL	SK
Market share of the largest company bringing in natural gas	82.3%	32.9%	96.9%	61.8%
Switching rates for gas (domestic)	12.0%	1.5%	0.8%	11.6%
Regulated prices for households	No	Yes	Yes	Yes
Regulated prices for non-households	No	Yes	Yes	Yes for SMEs
HHI of gas retail market	1,632	1,246	9,073	N/A

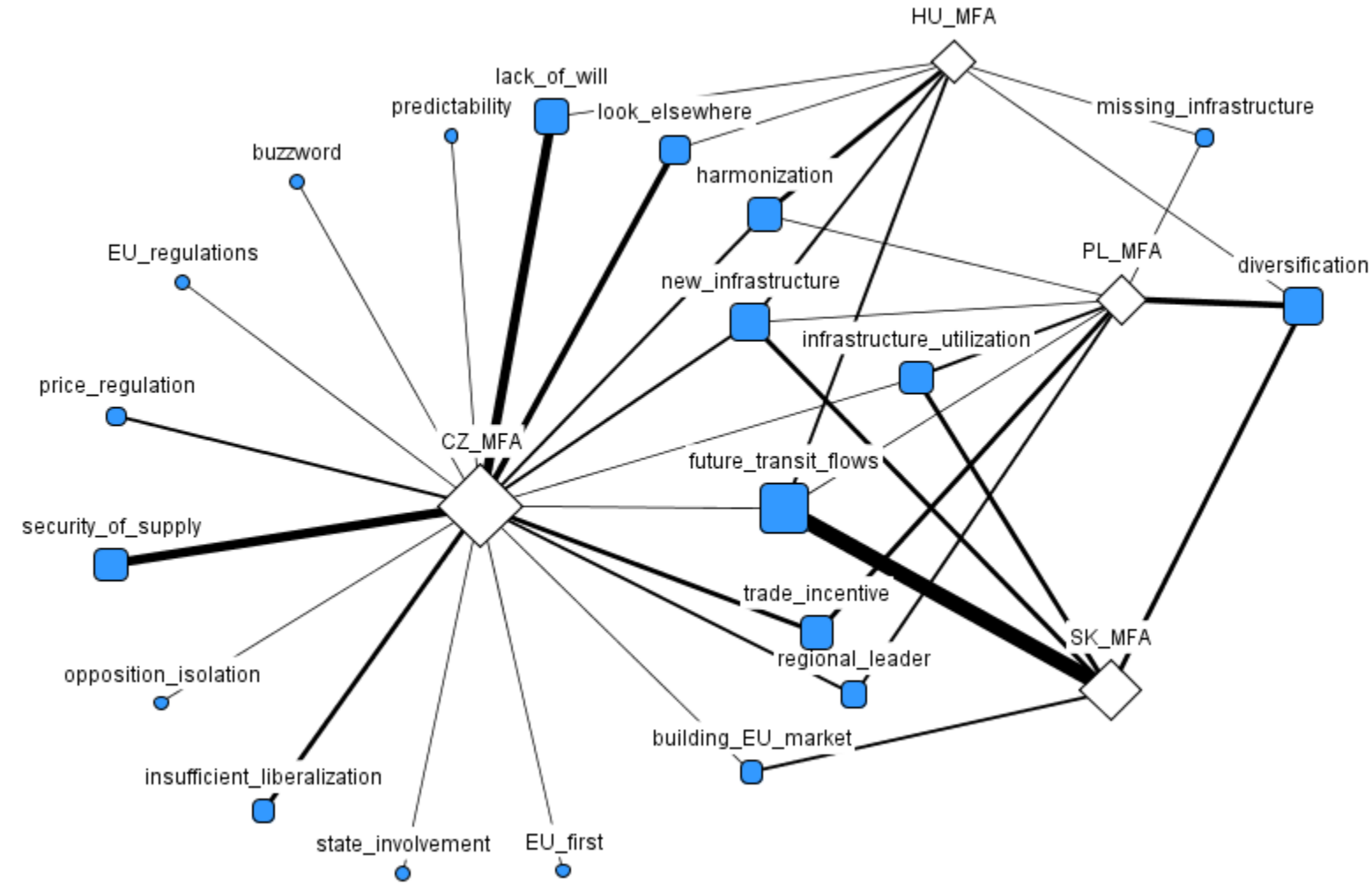
Ideational factors: perceptions and expectations

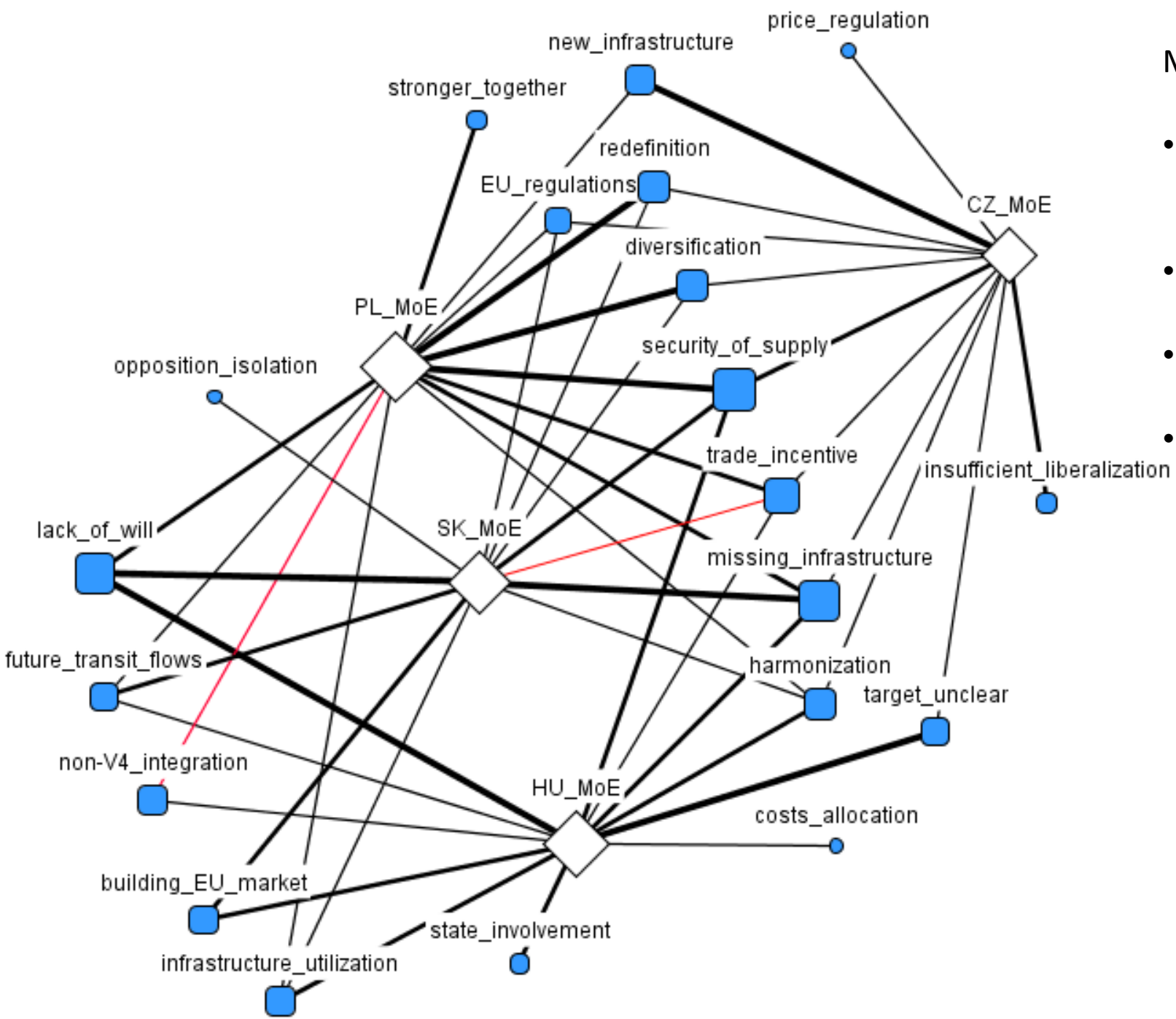
Functional discourse: the most and the least shared concepts

	4 connections	0 (1) connections
MFAs	future_transit_flows new_infrastructure	security_of_supply (1) stronger_together
MoEs	harmonization missing_infrastructure security_of_supply trade_incentive	look_elsewhere LTCs regional_leader
NRAs	harmonization	LTCs (1) political_assignment (1) state_involvement (1)
TSOs		EU_regulations (1) future_transit_flows (1)

Ministries of Foreign Affairs

- Infrastructure utilization and future transit flows among the most central codes – is transit a MFA issue?
- Trade incentive?
- Security of supply?



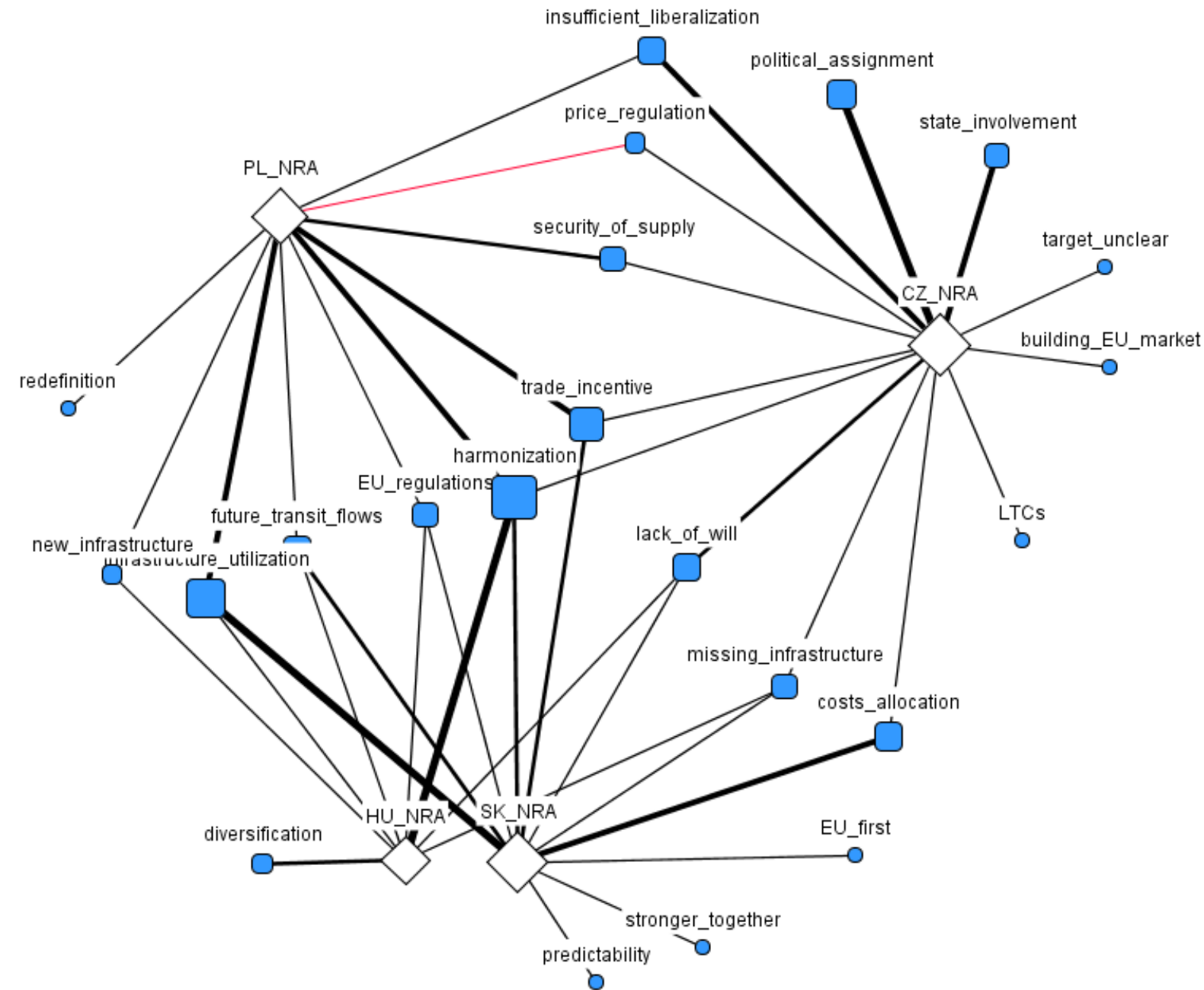


Ministries of Energy

- Security of supply + trade incentive + harmonization + missing infrastructure
- Regional leader?
- Lack of will?
- „The Parties stress the need for the efficient institutional organization of the process of the regionalization of the V4 gas market. The top-down approach is envisaged where the leading role is attributed to the V4 Ministers of Energy, who shall provide for the necessary political impetus and shall be responsible for the decision-making on the final regional V4 market design in the future” (The Visegrad Group, 2013)

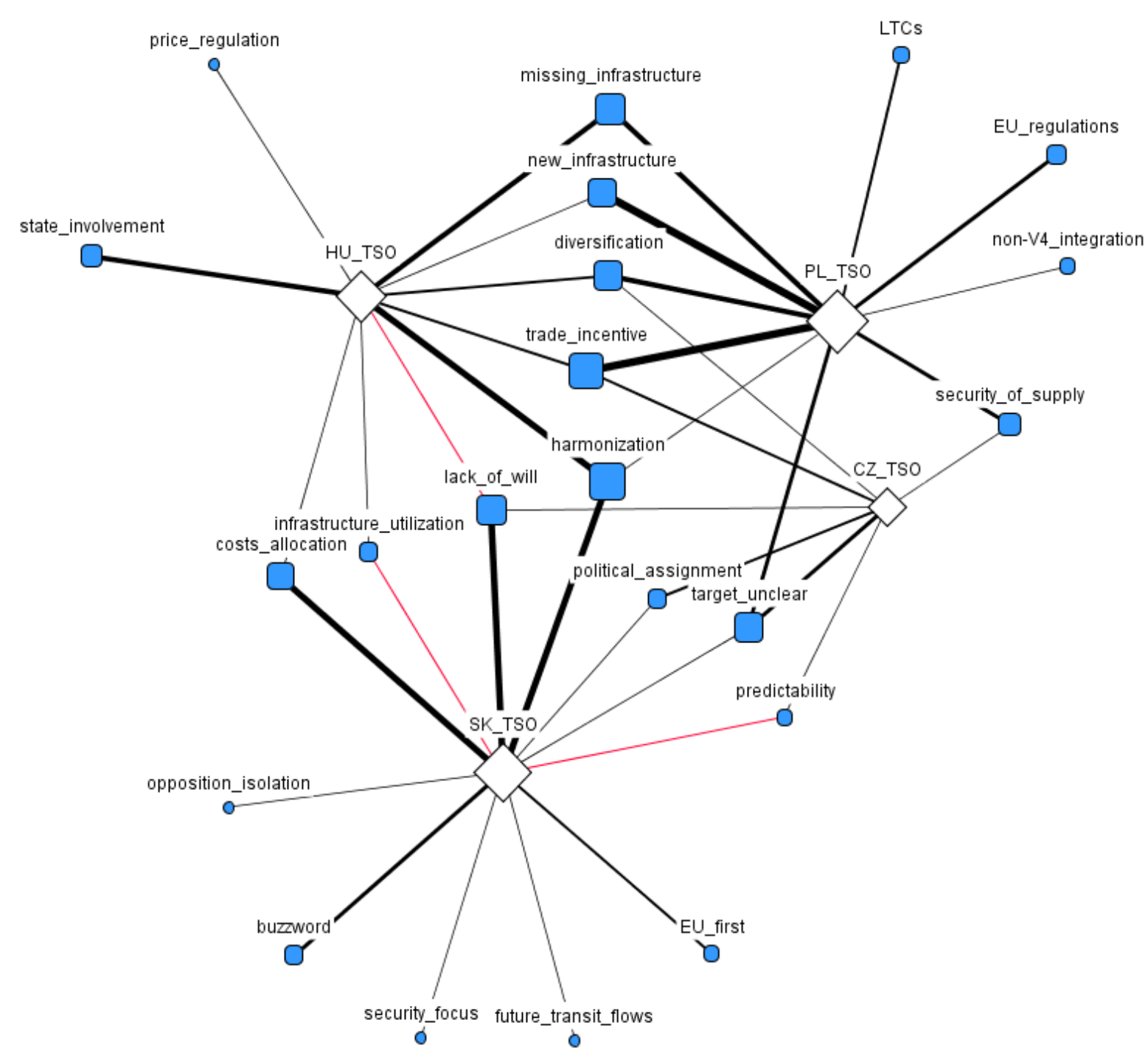
National Regulatory Authorities

- Harmonization + trade incentive + missing infrastructure + lack of will
- Insufficient liberalization, state involvement, price regulation?



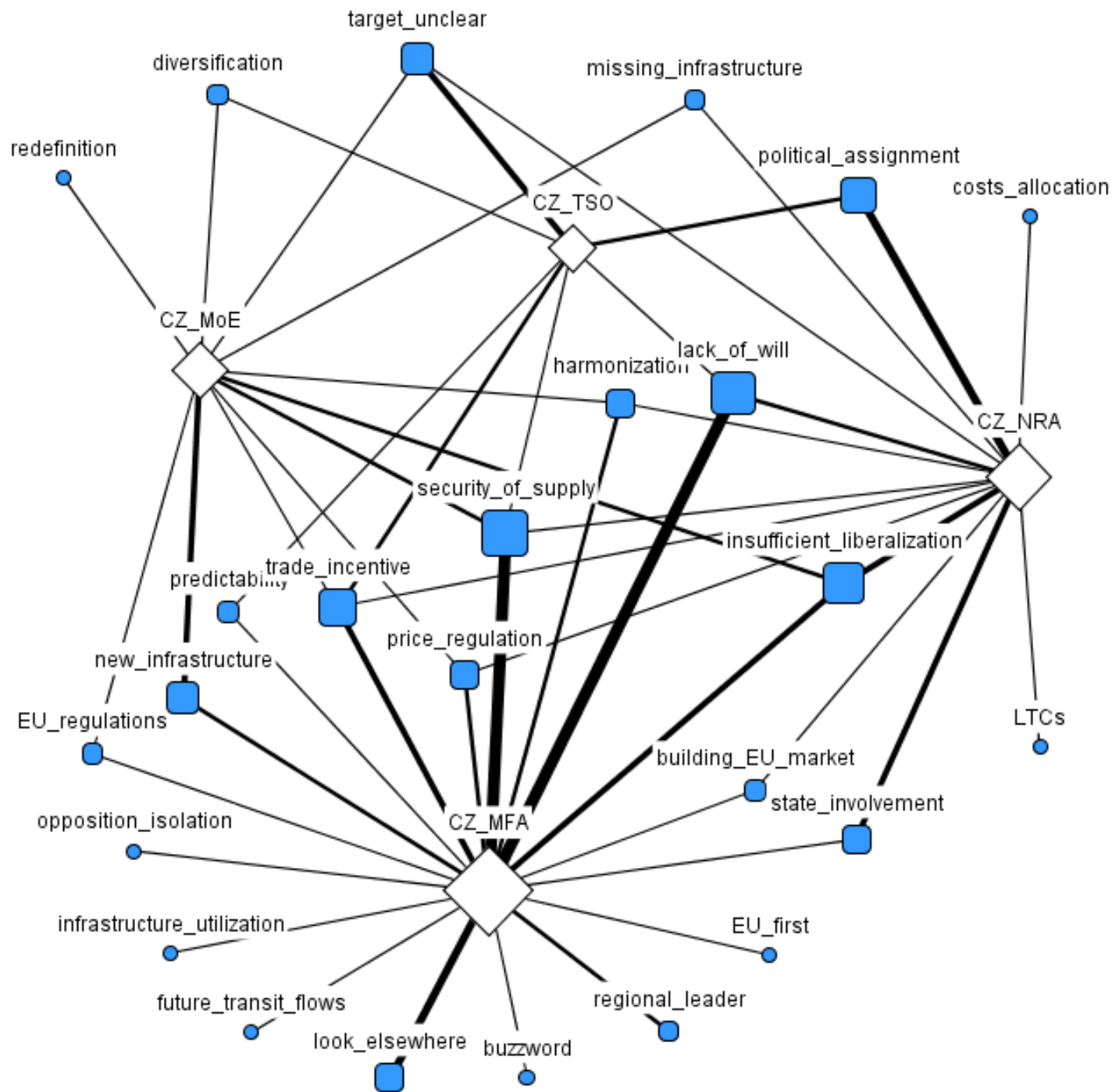
Transmission System Operators

- Very few common topics
- Infrastructure utilization?
- New infrastructure?



Country discourse: the most and the least shared concepts

	4 connections	0 (1) connections
CZ	security_of_supply trade_incentive	security_focus stronger_together
HU	harmonization missing_infrastructure lack_of_will	insufficient_liberalization LTCs predictability redefinition regional_leader
PL	harmonization new_infrastructure trade_incentive	costs_allocation state_involvement price_regulation (1)
SK	future_transit_flows infrastructure_utilization	insufficient_liberalization LTCs price_regulation state_involvement

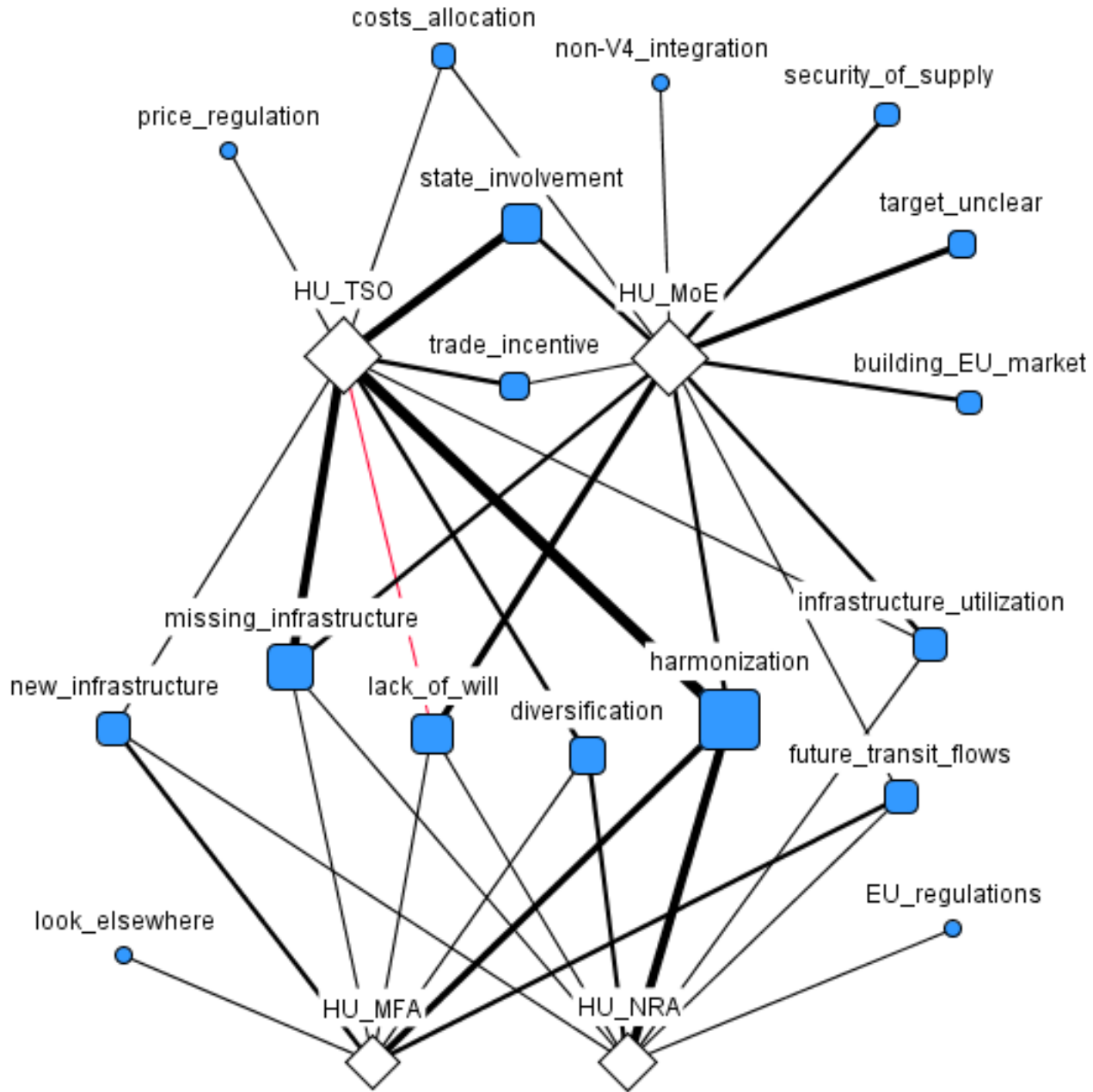


Czech Republic

- Interested in the retail market benefits
- Transit issue solved
- Market-related obstacles

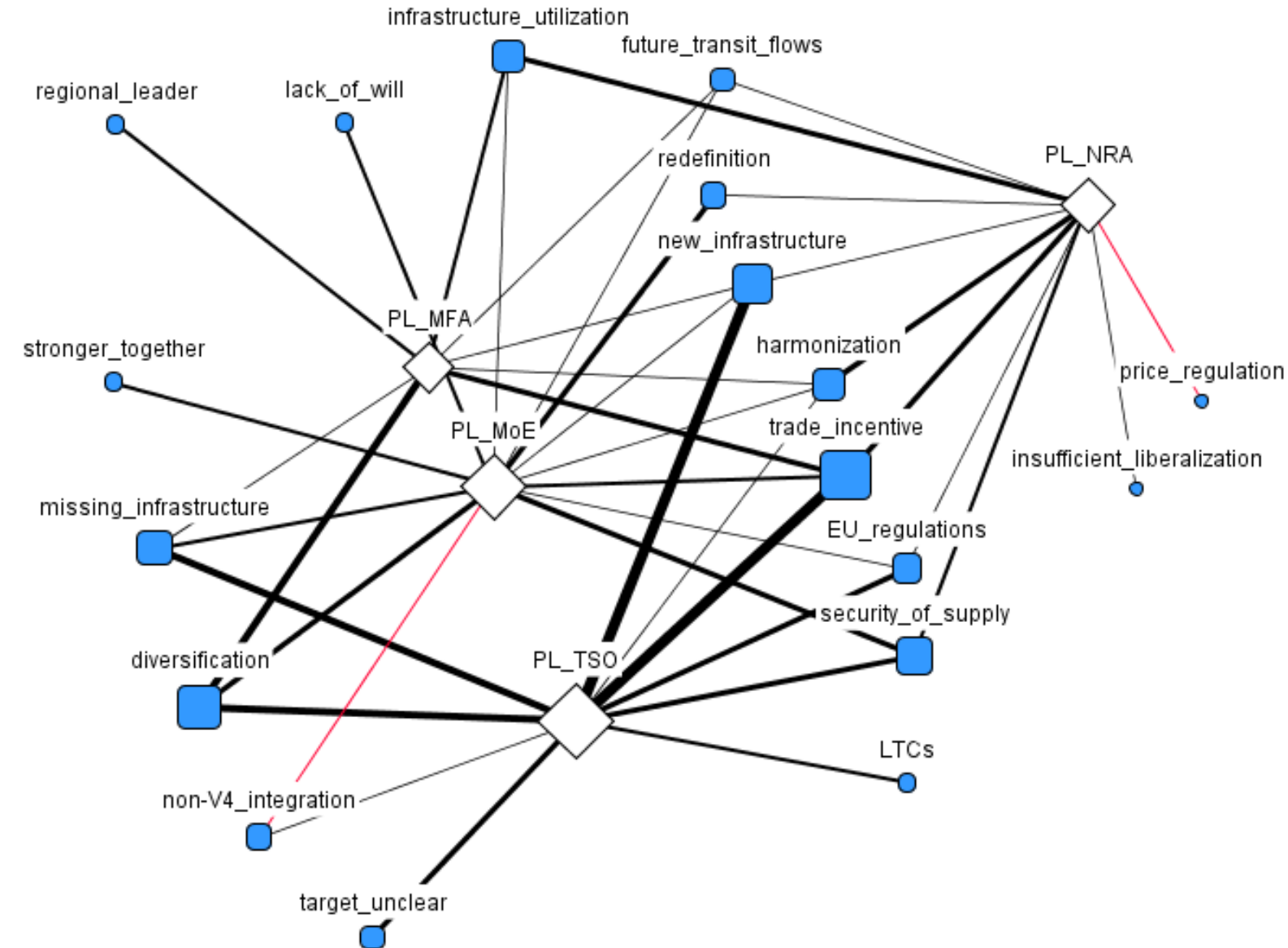
Hungary

- Infrastructure as a goal, not means
- New sources of supply as a goal
- Stresses difficulties and lack of will



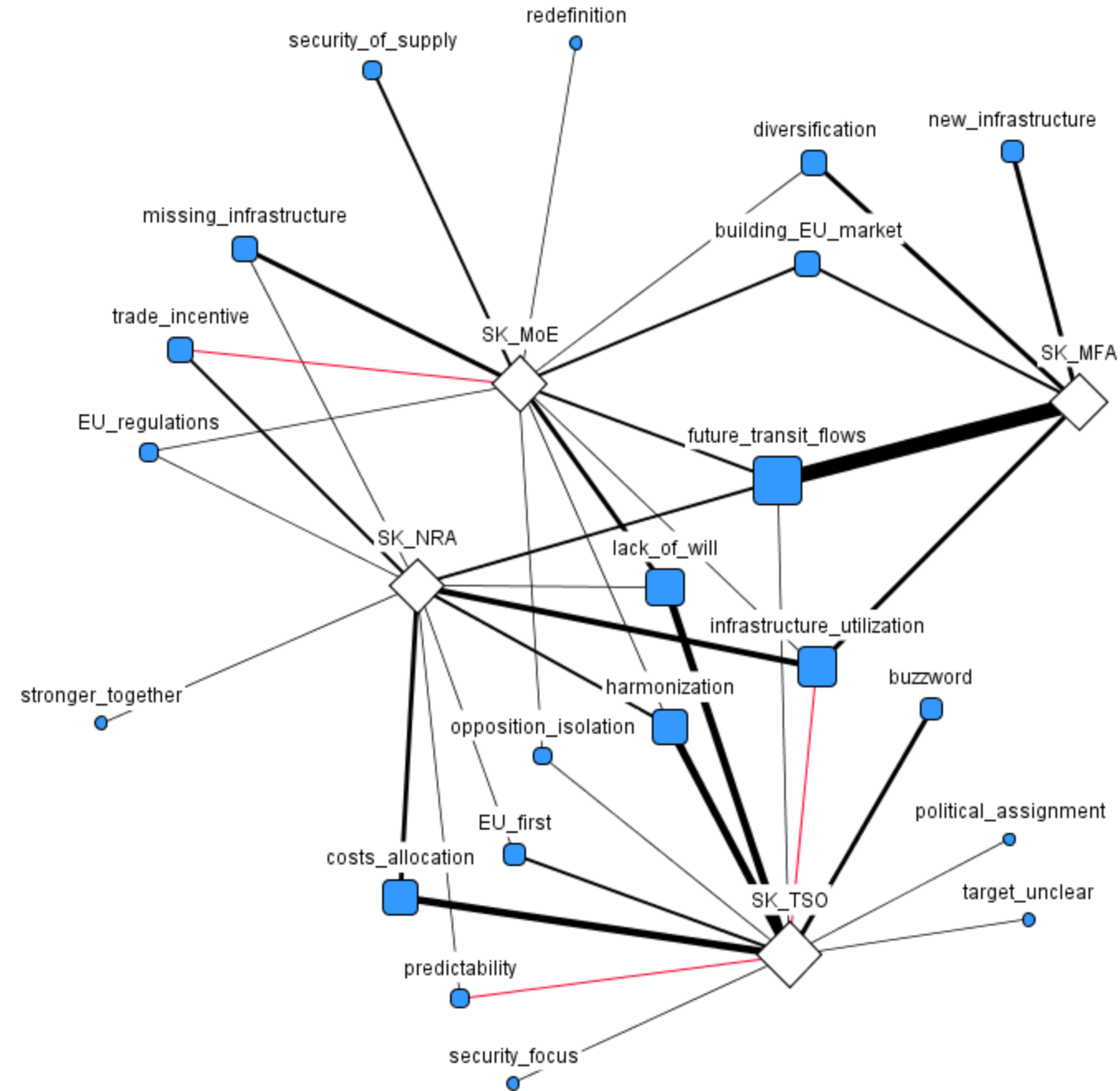
Poland

- Market integration = diversification
- State involvement not a problem



Slovakia

- Infrastructure and not much else



Findings

- The integration process begins with significantly diverging perspectives on the issue
- Market integration is often being confused either with market interconnection or diversification
- Benefits of integration questionable
- Integration widely seen as a „political assignment“ which consumes the stakeholders' resources