Regional gas market overview

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Outline

• Current status
  • Oversupply
  • EU market integration rules in place
  • Overall well-functioning EU market, no major price differences

• Opportunities
  • Upcoming new LNG capacities in US, AUS
  • Dropping Japanese, Korean demand
  • Stagnating EU consumption

• Threats
  • Global market: China and new LNG consumers’ higher demand
  • Decreasing domestic EU production
  • CSEE foreclosure: long-term bookings, Nord Stream 2

• REKK WGMM
  • Using EIA 2022 input assumptions, model the 2022 case

• Conclusions
Global gas demand and supply to increase by 10%; increasing role of China

+356 bcm/year global demand increase (~10%)
EU gas demand scenarios; critical role of climate policy

- **PRIMES Reference**
  - Demand stagnating around 4500 TWh/year

- **PRIMES EUCO30**
  - Demand drops below 4000 TWh/year by 2030 to meet renewable targets

- **Sensitivity – TYNDP Blue Transition Scenario**
US LNG is a game changer – also for CSEE?

- Alternative supplier putting a price pressure on the incumbents
- 2017 H1: 8.1 bcm export compared to 4.8 bcm in 2016
- Europe is not the primary market for US LNG under current market conditions

Source: EIA
CSEE: 15% of EU demand; success in diversification

CSEE demand and supply structure, 2016

- Domestic production
- Russian import
- Other import
- Storage stock change

Source: Eurostat
Utilisation of major regional interconnectors (Bcm)

- General overcapacity
- Key West – East IPs for CSEE: DE-CZ, AT-HU

Source: IEA gas trade flows
Progress with CESEC priority projects (vs South Stream)…

- **CESEC priority projects:**
  - Trans-Adriatic Pipeline (TAP)
  - Interconnector Greece-Bulgaria (IGB)
  - Interconnector Bulgaria-Serbia - pending
  - Phased Bulgarian system reinforcement
  - Phased Romanian system reinforcement
  - LNG terminal in Croatia (with phasing potential)
  - LNG evacuation system towards Hungary

- **CESEC conditional priority projects:**
  - Connection of off-shore Romanian gas to the Romanian grid and further enhancement of the Romanian system
  - Interconnection Croatia-Serbia
  - New Greek LNG terminal

**Notes:**
- **HR-HU reverse:** pressure management agreement
- **RO-HU-AT:** CEF: €180m
  - Project restructured to RO-HU
- **IGB:** FID; 1,57 bcm booked long term
- **TAP:** Commissioning 50%
- **KrK:** binding capacity booking in December 2017
- **Trans-Balkan reverse flow:** slow process
...but still segmented policies in the region

Source: Tractabel/REKK/Energy Markets Global: LNG and storage follow up study, 2017
Market integration and global oversupply benefits trickling down to CSEE

- Price convergence in Europe due to
  - global oversupply of gas
  - increased competition between pipeline and LNG
  - European network investments
  - developments in network codes

- The current market is well-functioning

- Will it last?- Quo Vadis
Major threat: Russia to take back control over pivotal supply routes to CEE – now from the West

- DE-CZ-SK reverse flow capacities booked by Gazprom. 80% between 2020-30 but some up to 2038
- HAG, SK-HU: Hungarian regulator intervened; potential downstream market foreclosure

RU-DE: Lubmin II, Greifswald, Greifswald Entry, Vierow, DE-CZ: Deutschneudorf, Oldbernhau 2, CZ-SK: Lanzhot, Lanzhot 1, Lanzhot 2
REKK WGMM 2022 outlook: intensified Russia – LNG competition

Source: REKK analysis
Key takeaways

• Post-2009 EU strategy to address CSEE unilateral gas import dependence and related risks has been a success

• CESEC (2015) gave further momentum for improved gas connectivity and market integration efforts in CSEE

• An EU-conform Russian counter-strategy to get back control over critical / pivotal supply routes to CSEE is emerging; NS2 is a key pillar of this strategy

• Key issue: how to sustain competitive pressure on pipeline gas in CSEE?
Thank you for your attention!

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