Liberalization versus regulation

The Common EU Energy Policy and the Energy Security of Slovakia VI

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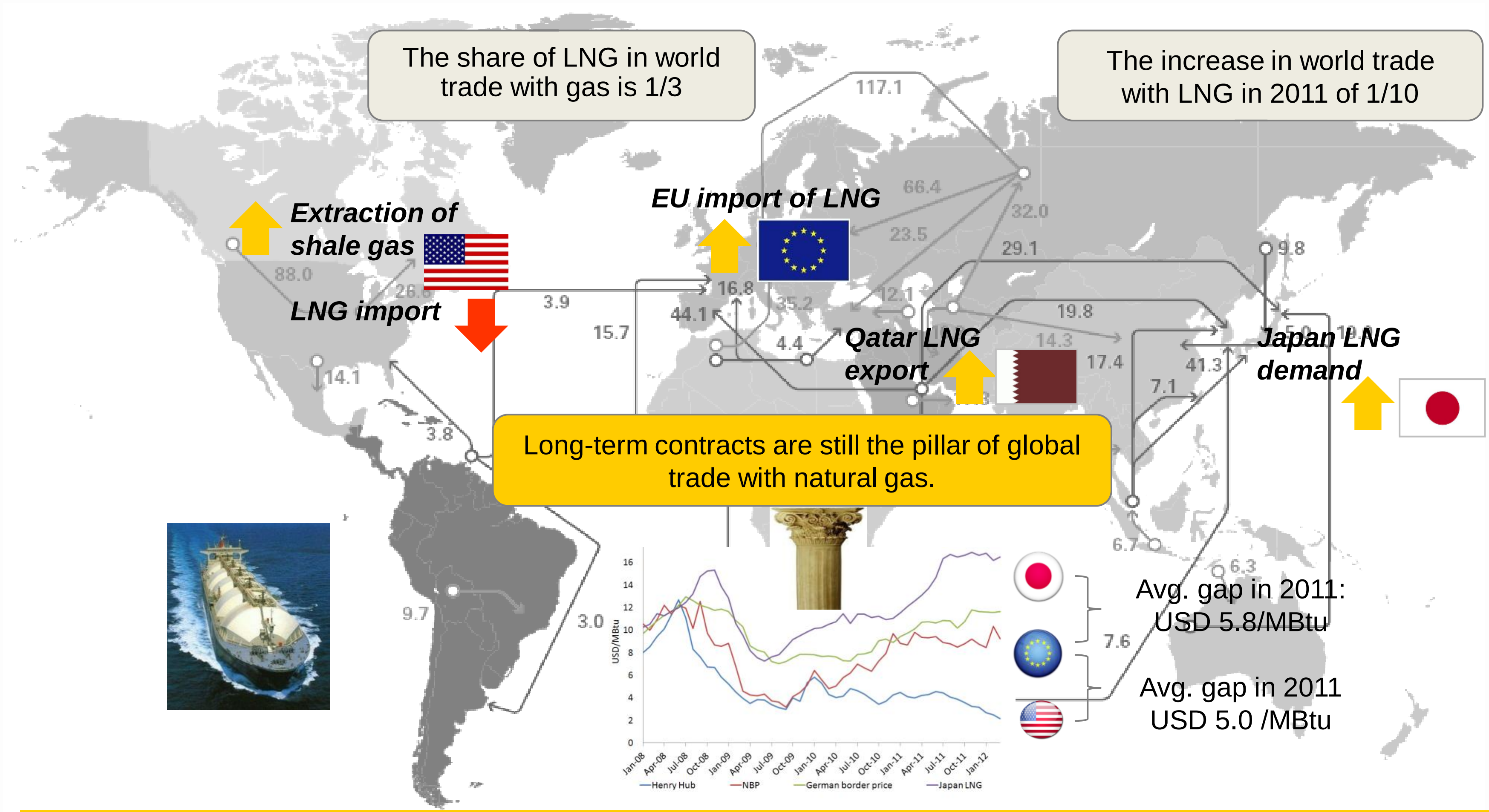
2. The development of competition and regulation in Slovakia

3. New energy legislation in Slovakia

1.1 Globalization of the gas market in the sign of LNG

The share of LNG in world trade with gas is 1/3

The increase in world trade with LNG in 2011 of 1/10



Long-term contracts are still the pillar of global trade with natural gas.

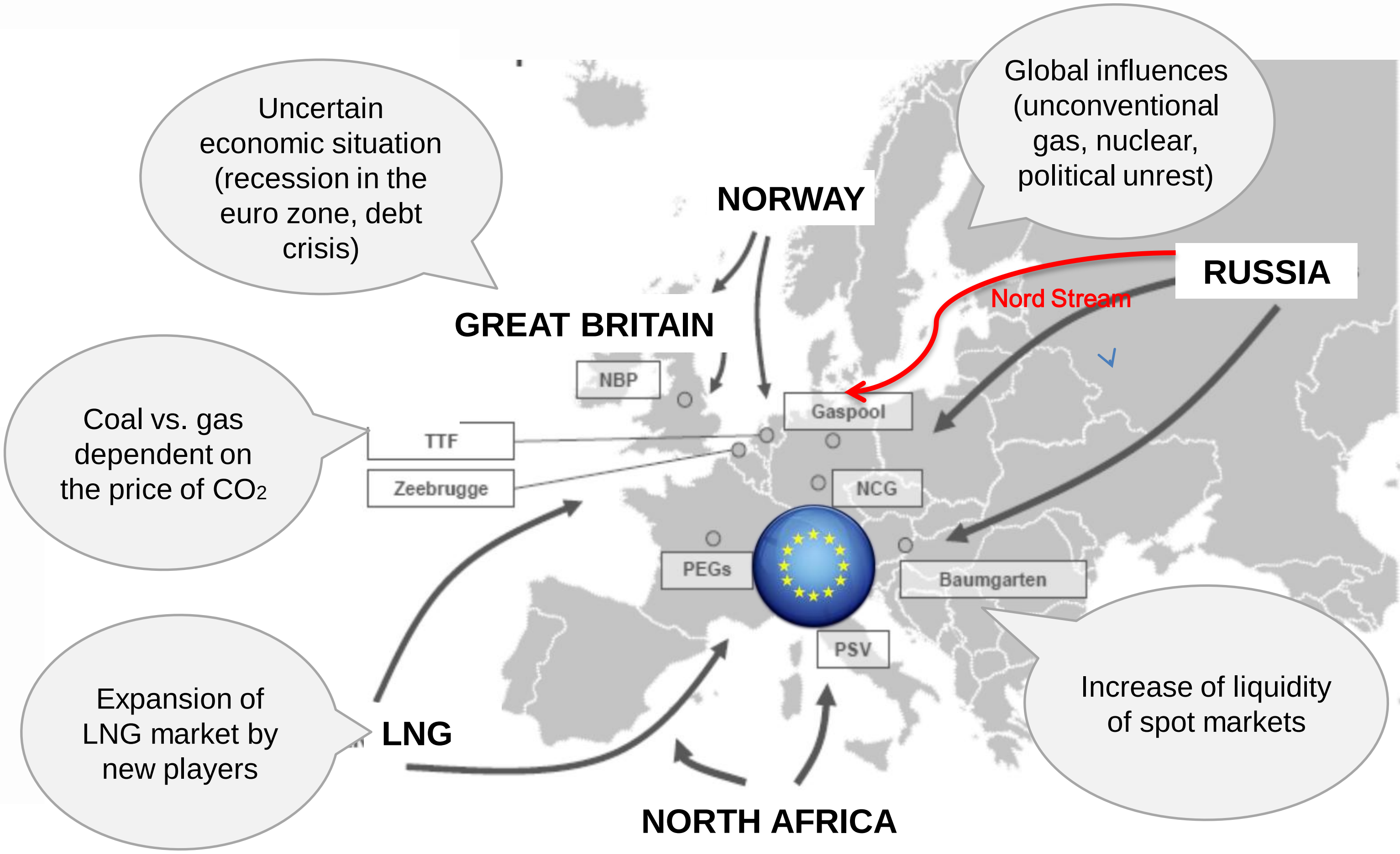
Avg. gap in 2011: USD 5.8/MBtu

Avg. gap in 2011 USD 5.0 /MBtu

World LNG trade will increase until 2017 by 31% and reach volume of 426 bcm.

Source: BP Statistical Review of World Energy June 2012, International Energy Agency

1.2 Expectations on the gas market in Europe



The current price development (in favor of coal) and also current economic situation are not supporting increase of gas consumption in Europe.

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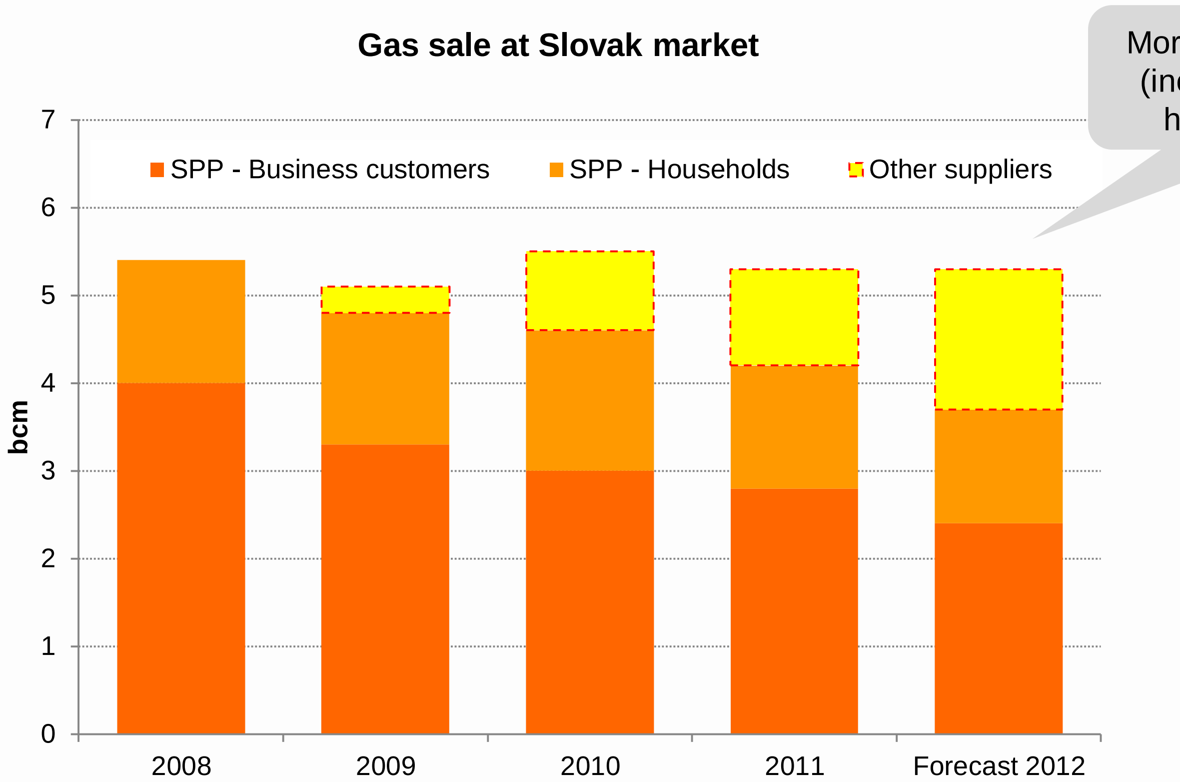
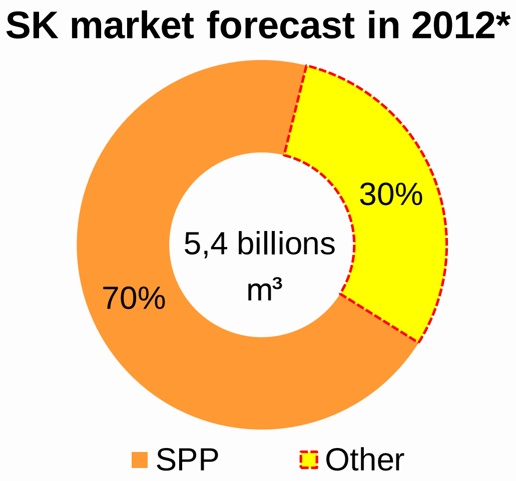
2.1 Suppliers at Slovak gas market

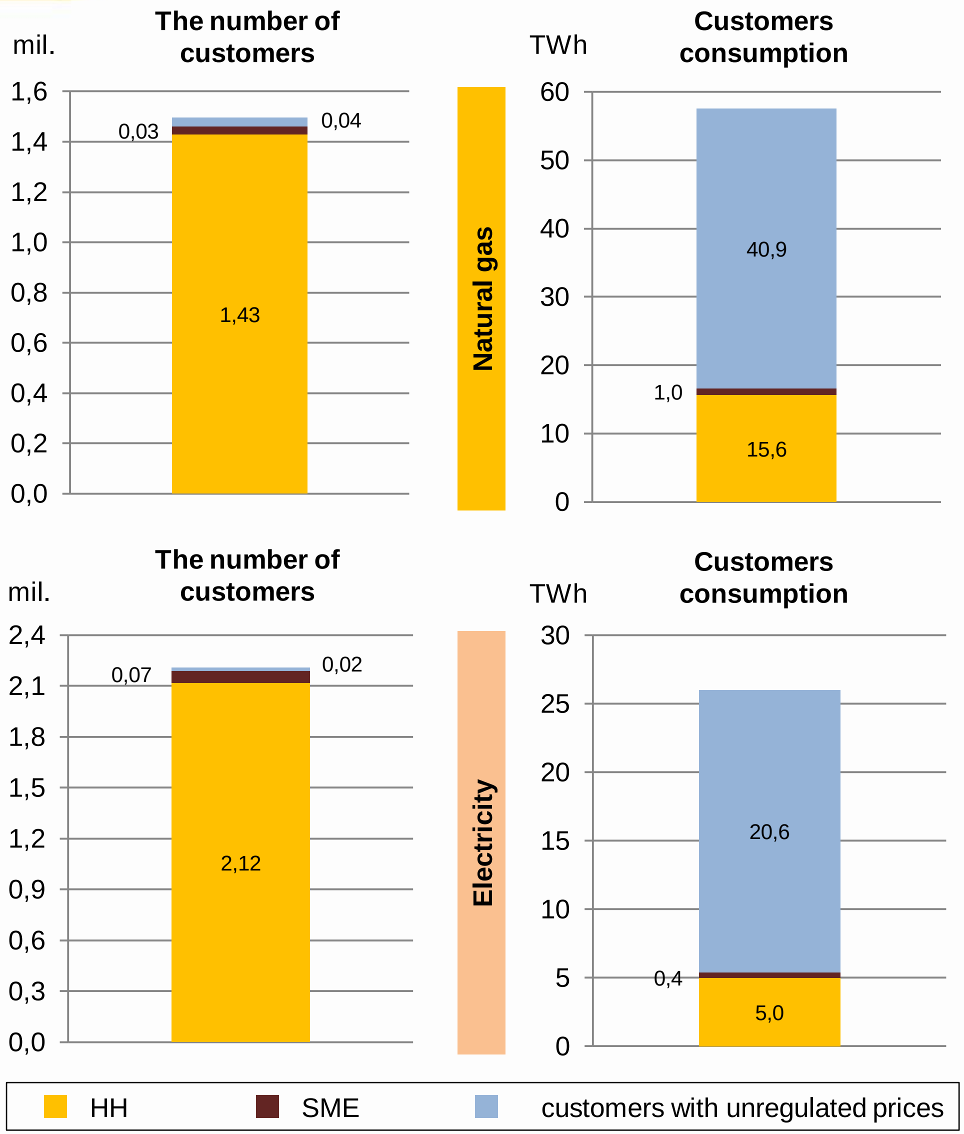




* Sales to end customers

Market share of other suppliers increases every year.
Despite that, the regulation extends also on another segment of customers.

2.2 Share of regulated supplies on the market



More than 97 % of all customers on the market (consumption over 28 %) will have **regulated prices of natural gas** in 2013**.**

More than 99 % of all customers on the market (consumption over 20 %) will have **regulated prices of electricity** in 2013**.**

Note: The data are based on internal estimates of company.

2.3 Comparison of development in ČR and SR

Czech Republic	Slovakia
Market without price regulation	**Market with price regulation**
Number of supplier changes in 2011 according to OTE: • 448 860 off-take points in electricity (2x more than in 2010) • 361 941 off-take points in natural gas (4x more than in 2010)	Number of supplier changes in 2011 according to RONI[1]: • 42 784 off-take points in electricity (2x more than in 2010) • 27 012 off-take points in natural gas[2] (8,5x more than in 2010).

If we take into consideration that the Czech market size is approximately 2 times bigger, the speed of change was more than five times faster in case of electricity and more than six times faster in case of gas.

[1] RONI Annual Report for 2011

[2] The value represents the number of customers who really took gas from another supplier in the given year– the number of applications for supplier change was significantly bigger

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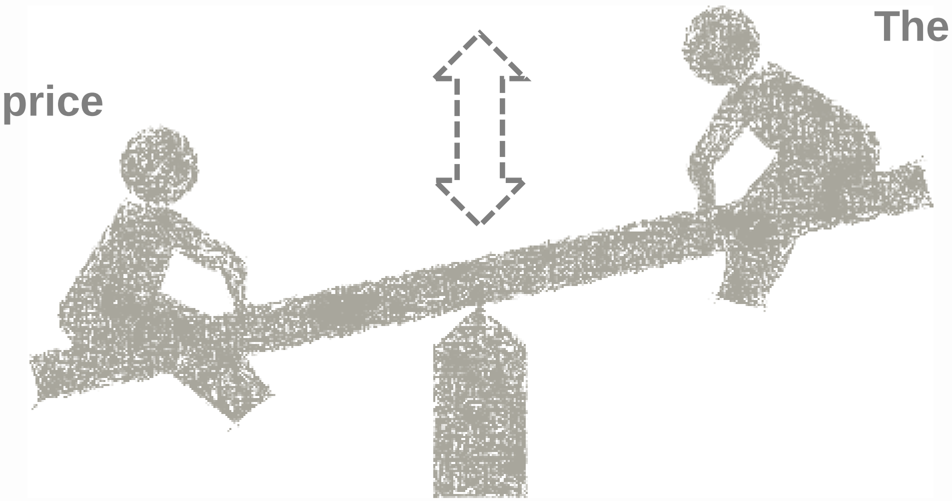
3.1 Regulated and market price - comparison

Regulated price

The market price



▪ Distorts the market	▪ Clear signals about the gas value
▪ Protects those who are not "vulnerable“	▪ Motivation to invest
▪ Wrong signals to customers	▪ Motivation for the product development
▪ Does not motivate to invest or improve	▪ The best price indicator

3.2 Weaknesses of regulation in Slovakia

- Regulation method doesn t take into consideration all costs connected to gas supply
  - ➢ Regulator didn t approve any costs connected with gas storage in 2012

- There is no independent appeal authority for pricing procedures
  - ➢ Personnel linkage between the office and the council does not give any space for independence

- It is not clear, what conditions on the market would allow to end price regulation
  - ➢ It would be necessary to define the market share or the number of customers whose aquisition by other suppliers will mean that the market is sufficiently functional

- Implementation of regulation for small enterprises - what was the reason?
  - ➢ Neither the explanatory report to the Regulatory Act does explain such a need

3.3 Main changes in the new legislation

+ Shortening of the notice period for contracts for an indefinite period
+ Empowering costumer rights
  - Quality standards
  - Information about price change and business conditions
  - Possibility to cancel the contract within 14 days after signing
  - Delivery of the final bill within 4 weeks after the termination of the contract
+ End of regulation of gas supplies for heating

+

- Implementation of price regulation of small enterprises
- Validity of price decisions for several years
- Personnel linkage between RONI and Regulatory Board

-

? Obligation to inform customers about change of the costs of gas supply
? Approval of business conditions by RONI
? Competences of RONI in procurement of services

?

How to proceed?

Yesterday

Coupling of LTC and spot prices → The regulationd does **not** cover all costs → 1 supplier

Today

Decoupling of LTC and spot prices → 22 suppliers on the market (>10 in household segment)

Tomorrow

Recoupling? → Security? → Regulation? → Competition? → Legislative framework?

Thank you for your attention!

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