



Round-table discussion:

*« New Challenges for the Natural Gas Industry »*

*Jacques Percebois*

*Professor at the University of Montpellier  
Head of the CREDEN*

## *Challenge No.1*

### *THE BEST MIX OF LONG-TERM CONTRACTS AND SPOT MARKET: ADVANTAGES AND DRAWBACKS OF LONG-TERM CONTRACTS*

-

- 1. According to the European Commission, long-term contracts represent « barriers to entry » for new operators*
- 2. A meshed network of pipes may implement hubs and favour spot contracts (LNG with terminals)*
- 3. Long-term contracts prevent both buyers and sellers from benefiting from good prices in the spot*

+

- 1. Long-term contracts improve supply security for the buyer (as well as diversification, storage, etc.)*
- 2. Due to long-term contracts, the seller benefits from a financial security as regards long term investments (exploration, transmission networks)*
- 3. A greater number of flexible clauses is compatible with long-term contracts (e.g. take or pay clause)*
- 4. « Gas release » may involve competition*

## *THE PROBLEM RELATED TO LONG-TERM CONTRACTS: ESCALATOR CLAUSES?*

### *ADVANTAGES AND DRAWBACKS OF ESCALATOR CLAUSES*

-

- 1. Escalator clauses (relating the price of natural gas to the price of oil products) favour higher prices for both oil products and natural gas*
- 2. The market determinants of oil and gas are not the same:*
  - ✓ Oil price is more sensitive to political tensions*
  - ✓ Natural gas ratio (reserves/production) is higher than oil ratio*
  - ✓ Oil has captive uses compared to natural gas*
  - ✓ The substitutes are not the same (refer to electricity generation)*
- 3. Favouring escalator clauses with natural gas spot prices (but spot markets are not liquid enough)*

+

- 1. Natural gas exporters are also oil exporters*
- 2. The escalator clauses constitute a guarantee for the buyer: natural gas will remain competitive in the presence of substitutes*
- 3. The escalator clauses limit the volatility of gas prices*
- 4. Even though escalator clauses are not taken into account, the correlation between gas and oil prices remains valid...*

## *Challenge No.2*

### *THE NEED FOR REGULATION*

#### *1. What is the role of the regulator?*

- *Avoiding market power? (HHI)*
- *Proposing or fixing tolls applied to transmission and distribution networks*
- *Providing incentives for investing in the networks (interconnection issue)*

#### *2. What are the risks for the regulator?*

- *Political « capture » risk*
- *Asymmetric information risk (as regards operators)*

## *Challenge No.3*

### *OPENING NETWORKS TO COMPETITION*

- 1. Gas release*
- 2. Ownership unbundling*
- 3. Efficient pricing in the transmission networks*
- 4. Incentives for investing (LNG terminals, interconnections)*
- 5. Higher transparency along the gas chain (i.e. transmission networks)*
- 6. Auctions, when congestions are observed in the networks*