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# Natural Gas Market Liberalisation in Romania

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## Abstract

*The liberalisation of the natural gas market in Romania is a very important element in the development of the Romanian economy in general and the development of this sector in particular. In this article, the authors provide an analysis of the gas market liberalisation process, highlighting its long- and short-term effects. The article also gives an overview of the evolution of the percentage of household customers that have switched from the regulated regime to the competitive regime and of the number of suppliers with household customers in their portfolio in the competitive regime. Connections to natural gas distribution systems and the evolution of natural gas prices in a regional context are also discussed in this article.*

**Keywords:** gas sector, liberalisation process, distribution system, ANRE.

**JEL Classification:** P48, Q48, K32, O13.

## 1. Introduction

With Romania's accession to the EU and the lack of credible external pressure for further reforms, the Romanian market experienced a real freeze in the period 2007-2011. Liberalisation and prices were frozen, as was further reform of state-owned companies and regulations. However, in the last three years, the gas market has undergone a significant transformation, and in early 2015 the non-household market will be fully liberalised. Unfortunately, for domestic consumers, liberalisation has again been postponed for two and a half years, until 2021 – a measure taken without the agreement of the European Commission and which may lead to further infringement action, as well as merely postponing the issue of affordability without providing a sustainable social support solution. Delays in liberalisation make us more vulnerable to a gas import crisis, reduce state budget

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revenues, discourage projects to develop domestic gas resources, and do not allow us to exploit existing resources without waste.

The liberalisation of the natural gas market in Romania was a complex process, carried out in several stages and marked by a series of important changes and additions to the applicable legislative framework.

Although this framework has fluctuated in terms of the timing of full market liberalisation for household consumers, the general trend has been towards deregulation, in line with Romania's commitments as an EU Member State.

| **Year 2014: Mandatory gas trading on centralised platforms (for producers)** | **Since 2014, the obligation for producers to trade natural gas on centralised platforms has been in place.** |
|---|---|
| 2015: Mandatory gas trading on centralised platforms (for suppliers) | The obligation established in 2014 for producers has started to apply to gas suppliers since 2015. |
| March 2017 - December 2018: Liberalisation of gas prices for the entire quantity marketed by national producers | In 2017, the price of natural gas was liberalised for the entire quantity marketed by national producers, as follows:<br>- before 31.03.2017, the quantities supplied for regulated consumption[3] were supplied by national producers at regulated set prices;<br>- after 31.03.2017[4] , suppliers to household consumers and CPET[5] switched to competitive from regulated gas procurement. |
| December 2018: Capping of the domestic producers' selling price to CPET | The competitive operation of the wholesale gas market took place from March 2017 to December 2018, when the authorities[6] reintroduced the obligations on domestic gas producers to sell at a regulated cap price, thus removing significant amounts of natural gas (destined for CPET) from the competitive market. |
| 2020: Liberalisation for household consumers | By *GEO no. 1/2020*, liberalisation of the gas supply market was established for household customers from 1.07.2020[7] . |

[3] Representing about 35 % of total natural gas sales.
[4] Follow-up to GEO No 64/2016.
[5] CPET = household customers and heat producers, only for the quantity of natural gas used for the production of heat in CHP plants and thermal power stations, for household consumption.
[6] By adopting GEO no. 114/2018.
[7] Subsequently, by ANRE Order no. 27/2020, the measures to be applied by suppliers to household customers in the regulated market in the period May-June 2020 were established, mainly the submission of price offers valid from 1.07.2020 and notifications containing information on market liberalisation. According to the provisions of the Order of the President of ANRE no. 27 of 23 March 2020, during the period from 1 April to 31 May 2021, natural gas suppliers were obliged to send to household customers in their own portfolio who did not exercise their eligibility right a notification

In July 2020, the Romanian Energy Regulatory Authority (ANRE) carried out an analysis of the Romanian natural gas sector, in the context of the liberalisation of natural gas supply to household customers. Market analyses are tools commonly used by regulators, whereby they aim, in particular, to identify and mitigate possible inefficiencies in the functioning of markets.

## 2. Problem Statement

In the context of the[8] liberalisation process announced for 1.07.2020, the competition authority found that the number of household consumption sites supplied with natural gas on a competitive basis increased by almost 200,000 in the first six months of 2020, representing an increase of more than 56 % compared to the level in January 2020 (when there were about 295,000 such consumption sites) (Ban, 2012).

Thus, in relative terms, the share of total household customers supplied with natural gas on a competitive basis increased from around 7.8 % in January 2020 to 12 % in June 2020 (Nedelcu, Busu, 2022).

Subsequently, based on the data collected by the competition authority and those received from the regulator, it is observed that in the second half of 2020, after the start of the last stage of the liberalisation process, approximately 585,000 household customers switched to the competitive regime, which meant that, at the end of 2020, the share of customers supplied with gas under the competitive regime, compared to the total number of consumption sites in Romania, was 26.6 % (Nedelcu, Busu, 2022).

Subsequently, household customers continued to exercise their right of eligibility throughout 2021, with preliminary data for August 2021 showing that, of the approximately 4 million consumption sites, for approximately 1.8 million (representing 44.1 %) supply is carried out under a competitive regime following the expression of an option by the household customer (as shown in Figure 7.1) (Grecu et al., 2018).

Also, from the start of the last phase of liberalisation (July 2020) to August 2021, the number of household customers in the competitive regime has increased by about 1.31 million (but about 180,000 of these are new consumption sites, for which supply is automatically provided in the competitive regime) (Haar, Marinescu, 2011).

Furthermore, between August 2020 and July 2021, only 8.4 % of household customers who switched to competition also changed supplier in the process, meaning that the vast majority of household customers remained with their old gas supplier (Bolba et al., 2021).

Thus, the information collected by the Competition Council from natural gas suppliers does not support the hypothesis of migration to the competitive regime of

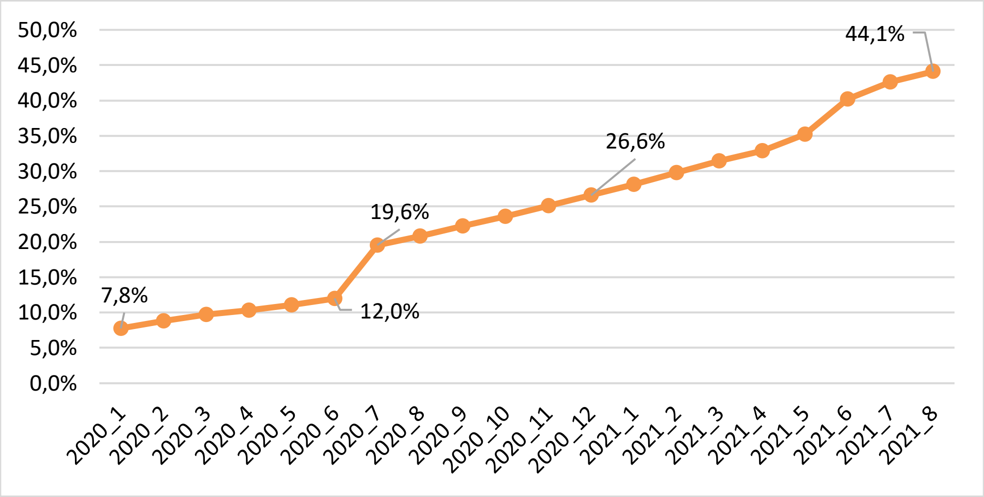
which will have attached a price offer proposed by them for the supply of natural gas from 1 July 2021.

[8] Gas suppliers had specific obligations, set by the regulator, to inform their customers of changes to the supply regime and to communicate the offers under which gas supplies were to be provided from July 2020.

a certain type of consumers, as the average monthly consumption of those who switched to the competitive regime is roughly equal to that of passive household customers (Sobják, 2013; Kennedy, 2005).

## 3. A Description of the Natural Gas Market

**Figure 1. Evolution of the percentage of household customers switching to competition (January 2020 - August 2021)**




*Source*: Own analysis based on data retreived from ANRE.

Before the liberalisation process[9] announced for 1.07.2020, the competition authority found that 86 suppliers were active on the Romanian natural gas market, similar to the number at the beginning of 2020 (84 suppliers). Also, less than 50 % of gas suppliers on the market were targeting household customers.

In the first half of 2020, 31 gas suppliers had household customers in their portfolio to whom they provided gas under the competitive regime.

In the first semester of 2020, only six gas suppliers had more than 5,000 household customers in their portfolio to whom they supplied gas in a competitive regime.

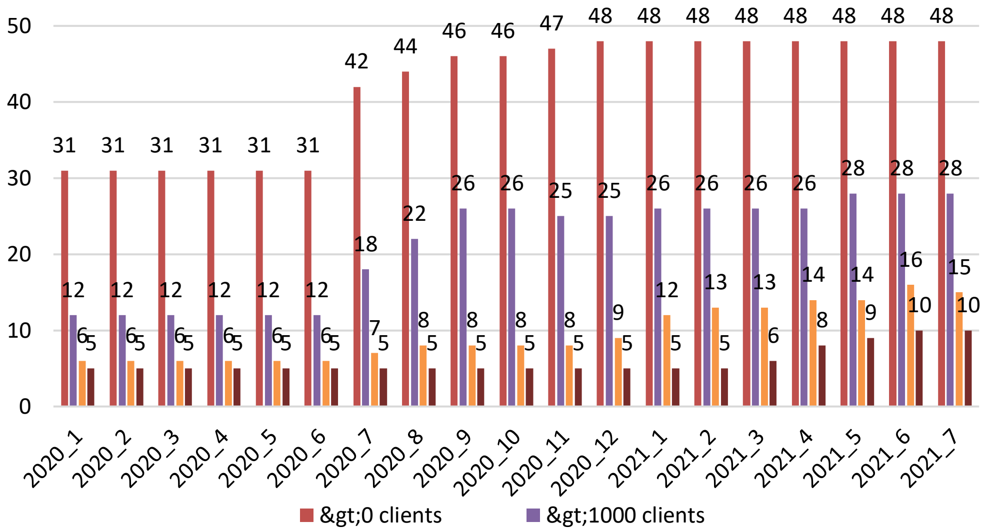
Following the liberalisation process, the number of gas suppliers with household customers in their portfolio to whom they supplied gas on a competitive basis stabilised at around 48.

Also, the number of gas suppliers that each had more than 1,000 household customers in their portfolio to whom they supplied gas under a competitive regime increased to 28.

[9] Gas suppliers had specific obligations, set by the regulator, to inform their customers of changes to the supply regime and to communicate the offers under which gas supplies were to be provided from July 2020.

In addition, the number of natural gas suppliers that each had more than 5,000 household customers in their portfolio to whom they supplied gas on a competitive basis reached 15.

**Figure 2. Number of suppliers with household customers in the portfolio, competitive regime (January 2020 - July 2021)**




*Source:* Own analysis based on data retreived from ANRE.

In Figure 2 we could see that there was an increase in the number of suppliers with household customers in the portfolio in the competitive regime, in July 2020.

One of the recommendations that resulted from the public debate on the liberalisation process of the gas market was to adapt ANRE's model offer comparator by including additional filters to make it easier for household customers to choose between offers with a higher degree of comparability. Household customers should be able to select suppliers' offers according to several relevant criteria, such as: type of price (fixed/variable), duration of price validity (expressed in months), type of offer (gas/gas and services/gas and energy), daily subscription component (yes/no), guarantee component (yes/no), method of bill transmission (physical/electronic).

On 18.09.2020, ANRE made available to household gas consumers interested in exercising their right of eligibility a new version of the comparator of standard gas supply offers. It includes additional criteria on the basis of which offers can be selected, ensuring better comparability of the returned results. In the new version of the online comparator, customers can choose to view offers according to price type, subscription component, billing method, guarantee component, contract duration, etc.[10]

[10] For further information, those interested can consult the press release issued by ANRE on this

As of January 2021, the comparator is also available on the Competition Council's website[11].

## 4. Liberalisation Process of the Gas Market

ANRE has analysed the model offers for the supply of natural gas under a competitive regime drawn up by the licensees at the time of liberalisation, as well as the draft contracts proposed by them to be concluded with household consumers on the competitive market.

The analysis revealed problematic clauses, which, in certain situations, can create barriers for household customers to make an informed choice of the most appropriate supply conditions, and which are sometimes ambiguous. In addition, certain contractual clauses can block, even temporarily, the possibility for household customers to switch gas suppliers.

In this context, ANRE stressed the importance of discouraging this type of behaviour identified at the level of natural gas suppliers to household customers, which can undermine the whole liberalisation process, and recommended the standardisation of a contract format providing for single terms and conditions, presented in a clear, transparent and complete manner. Also, as some aspects of the contract terms proposed by gas suppliers exceed the powers of the competition authority, ANRE communicated the results of its analysis to the National Authority for Consumer Protection.

### *4.1 Connections to Gas Distribution Systems*

Following the adoption, especially in the second half of 2020[12], of primary regulatory acts, amendments and additions were made to Law 123/2012 regarding the connection to natural gas distribution systems. According to them, the distribution operator is obliged to connect all domestic end-customer applicants to the system within 90 days from the date of obtaining the construction permit, with recovery of the connection costs within 5 years.

According to data collected by ANRE in 2020, in Romania there were 3.9 million consumption points belonging to domestic consumers connected to the distribution system, served by approximately 60 natural gas suppliers.

The process of connecting consumers with the natural gas distribution system is a prerequisite for supply activity, and the number of consumption sites belonging to household customers is directly influenced by the stage of this process.

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occasion, available at https://www.anre.ro/ro/presa/comunicate/informare-privind-aplicatia-web-interactiva-comparator-oferte-tip-de-furnizare-a-gazelor-naturale.

[11] http://www.consiliulconcurentei.ro/anre-comparator-gaze-naturale/.

[12] Law no. 155/2020 on amending and supplementing the Law on Electricity and Natural Gas no. 123/2012 and on amending and supplementing other normative acts; Government Emergency Ordinance no. 106/2020 on amending and supplementing the Law on Electricity and Natural Gas no. 123/2012 and on amending some normative acts, approved with amendments and additions by Law no. 290/2020.

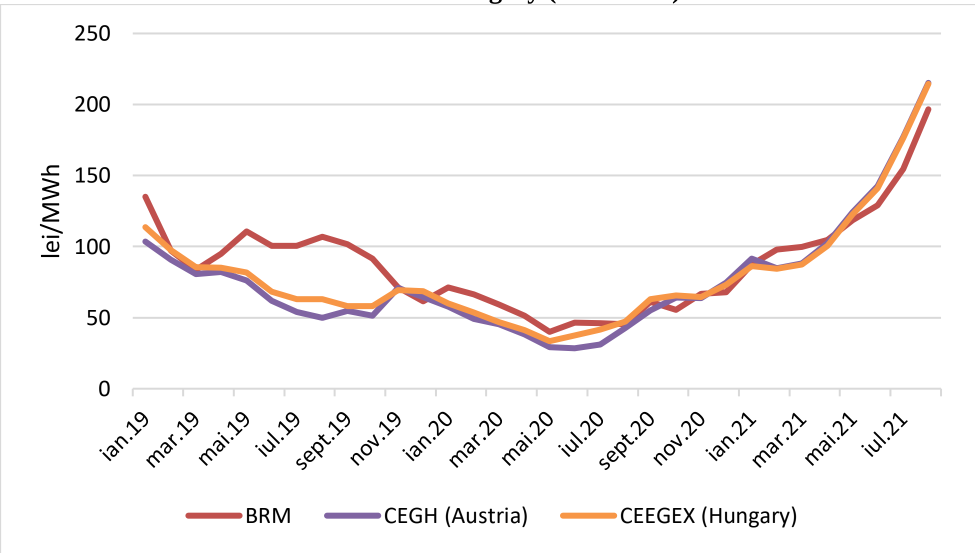
Under these conditions, a steady increase in the number of consumption sites would stimulate the expansion of the market for the supply of natural gas to households, potentially leading to an increase in both the portfolio of existing suppliers and to the emergence of new suppliers on the market.

### *4.2 Gas Price Developments in a Regional Context*

Natural gas is traded either spot, with delivery on the day of trading or the day after trading, or forward, with delivery later than the day of trading.

In Romania, most natural gas transactions are carried out on the platform of the Romanian Commodities Exchange (BRM).

**Figure 3. Monthly evolution of gas prices on the day-ahead market in Romania, Austria and Hungary (2019-2021)**




*Source:* National Trading Platforms.

Figure 3 shows the close-to-spot gas price level in Romania, Hungary and Austria, especially in the period 2020-2021.

As can be seen from the above, during 2021, there has been a significant increase in the price of natural gas. This increase was generated more by the combination of specific conditions prevailing in the region, rather than by the process of liberalisation of gas supply to domestic customers.

## 5. Conclusions

In fact, since the start of liberalisation, a multitude of offers have appeared on the gas market from suppliers, some even combined (gas and electricity, gas and associated services). In addition, household customers who exercised their eligibility after July 2020 were also able to benefit from significantly lower prices than those in regulated contracts, which shows that, in the absence of the recent combination of unfavourable conditions, the liberalisation process would have continued to generate tangible benefits for household gas consumers.

To sum up, in order to respond to the internal and external challenges in the gas sector, decision-makers need to prioritise an action plan with measures to implement the reforms started in the gas market, for the benefit of investors, consumers, and the state. Ideally, this action plan should be included in the energy strategy developed by the Department of Energy. Unfortunately, however, many of the necessary decisions are too urgent to wait for the strategy to be approved. It should be noted that all these measures have already been approved in various legislative or regulatory programmes, although some deadlines have been missed. This is all the more necessary as opponents of liberalisation (regulated suppliers, industrial consumers) argue that the liberalisation timetables only include price increases and not the measures needed to develop the market and update regulations.

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