Liberalizing the European Gas Market: The Role of Network Codes

Supervisor: Prof. Jacques Pelkmans

Thesis presented by Hilde Karin Kjensjord for the Degree of Master of European Economic Studies, European Integration and Business (EEIB)

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Abstract

The European market for natural gas has for long been a fragmented patchwork of nationally operated transmission systems, transporting gas between producers and consumers based on long-term contracts. A few interconnector points, made for one-directional transmission of gas to import dependent countries, feebly connected the national networks. As liberalization of gas markets became a political focus in the 1990s, efforts to integrate these markets have multiplied. The European Union launched in 2009 its Third Energy Package for Gas, including the development of twelve Network Codes (NCs), which will regulate numerous aspects of cross-border transmission of gas. This paper economically analyzes the impact of the four most advanced Network Codes at the time of writing, by introducing the different segments and dynamics of the gas industry, the role of interconnector points in the wholesale market, the characteristics of the NCs and the potential economic effects they should generate. The study shows that the codes will indeed have positive effects on entry barriers, capacity allocation, congestion problems and the proliferation of hub-based gas trading, but a completely liberalized EU internal gas market is unlikely to be the result.

Keywords

Liberalization
Natural gas market
Network Codes
Third Energy Package for Gas
Interconnector Points
European Gas Hubs