

If there is one energy topic that provokes hype in South-Eastern Europe it is that of natural gas hubs. In a region traditionally under pressure from both East and West, the hype is understandable. If properly set up and well managed, hubs easily provide the best of both worlds: abundant natural gas and market mechanisms to rein in its geopolitical edge. Plus, the added revenue that comes with successfully managing a gas hub. This latter point alone suffices to explain why there are now so many contenders in the gas hub race.

With more or less fanfare, several countries in the region have at one time or another announced their intention to become a gas hub. Greece, Turkey, Bulgaria and Romania have generally been the most vocal, though neither ever provided the specifics of what their respective hub proposal looks like.

The process of creating a hub, widely embraced by politicians of all these four countries, has yet to fully leave the political ambition realm and enter that of actual design and further, that of implementation. Pipelines have been proposed, new sources of supply are being evaluated and legislative changes are being held in mind.

But until all of these aspects are met cumulatively by one or more of the countries in question, an actual, functional South-Eastern European gas hub remains elusive.

Competition is all the fiercer since markets in the region are not large enough to explain more than one or two hubs at the most.

Despite the constant talk of the advantages that a gas hub status would provide and the occasional rivalry between the contenders, one aspect of the debate has often been overlooked: what makes for a successful gas hub?

It makes little difference to the success of a hub the shape that it will take, whether it will be a virtual or a physical one. Western Europe provides successful examples of both types. The difference is that the latter must have a set of pipelines converging to a single physical point on the territory of the country in question, where sufficient storage capacity would also have to be ensured.

So, in principle, if such converge does not already exist, a physical gas hub would be more expensive to build and operate, and could possibly take longer to create, though the time element depends on many factors, not just pipeline building. It is these other factors, presented below in no particular order, that make or break a hub.

First, a successful hub must benefit from the existence of a functional trading platform, that is a place where supply can meet demand in order for the price to be set by the logic of markets – as opposed to the current main oil-indexation price mechanism in use in all four countries' contracts with their external suppliers. In other words, the oil-indexation price-setting mechanism must be replaced with gas-on-gas competition and trading platforms are

the way to do just that.

While most countries in the region have developed such platforms for electricity exchange, they have been slow to apply the same mechanism to natural gas in order to ensure the necessary market liquidity. Gas is being exchanged on commodities' markets, but the markets are just now making the first steps towards a flexible combination of both long-term contracts and short-term or spot trading.

Second, for competition purposes, gas hubs must function on a completely liberalized gas market, that is one where the price is set only by the levels of supply and demand and not by a political or administrative entity imposing it from above. All of the countries in question however still regulate prices for at least one group of consumers, though they have set dates for giving up on regulated prices sometime by the end of the decade.

On this point, Romania could prove ahead of the game if current trends keep their pace. Along with the International Monetary Fund, the Romanian government has set a "liberalization calendar" for household consumers (the only segment of the market still benefiting from a regulated price) to run until 2021 at the latest. But the current oil price slump, which dragged down natural gas prices in light of the oil-indexation mechanism, means that by mid-2016 prices set by the calendar will reach convergence with European market prices, rendering the regulated price useless. If this happens, the calendar will have run its course ahead of schedule, giving Romania an advantage over its neighbours in terms of pace of liberalization.

A third condition is compliance with the Third Energy Package's unbundling and third party access rules, again in order not to distort competition. Neither of the four competitors fully abide by both rules, despite push from the European Commission for the legislation to be enacted. In Bulgaria, for instance, though unbundled, Bulgaria Energy Holding and its subsidiaries currently still coordinate practices in order to control the transmission network, the storage facility as well as the import pipeline. In Greece and Romania unbundling regulation has been largely followed, but in Romania on the other hand, third party access is still not possible on all pipelines owned by the national Transmission System Operator. A special case is Turkey which has yet to make steps on either issue since it is not required to implement the Third Energy Package.

Fourth, the hub must have sufficient gas volumes coming in from more than one source. It does not matter if this is domestic production or if the gas is imported. For this reason, a country with no domestic production, for instance Turkey, might be able to secure more gas than one with domestic production like Romania. There are many reasons for this, from geographical considerations (proximity to several suppliers like Azerbaijan, Russia, Iran), to

market ones (Turkey's significant demand makes it a valuable customer to any gas supplier, enhancing its position in the negotiations). The same cannot be said about the other three, with the possible exception of Greece which also benefits from several supply sources thanks to its Liquefied Natural Gas facilities.

The set of pipelines and interconnectors now being built in the region, starting with the Southern Gas Corridor and ending with the Bulgaria-Romania-Hungary-Austria Corridor (BRUA) will improve the situation, but no significant shifts should be expected. Unless, of course, substantive gas finds are made commercially available from the Black Sea, but if the current oil price slump holds, their success looks set to be postponed for a few years in the most optimistic of scenarios.

Promising steps are being witnessed towards the fifth factor making for a successful gas hub: the creation of sufficient entry and exit points to allow the sellers and buyers to move the gas easily, with no physical impediments. Translated broadly: interconnectors. The aforementioned BRUA, but also the Greece-Bulgaria Interconnector and the newly proposed Bulgaria-Serbia Interconnector will help with this, but with the caveat that their actual date of completion could suffer delays (in order to see that the region has championed delays in the past, one need look no further than the Giurgiu-Ruse interconnector which is now more than two years off-schedule).

Last but not least, a hub needs storage capacity in order to provide short-term balancing of the network. This too has shown some promise as of late both in Bulgaria (planning to double its capacity at Chiren) and Turkey (with two new facilities in plan, the one at Tuz Gölü expected to come into operation by 2017), though it is debatable if capacity will suffice to support a hub even after such investments. The same applies to Greece, while Romania already benefits from more plentiful capacity at 5 bcm.

The goal of becoming a gas hub is therefore laudable especially if it helps move along legislative, market or infrastructure development. But a successful gas hub must meet all these criteria cumulatively. The risk otherwise is that it would become nothing more than a glorified transit country, which would defeat the purpose of the whole endeavour.

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