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# Wholesale pricing schemes and monitoring gas prices in natural gas markets – case study session

Case study by Georgian National Energy and Water Supply Regulatory Commission, Georgia

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# Gas wholesale market regime

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- The natural gas market includes natural gas retail and wholesale markets.
- There is no organized market for natural gas in Georgia, and therefore, natural gas is traded in the wholesale market only through bilateral agreements.
- market is concentrated at both levels, and therefore, making access to natural gas at a competitive price for deregulated customers is a major challenge.

# Gas wholesale market regime

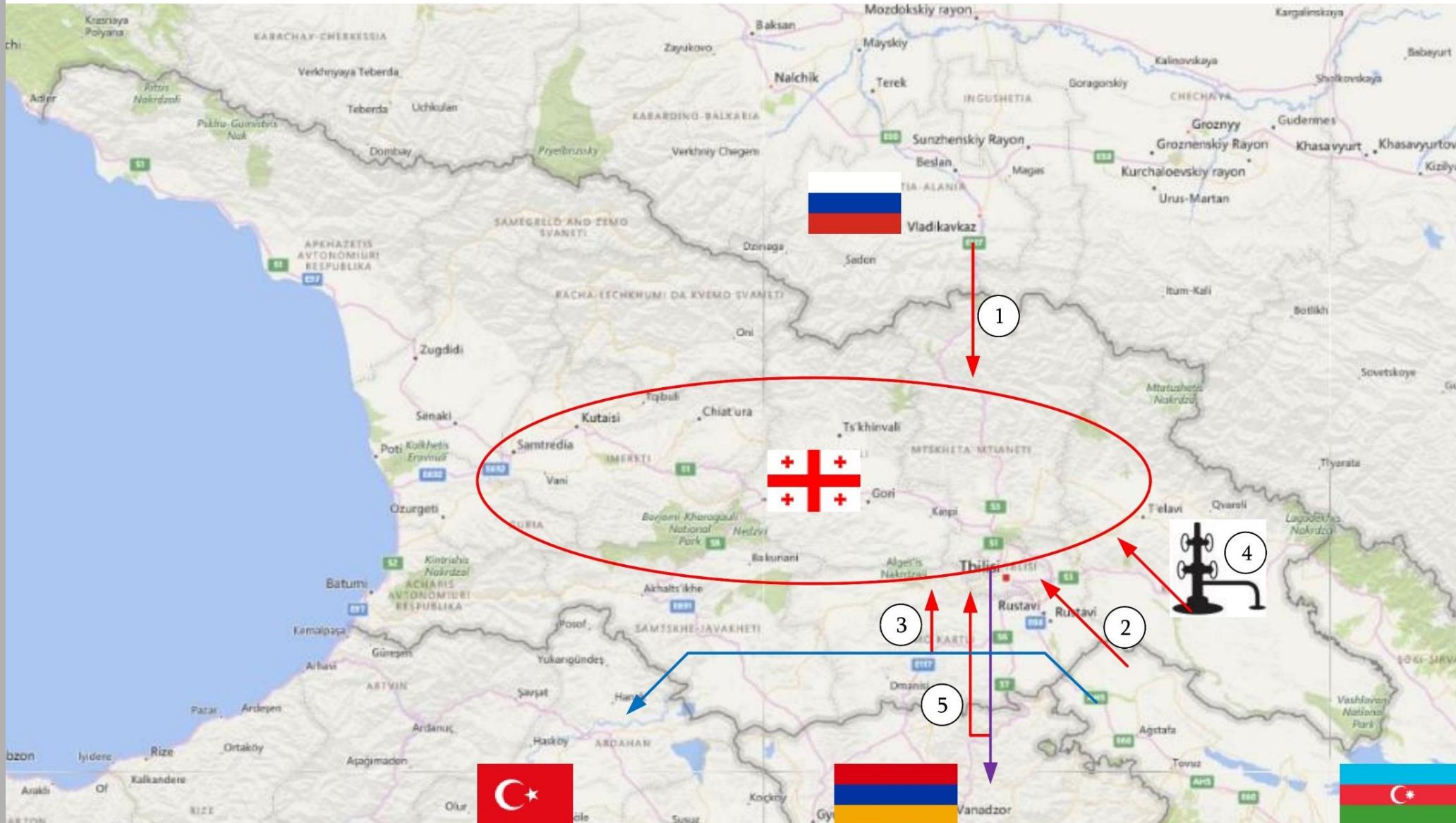
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- The Republic of Azerbaijan remains the main source of natural gas supply to Georgia.
- Over the past four years, through various contracts, Georgia has received an average of 91% of the natural gas needed to meet its demand from Azerbaijan.
- At the same time, Georgia is transiting natural gas from the Russian Federation to the Republic of Armenia.

# Gas wholesale market regime

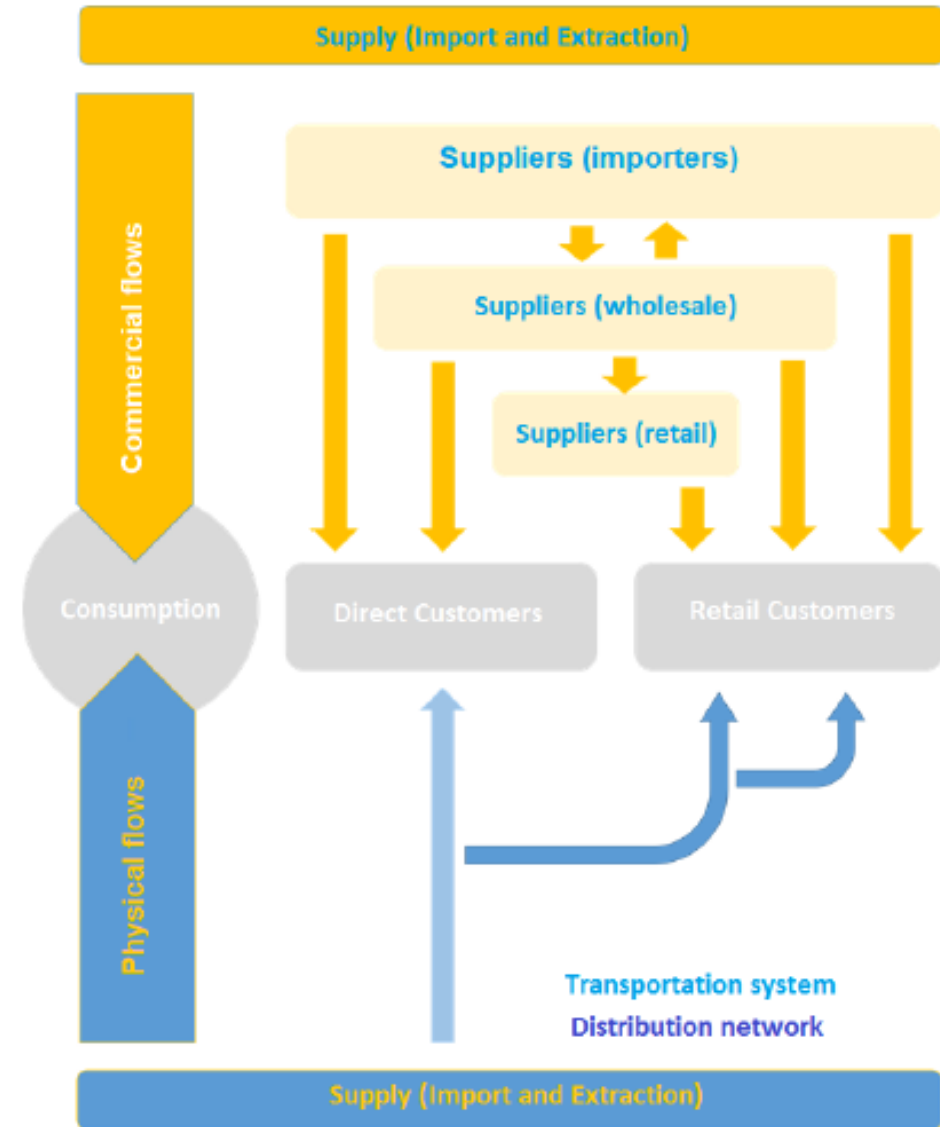


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# Gas wholesale market regime

- Suppliers carry out natural gas import (or purchase small volumes of extracted natural gas) and resell it to other suppliers, while suppliers at the retail level deliver it directly to end customers.
- In 2021, 30 suppliers were operating in the natural gas market, 19 of which were active only in the retail market, and 11 - at both levels of the market



# Gas wholesale market regime

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- In 2021 Natural gas was imported by two suppliers to meet the demand.
- In total, 99.4% of Georgia's demand for natural gas was met by imports, and the rest by the local production.
- Procurement of local extraction and injection into the natural gas transportation system of Georgia was carried out by three suppliers, one of which is also an importer.

# Gas wholesale market regime

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- Accordingly, natural gas was placed on the Georgian natural gas market (import and local production) by a total of four suppliers (Georgian Oil and Gas Corporation JSC, Georgian Branch of Frontera Resources Georgia Corporation, Bago LLC, SOCAR Georgia Gas LLC).
- The Herfindahl-Hirschman Index (HHI) among suppliers at this level of trade (placement of natural gas on the wholesale market) was 5015, indicating a highly concentrated market.

# Gas wholesale market regime

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- 11 suppliers traded at the wholesale level with the natural gas available to trade in the Georgian market, among them the share of the three largest suppliers was 94%.
- The Herfindahl-Hirschmann Index (HHI) was 3109, which also indicates a highly concentrated market.



# Gas wholesale market regime

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- The level of competition in the market, including at the wholesale level, significantly determines the price of natural gas.
- When determining the average price at the wholesale level, the weighted average price of natural gas sold by all suppliers in this market segment is taken into account.
- The separation of social and commercial segments is also crucial in price setting.

# Price establishment in the wholesale market

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- From the South Caucasus Pipeline, Georgia acquires the so-called social gas used to supply the population and thermal power plants with natural gas.
- Consequently, both wholesale and retail prices of natural gas in this segment are significantly lower compared to the commercial segment.
- As for the commercial segment, in 2021 the average price of natural gas at this level of trade was 0.57 GEL/m<sup>3</sup>.

# Wholesale market monitoring: Legislative Framework



- Updated Law on Competition was adopted in May, 2020;
- Prior to the adoption of new Law on Competition, NRAs' role in the execution of competition legislation wasn't active;
- New Law on Competition introduced exact legal framework for NRAs to perform competition related duties in regulated sectors.

# Wholesale market monitoring: Legislative Framework



- Market Monitoring and Reporting Rules were adopted by the GNERC in March, 2021;
- The Rules were developed in accordance with the Law on Energy and Water Supply and Law on Competition;
- Rules are divided into two parts:
  - Monitoring Rules;
  - Reporting Rules;
- REMIT regulation is transposed into the Market Monitoring and Reporting rules.

# Wholesale market monitoring: Monitoring Rules

- The scope of Monitoring Rules is the following:
  - Competition related regulations:
    - ✓ Abuse of dominant position;
    - ✓ Restrictive agreements, decisions and concerted practices;
    - ✓ Concentration.
  - REMIT:
    - ✓ Prohibition of market manipulation or attempt of market manipulation;
    - ✓ Prohibition of inside trading;
    - ✓ Obligation of disclosure of inside information;
    - ✓ Obligation of registration of market participant.

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**THANK YOU FOR YOUR  
ATTENTION!**