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# **8<sup>th</sup> EU-Russia Gas Advisory Council Meeting**

Moscow, 19 November 2013

## **Work Stream 2**

### **Internal Market: Progress report since 7<sup>th</sup> GAC**

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# Outline

**Status and Overview of Current WS2 Activities**

**Progress Made Since last GAC in June 2013**

**Major Conclusions (GAC Co-Speakers 6 Qs List) & Next Steps**



## **Status and Overview of Current WS2 Activities**



## Status Update since last GAC in June 2013

<b>Subject Area</b>	<b>Status</b>
<b>Incremental &amp; New Capacity Case Study</b>	Input submitted to ACER as agreed in SPB, ACER Guidelines discussed Nov'07
<b>Framework Guidelines and Network Codes</b>	Regular Updates; cont'd debate on Tariffs Guidelines in relation to New Capacity dev't
<b>Future of Delivery Points</b>	Discussion closed; mutual agreement reached both on existing & new contracts
<b>Russian Pipeline Access Regime</b>	One full-day information round (Sept'11, SPB) based on EU list of 42 Qs
<b>Glossary of Gas Market Terms</b>	Ongoing; to be restructured (?)



## **Progress Made Since Last GAC in June 2013**



## **Incremental & New Capacity Case Study**



## Background

- Discussion on CEER work on Incremental Capacity ongoing since beginning 2013: ***Incremental vs New***
- Key question raised in this respect: which regulatory procedures are needed to develop ***New*** capacity ***without*** exemption from the 3<sup>rd</sup> Package if the market requires it (see: 3<sup>rd</sup> Gas Directive, Art 13.2):
  - “Each transmission system operator ***shall*** build sufficient cross-border capacity to integrate European transmission infrastructure accommodating ***all economically reasonable and technically feasible demands for capacity*** and taking into account security of gas supply”.
- 7<sup>th</sup> GAC Meeting (June): Decision to examine this question through a case study by small WG



## Rationale for Case Study

- Rules in Network Code CAM insufficient to accommodate large new pipeline projects
- Case Study to run test on what is needed and in which way => **GOAL:**
  - **To develop jointly option/procedure best effective for new capacity (incl. of cross-border EU/non-EU character) => GAC as best effective format for this**
  - **Timely provision of Case Study results to ACER => to contribute to ongoing CAM NC amendment process**





## What happened so far

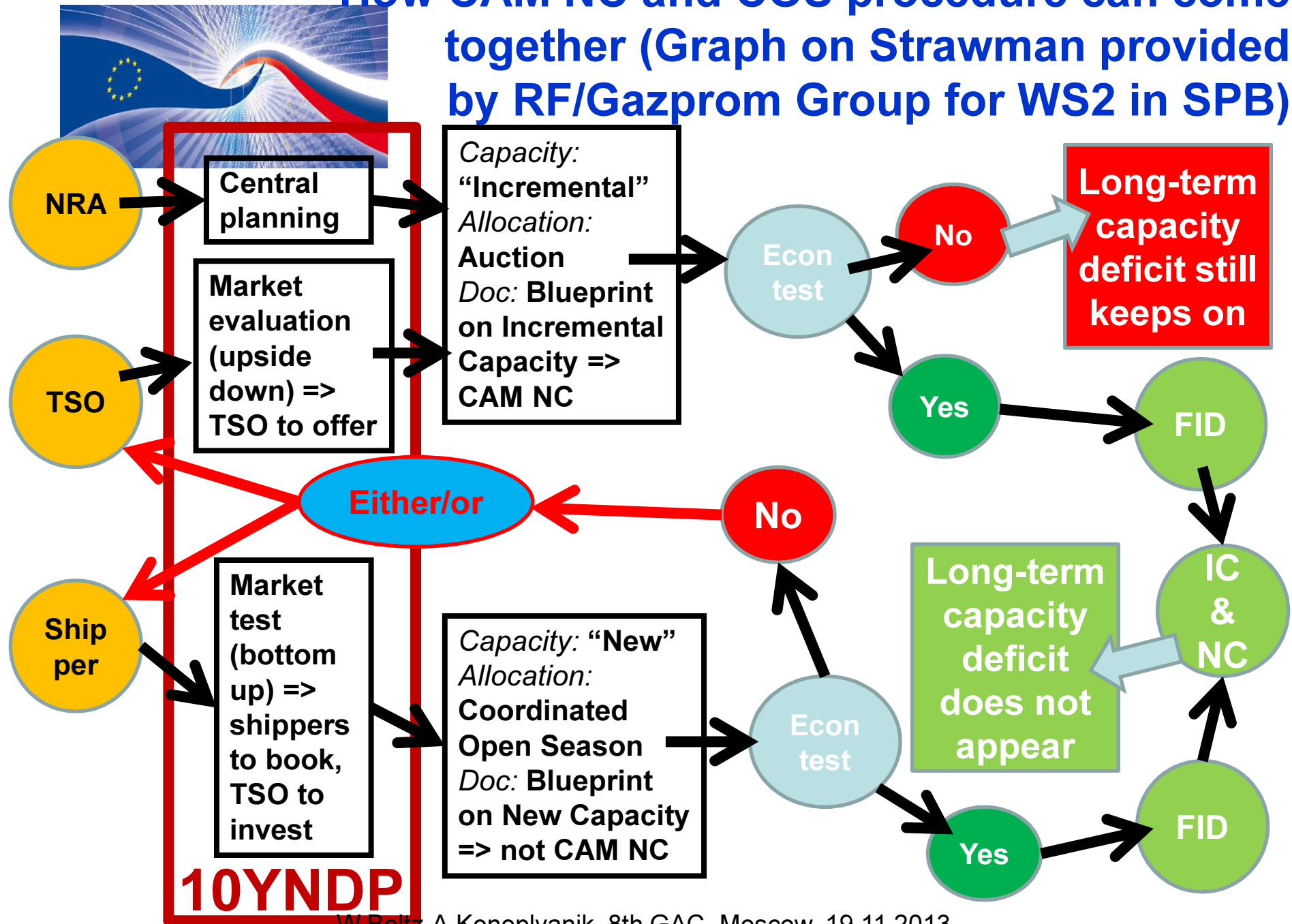
- Establishment of Case Study Task Force (EC, ENTSOG, CEER/ACER, RF/Gazprom Group)
- 5 Telcos & 3 Workshops dedicated to Case Study
- Production of 'Coordinated Open Season Procedure Strawman' Paper (early Sept.)
- WS2 meeting, SPB 10.09.13: Full-day discussion of key issues/preparation of RF/Gazprom input to ACER public consultation on Incremental (*and New*) Capacity/amendment CAM NC
- Discussion of first EU feedback (ACER Telco 07.11)



## Overview 'COS-Strawman' Paper

- Outlines proposal for COS procedure to enable *new* capacity demanded by the shipper across a chain of several E/E zones
- Describes 5 phases until final investment decision
  - Phase 1: identification of need for new capacity (*market test*)
  - Phase 2: preliminary open season phase (*market test*)
  - Phase 3: initial project scoping phase (*economic test*)
  - Phase 4: final open season phase (*economic test*)
  - Phase 5: final investment decision

# How CAM NC and COS procedure can come together (Graph on Strawman provided by RF/Gazprom Group for WS2 in SPB)





## **Some key Issues Discussed (detailed description in WS2 SPB presentations circulated to GAC members)**

- 1 CAM NC auction for incremental vs. open season for new capacity**
- 2 Shipper's NPV and/or other criteria in economic test**
- 3 Up/down-sizing of project design – producer limitations**
- 4 Capacity mismatch of two types (at individual IPs & between IPs through the route) & TSO's cross-border coordination**
- 5 F-factor (cost coverage, socialization of costs, who decide, financeability)**
- 6 10% quota regarding new capacity for future short-term trade (acc. to CAM NC approach) & its influence of financeability**
- 7 Project promoter participation in financing & project management support (implementation of ownership unbundling principle); possibility for newly established (incl. cross-border) ITSO & its relations with companies affiliated with shippers prior to start of operation of new built capacity,**
- 8 Cross-border issues (coordination between corresponding TSOs at IPs through the route)/coordinated Open Seasons**
- 9 Tariff issues for new capacity (financeability)**



## ACER Guidance to ENTSOG for CAM amendment (in preparation, draft of 04.11, discussed 07.11/Telco)

- ...define in CAM NC when an offer of incremental or new **capacity shall be made** at least
- ...clarify that close **cross-border co-ordination** between TSOs and NRAs is required and on which subjects at least
- ...define **minimum information to be provided to the market** including economic test parameters
- ...reiterate **principles**: non-discrimination, transparency, bundling, short term quota
- ...test and consult **how best to integrate incremental capacity into CAM NC algorithm** and draft detailed provisions accordingly
- ...clarify that **Open Season procedures are still possible** where integration into CAM NC allocation is impractical and to lift some GGPOS principles. Conditional bids / bid revisions possible.

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## ACER Guidelines for ENTSOG: major points raised at Telco 07.11 by RF/GG (1)

- Distinction: market test vs economic test (p.2)
- Economic viability vs efficiency of execution of investment within regulatory regime (p.2)
- Identification by ENTSOG of “physical capacity gap in... a reasonable peak demand scenario” in TYNDP (p.3)
- “A failure (*by TSO?*) to test (*market demand?*) incremental or new capacity... is deemed to be in breach of... Reg.715” (p.3)
- Approval by the NRA - *before an offer of IC or NC for binding commitment* - of the level of network users commitment that should be necessary to enable investment from economic perspective (p.4) (*F-factor: decision by NRA or by market participants: TSOs, shippers & financiers?*)<sub>14</sub>





## ACER Guidelines for ENTSOG major points raised at Telco 07.11 by RF/GG (2)

- Reference to applicable tariffs & methodology published by TSOs (p.4,5) (*but financeability due to economic difference: system-based (trade/existing capacities) vs project-based (investment/new capacity) tariffs*)
- ENTSOG is requested to develop... amendment to CAM NC ...keeping the integrity of the ascending clock algorithm (p.5) (*but: non-financeable for new capacity, contradicts to COS*)
- Willingness-to-pay (p.5,6) (*vs readiness-to-pay:  $RTP = WTP \times \text{regulatory-created risk}$* )
- Decision to use OS is subject to NRA approval (p.6) (*market participants takes investment risk vs NRA takes decision*)
- (*To add section on financeability requirements ?*)



## Next Steps

- ACER to table final incremental & new capacity guidance paper by end November (for submission to ENTSOG)
  - *A number of RF/GG proposals contained in Strawman of 17.09.17 were covered*
  - *Whether above-mentioned RF/GG comments as of 07.11 will be addressed?*
- ENTSOG to prepare amendment to CAM NC



# What practical effect of Strawman / COS for currently yet to be developed projects?



General COS procedure based on Art.13.2 3<sup>rd</sup> Gas Directive (Blueprint on Incr. & New Cap., Strawman, ACER Guidance to ENTSOG, ...) – future projects

2017 ?

Non-contradictory dev't though within corridor of flexibility both can differ

Grandfather clause to cover time-gap?

Full compliance with EU acquis, corridor of flexibility within TEP rules

SS Special case COS-based procedure since interim period (in case other options fail)

SS-special interim solution?

Special case: South Stream, onshore EU

2013-2015?

RF-EU MSs bilateral IGAs: "no go" for EU, unlikely

RF-EU bilateral agreement on PMI: "a long & winding road", unlikely that EU deviates from acquis & RF adopts acquis

Art.36 derogation: not desirable for RF/GG (OPAL negative precedent) & not possible (SS construction started)

Deviations from EU acquis



## **Framework Guidelines and Network Codes**



## Framework Guidelines and Network Codes

- Regular updates on current status of framework guidelines and network codes
  - scope of FGs/NCs
  - explanation of content
  - possibility to raise concerns
  - timing
  - next steps



## Framework Guidelines and Network Codes (points for further discussion – RF/GG vision)

- Regular updates provided particularly on
  - CAM NC:
    - Allocation of *existing* capacity (auctions)
    - Allocation of *incremental* capacity (auctions)
    - Allocation of *new* capacity (COS)
  - Tariffs FG:
    - Tariffs for operating *existing* systems & developing *incremental* capacity (**system-based** tariff methodology)
    - Tariffs for development *new* capacity (**project-based** tariff methodology: project ring-fencing through pay-back period)



## **Future of Delivery Points**



## **EU MSs and Delivery Points in existing & new contracts (1)**

- EU-level rules (CAM NC) do not foresee mandatory bundling of capacity in existing transmission contracts (contrary to new capacity contracts)
- Consequently flange delivery points for existing contracts may continue to exist
- Upon request from the Russian side, the EU side obtained confirmation from NRAs in a number of Member States that no national provisions exist that indicate a move of delivery points in existing gas contracts from the flange to the virtual point
- The discussion on this issue can be considered closed with mutually satisfactory results



## EU MSs and Delivery Points in existing & new contracts (2)

- Existing capacity contracts:
  - Delivery points at country border/flange can exist until their expiration date or mutual decisions of contract parties to move delivery point to hub before existing contract expires
- New capacity contracts:
  - Delivery points at zone/area border (E-E points) can not exist any more (capacity bundling)
  - New capacity contracts can be delivered at hub and/or at physical delivery point within this zone



## **Russian Pipeline Access Regime**





## What happened so far

- **GAC Meeting January 2013:**
  - Members endorse information exchange on Russian gas market issues (see Conclusions para 5-6)
- **WS2 meeting January 2013:**
  - Topic was briefly introduced through presentation on the main characteristics of the Gazprom-owned Unified Gas Supply System (UGSS)
- **WS2 meeting September 2013:**
  - First detailed full-day discussion based on the list of 42 detailed Qs provided by EU side at invitation of RUS side



## Ongoing Discussion

- The European side produced a detailed list of questions for the Russian side covering the following subject areas:
  - Overall context / basic market characteristics, criteria for network access, tariffs, capacity allocation, access to end-consumers, gas exports
- The Russian side provided answers to a selected number of questions at the last meeting



## Legal Basics

- EU side was informed about main actors in the Russian gas market, relevant state authorities and their responsibilities
- Pipeline owner is obliged to grant TPA if there is spare capacity in the system
- Definition of spare capacity is defined in the law
- TPA since 1997 in Russia
- In case access is denied, concerned parties can appeal



## Access Criteria/Procedures

- EU side was given an overview on required documents, data and application deadlines for TPA
- Contracts are concluded in calendar, not in gas years
- No pipelines in Russia are exclusively reserved for the use of Gazprom
- Main reasons for denial of access: 1) lack of spare capacity; 2) applicants ask for more capacity than they can produce/have in stock
- Novatek, Rosneft and Novyj Urengoi Gas Company are the major independent producers in Russia



## Tariffs

- Federal Tariff Service is responsible for setting tariffs in Russia
- EU side was given an overview on tariff elements
- Calculation on the basis of zone to zone tariffs
- Some issues regarding the tariff methodology still needs further clarification/explanation to EU side



## Gas imports to Russia

- Central Asian gas coming to Russia is further transported to Europe via Gazprom Export contracts
- Gas flows coming from Central Asia into Russia are not considered imports as they do not cross an 'economic border' given the customs agreements in place



## **Glossary of Gas Market Terms**



## Glossary of Gas Market Terms

- Living reference document with explanations/definitions of common gas market terms
- WS 2 chairs decided to establish a small task force to continue work on this document based on a “necessity” (case by case) approach





## **Major Conclusions (GAC Co-Speakers 6 Qs List) & Next Steps**



## WS2 & GAC Co-Speakers 6 Qs List: Conclusion

- Q1: settled for mutual satisfaction
- Q2: ... (???)
- Q3: *to be dealt within WS3*
- Q4: to be further dealt within Case Study Task Force
- Q5: to be further dealt within Case Study Task Force
- Q6: *to be dealt within WS3*



## Further Actions

- The activities planned for 2013 were largely fulfilled
- WS2 Co-Chairs working proposal for further actions: to concentrate on Case Study/CAM NC amendment (COS/new capacity still open issues)
  - Case Study Task Force to be continued:
    - Workshop on **financeability** (NPV-test, WTP vs RTP, F-factor, system-based vs project-based tariffs, non-discriminatory booking of existing vs new capacity, etc.)
    - Workshop on **TSO cross-border coordination** (ITSO, ring-fencing of cross-border ITSO, ITSO vs project promoters/shippers, prevention of 2 types contractual mismatches, etc.)

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