Россия и проблемы развития европейского газового рынка

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Russia and the problems of EU gas market development

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Preconditions for new Russian gas supply model to Europe: commodities market

1) Changing contracting structures & pricing mechanisms – operation within new EU gas market architecture:

a. From the **chain of three consecutive LTC** with supply and transportation contracts (first bundled, then unbundled, but to be mutually correlated) - to the system of **“entry-exit” market zones** with VTP (hubs) & bundled capacity products at IPs within unbundled commodity and capacity markets

b. Unbundled **commodity** market: mature & oversupplied (either contractually or physically) market, “gas-to-gas” competition, two market segments – contractual & spot – in competitive coexistence, dev’t of “paper gas” market

c. Unbundled **capacity** market: supplier as a shipper only; mandatory TPA; capacity allocation: (i) auctions by default, (ii) if more than 2 IPs (cross-border pipelines), conditional booking of new capacity by shipper – “open seasons” (Art.20(d)) CAM NC INC
Preconditions for new Russian gas supply model to Europe: capacities market

2) Diversification of routes: from GOSPLAN’s single pipe/corridor to export market - to “multiple pipelines” concept (at least two pipes/corridors to each export market):

a. Change of concept of risk assessment/minimization: from (cheaper) central planning & direct control on each export route through to delivery point – to (more costlier) competitive choice among few routes/means of supply (taking into consideration comparative costs & risks)

b. Economic justification of new pipelines/means of supply to mature markets: not new gas, but transit risk mitigation & liquidation of transit monopoly (Ukraine)
To evaluate possible interruptions of transit supplies we consider 1014 newsbreaks, related to gas relations between Russia and Ukraine through 30.12.2008 to 15.07.2015 period. These newsbreaks were taken from the newswire http://newsukraine.com.ua/. Then they were filtered to and ranged within 226 newsbreaks which, in case of their realization, would have a main effect on interruption of gas flows in transit within the Ukrainian territory.

Calculated by M. Larionova, Russian-Gubkin State Oil & Gas University, Chair “International Oil & Gas Business”, Master’s programme 2013-2015, on methodology, jointly developed with A. Konoplyanik, based on principles of credit ratings evaluation by major international credit agencies.

(1) Very fact that Russia & Ukraine cannot solve issues between them bilaterally; UA demands EU as mediator/conciliator for searching temporary compromises + files a case against Russia in SCC = UA systematic mistrust to contractual partner; (2) UA is in state of civil war, but considers RF as “invader”, now RF is formally “major military threat” in UA military doctrine => permanent transit risk for supplier since it is his responsibility to provide timely delivery of contracted volumes to delivery points (inside EU) non-dependent his issues with third parties => sovereign right of resource owner (Russia) or its agent (Gazprom) to evaluate such risk & undertake adequate measures for its mitigation (incl. by-passes)

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FGONÇALVES

Bottlenecks at Ukrainian route to Southern EU
(justification for South Stream with new delivery point):

1. Ukraine transit crises Jan’2006/Jan’2009
2. TAG auctions Dec’2005/May’2008

UKRAINIAN BYPASSES:
Russia’s alternative pipelines
(two routes for each market):

- Nord Stream project pipelines
- Yamal pipelines
- Ukrainian transit flows
- Turkish Stream project pipelines

Nordstream 1 & 2
OPAL
Mallnow
Gazelle
St. Katarina
Baumgarten
Tarvisio
Waidhaus

Bottlenecks at Ukrainian route to Southern EU
(justification for South Stream with new delivery point):

1. Ukraine transit crises Jan’2006/Jan’2009
2. TAG auctions Dec’2005/May’2008

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47BCM at 2019: How to move from Turkish-EU border to existing DPs in EU acc.to EU rules?

Post 01.12.2014 & 18.06.2015

South Stream (Cancelled)

Turkish Stream

OPAL
Mallnow
Waidhaus
St. Katarina
Gazelle
Nordstream 1 & 2

Baumgarten
Tarvisio
Kipi
Russian gas supply contracts to Central & South-Eastern EU with UA transit till 2035 = 100% security for TSO project financing of new by-pass capacity

Source: calculated by E. Orlova (FIEF) based on: “Turkish stream”: Scenarios of by-passing Ukraine and barriers of European Commission”. Vygon Consulting, June 2015 (fig. 4, p. 30).

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NPV (TSO) new cap = 47BCM (acting supply LTC) \times 15Y

Source: calculated by E. Orlova (FIEF) based on: “Turkish stream”: Scenarios of by-passing Ukraine and barriers of European Commission”. Vygon Consulting, June 2015 (fig. 4, p. 30).

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NPV (TSO) new cap = 47BCM (acting supply LTC) \times 15Y
EU support for transit via Ukraine: the end or the means? (1)

- EU has multiply stated its support for continuation of RUS gas transit via UA post-2019 => (it seems that) this is why EU opposes redirection of RUS gas supplies to new transportation routes to EU post-2019

- But (it seems that) EU (CEC) support for existing & future transit of RUS gas via UA is not the end, but just the means; the real goal is:
  - to provide UA with steady financial flow of transit revenues from RUS supply contracts to EU via UA (with currently “unfriendly” to RF political regime in UA) – instead of donating corresponding EU financial aid to UA, and
  - financing/guaranteeing pay-back of UA-EU-USA GTS consortium (acc.to UA Law 4116a) in modernization of US GTS *(RUS participation in consortium forbidden by UA law, but transit of RUS gas is the only way to make consortium financeable):*
    - either under existing supply formula (RUS supplies directly to inside EU through UA) => RUS will continue taking transit risk via UA,
    - or by newly EUC proposed formula: delivery of RUS gas at RUS-UA border, in which case:
      - either EU companies will take the transit risk via UA by themselves *(which they are not willing yet)*,
      - or there might be possible role for de facto EU *Single Purchasing Agency* mentioned in the Energy Union Package ? *[“options for voluntarily demand aggregation mechanisms for collective purchase of gas during a crisis and where Member States are dependent on a single supplier”]* ?

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Project-oriented & regulatory options

• Project-oriented respond from business & EU authorities: fragmented approach (“spaghetti pipelines”/not full compliance with stated demand for new capacity)
  – DG ENERGY: Central East South Europe Connectivity (CESEC)
  – Eastring (Routes A &/or B), Tesla, TAP expansion, etc.
  – Vertical Gas Corridor

• Available regulatory EU options and new respond:
  – Exemptions route (Art. 36 Third Gas Directive)
  – TYNDP/PCI procedure
  – Draft CAM NC INC (draft Amended Regulation 984/2014 Art. 20(d):
    • From draft Art.20(h) – RUS/GG experts proposal to ACER’s draft Art. 20(d) => the latter de facto presents updated version of RUS/GG experts’ proposal on “Coordinated Open Season Procedure”
    • Proposal at WS2 RF-EU GAC for “Early implementation” of Art.20(d) procedure => test study either for Turkish stream or/and Nordstream-2 extensions inside EU

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EU support for transit via Ukraine: the end or the means? (2)

• Whether EU will change its opposition to US by-passes if alternative means for UA to earn money are presented instead of gas transit revenues?

• An idea: “Russian gas circle” with expanded trade at the hub (Baumgarten) which requires regular use of UGS => role for UA UGS ? =>

• UGS in Western UA to be used not for seasonal adjustment of RUS transit flows to EU, but to adjust market fluctuations at the hub (Baumgarten),
  - this will also make Mr. Shevkovich happy since Slovak system will be fully utilized for direct &/or reverse flows both for supplies and UGS use
  - UA will be further integrated into EU energy system
Russian gas ring diminishes UA transit risk & presents a non-transit way for UA to raise gas revenues (thus covers issue of major EU concern)

**Today:** GP uses UA UGS for seasonal adjustments of RUS transit flows to EU

**Post-2019 (no UA transit?):** GP to use UGS in Western UA to balance market fluctuations at EU market in the nearest market zones (hub Baumgarten, etc.) => GP shall be present at EU hubs

**NB:** “Russian gas ring” supply concept as a RF & EU safeguard from new transit monopolies + new revenues for UA

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Thank you for your attention!

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Reserve slides
New model for EU: Evolution of gas value chain & pricing mechanism of Russian gas to EU (1)

Past (Pre-2009) – growing EU market

- Gazprom
- Wholesale EU buyers/resellers (trade & delivery)
- End-use EU customers

Oil-indexation (NBRV/max MRR)

Common interests

Nowadays (Post-2009) – oversupplied (in NWE segment -?)

- Gazprom as price-taker from OIL market

EU market with not yet clear future trends

- Oil-indexation (max MRR)
- Wholesale EU buyers/resellers (trade & delivery)
- Hub-indexation

Request for hub-indexation both where hubs are relatively liquid (NWE) & where there is no hubs or they are not yet liquid at all (CEE/UA) (f.i. under threat of arbitration)

- NBRV = net-back replacement value
- MRR = mineral resource rent

Common interests

- End-use EU customers
- EU hubs
- Non-EU customers (f.i. reverse flows to CIS/UA)

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New model for EU: Evolution of gas value chain & pricing mechanism of Russian gas to EU (2)

Future (“NO GO” contractual scheme under any (?) supply-demand scenario)

Future (what competitive niche for oil-indexed LTC & spot deliveries & trade to/within EU?)

Gazprom as price-taker from GAS BUYER’s market (with no participation on it)? => NO GO

Common interests – downgrading price spiral for (RUS) gas

Role of DG COMP?

Gazprom as one of price-makers at emerging EU market

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Contracted volumes of Russian gas supplies to Europe

Expanding niche for (at least partial?) substitution of terminating EU LTC supplies at the border by spot deliveries & trade at EU hubs; or partial redirection of terminating EU LTC to the East?

New LTC? Spot? Asia?

Source of primary chart): ERI RAS (T.Mitrova), reproduced in & taken from «The Russian Gas Matrix: How Markets Are Driving Change», Ed. by J.Henderson & S.Pirani, Oxford University Press, 2014, Fig.3.1/p.53.

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