

Оценка эффективности Третьего энергопакета ЕС - и проект Еврокомиссии «Quo Vadis»

(Проект Еврокомиссии «Quo Vadis»: оценка эффективности Третьего энергопакета ЕС в газе **или** техзадание для новой Еврокомиссии на Четвертый энергопакет для газа с антироссийским уклоном?)

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Third EU Energy Package efficiency assessment – and the “Quo Vadis” Project of the European Commission

**(European Commission’s Project “Quo Vadis”:
evaluation of Third Energy Package efficiency in
gas *or* Terms of Reference for Fourth Energy
Package in gas with Anti-Russian Flavour?)**

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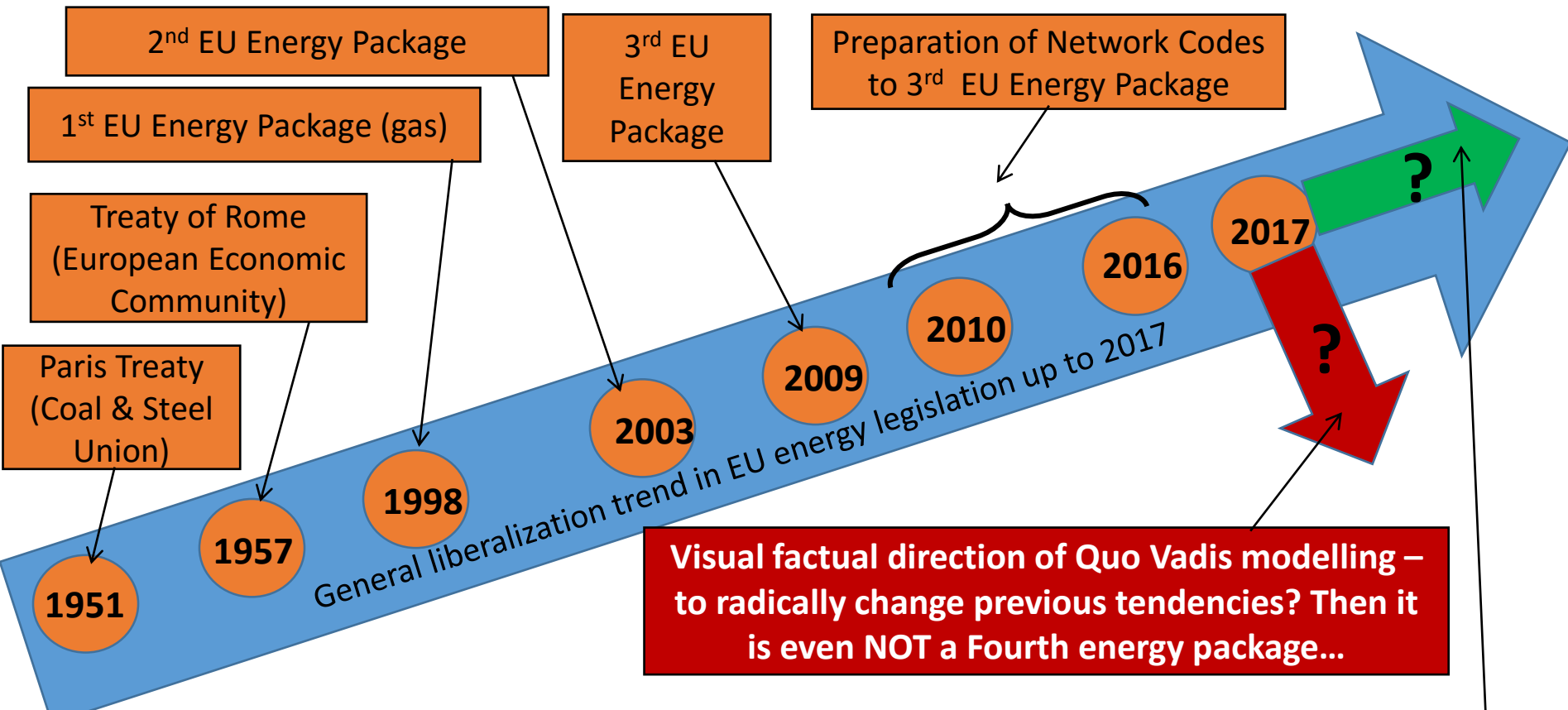
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**Presentation at the conference “Energy security and development prospects” of the IX
International Gas Forum, 03-06 October 2017, Saint-Petersburg**

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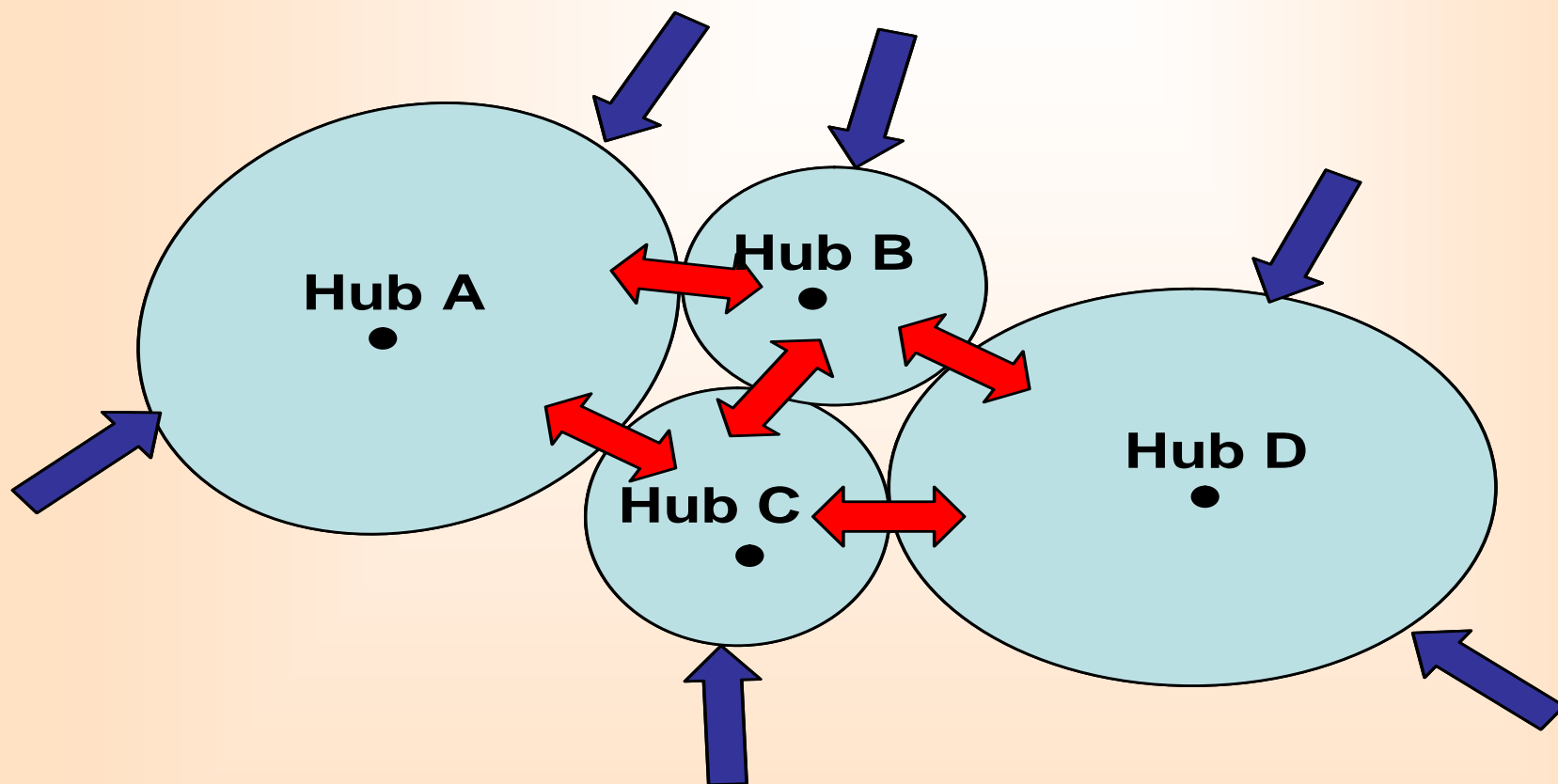
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- Quo Vadis: modeling & scenarios
- Quo Vadis modeling: key conclusions (possible consequences for Russia/Gazprom)
- Quo Vadis possible reasoning: mechanism for creating competitive advantages for US LNG in Europe against Russian pipeline gas?

Quo Vadis 2017: continuation of consecutive liberalization of EU energy legislation – or a sharp change of the long-term historical trend (deviation from liberalization tendencies)?



Based on the logic of previous development of the common EU economic space, incl. in energy, perception on expected direction of Quo Vadis modeling as the project on evaluation of efficiency of the EU regulatory system for emerging common internal energy market, which has been teleologically developed through past 50 years on the basis of the provisions of the Treaty of Rome and more-and-more liberal principles of their implementation

Organization of the emerging common internal EU gas market acc. to Third EU Energy Package



Pipelines-interconnectors between regional zones within the EU



Supplies to the EU from outside of the EU

Source: 17th Madrid Forum (Jan'2010), Energy Regulators of EU MSs

Third EU Energy Package (gas)

Third EU Gas Directive 73/EC/09
(common rules)



Regulation
713/2009 (ACER
created)

Regulation 715/2009
(access to gas
infrastructure)

3 legally binding doc's
entered into force
03.09.2009



Framework
Guidelines

Network
Codes (NC)

Gas Target
Model (GTM):
2011, 2013

12

12

6

1

GTM
development,
also CAM NC
INC, were (to
some extent)
initiated by
the Russian
side within
Informal
Consultations /
WS2 GAC

Previous EU Commission reported End-2014 that preparation of the doc's to the Third Energy Package is mostly finished. But de facto it was finished only Early-2017: two last Network Codes (CAM NC INC & TAR NC): publication 17.03.2017, entering into force 06.04.2017 => Now (2017), logically: Quo Vadis project => to evaluate efficiency of the whole Third Energy Package regulatory system developed through 2009-2016

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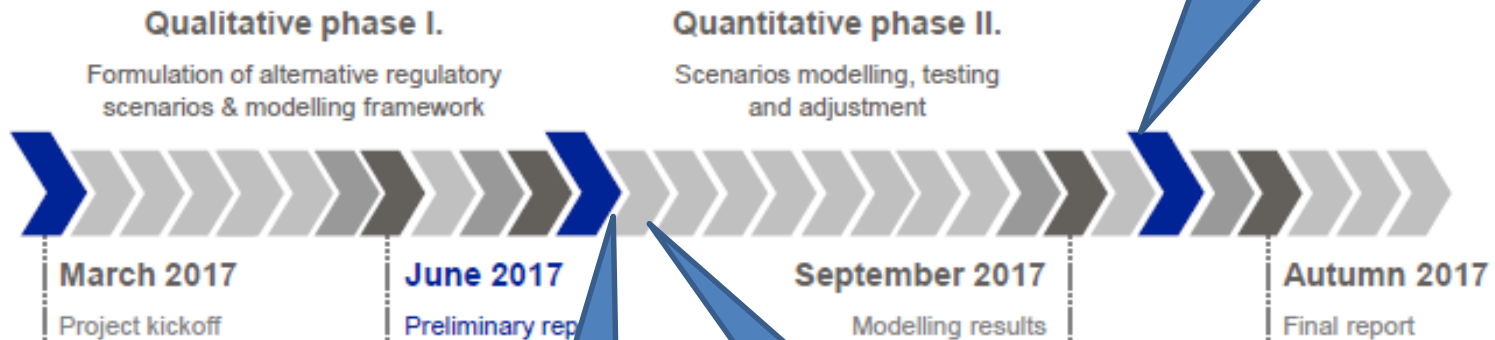
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Quo Vadis (QV): a DG ENERGY project

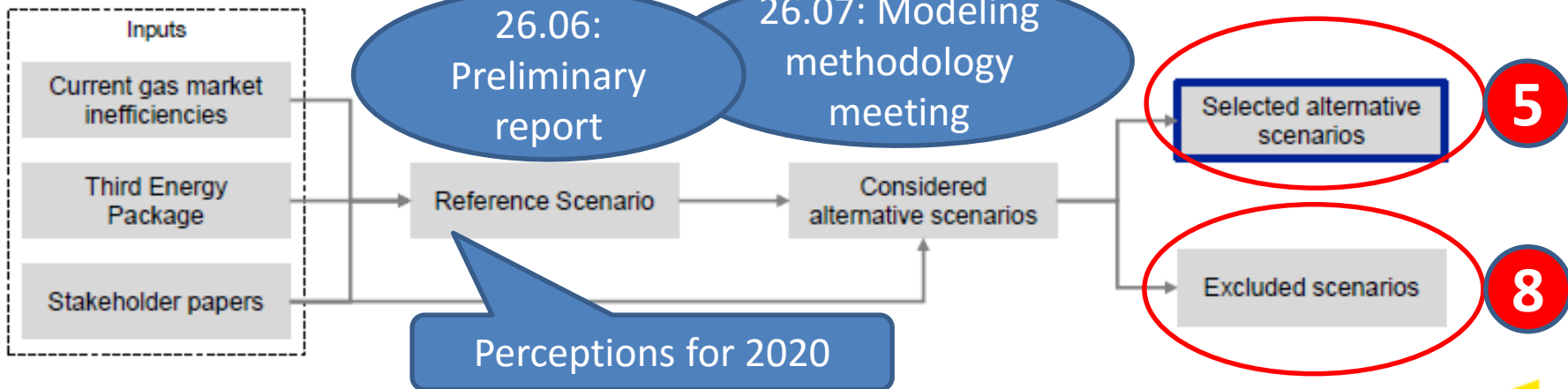
- “The aim of the study is to provide substantiated analysis as to whether the current regulatory framework in the EU gas sector is the most effective in order to maximise overall EU welfare or whether amendments may be necessary, and if so provide recommendations” (DG ENERGY webpage)
- 26.06: «**Quo Vadis EU gas market regulatory framework – Study on a Gas Market Design for Europe: Preliminary Report; Draft for discussion purposes**», prepared by Consultant (selected among 12 bidders) = consortium of:
 - EY (Ernst & Young, Czech branch) и
 - REKK (Regional Center for Energy Policy Research, Hungary).
- 26.07: special discussion of modeling methodology
- 19-20.10: presentation of the QV report at Madrid Forum & its discussion with EU stakeholders

Project approach and status

Current project status



Our approach to the Qualitative phase I.



General conclusion on QV modeling

- QV is an unbalanced study:
 - Despite import-dependent character of EU in energy, modeling of the “EU welfare” takes into consideration only interests of EU final consumers & European participants of the EU gas market. It ignores justified considerations of gas suppliers to the EU from outside of the EU, esp. of those who are linked with the EU by cross-border long-distant capital-intensive immobile infrastructure,
 - Modeling scenarios aimed “to maximise overall EU welfare” present “zero-sum game”. They transmit incremental risks & costs on non-EU suppliers to the EU (firstly on Russia) and transfer thus received benefits from the non-EU producers to EU end-users plus to wholesale EU intermediaries (resellers of Russian gas) inside the EU,
 - End-users welfare vs. modeling of wholesale (not retail) prices,
 - Inertness of modeling scenarios process (June=>July=>October?)
- => It is wise to:
 - complement a modeling scenario(s) which will consider justified interests of the above-mentioned non-EU suppliers (Russia, etc.) and thus will be based on the **balance of interests of Russia and the EU** (experience of similar cooperation in preparation of CAM NC INC in 2013-2016)
 - Such proposal was made to DG ENERGY by the Russian side of WS2 GAC (18.08)

QV: Five selected scenarios (*)

- 1) Tariff reform
- 2) Real trading zone merger (regional market merger)
- 3) Virtual (conditional) market merger
- 4) LTC gas delivered at EU border (transfer of delivery points to the EU (energy acquis) external border)
- 5) Controlling EU wholesale market concentration (expansion of pipeline infrastructure to deliver regas LNG from its import terminals at EU coastline to key delivery points inside the EU)

My aggregate conclusion (worst-case interpretation): QV = integrated programme for squeezing out Russian gas to the periphery of the EU + Energy Community geographic zone and its substitution within this zone by (mostly US) LNG ???

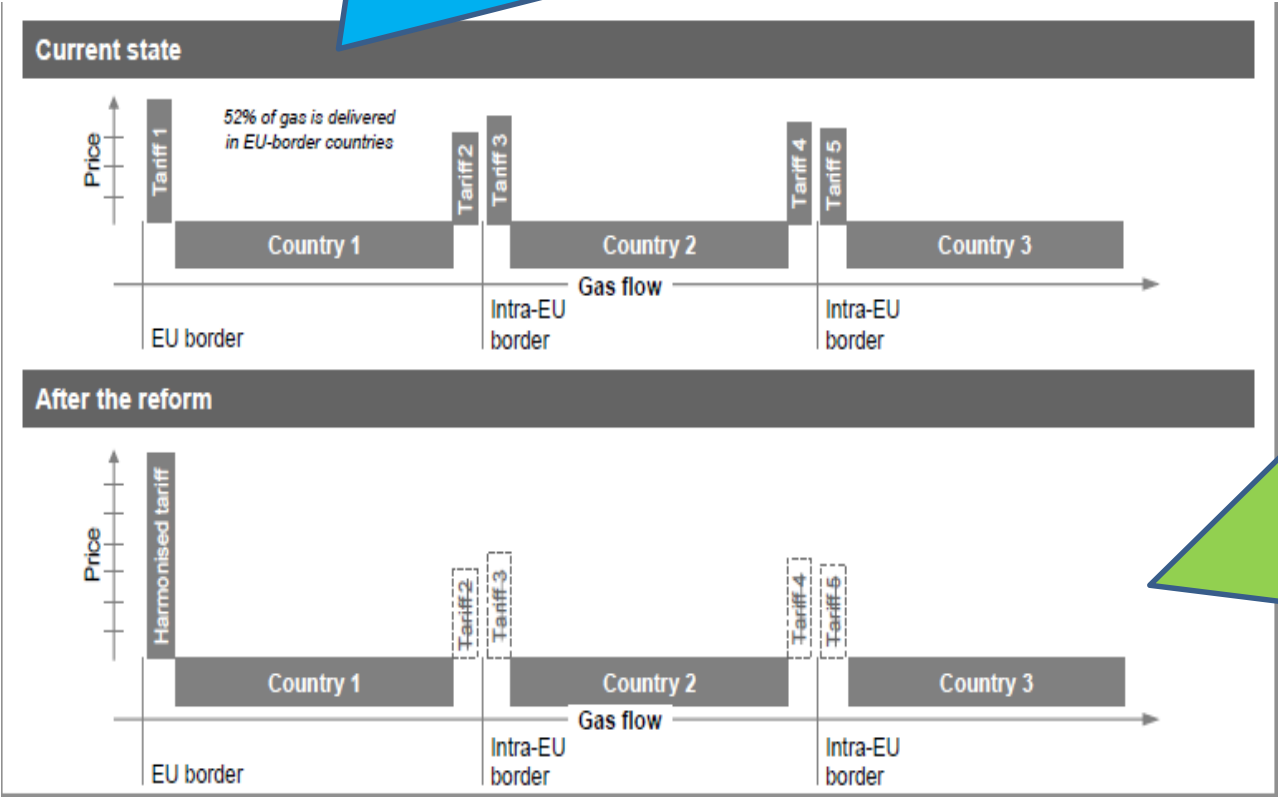
(*) Each selected scenario proposes substantial change of at least one key regulatory parameter (essential element of the existing architecture of the EU gas market based on Third Energy Package), which will lead to “EU welfare” growth.

Scenario 1: tariff reform

- Redistribution of tariffs between wholesale market TSOs within market zone and external (to the wholesale market of the zone) market players within the “zero sum game”.
- Nullification of “entry-exit” tariffs within EU wholesale market zones and:
 - Either transfer of 100% of this shortfall on the entry tariffs to the zone,
 - Or redistribution of this shortfall in proportion 50/50 between entry tariffs to the wholesale market zone, and exit tariffs from wholesale to retail market zone.
- Compensatory mechanism to TSOs of the wholesale zones of their tariffs shortfalls:
 - Increased entry/exit tariffs to be accumulated in the Special Fund (TCF = TSO Compensation Fund) under management of ACER,
 - Their redistribution by the latter in favour of TSOs of the zone to preserve their ability to finance functioning & development of the transmission system of the zone,
 - => looks like a “Ljubljana GOSPLAN”?

Proposed tariff reform (Quo Vadis scenario 1): nullification of transmission tariffs inside the zone, corresponding compensatory increase of entry tariffs from non-EU to the EU

Current situation: gas transmission tariffs inside EU market zones and entry tariffs to the EU from non-EU are all positive



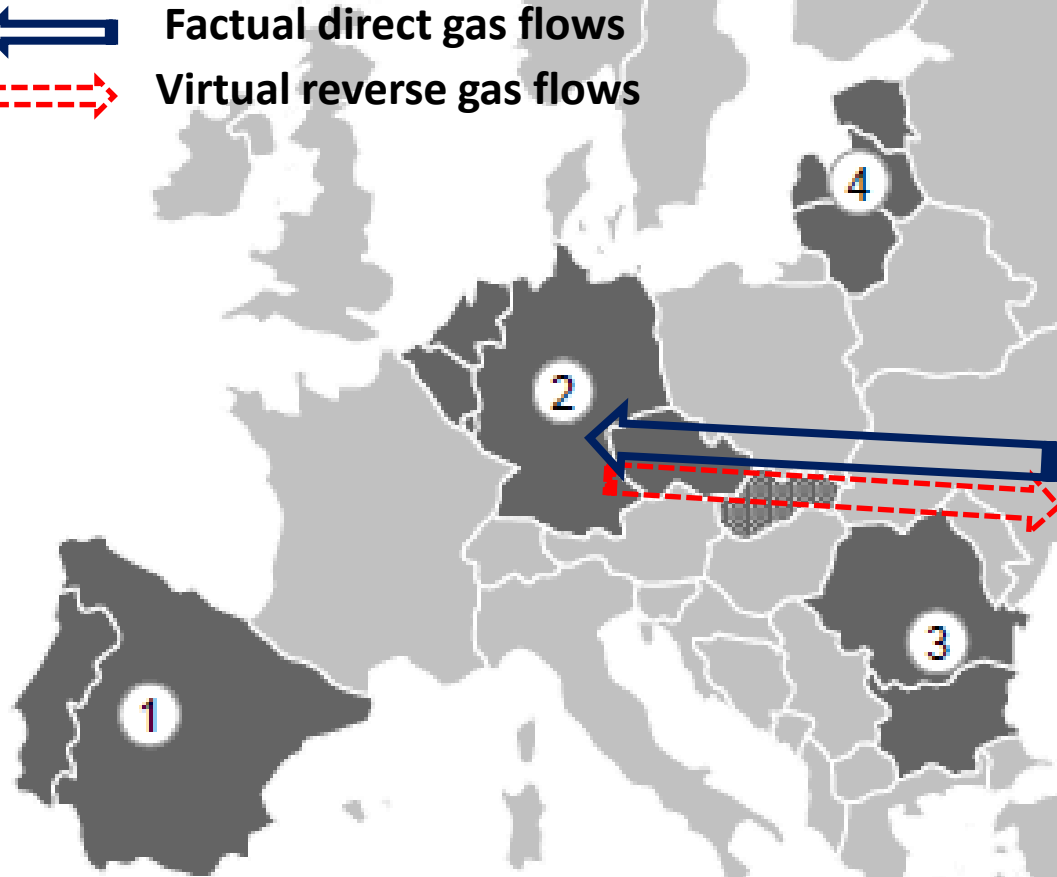
Proposed tariff reform (QV scenario 1): tariffs inside EU market zones to be nullified, instead, entry tariffs to the EU from non-EU to be increased by the same amount (at the value of lost revenues of TSOs from such nullification of intra-zones tariffs)

Scenarios 2-3: market zones merger

- Scenario 2: real merger (consolidation to “regional”) of market zones with approx. similar liquidity level (homogeneity). This allows to equalize quotation levels of marketplaces (hubs) within the zone
- Scenario 3: virtual (conditional) merger of market zones with different level of liquidity. This enables to use in the non-liquid zone (within virtually merged “regional zone”) quotations from the marketplaces of the more liquid zone

Quo Vadis scenarios 2 & 3 (trading zone merger): potential “regional zones” - & possible consequences

← Factual direct gas flows
→ Virtual reverse gas flows



1. Possible virtual affiliation of Ukraine (member of Energy Community) to “regional zone 2” around existing pipeline infrastructure for Russian gas export to Germany/NWE through Ukraine, Slovakia, Czech Rep. =>
2. This is precondition to apply through all this chain of market zones of “virtual reverse” & thus to “import” to not yet liquid Ukraine’s gas market of (lower?) prices from liquid gas hubs of NWE =>
3. BUT: only in case of preserving stable large-scale transit export flows through this corridor (from East to West) =>
4. This is one other argument explaining steady willingness of the EU to preserve large-scale Russian gas transit through Ukraine to the EU post-2019

Source of basic chart: Quo Vadis EU gas market regulatory framework – Study on a Gas Market Design for Europe. Preliminary Report. Draft for discussion purposes. Written by EY & REKK, June 2017, p. 42

Scenarios 4-5: delivery points transfer - & LNG

- Scenario 4: transfer of delivery points to external border of the EU (in practice: to external border of EU energy acquis implementation zone, i.e. EU + Energy Community area). This scenario almost fully applies to Russian supplies since other gas exporters to the EU supply, as a rule, to the EU first EU entry zone;
- Scenario 5: aimed at decreasing market concentration level within the EU by developing pipeline infrastructure to deliver regasified LNG from its import terminals at the EU coastline to inside the EU – to major EU customers/delivery points which are fueled today mostly by supplies from Russia:
 - gas from 3/4 EU LNG import terminal's capacities does not have transportation routes to inside EU
 - Where to take money from? From TCF?

Possible consequences (worst reading – 1)

- Displacement of Russian gas supplies (transfer of its delivery points) to Russia-Ukraine border with increased entry tariffs for Russian gas:
 - Such entry tariffs increase for existing infrastructure has two-fold reasoning:
 - New entry-exit tariffs for Russian gas transit flows through Ukraine post-2019 will be higher compared to existing/acting distant tariffs. That was already proclaimed and “justified” by Ukrainian side (in result of its move, within its Energy Community membership, to EU energy acquis), and
 - Such increase will be fully transmitted to entry tariff (QV scenario 1), i.e. on Russian supplier (Gazprom)
- This will diminish Russian supplier’s margin and will make its gas export business to the EU less competitive, thus clearing the competitive niche for alternative suppliers, firstly for US LNG.

Possible consequences (worst reading – 2)

- Handover of “transit” (transportation) function from “new” delivery points at the external border of the EU energy acquis zone to “historical” delivery points deep inside the EU to the midstream companies of the EU:
 - These companies = intermediaries between non-EU producers-exporters to the EU, on the one hand, and end-users within the EU and/or major historical importers of Russian gas, on the other hand
- This will enable such mid-streamers/intermediaries to preserve their shipping business within the EU:
 - After Third Energy Package (TEP) has entered into force, business zone for such intermediaries within the EU has been narrowing, since TEP provided possibility for producers-exporters of direct access to EU end-users by-passing intermediary structures of wholesale buyers/resellers. And it were them who historically have been delivering Russian gas to EU end-users from delivery points of Soviet/Russia LTCs.
- Such artificial expansion of business zone for mid-stream EU companies leads to “EU welfare increase” since it expands taxable base in the EU created by such companies.

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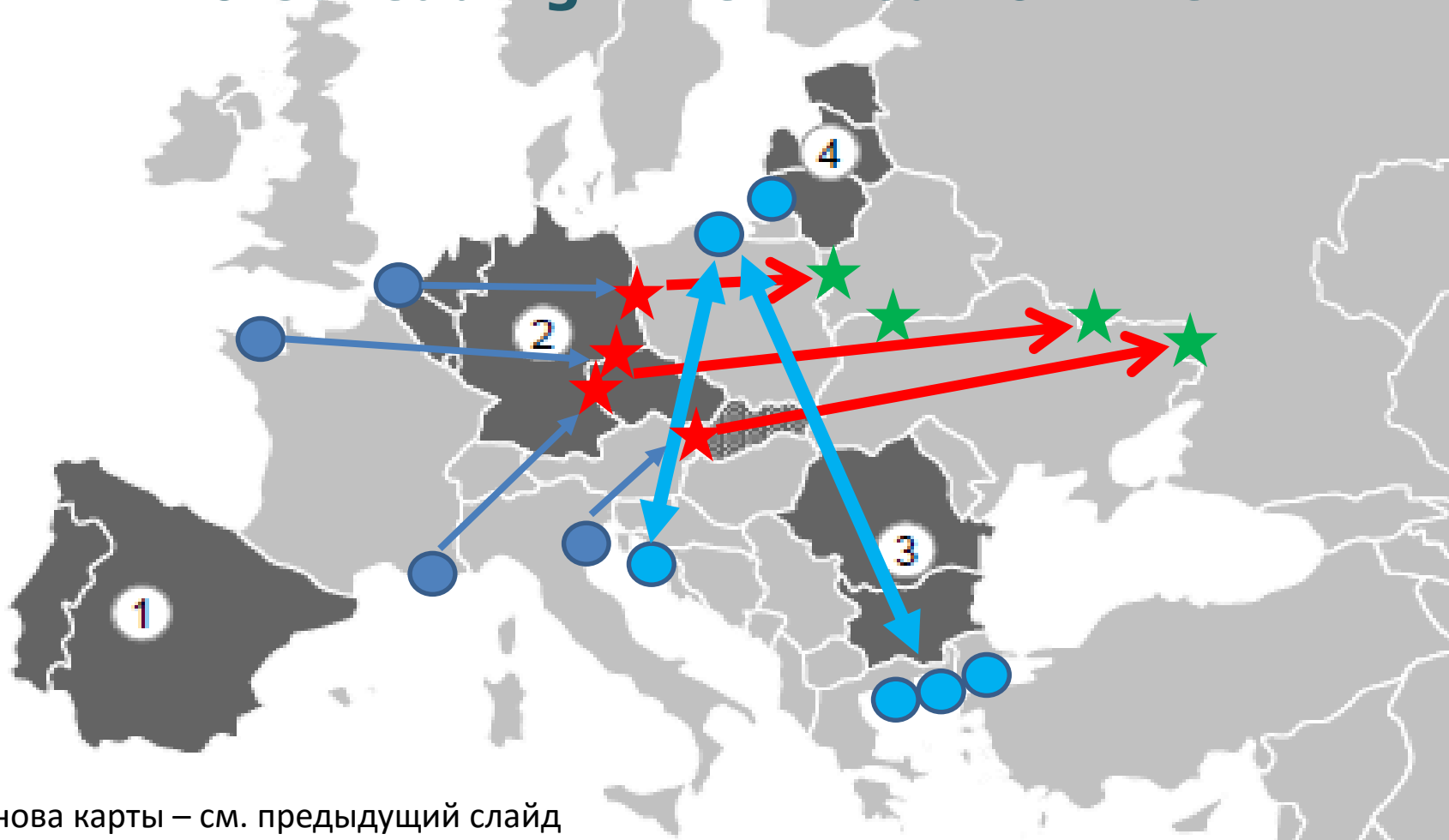
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QV possible consequences (worst reading – summary)

- Creation for external suppliers to the EU (firstly for Russian gas) entry tariff limitations (**scenario 1**), worsening its competitive advantages in the EU compared to US LNG
- Import to non-liquid market zones in EU-East of commodity prices from liquid hubs in EU-West (**scenarios 2-3**) => substitution of direct Russian gas supplies to Ukraine by reverse flows of gas originated from Russia to Ukraine from the West => *another support of EU mid-streamers business*
- Transfer of delivery points of Russian gas to the periphery of the EU energy acquis implementation zone (**scenario 4**) => disposition of transportation functions (shipping business) from external EU border to historical Russian gas delivery points to midstream EU companies (traditional wholesale buyers/resellers of Russian gas => *another support of EU mid-streamers business*)
- Forming new gas transportation infrastructure within the EU to deliver regas LNG to traditional delivery points of Russian gas (**scenario 5**)
- In sum total: formation of vertical gas transmission corridor North-South at the Eastern EU periphery on the basis of new import LNG terminals, detaching Russian gas supplies (SESEC, PCI, TYNDP) from the area of its historical dominance => ***new “Curzon line”?***

Possible consequences of implementation of five Quo Vadis “qualitative” scenarios proposed for further “quantitative” modelling by Consultant (EY & REKK):

Worst reading = new «Curzon line»?



Основа карты – см. предыдущий слайд

New (incremental) European gas infrastructure («Projects of Common Interest» / PCI) (see legend)



Source: http://ec.europa.eu/energy/infrastructure/transparency_platform/map-viewer/main.html

Legend to the map of new (incremental) European gas infrastructure

Natural Gas

Terminal for liquefied natural gas (LNG)

 before 2017

 between 2017 and 2020

 after 2020

Storage facility

 before 2017

 between 2017 and 2020

 after 2020

Reverse flow

 before 2017

 between 2017 and 2020

 after 2020

Compressor station

 before 2017

 between 2017 and 2020

 after 2020

Node

Pipeline

 before 2017

 between 2017 and 2020

 after 2020

Existing terminal for liquefied natural

Existing storage facility

Existing pipeline network

Источник: http://ec.europa.eu/energy/infrastructure/transparency_platform/map-viewer/main.html

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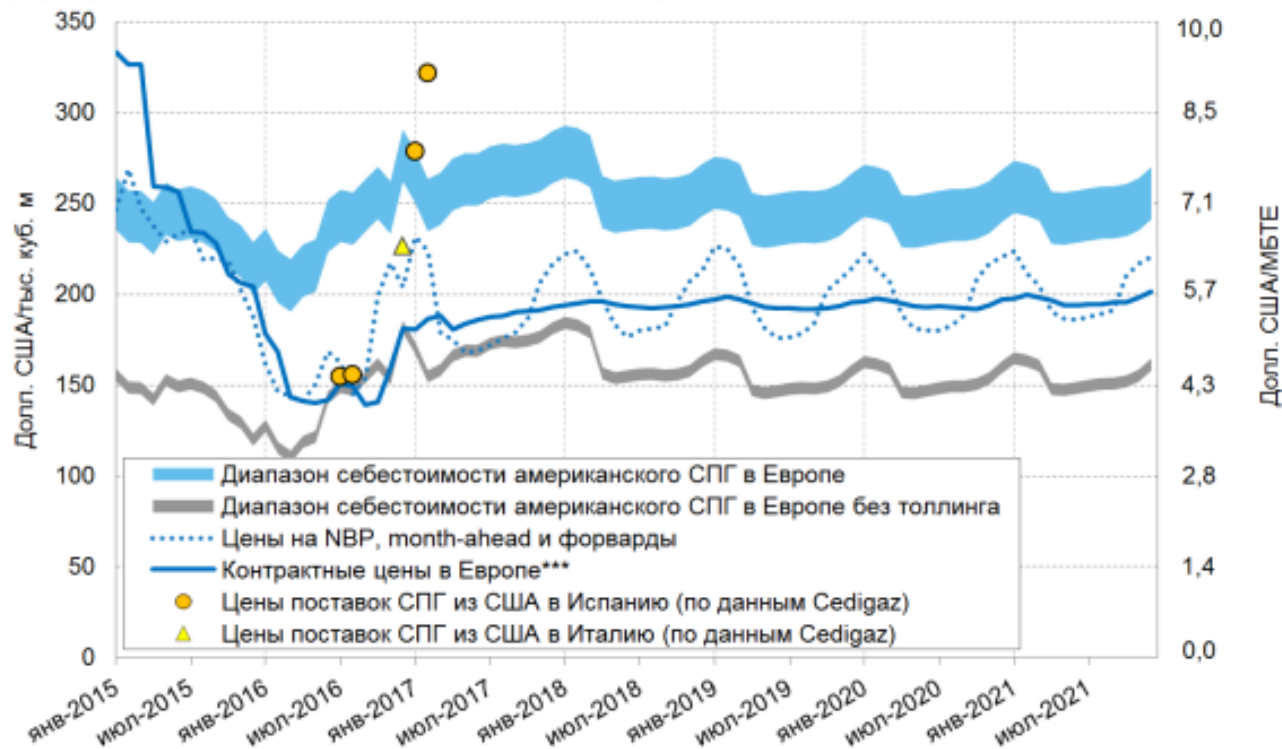
Quo Vadis, Russian pipeline gas & US LNG in the EU: an attempt of unfair competitions at the price of the EU?

- In its current mode “Quo Vadis” de facto creates regulatory mechanism of substituting by more expensive US LNG of cheaper Russian pipeline gas in the EU. On the way of the latter to the EU artificial barriers are constructed. “Quo Vadis” scenarios well correlates with the substance of expanded anti-Russian sanctions which prevent creation of energy export pipelines to the EU by-passing Ukraine. Such scenarios leads not to increase of “EU welfare”, but to its diminishment. It seems that Quo Vadis scenarios are constructed in the interests of the US, nor of the EU:
 - US President D.Trump (Warsaw, 04.07.2016): “Maybe, the prices will grow slightly, but that’s OK...”
 - RF Prime-Minister D.Medvedev (Saint-Petersburg, 21.09.2017): “American administration – and the Congress... - is trying to promote its suppliers and substitute Russian Federation at this market”

НИЗКАЯ КОММЕРЧЕСКАЯ ПРИВЛЕКАТЕЛЬНОСТЬ ПОСТАВОК СПГ ИЗ США В ЕВРОПУ

В текущих условиях цены форвардных контрактов на европейских торговых площадках не покрывают полных издержек будущих поставок СПГ из США с привязкой к ценам Henry Hub

Оценка стоимости* поставок СПГ из США в Европу в сравнении с форвардными ценами** на газ на европейском рынке



* На основе форвардных цен Henry Hub, $P = HH * 115\% + X$, где X – затраты (сжижение, транспорт, регазификация)

** Форвардные цены на NBP

*** Исторические значения: цены российского газа с поставкой на границе Германии (по данным Всемирного Банка), прогнозью: на основе текущих форвардных цен Brent и TTF

Источник: Bloomberg, Cheniere Energy, WoodMackenzie, Всемирный Банк

Thank you for your attention!

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