

Energy security and infrastructure projects (how to maximize benefits for all participants of cross-border EU gas value chains by effectively covering market demand for transportation capacities within 3rd Energy Package framework)

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Based, inter alia, on Walter Boltz's & Andrey A.Konoplyanik's joint presentations at the EU-Russia Gas Advisory Council (GAC) meetings (Vienna, 2012) & on their presentations at the regular rounds of the EU-Russia informal expert consultations (Consultations) on the open issues of implementation of the Third EU Energy Package (Vienna-Moscow, 2011-2012)

(W.Boltz & A.Konoplyanik are co-chairs of GAC Work Stream 2 (Internal Markets) & coordinators of Consultations)



Energy Security & infrastructure development: key economic consideration

- Energy Charter Secretariat for 2006 G-8 Summit on energy security: one of the key economic considerations – to escape unnecessary (non-justified), excessive investment decisions, incl. in energy infrastructure



Third EU Energy Package in gas

Announced Sept.2007, entered into force 03.09.2009, was to be transposed into national laws by 03.03.2011; 19 MS has transposed as of Jan.2012

3rd EU Gas Directive 73/EC/09 (on common rules in gas)

Regulation 713/2009 (ACER)

Regulation 715/2009 (access to natural gas networks)

EU Gas Target Model

Framework Guidelines

Network Codes

1

12

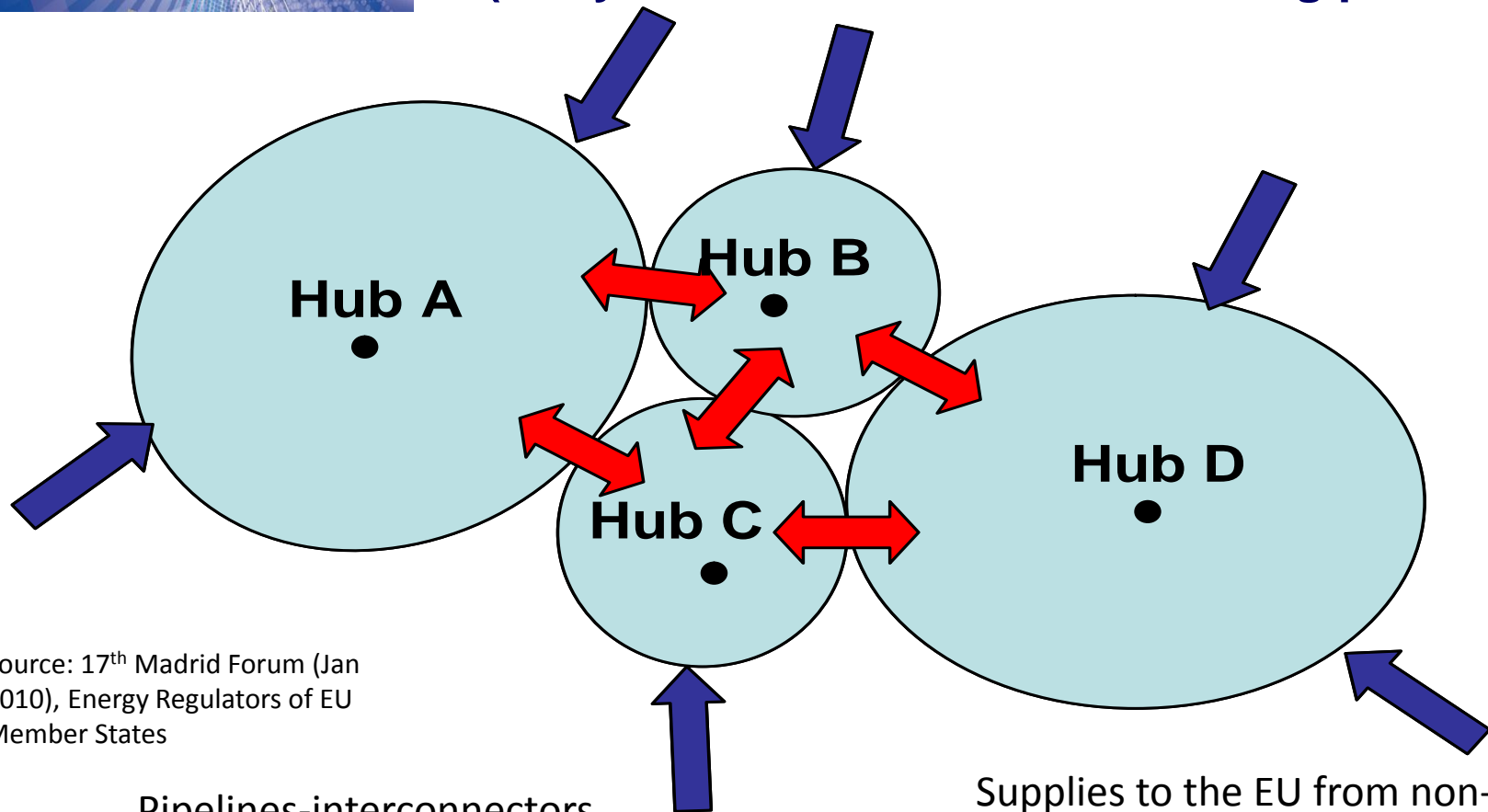
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GTM preparation was initiated at the first round of informal Russia-EU expert consultations (Jan'2010)

Work in progress – to be finished by end-2014



Third EU Energy Package changes EU internal gas market architecture (entry-exit zones with virtual trading points/hubs)



Source: 17th Madrid Forum (Jan 2010), Energy Regulators of EU Member States



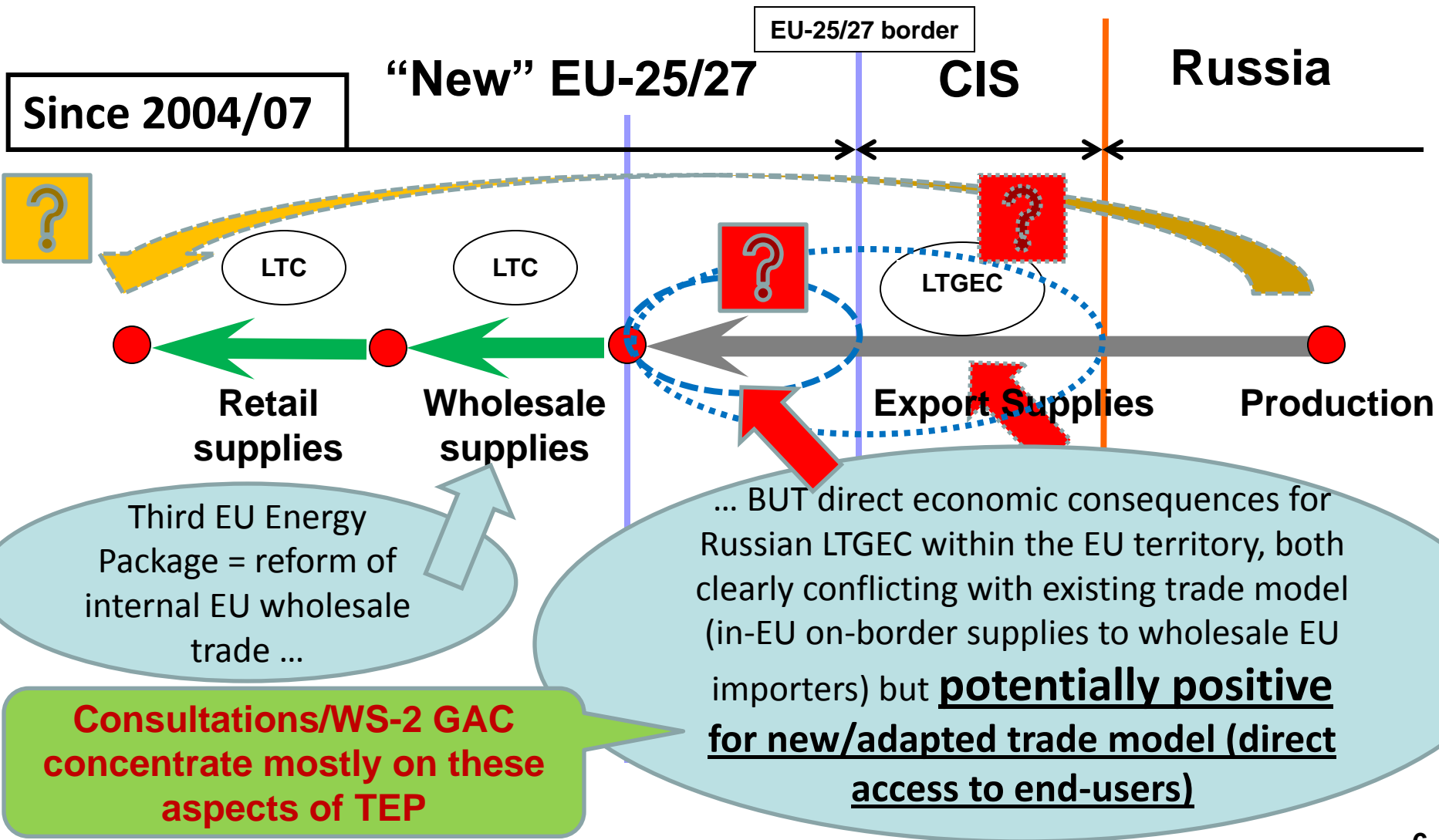
Pipelines-interconnectors between EU zones (*directly covered by 3rd EU Energy Package*)



Supplies to the EU from non-EU (*not directly addressed / covered by 3rd EU Energy Package – but direct economic consequences*)



Third EU Energy Package affects Russia-EU Gas supply chain: how to materialize potential benefits





Proposal on the “hybrid” EU gas market model under GTM (for joint discussion & consideration)

➤ **Long-term supplies (firm contracts, main/basic demand load):**

More flexible LTGEC (re off-taking of contractual volumes & pricing formulas & price review rules)

+ long-term access to transportation capacity for full duration & volume of LTGEC (open seasons)

+ modified pricing formulas linking gas to its replacement fuels (indexation not only to petroleum products => coal, RES, etc.)

➤ **Short-term supplies (interruptible contracts, additional/semi-peak & peak demand load):**

Spot contracts (delivery & trading)

+ exchange pricing (futures, gas indexes, forward curves)

Initially GTM did not consider risks & uncertainties for this market segment => these questions have been added on a step-by-step basis in result of RF-EU informal expert Consultations

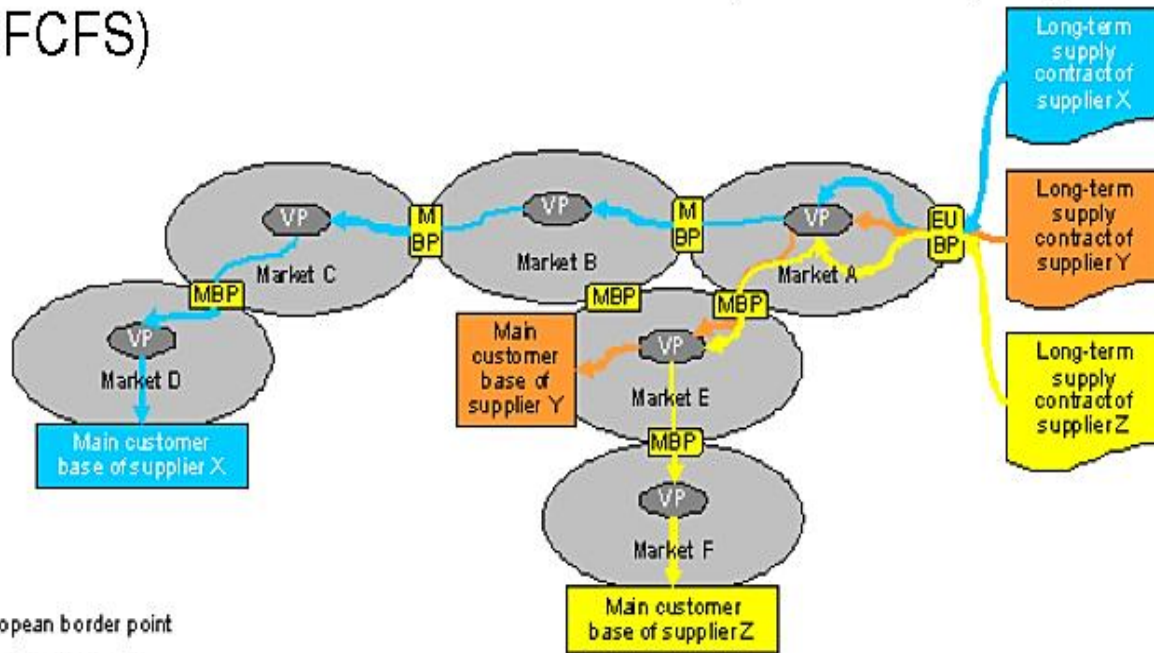
Initial drafts of GTM covered only this segment of gas market, long-term long-distant supplies and related risks & uncertainties stayed beyond consideration of justified concerns of market participants



Long Distance Capacity bookings in the EU Regulatory Framework (appeared in GTM in result of Consultations)

- Introduction of Entry-Exit System in all countries
- Auctions as standard allocation (instead of, e.g. FCFS)

Whether Auctions are the best effective systemic solution?



Yes, this is a given legal reality to be dealt with by any actor at the EU market, but ...

EUBP European border point
MBP Market border point
VP Virtual point



Long Term Capacity bookings in the EU Regulatory Framework (appeared in GTM in result of Consultations)

- FG CAM reserves (at least) 10% for short-term, i.e. 90% can be booked on long-term Basis

Fine, though worsen pipeline ROR

Fine, validates LTGEC

- Capacity can be booked and structured for 15 years in advance (cf. ENTSOG NC)

Fine, prevents contractual mismatch

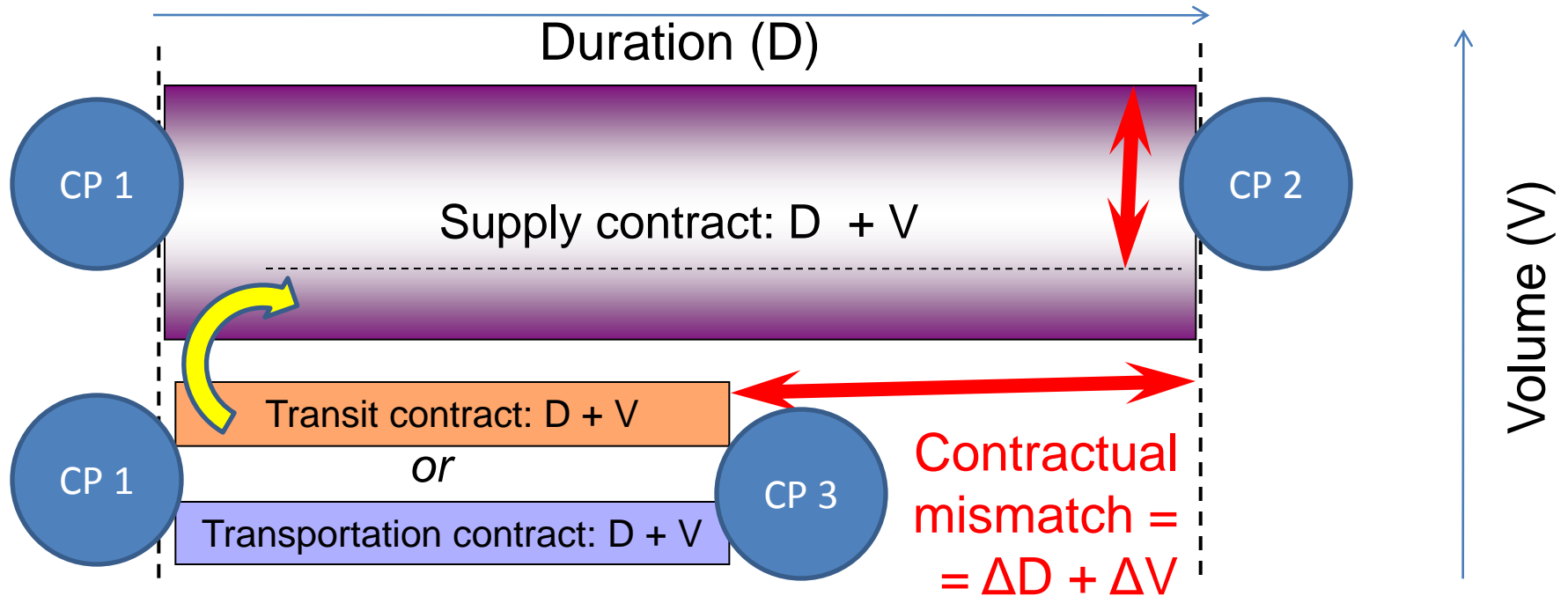
- Inclusion of “incremental capacity”? [FG CAM: Coherence]

10% <1yr

90% up to 15yrs

Alternative: Draft proposal on EU-coordinated Open Season procedure as integral instrument of systemic (existing + incremental) capacity development

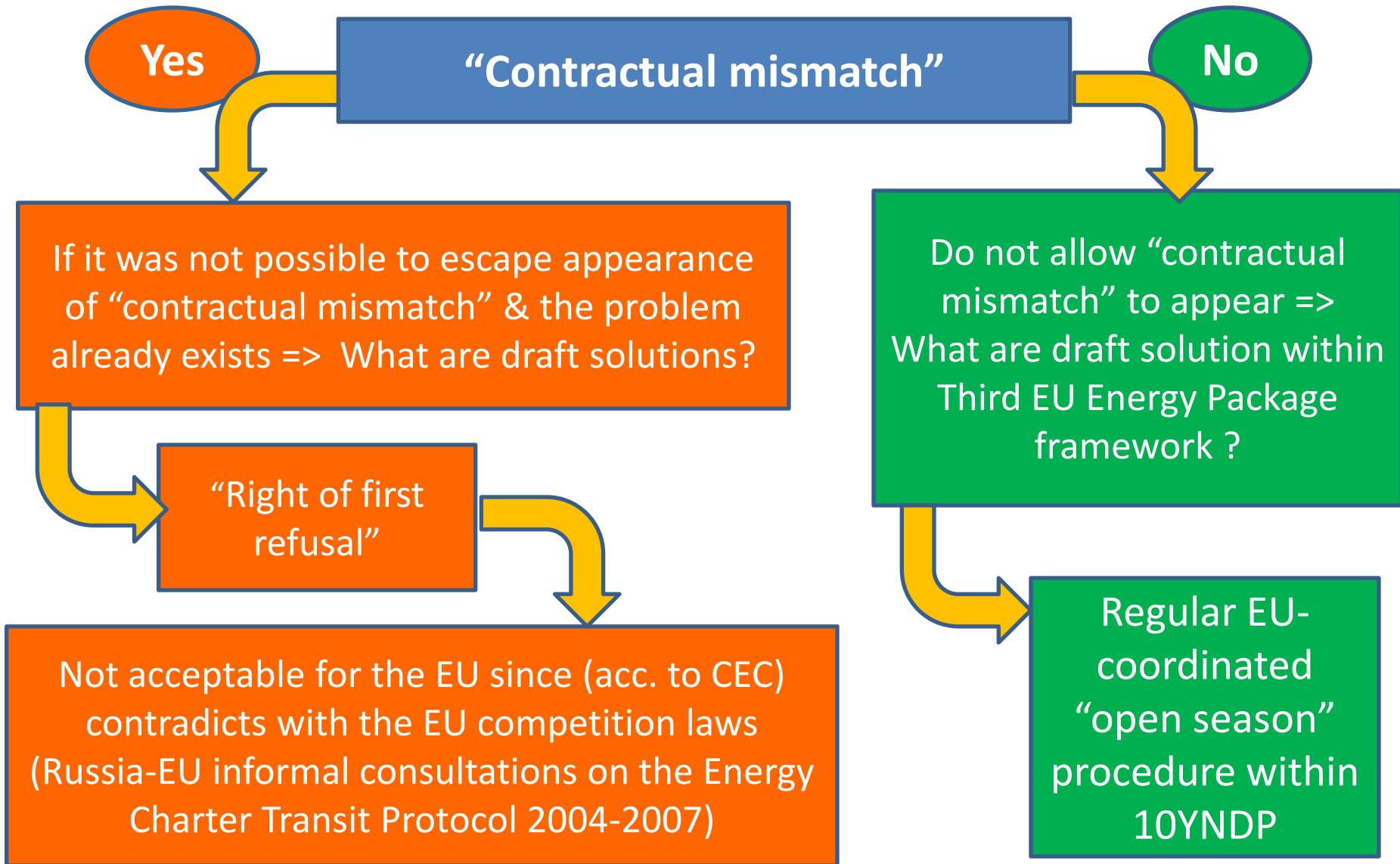
Contractual Mismatch Problem



Contractual mismatch: between duration/volumes (D/V) of long term supply/delivery contract (LTGEC; CP1-CP2) and transit/transportation contract (CP1-CP3); the latter is integral part to fulfill the delivery contract => risk non-renewal transit/transportation contract => risk non-fulfillment supply/delivery contract.

Core issue: guarantee of access to/creation of adequate transportation capacity for volume/duration of long term contracts

Contractual mismatch: from “Right of First Refusal” to “Open Seasons”





“Open Seasons” as Universal Mechanism of Long-, Medium-, and Short-Term Allocation of Capacity

Market test for/Allocation of capacity via regular annual/bi-annual mechanism

10YNDP

Long-term solution (appr. Y5/7 forward) – to liquidate existing deficits & to prevent future deficits to appear

Opportunities to invest in capacity expansion

no

Available Capacity

Short-term solution (approx. Y1-Y5/7) - to deal with existing deficits

no

yes

yes

TSO to invest

Booking: booked (allocated) capacity deducted from Available Capacity

Allocation mechanism for existing capacity – non-discriminatory, transparent, competitive : auctions

CAM FG / NC

Investment

Prevention of speculative hoarding & capacity blocking (e.g. operational use-it-or-loose-it (UIOLI) principle)

CM FG / NC (Annex to Reg.715)



What provisions of the Third Energy Package are supportive for EU-wide coordinated “Open Seasons”

Directive 2009/73/EC

Regulation (EC) 715/2009

- Art. 13.1(a), **13.2**, 13.4
- Art. 14
- Art. 17 (e,f,g)
- Art. 22
- Art. 35.2
- Art. 36.6,
- Art. 41.1(g)
- Art. 42.2(a)
- Art. 52.1(d)

“TSOs must build infrastructure to satisfy all economically reasonable and technically feasible capacity demand.”

- Art. 4
- Art. 8.3(b)
- Art. 12.1, 12.2
- Art. 16.2(a), 16.5
- Art. 18.1, 18.3

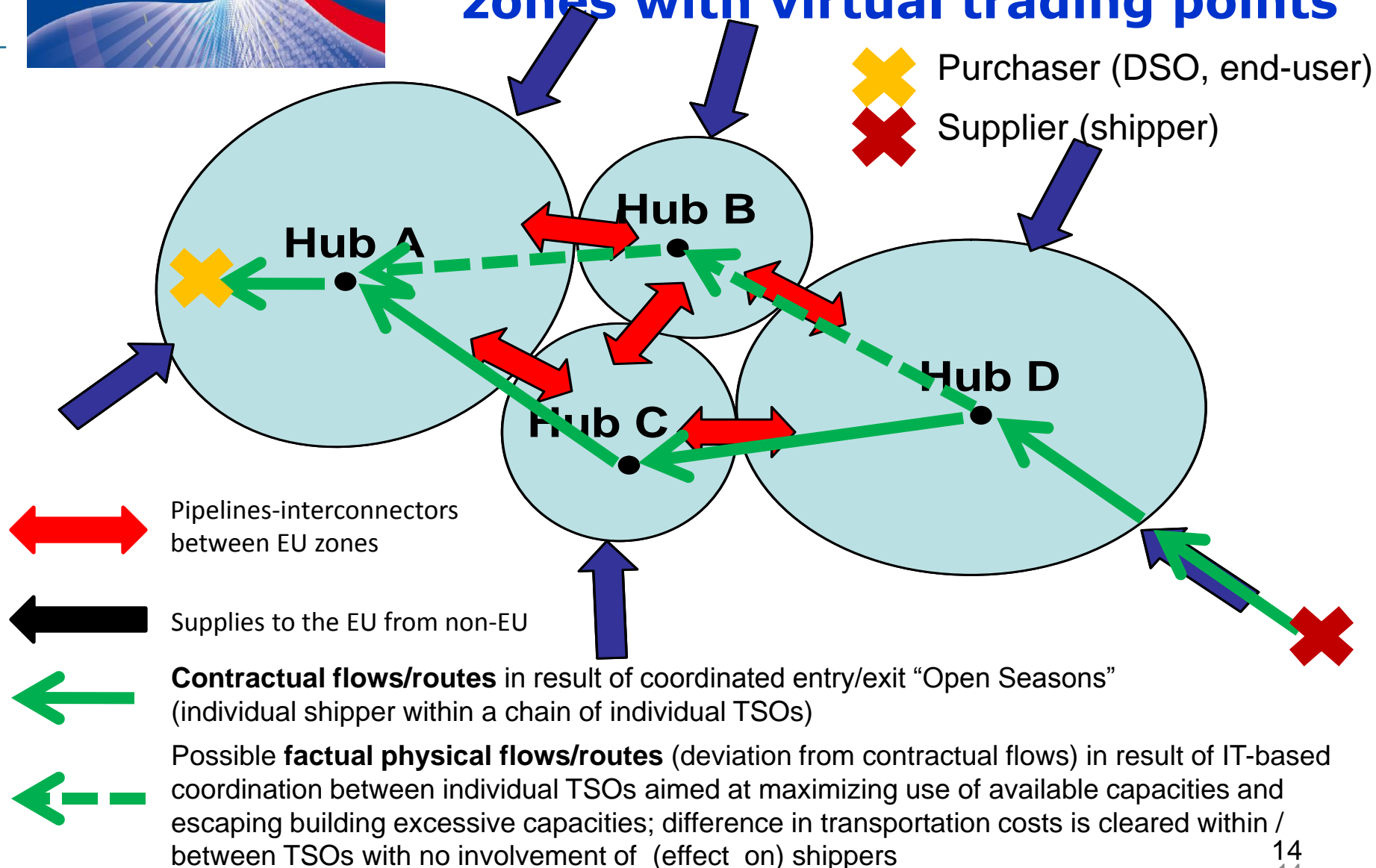
PLUS: GGPOS-2007

- Esp. Sect. 4.1 - 4.2 (esp. if “sponsor” = TSO)

(See also: “Memorandum on TSOs Obligations to Invest in Capacity” prepared by the Russian side of WS-2 for GAC 25.04.2012 meeting)



Effect of coordinated EU-wide “open seasons” within entry-exit zones with virtual trading points





**Thank you for your
attention**

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