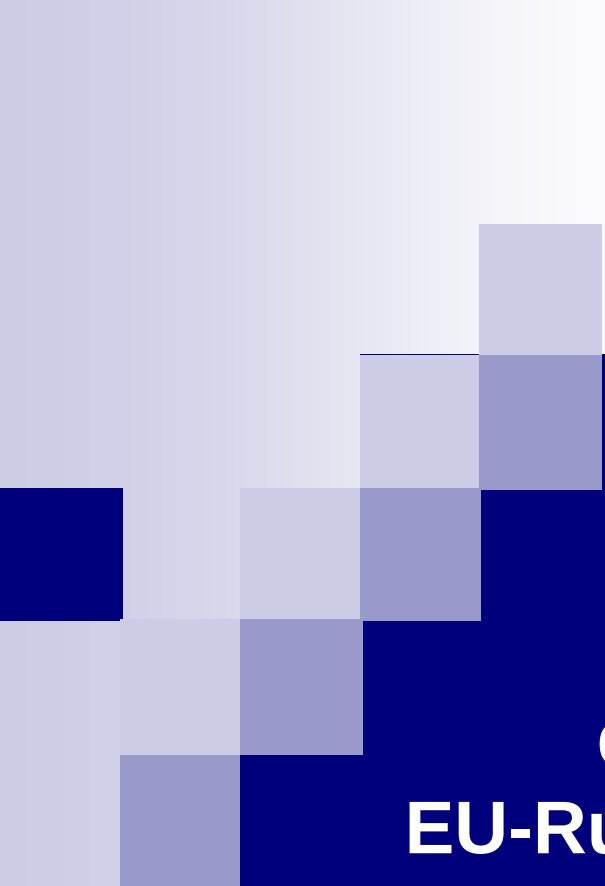




Reducing uncertainty about the future of gas in the EU: discussion at the EU-Russia Gas Advisory Council

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Mutual dependence and vulnerability of cross border pipeline infrastructure and gas deals

- Dedicated gas resources for dedicated markets by dedicated infrastructure upstream and downstream of the border
- Reciprocal (but asymmetric) dependence
 - Technical mismatch (timing, capacity , operating) of production and transport with marketing infrastructure and volumes
 - Policy(or politically) driven: depletion policy, rent taking, market development (role of gas, gas market design), taxation
- Decisions of country A concerning its own gas infrastructure will affect (possibly devalue) investment in country B and vice versa.
- No investment protection for cross border impacts by investment treaties but eventually by bilateral (usually commercial) contracts and their remedies.

Examples

Political / policy decisions upstream the border affecting system downstream the border:

- Minimum sales price politically imposed
- Export restrictions / priority for domestic use etc.
- Changes in depletion policy

Political / policy decisions downstream the border affecting system upstream the border:

- On the role of gas (positive or negative)
- Affecting cross border contractual arrangements (e.g. LTCs)
- Curtailing marketing possibilities
 - By curtailing access to transportation capacities for gas imports
 - Affecting the value of gas
 - Changing the market rules and design



Russian Gas for EU: Issues

■ Economic

- ☐ Dealing with resource rent of resource owning countries
- ☐ Market paradigm EU vs economic interest of Russia
- ☐ Hoping for cheap gas
- ☐ LTCs put into question
- ☐ DG Comp investigations against Gazprom

■ Looking for Compromise

- ☐ WINGAS (except transport) 100% owned by Gazprom
- ☐ OPAL
- ☐ South Stream

■ Political

- ☐ Ukraine

Structure of the EU-Russia Energy Dialogue



GAC Activities so far

- Created February 2011*
- 8 meetings, last 19 Nov 2013*
- 3 work streams:
 - Role of gas / forecasting: methodology, results (JStern, VFeygin)
 - 3rd package internal market (W Boltz, A.Konoplyanik)
 - Infrastructure (S. Kamphues, T.Shtilkind)
- Workshops on:
 - Modelling/ Scenarios
 - Pricing / Marketing / LTCs
 - CEER blueprint on capacity allocation, incremental capacity, (coordinated) open season

=> How to reduce mutual uncertainty to an acceptable level?

*see: http://ec.europa.eu/energy/international/russia/dialogue/dialogue_en.htm



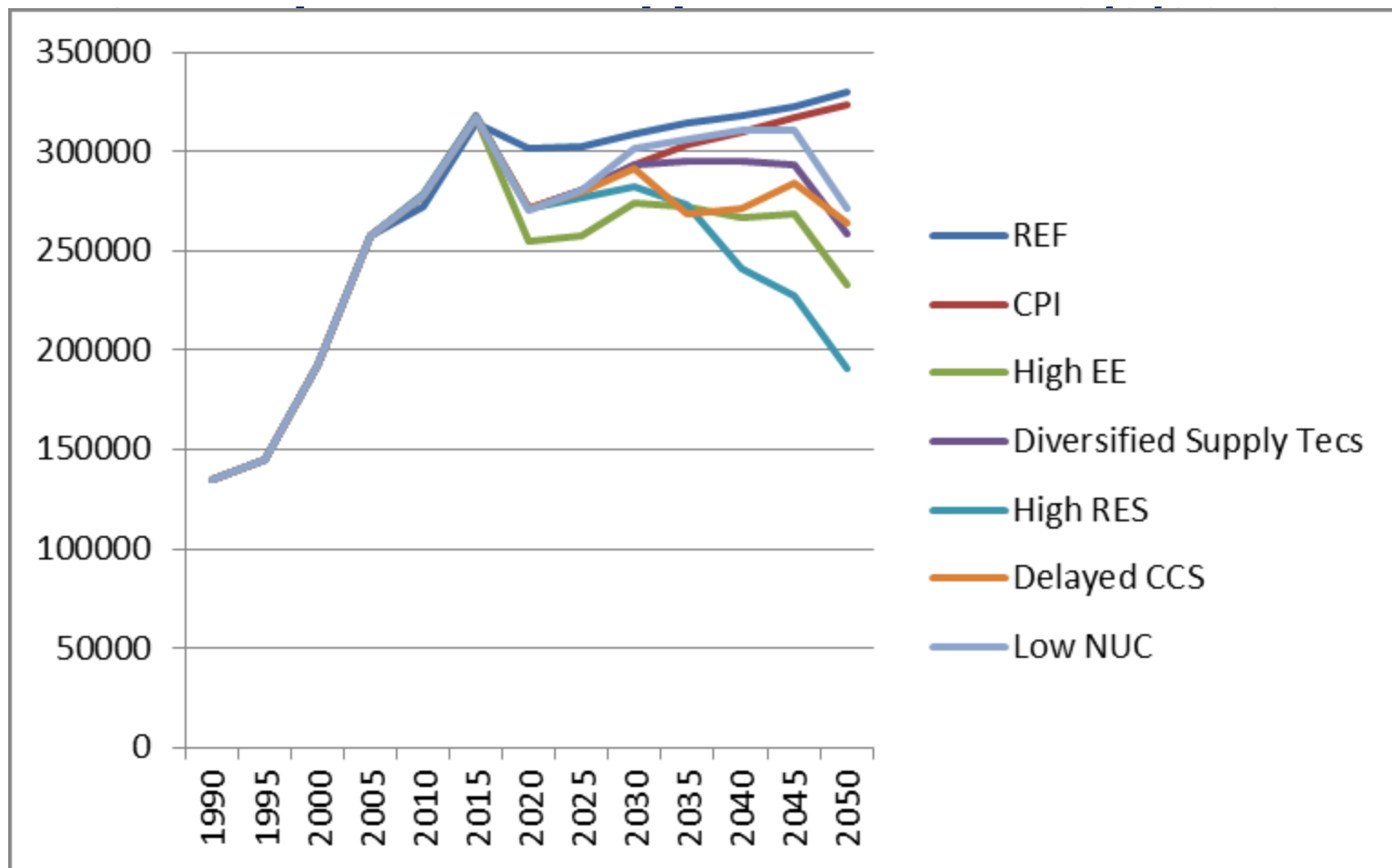
GAC: Reducing uncertainty to a mutually acceptable level

- The role of gas in view of decarbonization policy of EU
- Impacts of the 3rd package
- Creation / use of adequate infrastructure

The role of gas in view of de-carbonization policy of EU

- Impacts of de-carbonization policy
 - Gas demand as a function of energy efficiency, nuclear policy, renewable policy and EU domestic production
 - Scenarios to assess impacts
 - Discussion of methodology
 - Backcasting approach (target scenarios) of EU
 - Assess role / potential of (Russian) gas
 - Assess role / potential of gas for de-carbonization
- ⇒ Keep each other informed on
- Further scenario work
 - policy development and implementation

Gas Imports RM 2050 Scenarios (ktOE)



Even if decarbonisation is slow, gas imports raise only slowly

German Gas Import Scenarios

Importbedarf Erdgas	Einheit	2009	2013	2014	2015	2022	2022/2009
Szenario I	[TWh]	696	723	701	719	737	6%
Szenario II	[TWh]	696	696	673	680	672	-4%
Szenario III	[TWh]	696	688	660	652	600	-14%

Quelle: Prognos



Impacts of the 3rd package

- Entry – exit model and unbundling
 - LTCs on import level under threat:
 - Pricing mechanism
 - Minimum pay compatible with hub prices?
 - Minimum pay as balance for delivery obligation
 - Delivery point at the border or only on the hub?
 - Handle transition to new market structures
- =>Maintain LTCs (but how?)
- =>Coordinated open season (to reveal and organize large scale transport through various EU market areas to a multitude of customers)



Creation / use of adequate infrastructure on both sides

- On the Russian side:
 - field development, pipelines to feed export pipelines
 - construction of export pipelines
- On the EU side:
 - TYNDP with new inlet capacity
 - Incremental capacity vs. new large capacity (CEER blueprint on incremental capacity)
- Dispatching coordination (Gas Dispatching Service)
- Early warning system

Questions raised and answered

- Delivery points at the border?
Possible at least for existing contracts
- Sufficient capacity available for existing contracts?
In principle Yes, but not guaranteed
- Gas Dispatching Service compatible with 3rd package?
In principle Yes, more analysis needed
- Coordinated open season compatible with 3rd package?
In principle Yes, to be worked out in CAM – NC
- Investment / regulatory regime for incremental and new capacity?
Broadly clear, further details in CAM NC amendment, case study
- Russian cross border projects eligible for PCI?
could be for PMIs (Projects of mutual interest), to be defined

EU Russia Gas Advisory Council: the way forward

Next meeting of GAC scheduled for June 2014

Potential for EU Russia cooperation on gas:

■ **Minimum:**

- ☐ Maintain relation as reliable supplier / customer
- ☐ Gas dispatching service as trust building?
- ☐ Maintain gas as clean fuel for wealth creation, compensate for decline of EU production (continue dialogue on scenarios)
- ☐ Compromises for open issues (OPAL, South Stream, DG Comp.)

■ **High road:**

- ☐ Gas for transport : trucks, ships (Baltic sea, rivers)
- ☐ Concept for gas for de-carbonization incl. gas in power in transition period



Thank you