ENERGY CHARTER GAS-RELATED ACTIVITIES

Dr. Andrei Konoplyanik,
Deputy Secretary General,
Energy Charter Secretariat

Presentation at the 17th Annual Session of the UNECE Working Party on Gas,
Agenda Item 8
23-24 January, 2007, UNECE, Geneva

ENERGY CHARTER: GAS-RELATED ACTIVITIES

Investment Group:

- ICMS Reports (country reviews),
- "Blue Book" (exceptions from NT at pre-investment phase)

Energy Efficiency (PEEREA) Group:

- Country Reviews (Regular and In-depths)

Trade & Transit Group:

- Implementation of ECT transit provisions
- Draft Transit Protocol (status: RF & EU reporting)

Legal Advisory Task Force (LATF):

- Model Agreements on Cross-border Pipelines

Industry Advisory Panel (IAP):

- IAP POW: Access to resources, infrastructure, capital => Reports to ECC

IMPLEMENTATION OF THE ECT TRANSIT PROVISIONS

<table>
<tr><th colspan="2"></th><th>Crude Oil</th><th colspan="2">Natural Gas</th></tr>
<tr><td rowspan="3">Legal/Regulatory</td><td>Non-discrimination / Transparency</td><td rowspan="3">Report on Crude Oil Transit

(It, Aus, Ch, Cz, Slo, Pol, Lat, Lit, Hun, Tur, Cro, Bul, Rom, Bel, Ukr, RuF, Geo)</td><td>Domestic Gas Transport Legislation Reports

(Cz, Slo, Pol, Bel, Ukr, RuF, Kaz)</td><td rowspan="3">Report on Gas Transit

(Aus, Bul, Rom, Ch, Tur, Geo, Uzb, Mol)</td></tr>
<tr><td>Access to networks & tariffs</td><td></td></tr>
<tr><td>Legal and regulatory framework for transit facilities</td><td></td></tr>
<tr><td rowspan="3">Existing Pipelines</td><td>Legal/contractual arrangements</td><td rowspan="2">All reports available on</td><td colspan="2">www.encharter.org</td></tr>
<tr><td>Access to network</td><td rowspan="2">Oil Transit Tariff Report (published - Jan 2007)</td><td colspan="2" rowspan="2">Gas Transit Tariffs Report (published - Jan 2006)</td></tr>
<tr><td>Transit tarification</td></tr>
<tr><td>New Pipelines</td><td>Legal/contractual arrangements incl. relevance to the Energy Charter principles</td><td colspan="3">Voluntary Presentations on New Cross-Border Pipeline Projects
(e.g. oil and gas pipelines from Caspian and Central Asia to East and West, Pakistani pipeline projects, Turkish Straits oil pipeline by-pass options</td></tr>
</table>

It:Italy Aus:Austria Ch:Switzerland Cz:Czech Rep Slo:Slovakia Pol:Poland Lat:Latvia Lit:Lithuania Hun:Hungary Tur:Turkey Cro:Croatia Bul:Bulgaria Rom:Romania Bel:Belarus Ukr:Ukraine RuF:Russia Geo:Georgia Uzb:Uzbekistan Mol:Moldova

REPORTS ON NATURAL GAS AND CRUDE OIL TRANSIT

Objective

To increase transparency on compliance with the ECT transit principles :

- **Non-discrimination and Transparency**
- **Access to pipelines and transit tariffs**
- **Establishment of new transit capacity**

Recommendations:

- **Create more transparency for transit (access and tariffs, in particular)**
- **Consider all factors influencing transit**
- **Establish rules for new capacity development**
- **Cooperate for clear operational arrangements**
- **Separate transit from gas supply**

REPORT ON GAS TRANSIT TARIFFS

Main Findings:

- **Large variations in Transit Tariff levels**
- **Transit Tariffs in non-EU countries substantially lower than most tariffs in the EU (the gap narrowed recently)**
- **Transit Tariffs higher than Domestic Tariffs**
- **Lack of transparency; many countries do not publish transit tariffs or underlying methodologies**

Recommendations:

- **"One size fits all" approach *not* possible**
- **The methodology chosen must ensure financial sustainability of the system and avoid excessive rate of return**
- **Most immediate challenge is to improve transparency of transit tariffs:**
  - **Clearer institutional set-up for transit**
  - **A one-stop-shop for all administrative issues**
  - **More transparent intergovernmental negotiations (at least advanced information/ early warnings)**

INTERNATIONAL PRICING MECHANISMS FOR OIL AND GAS

To be released in March 2007

Objective:

To provide an analytical framework of pricing mechanisms of cross-border trade of oil and gas

Scope:

Facts and analysis of present pricing mechanisms and their historic development under different:

- **Contractual structures: Supply and demand-based pricing (cost-plus vs. replacement value/net-back and respective escalation formulas, commodities pricing)**
- **Energy commodities market structures (real time, forward, futures and options markets)**
- **Regional markets: gas - USA/Canada, UK, Continental Europe (based on Dutch exports), Russia/CIS/EU**
- **Pricing patterns (oil vs. gas, pipeline gas vs. LNG)**

Recent developments in:

- **International energy resource pricing mechanisms**
- **Contractual pricing arrangements (long-term and short-term contracts)**

SECURING CROSS BORDER ENERGY FLOWS

Objective:

To analyze legal instruments securing cross border grid bound flows and their interfaces

Scope:

Legal Instruments needed for Security of Supply:

- **Access to resources (within state sovereignty on energy resources)**
- **Development of resources (investment)**
- **Transportation to export points and Transit**
- **Access to markets**

Available Instruments:

- **ECT instruments**
- **Instruments based on or referring to ECT:**
  - **model agreements**
  - **BTC, BTE project agreements, …**
- **Other instruments outside ECT sphere, e.g. LTC, open markets**

DRAFT TRANSIT PROTOCOL

Background and Current Status:

- **Objective: To specify the existing ECT Article 7 on Transit to mitigate some specific operational risks**
- **Consensus on the bulk of the text in end-2002, with three open issues to be resolved between EU and Russia**
- **Draft text publicized at the end of 2003 (CC251 on the Energy Charter website)**
- **Various rounds of bilateral consultations until end-2006**
- **All transit-specific issues preliminary solved at expert RF-EU level**
- **Remaining political issues still up for settlement by EU and Russia**

Main Principles:

- **Criteria for access to capacity, including a definition for available capacity**
- **Criteria for setting transit tariffs (transparent, non-discriminatory, cost-based)**
- **No unauthorized taking of energy**
- **Standards (technical, environmental, health, safety, social, accounting) …**

MODEL AGREEMENTS FOR CROSS-BORDER PIPELINES (IGA + HGA)

Background and Current Status:

- **ECC took positive note of First Edition of MAs at its 13th meeting in December 2003, and authorised updating**
- **LATF reconvened in November 2005 to start developing a Second Edition**
- **Work achieved in 2006 was presented to member state delegates during a Workshop on 17 and 18 October 2006**

Main Principles:

- **MAs package is a guide to best practice and neutral basis for negotiations**
- **IGA and HGAs are interdependent and linked**
- **All agreements refer to one identified project with identified investors**

Legal basis for : BTC, BTE pipelines, …

Thank you for your attention!

www.encharter.org