

# **Roadmap and Energiekonzepte – Towards an Integrated Market or a Return to National Energy Policies (a view on gas - a view from Russia)**

**Dr. Andrey A. Konoplyanik,  
Director on Energy Markets Regulations, Project Leader,  
Foundation “Institute for Energy & Finance”;  
Professor, Russian State Oil & Gas University n.a. Gubkin,  
Chair “International Oil & Gas Business”**

**<a\_konoplyanik@fief.ru>,  
<www.konoplyanik.ru>**

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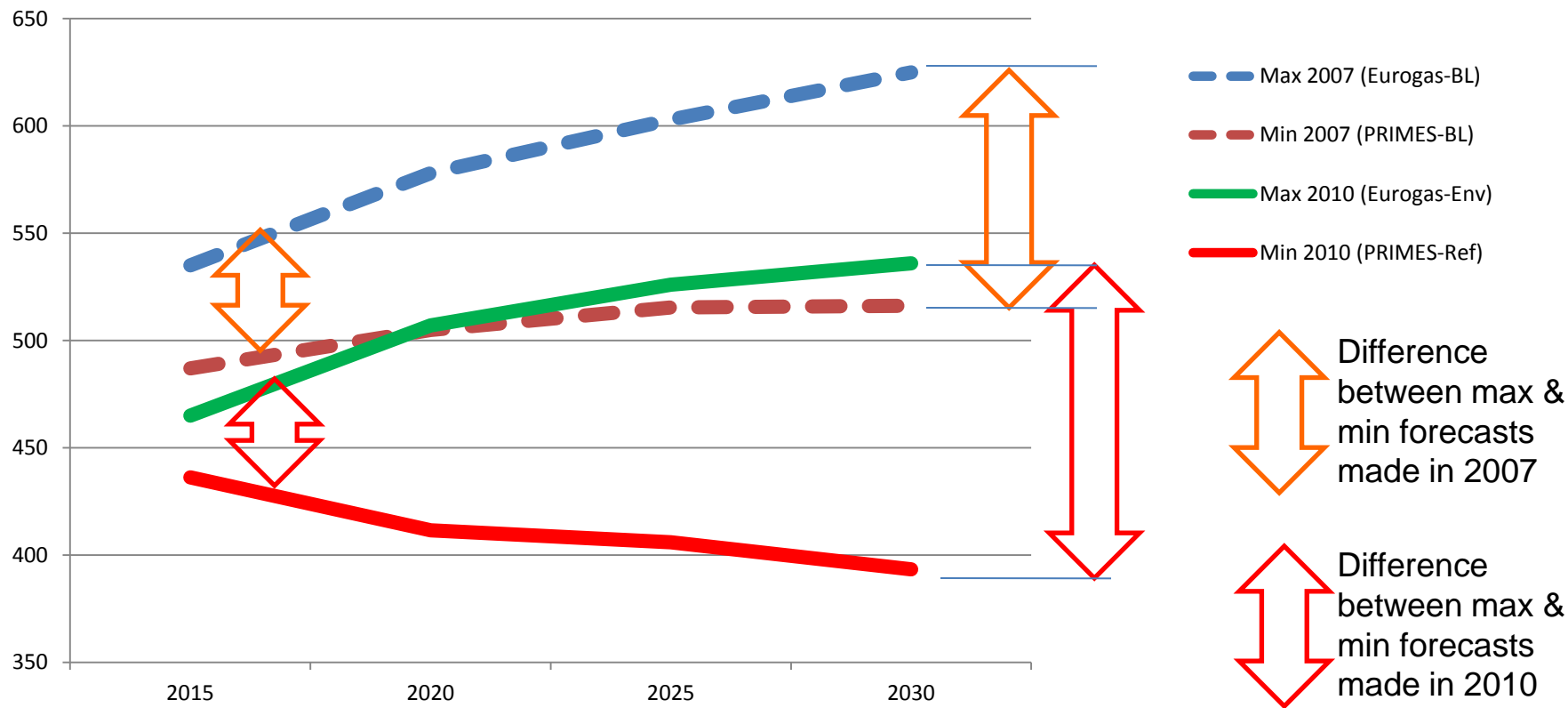
# Post-2009: New Gas World & New Challenges

- Since 2009 we are living in the new gas world: more uncertain, more risky, more challenging
- New challenges are:
  - Demand-side (economic crisis + decarbonisation)
  - Supply-side (multiple competitive supplies => oversupply?)
  - Institutional (Third EU Energy Package)
  - Political (perceptions)

# New challenges: demand-side

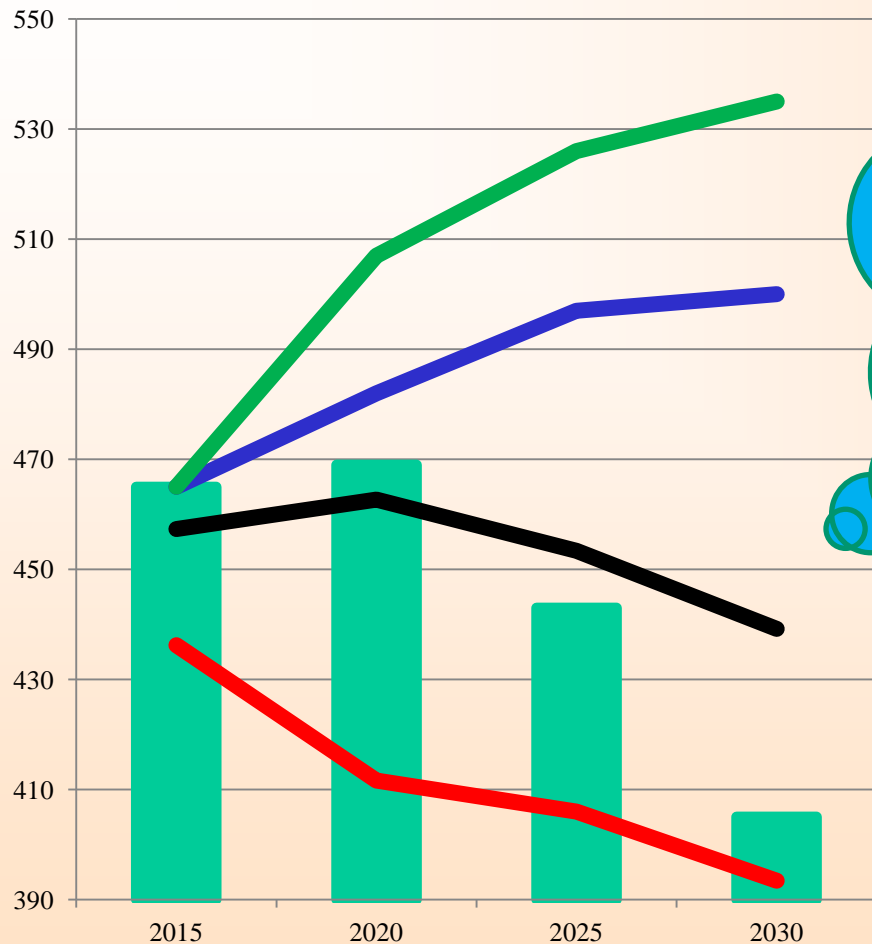
- Decarbonisation as EU energy policy definite trend:
  - 20/20/20 targets
  - Roadmap to 2050 (CO2 emission down by 80% ?)
- Energy forecasts more uncertain:
  - influenced by low-demand “in-crisis” perceptions
    - downgrade effect, but
  - RES opens new market area for gas (Fukushima effect for base-load electricity generation in EU)
  - Deficiencies of EU-sponsored PRIMES model

# EU future gas demand forecasts: corridor of uncertainties has been increasing, general trend has been slowing down, bottom line became negative...



Source: calculated by Vitaly Protasov on the basis of the database of the study: Russia-EU Energy Dialogue. Thematic Group on Energy Strategies, Forecasts and Scenarios. Energy Economics Subgroup. "Energy Forecasts and Scenarios, 2009-2010 Research, Final Report", 2011 (study available at [www.fief.ru](http://www.fief.ru))

# Future EU gas demand to be lower than guaranteed deliveries?



What messages energy forecasts sponsored by the Commission (*PRIMES model*) send to gas business? Is it practical to forecast future demand volumes *below* already contracted volumes?

- Guaranteed deliveries
- Demand-Eurogas-BL-2010
- Demand-Eurogas-Env-2010
- Demand-PRIMES-BL-2009
- Demand-PRIMES-Ref-2010

Guaranteed deliveries = internal production, Norway, LTGEC plus their possible prolongations

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# Financial Times on PRIMES model

- The credibility of a European energy review has been cast into doubt by experts who point out that long-term plans to cut carbon emissions are based on an economic model owned by a single Greek university that cannot be independently scrutinised. ... The European Commission has used it for many years to help guide the bloc's energy policies but industry critics complain its assumptions are impossible to question because the model is privately owned". ("Financial Times", 14.11.2011)

# New challenges: supply-side

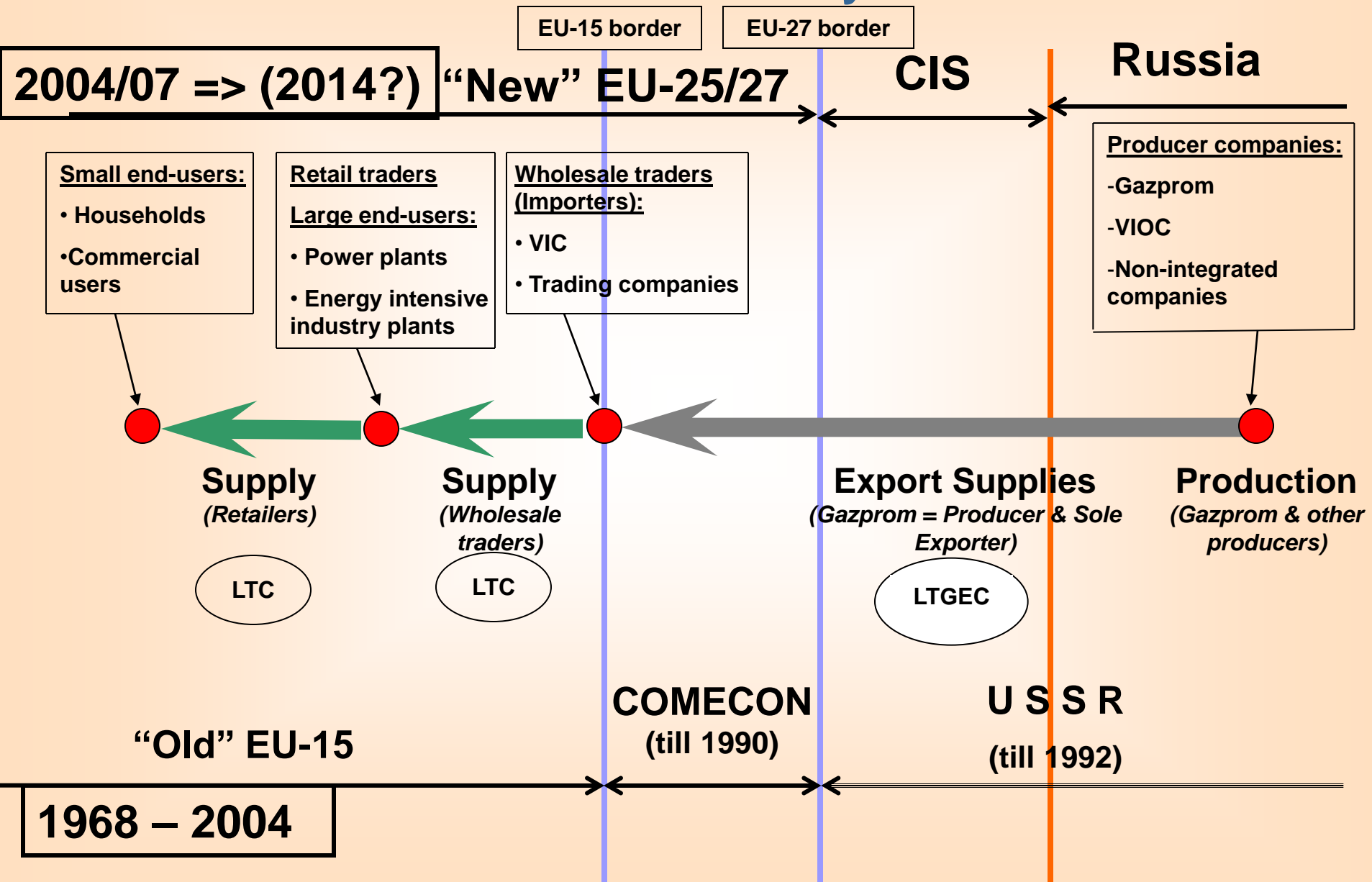
- Multiplicity of supplies increasing (Konrad Szimanski: “democratization of energy”), diversification (suppliers + routes) = multiple choice:
  - **Pipeline gas**
    - Historical pipelines
    - Pipelines destined for EU developed before crisis
  - **LNG**
    - LNG flows destined for EU developed before crisis
    - LNG flows destined for USA developed before crisis & redirected to EU in crisis
    - New future LNG
  - **Shale gas**
    - Domestic (potential)
    - US shale gas – potential export to EU as LNG

# New challenges: institutional

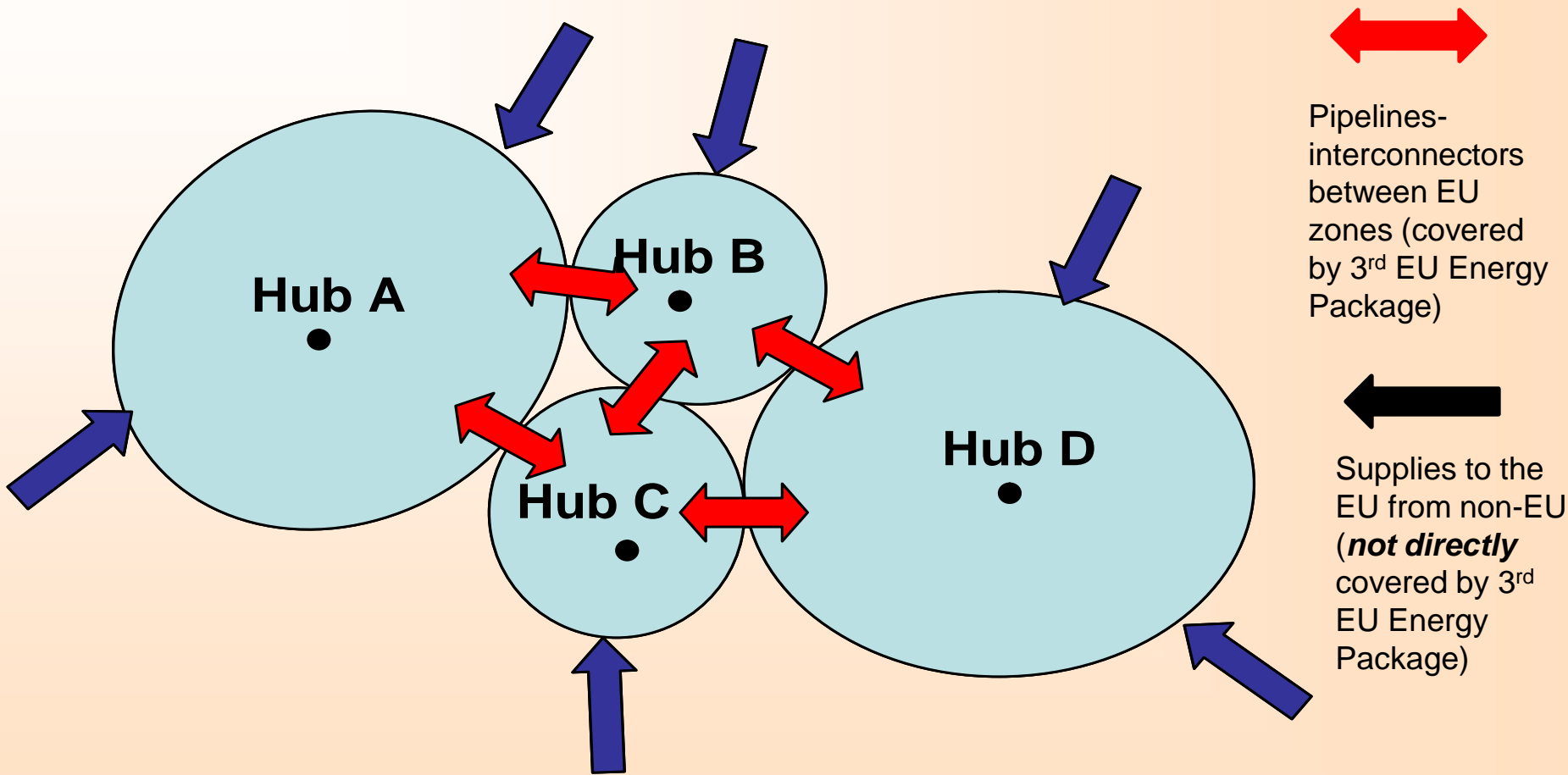
- Third EU Energy Package:
  - From chain of consecutive LTCs to few “entry-exit” regional zones with virtual liquid hubs
    - LTC to be adapted, their competitive niche to narrow, but
    - Direct access to end-users for exporters? (potential)
  - Anglo-Saxon model in gas to be developed in Continental Europe acc. to Third Energy Package?
    - Contractual structures & pricing: short-termism to dominate?
    - Paper gas market: risk of price bubbles like in global oil in 2008?
  - Development of principally new architecture of wholesale EU gas market (J.Novotny: gas = “designed market”):
    - “Learning by doing”
    - Transition period to new gas market structure?



# Russia-EU gas value chain: three-step LTC structure since 1968 till nowadays



# Future organization of internal EU gas market according to Third EU Energy Package: radical change of wholesale EU gas market architecture



Source: 17<sup>th</sup> Madrid Forum (Jan 2010), Energy Regulators EU MS

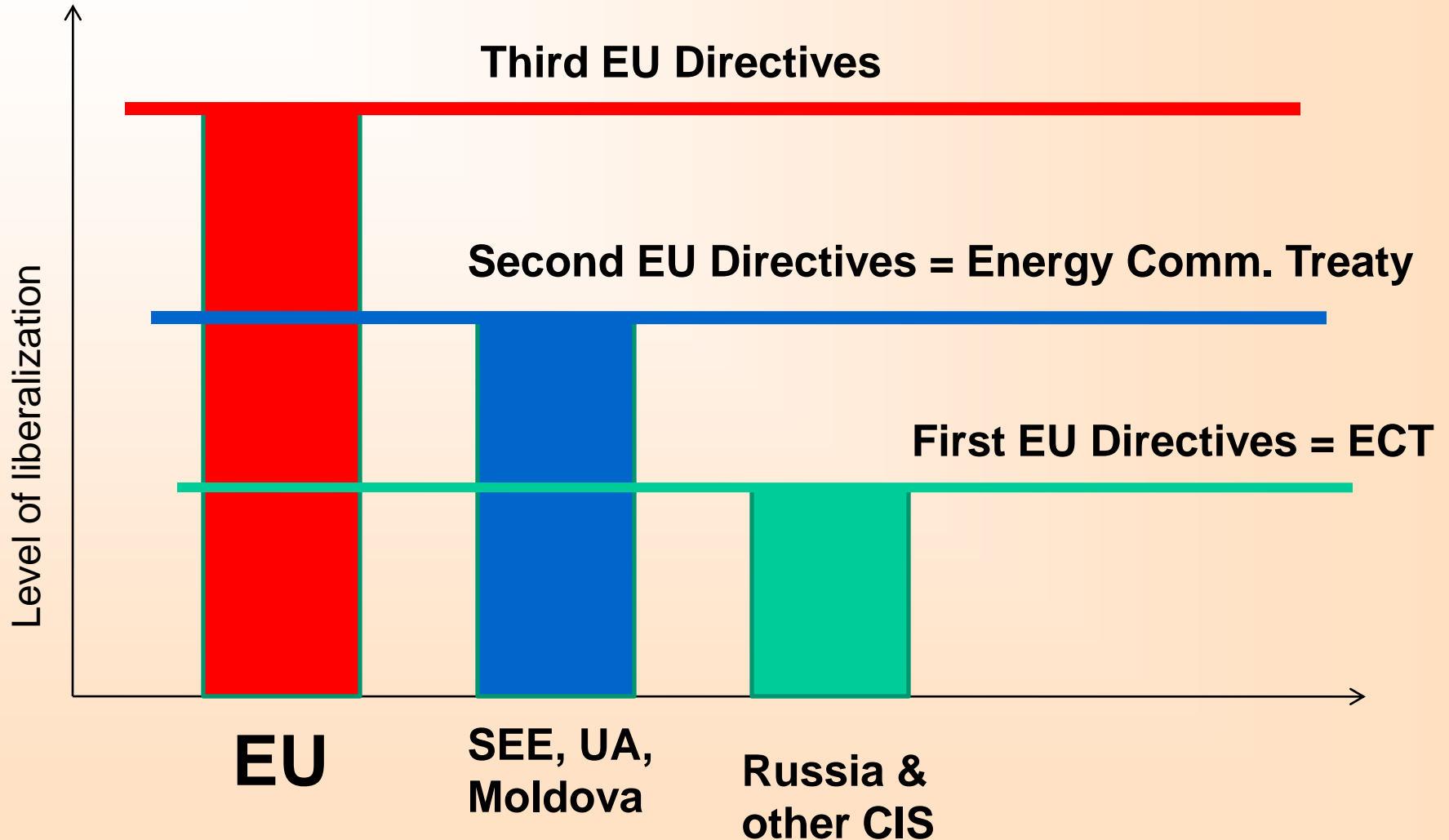
# New challenges: political

- Russia-Ukraine gas crises Jan.2006/Jan. 2009 =>
- **EU:**
  - 22 days (3+19) over-weighted 40 years => new SOS component in EU energy policy
  - EU Decarbonisation => why demethanisation of EU energy (gas = “transition fuel”) if gas is most ecologically safe fossil fuel? => (K.Simonov: “methanophobia”) = to deviate from gas or to deviate from Russian gas? =>
  - Southern corridor without Russian gas &/or Russian routes
- **Russia:**
  - Re-evaluation of risks => new pipelines bypassing Ukraine
  - Withdrawal from ECT provisional application => lost interest in multilateral solutions?

# EU energy challenges = challenges for “broader energy Europe”

- “Roadmap and Energiekonzepte – Towards an Integrated Market or a Return to National Energy Policies” => within EU or within broader area?
- Too many risks & uncertainties to address them individually within any segment of the cross-border gas value chains destined for the EU =>
- “Roadmap and Energiekonzepte” => to develop jointly within “broader energy Europe”!
- At what platform? Which international organisation? What “common denominator”?

# EU Directives vs broader energy Europe



# Thank you for your attention !

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