

Comments on CEER Blueprint on Incremental Capacity – a view from major non-EU producer/supplier perspective

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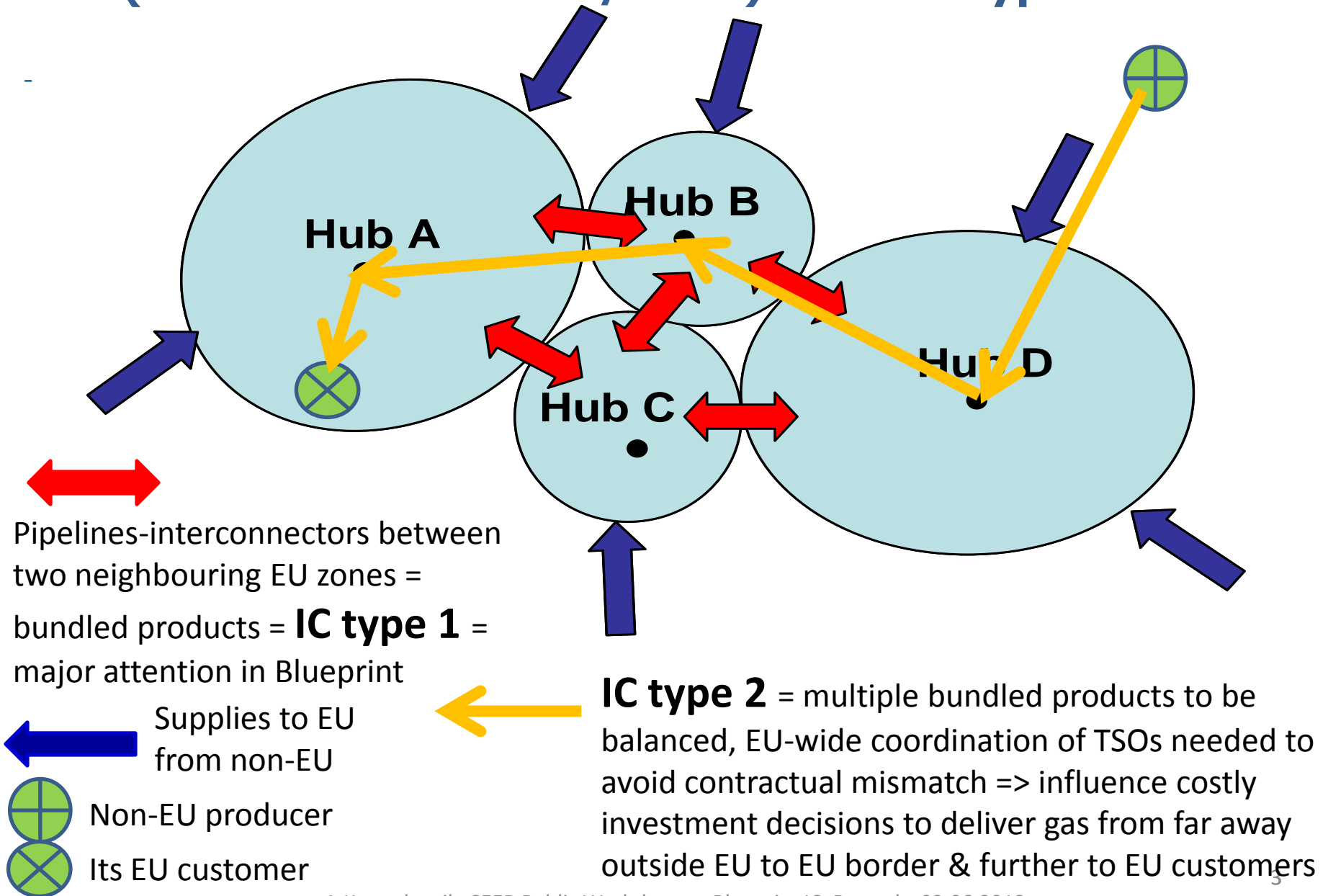
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CEER Public Workshop on Blueprint on Incremental Capacity, 03 June 2013, Brussels

CEER Blueprint on IC: positive development from perceptions to realities

- Informal experts Consultations Russia / GG vs. EU Regulators / TSOs / CEC representatives since Jan'2010 => major issues, inter alia:
 - Development of IC within EU to match term supply contracts of non-EU producers & EU customers,
 - EU-wide coordinated binding OS (shippers to book capacity) as best effective mechanism to test and satisfy market demand for capacity,
 - How to incorporate EU-wide OS into 10YNDP, etc.
- Perceptions (until recently): these issues are not (at least properly) addressed within initial set of 12FGs & 12NCs:
 - key attention in CAM NC on allocation of capacity in deficit, not at preventing capacity deficit to appear
 - High risk of contractual mismatch problem to appear – major risk for term supply contracts, especially important issue for non-EU producers who are long-distant large-scale long-term suppliers to EU, such as Russia/GG
- Reality: Blueprint responds to a major number of these issues, at least properly / adequately stating them:
 - Financial (bankability) approach to develop IC (Art.1.1, para 2 – p.7),
 - Key principles for market driven investment process (Art.2.3 – p.10-11),
 - Market-based condition to develop IC (Art.3, third bullet point – p.12), etc.
- => Blueprint: Positive development from perceptions to realities, but...

EU internal gas market architecture according to TEP (E-E zones with VTP/hubs) - & two types of IC

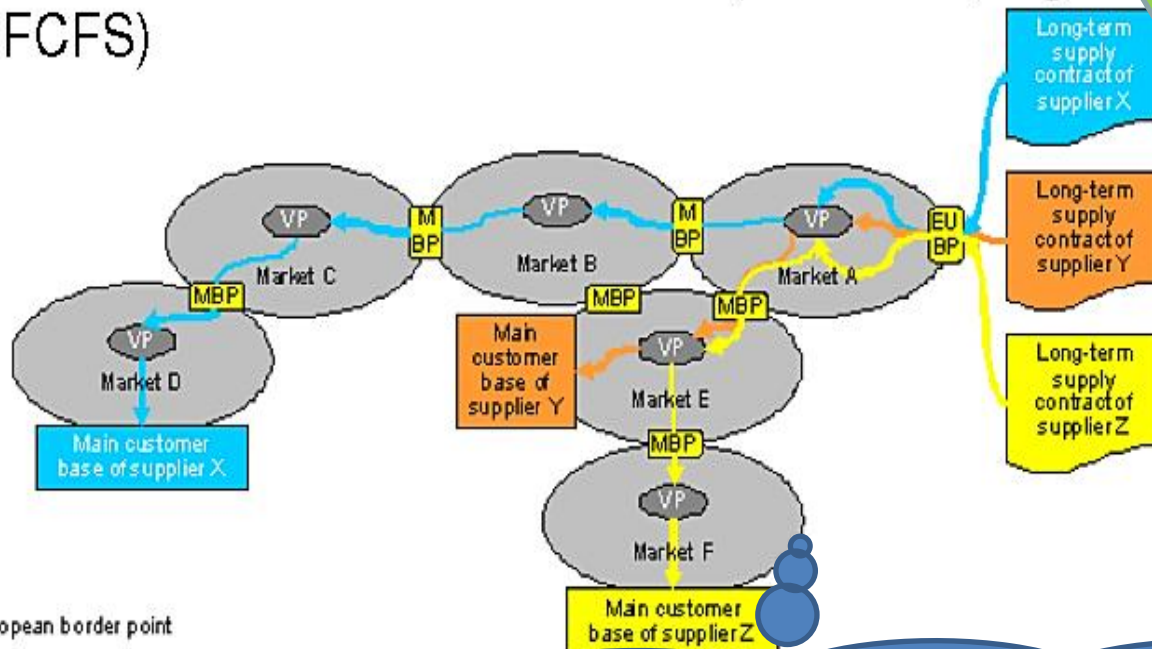


Long Distance Large Scale Capacity bookings in EU Regulatory Framework (appeared in GTM/MECO-S model, inter alia, in result of Consultations)

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

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

...whether Auctions are the best effective systemic solution?



It was agreed at Consultations, that for such complicated cases (multiple cross-border crossings based on shippers demand for capacity) – EU-wide coordinated & binding OS procedures needed

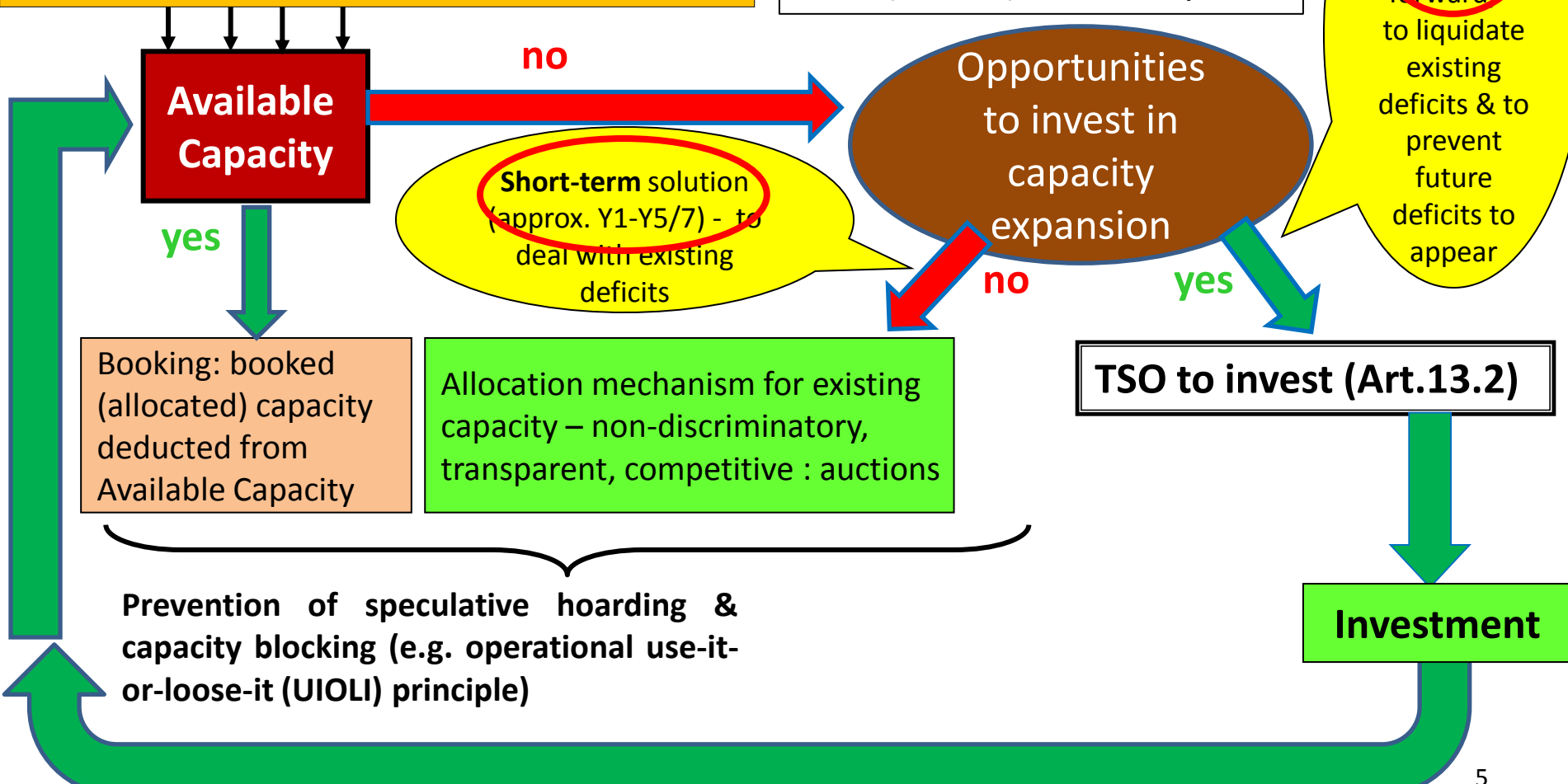
Open Season as Universal Mechanism of Long-, Medium-, and Short-Term Allocation of Capacity (*initial proposal of Russia/GG experts*)

10YNDP + CAM FG/NC + CMP FG/NC

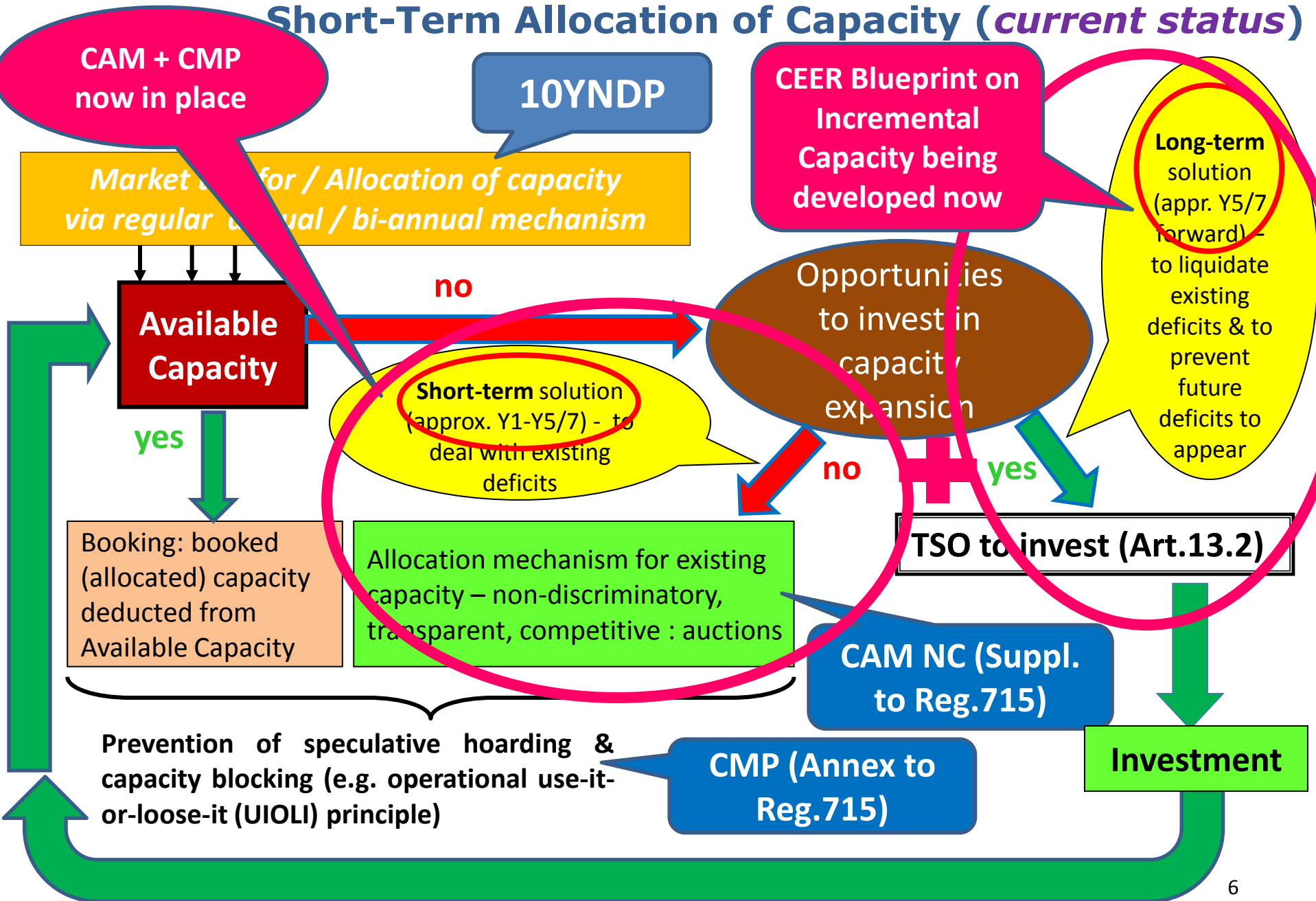
Market test for/Allocation of capacity via regular annual / bi-annual mechanism

Based on results of informal RF-EU expert consultations on Energy Charter Protocol on Transit open issues in 2004-2007 (Art.8.4): continuity

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



Open Season as Universal Mechanism of Long-, Medium-, and Short-Term Allocation of Capacity (*current status*)



Conclusions (1): Blueprint does...

- Blueprint is based on fair starting economic standpoints and declares justified economic aims
- Mechanism of developing IC (its bankability) is justified
- Blueprint's approach for development of IC: to offer IC by TSO ("supply" approach) to be allocated among the potential shippers; demand-based OS seems not to be binding
- Bundling of capacity at individual IP is helpful to prevent capacity mismatch to appear at this IP (key risk for term contracts in unbundled gas market)
- Blueprint describes development of IC within two neighbouring zones & presents a case study (numerical example – Annex 3) for such situation, but...

Conclusions (2): Blueprint does not...

- Blueprint does not examine situation when demand for IC initiated by major producer/shipper from outside of EU & backed up by term supply contract with customer within EU, esp. in a distant zone when a number of IPs (chain of zones) should be crossed =>
- The issue of coordination of bundled products between the zones in line with shipper's demand for cross-border ICs (backed by its term supply contract) is not present in Blueprint yet (EU-wide coordinated OS) =>
- Case study (in analogy to Annex 3) for a most complicated case should be helpful to make Blueprint more effective, to take into consideration options not yet analyzed in the Blueprint, to diminish risks & uncertainties of the Blueprint's draft procedures to the tolerable level =>
- Russia/GG experts proposed within Consultations/WS2 a case study on Art.13.2 ("Sweet Dream" project 😊) to complement Blueprint

Proposed case study on Art.13.2 ('Sweet Dream' Project map)



More details of this proposed case study on Art.13.2 are available from presentations at Consultations/WS2 meetings of 22.03.2013 & 29.04.2013

Some key provisions of proposed case study on Art.13.2 ('Sweet Dream' Project) to complement Blueprint on IC in full compliance with TEP rules

- It's not for project – it's for procedures
- Most difficult scenario to test => close to most complicated option among all pipeline projections available in public domain
- Full ownership unbundling (supplier is only a shipper)
- Legally binding “open season”: shipper to book capacity requested => provide collateral to TSO
- TSO “shall invest” => guaranteed return of investment, financial risks for TSO = 0 (firmly booked IC + “ship or pay” + UIOLI)
- Open questions (to be addressed in case study), inter alia:
 - Whether CAM NC provisions will apply? (20% short-term capacity reservation, 15 year-long booking, etc.),
 - MTPA above capacity volumes requested
- => Further cooperation within informal Russia/GG-EU (CEER, ENTSOG, CEC) expert Consultations/GAC WS2 will make Blueprint & its legally-binding instruments (to be developed) a more effective instrument with tolerable level of risks & uncertainties for all parties involved

Thank you for your attention

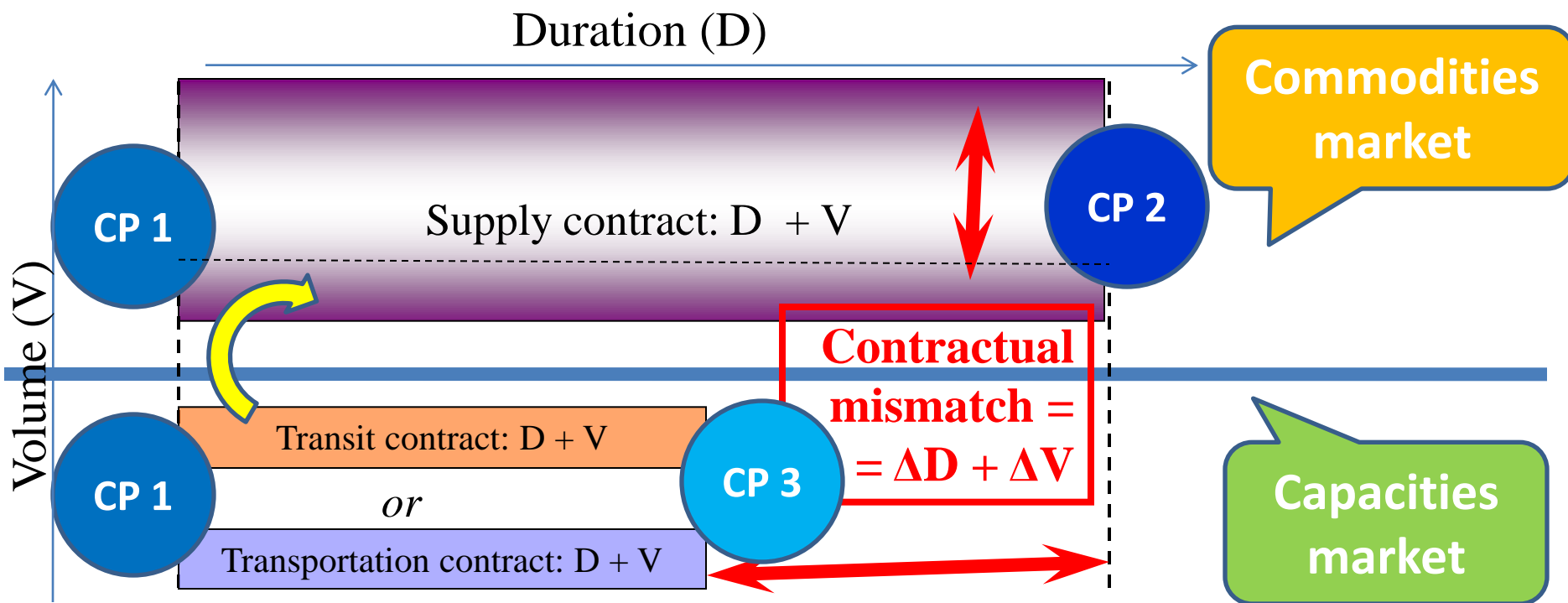
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Contractual Mismatch Problem: major risk for contract parties in unbundled gas market



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