

Informal Consultations / “Internal
Markets” Work Stream (WS2) of the
EU-Russia Gas Advisory Council (GAC)
– achievements (overview)
& selection of proposals for future work

Andrey Konoplyanik

Adviser to Director General, Gazprom export LLC,
Professor International Oil & Gas Business,
Gubkin Russian State Oil & Gas University,
RF Co-Chair WS2 GAC / RF Coordinator Informal
Consultations

Walter Boltz

Senior Adviser European Energy,
Member ACER Board of Appeal,
Former Chair ACER Gas Working Group,
EU Co-Chair WS2 GAC/Informal Consultations

Context: EU & Russia mutual dependency in gas

- Natural gas is an important
 - energy source for the EU &
 - commodity for the Russian Federation
- EU has been and will continue to stay import-dependent in gas
- Some EU Member States are heavily reliant on a single gas source or transport route
- Russian Federation is the largest supplier of natural gas to the EU and, since EU expansion in 2004, Gazprom is a largest market player in gas within the EU
- EU is a key market for Russian natural gas
- EU & Russia have been historically (since 1968) united with immobile capital-intensive cross-border energy infrastructure of pipeline gas => **mutual dependence**
- Changing architecture of the internal single EU gas market in the making (1996/98, 2003, 2009 EU Energy Packages)
- Therefore, the Russian gas industry is very much interested in discussing gas related issues with EU colleagues
 - especially of the evolving internal EU gas market which has been staying as a target market for Gazprom and where Gazprom has been an active pipe gas market player

Context: EU-Russia Informal Consultations on EU Gas Regulatory Issues & EU-Russia Gas Advisory Council

- Informal Consultations were established end-2009 (bottom-up initiative) in response to adoption of the Third EU Energy Package (TEP) in order to
 - For EU side (initiated proposal): to explain to Russian side the best endeavours and intentions of the EU regulators in regard to development of new architecture of the single internal EU gas market in the making
 - For RF side (adapted EU proposal): to translate in a constructive manner justified concerns of the Russian authorities & Gazprom voiced since late-2007 (when TEP preparation was announced by the EU) related to its negative consequences to existing models of Russian gas supplies to the EU; to learn potential benefits of TEP for new models of Russian gas supplies to the EU
 - For both side: to narrow the corridor of misunderstandings related to TEP
- The GAC was established end-2011 (top-bottom initiative) in order to
 - add value to EU-Russia Energy Dialogue (due to growing role of and attention to gas)
 - assess the developments of gas markets in the Russian Federation & the EU;
 - evaluate the development of gas production, demand & transmission;
 - evaluate the development of supply prospects & consumption;
 - discuss aspects related to market structures & infrastructure;

Consultations/"Internal Markets" Work Stream (WS2) GAC

- Informal Consultations were established end-2009 (first round **January 2010**)
 - co-chairs Mr. Walter Boltz & Mr. Alexander Medvedev (Mr. Andrey Konoplyanik - RF side coordinator)
- Work stream 2 "Internal Markets" (WS 2) was established in **October 2011** as one of three GAC Work streams (also WS1 "Forecasts & modelling", WS3 "Infrastructure")
 - WS2 co-chairs are Mr. Walter Boltz & Mr. Andrey Konoplyanik
- Meetings of WS 2/Consultations are **expert consultations** between
 - EU gas industry, energy regulators (CREG/CEER/ACER & NRAs), operators (ENTSOG & TSOs), & European Commission representatives, and
 - Russian gas industry (mostly GP/GPE & affiliates), RF Energy Ministry, SPIMEX (recently), energy research institutions (FIEF) representatives
- Discussions in the Consultations/WS2 GAC were so far following three content areas:
 - (i) EU Internal Gas Market; (ii) Russian Internal Gas Market; and (iii) Technical issues.
- The main purpose of WS 2 (also Consultations)
 - To identify and discuss with the aim to narrow the corridor of misunderstanding the sensitive regulatory issues in bilateral & (possibly) multilateral agenda important for Russia-EU gas
 - to support discussions of the GAC, but as no GAC meetings have been scheduled since end-2013, the WS 2 agenda has been broadened into other areas

Statistics regarding Consultations/"Internal Market" WS2 GAC

- 22 meetings of the "Internal Market" Work Stream (29 meetings of Informal Consultations, the predecessor of WS 2, now meetings organised on a combined basis) with approximately 30+ participants in each meeting.
- Issues being discussed in the last 6 years:
 - Status of Framework Guidelines/Network Codes
 - CAM: auctions, length of contracts, bundling, sunset clause, case study, open season/incremental auction,
 - Interoperability
 - Tariffs
 - Gas Target Model
 - Issues regarding 3rd Package provisions, e.g. entry/exit systems, legacy contracts,...
 - Status of TYNDP
 - Glossary of terms
 - Russian Gas Market developments
 - European Gas Market developments
 - Gas Pricing in general
 - New Infrastructure – exemptions
 - Security of Supply
 - Future Role of Gas in the Energy Mix
 - REMIT
 - Transit risk issues prior and post 2019
 - Specific issues regarding GPE LT capacity contacts

Different perceptions of WS from the RF and from the EC: EC perspective

- The agenda of the recent meetings has been unbalanced; focussing mostly on issues of inner EU markets
- The EC would also like to address issues on adjusting GPE capacity contracts (and possible commodity contracts as well) with EU legal requirements
- The EC would like to implement a process that assures a more balanced agenda and a systematic follow up to agreed activities

Different perceptions of WS from the RF and from the EC: RF perspective

- The agenda is generally OK since the Russian interest on the EU internal market issues
 - (i) has a clear practical purpose (Gazprom has been an active player within internal EU gas market),
 - (ii) originated from the initial agenda of Informal Consultations (TEP-related regulatory issues)
 - Not vision of “reciprocity approach” (appr. equal number of items in agenda, initiated by RF & EU parties; *Ph. Lowe*), but practical importance of the issues in the agenda for RF-EU gas relations
- WS2 Co-chairs has earlier agreed on regular monitoring of adaptation Russian legacy gas contracts to EU (supply & transportation LTC) to the changing internal EU regulatory environment =>
 - regular presentations of Russian side on these and related issues (within capacity & commodity EU markets)
- RF side considers necessary to explain to EU party its justified concerns regarding evolution of internal EU gas market architecture, whether balance of risks & rewards within the cross-border RF-EU gas value chains is not changing to the detriment of one party =>
 - attention to the EU internal market agenda since delivery points of Russian gas stays deeply within EU
- One of the key recent regular topics for WS2 was CAM NC, especially CAM NC INC & NC TAR,
 - 2010-2016 = period of EU NC’s development =>
 - New NCs crucially important for development of new transportation routes from Russia to the EU
 - which routes are the part of new Russian export strategy aimed at guaranteeing reliable stable gas supplies to the EU within unbundled EU gas markets, after expiration of the current transit contracts to the EU within existing supply LTC
- *Maybe (part of) EC concern regarding unbalanced WS2 agenda reflects diminished administrative support from EC & some other EU institutions (ACER?) to EU WS2 Co-chair with his new capacities (when his own administrative levers diminished on EU side)?*

Possible future topics: RF side proposals - general

- **Revival of Russia-EU Energy Dialogue:** Prospects, barriers, exchange of views.
- **Continue** regular discussion on key problematic issues in bilateral cooperation, continuation of the practice of incorporating Russian side representatives into EU Working groups as **Prime Movers**.
 - e.g. sparring partners for EU side with different views, based on non-EU vision within common cross-border gas value chains
 - Based on such positive experience with GTM, CAM NC INC & TAR NC & “Reality Check”
- Timely informing on initiatives and changes in Russian and EU/MSs energy legislation.
- Russian side is very interested to better understand how EU NCs are implemented on the national levels of EU MSs and related problems.
 - Such info less published, available in national languages, lack of practice to receive/clarify info from NRAs
 - This might be helpful not only for Russian side: sometime, NRAs or TSOs publish info on finalization of implementation to be formally in line with time-schedule and/or to exclude potential claims from EC. But in practice such “implementations” might not work => both parties might regularly raise national-specific issues to delete arising obstacles
 - Like is, f.i.. BG-GR ICA case

Possible future topics: RF side proposals – specific (1)

- Implementation status of the EU directive on the deployment of alternative fuels infrastructure (2014/94/EU). Member States' national policy frameworks and their realization schemes.
 - Reasoning: The application of natural gas as an alternative fuel in transport is in line with the decarbonization efforts of the EU. Nevertheless the gas fueling infrastructure (CNG & LNG) is being developed slowly and uneven. Some leading car manufactures (Fiat, Opel, VW) are trying to bring new gas vehicles into the market. The Russian side would like to understand better the envisaged measures in the Member States to promote Gas for Transport backed by the EU and identify possible areas of cooperation in building up the Eurasian network of LCNG fueling infrastructure (corridors). We would be happy to present to the European side the developments in Russia, and the Russian plans for using gas for transport and on this basis could start some dialog on points of joint interest.
- South East Europe Gas Infrastructure development plans.
 - Reasoning: The gas infrastructure in the South Eastern Europe is not well developed. The projects included in the current list of the PCI (projects of common interest) UGS as well as some pipelines do not reflect in our opinion the growing demand for the increasing gas transmission capacity if we consider the big scale projects under development (TANAP, TAP, Greek LNG, Adria LNG, Turkish Stream, etc.). As the Russian side / Gazprom being constantly criticized in some abuse of market power in this region, we would like to understand the concrete gas infrastructure development and utilization plans envisaged for the region.

Possible future topics: RF side proposals - specific (2)

(EU Regulation of supply security – potential issue)

- **Automatic access of EC & NRAs** to existing and new key supply contracts from third countries (if such volumes exceeds 28% from domestic consumption)
 - Reasoning: From the text of Regulation is not yet clear how such key contracts would be determined and on which basis (data) such percentage of annual consumption will be calculated. Agreed wording provides possibility for access to contracts for EC or NRA if they consider such contract(s) potentially damaging for national or EU security. So according to agreed wording any supply contract with third countries would be available to EU authorities for assessment. Above opening of information on supply contracts, EC might request to open any corresponding commercial agreements, such as on construction of transportation grids or UGS
- **Expansion of Regulation to Energy Community MSs**
 - Reasoning: Regulation predetermined EU intention to initiate adaptation of Energy Community Treaty to quickly integrate energy markets of the EU and Energy Community and thus to create broader (EU & non-EU) common regulatory area governed by EU energy & competition law (“export of EU energy acquis” concept). This will raise a natural chain of practical issues regarding implementation of EU law in non-EU states with gas market structures (architecture) different from key EU MSs (firstly from NWE)

Possible future topics: RF side proposals - specific (3)

- To preserve in the agenda thematic on **pricing & contract (re)structuring** for supplies to EU market
 - Based on monitoring of the trends within EU market, and
 - Evaluating broader international practice in contract structuring
- Some relevant topics:
 - Role of gas in energy balances – competition with replacement fuels within current energy policy
 - Russian gas and alternative suppliers – correlation in pricing principles within factual possibilities for gas export to the EU
 - New pricing principles: HH-based US LNG price indexation & how it will influence the (EU) market in short/medium-term
 - Availability of “volume (volumetric) flexibility” in LTC as a factor determining development of UGS industry
 - Regulation if SEE – obligations to gas sales at the exchanges, of the purchases from Regas LNG terminals, etc. – how it influence on gas price levels

Possible future topics: RF side proposals - specific (4)

- **Gas Target Model:**
 - discussion on (proposed by EU, firstly by E-Control) scenarios of merging gas markets, enlarging of market zones, forming of market model based on “satellite markets”, idea to form common internal homogenous gas market area, including Energy Community states
- Process of forming & further development of **tariff formation structure** (discussion on “**inter-TSO compensatory mechanism**” (“**Ramsey pricing**” concept)).
 - Both the topic of GTM, as well as future tariff structure, are the most debated topics within Quo Vadis project. Thus its regular discussion within Russia-EU framework is actual
- **Quo Vadis EU project:** to adequately evaluate efficiency of EU regulatory framework (NCs developed through 2010-2016 on the basis of TEP) means to agree on:
 - which particular EU gas market architecture (structure/GTM) it shall correlate with
 - exiting one (number of E-E market zones with VTP within each of them) or,
 - some new one (e.g., single internal homogenous EU gas market zone with single gas price differentiated by transportation distances from VTPs (Ramsey pricing)), or etc.?
 - What is “an optimal EU gas market architecture”?
 - For EU end-users only (within import-dependent EU in energy/gas)?
 - Or a balanced one within Broader Energy Europe (cross-border EU-oriented capital-intensive immobile gas value chains of pipeline gas within mutually dependent states within these chains)?
 - To have a balanced vision (and to achieve an adequate well-balanced result in Quo Vadis), expert debate on these & related issues is practical to continue within WS2 framework as a potential input to/benefit for Quo Vadis

Possible future topics: RF side proposals - specific (5)

- To address sensitive issues (monitoring and regular progress reports) of implementation of projects of particular interest in gas in the EU (investment- & trade-related issues)
 - Current and potential future obstacles and intention of the parties to address them
 - Projects of key investment-related importance, in particular:
 - New Northern routes: NS1 & 2 and their onshore continuation to delivery points
 - New Southern routes: TurkStream and its onshore continuation to delivery points
 - Clarification of existing misunderstandings
 - Example: Russian side has presented through recent WS2 meetings a series of interlinked presentations explaining its current assessment of the evolving risks & costs of continued gas supplies to the EU through the historical routes, and the ways of adaptation of the current routes (alternative non-transit routes & by-passes) and schemes of supplies to the internal EU market (adaptation to the evolving EU internal regulatory rules) with the aim to support highest possible security, stability, continuity, non-interruptible character of Russian gas supplies to the EU

Organizational issues

- Agenda should be formally agreed by EC & RF representatives (GAC Co-Chairs? or just by the WS2 Co-Chairs, as in the past?)
 - Proposals to be exchanged well in advance (though issues of urgent character can be added on the spot)
 - as in the past, f.i. 2 issues from the EC for 14.02.2017 WS2 meeting
 - WS2 Co-chairs to collect participants' view and make proposal
 - EC & RF representatives to agree to proposal or suggest changes
 - [EC view: GAC Co-chairs has the right to veto WS2 agenda issues]
- Each Agenda (WS2 meeting) should start with a review of (progress reports on) agreed action points
- Each action point has to be clearly assigned to one or 2 people
- List of action points and implementation/lack of implementation (conclusions on progress reports) to be included explicitly in a table in the Minutes
- Minutes continued to be placed at the agreed websites of the parties to be publicly available

- Proposal for **next WS2 meeting – 27.06.2017 (Brussels, BTB with 2nd Quo Vadis stakeholders meeting)** - where to discuss responds on these proposals of Co-Chairs

Andrey Konoplyanik

+7 985 313 8546

andrey@konoplyanik.ru

Walter Boltz

+43 664 202 23 60

walter@boltz.at