23rd round of Informal Russia-EU Consultations on EU Regulatory Topics
&
16th meeting of the EU-Russia Gas Advisory Council's
Work Stream on Internal Market Issues (WS2 GAC)

22 July 2015

E-Control Headquarters
(Rudolfplatz 13A, A 1010 Wien, Austria)

MINUTES

The agenda is attached to the minutes.

1. Greetings / Opening remarks by Co-Chairmen

Co-Chair Mr. Boltz on behalf of all Co-chairs welcomed the participants and introduced the agenda. He announced that the agenda items will be covered in a different order than set out originally.

2. On WS2 expert group for the comparison of existing and new options for creating new capacity in EU (CAM-INC, Exemptions, PCI...)

Co-Chair Mr. Konoplyanik gave a presentation outlining his thoughts on how to create new transportation capacity in the EU when the Russian-Ukrainian gas transit contract will expire in 2019. He noted that his proposals represent his personal opinion as expert.

Mr. Konoplyanik stated that the views of Russia and the EU diverge on whether Ukraine should be kept as transit option to Europe or not. He added that Russia was keen on abandoning Ukraine as a transit option as this route was deemed too risky. Thus, in his view, WS2 should start a discussion on how gas could be routed away from Ukraine in the most effective manner. He stressed that it was the sovereign right of Russia as the resource-owning state and of Gazprom as its economic agent and sole exporter by Russian gas by law to decide how to bring the gas to Europe (within the unbundled EU gas market architecture) with minimum risks to secure fulfillment of its supply contracts to the EU.

Mr. Konoplyanik further noted that possibilities to continue receiving gas revenues even without being a transit route existed for Ukraine. This could possibly be achieved if Gazprom used western Ukrainian underground storage to balance market fluctuations in close-by EU market zones (e.g. hub Baumgarten). He mentioned that such an approach could offer relief to the alleged EU concern over

Ukraine's loss of transit revenues. But this means that Gazprom shall be actively present as a trader at the EU hubs, incl. Baumgarten.

In Mr. Konoplyanik's view, there was a major problem with the current EU approach towards development of new capacity in the area in respond to "Turkish Stream" proposal as it is mainly based on capacity offers rather than demand for capacity. This was not only evident in recent publications about Turkish Stream but also in the EU's fragmented picture of planned new interconnections, reverse flows and other potential new projects in South East Europe, according to Mr. Konoplyanik, in respond to Russia/Gazprom demand for the capacity equal to 47 BCM post 2019. In his view, all these "spaghetti pipelines" are sub-economic by nature, and thus are first aimed at public EU money since they cannot be financed without it. Proposed draft Art.20(h) of the draft CAM NC INC presents the financeable way of developing new capacity based on shipper's readiness to book capacity onwards which concept was presented in Art.13.2 of the Third Gas Directive.

The presentation also included an overview of Russian gas supply contracts to be rerouted from Ukrainian transit to "Turkish stream" and their timelines beyond 2019 as an illustrative demonstration of financial security for new capacity onshore EU backed by "Turkish Stream" proposal. From Mr. Konoplyanik's view, this illustrates positive economic test for prolongation of "Turkish Stream" onshore EU if development of such capacity is based on "demand for capacity" approach.

Mr. Konoplyanik concluded that under the given circumstances a task force within WS2 should be formed to carry out a comprehensive test of the legal, economic and regulatory logic for a possible extension of Turkish stream to Europe by answering the following questions:

- How much transportation capacity of the required 47 BCMA can be created prior to 2019, if not all?
- At what time transportation capacity for delivery of all 47 BCMA from Turkish-EU border can be created, if not in 2019?
- What is the most effective procedure for developing new capacity based on a demand-for-capacity rationale among existing and draft procedures/regulations?

Besides Turkish Stream, a pilot test of Nord Stream II/its extension to EU soil could also be discussed in the proposed task force according to Mr. Konoplyanik.

Mr. Medvedev added that it was high time to think about how to make new pipeline capacity available given that by 2030 there will be additional import gas demand in the EU of ~80bcm. There is no capacity available for these volumes (neither in the form of pipelines, nor in the form of regasification facilities) according to Mr. Medvedev. He noted that not all of these volumes could be covered by LNG which is why pipeline capacity will be needed and preparations should start as soon as possible.

Mr. Medvedev pointed out that it was hard for Gazprom to understand how to operate in the absence of legislation on incremental capacity. He asked when the legislation will exist and added that Gazprom was no longer willing to go via the route of Art. 36 exemptions given the obstacles faced in the past. He added that Gazprom is ready to participate in Open Seasons and enter into ship-or-pay obligations as soon as needed. Mr. Medvedev stressed that it was crucial for the Russian side to get transport capacity for its contracts and asked how this could be made possible without the necessary legislation in place.

Mr. Boltz said that the new legislation is on its way but some more time is needed for it to be adopted. He added that the lack of legislation does, however, not prevent TSOs from cooperating already now. According to Mr. Boltz an extension of Nord Stream II should be possible on EU territory. An extension of Turkish Stream could be more difficult given that some of the countries in South Eastern Europe are not members of the EU.

Mr. Konoplyanik reiterated that a WS2 task force could help solving many of the open questions by testing whether the planned legal procedures work in practice and how these could be applied most effectively, for example, through "early implementation" procedure.

2. CAM-INC recent update

Mr. Krug gave a presentation on the current status of the CAM NC amendment. Participants were informed that the document is currently with ACER and will be handed over to the Commission in October 2015. Before its final adoption the text is due to go through comitology.

Mr. Krug explained that after the last public consultation on the amendment, ACER performed a number of substantial changes to the text in order to incorporate stakeholders' views. This new text is being publically consulted once again (17 July – 31 August).

Content wise, Mr. Krug mentioned that in the non-binding phase the proposed allocation mechanism now includes a demand assessment. This assessment is performed after the annual capacity auction is held by TSOs who collect demand indications and examine whether demand is substantial enough for a project to go forward (Art. 20a). In case a project is possible, a project design phase should follow containing a number of steps incl. determining whether an alternative to the default allocation process is needed. Once the steps have been completed, a public consultation on the proposed project design needs to be held before submission to the NRA for approval (Art. 20b). In case of projects with one interconnection point only, the default allocation mechanism is the auction (Art. 20c). However, if certain criteria are met in specific projects, there is a possibility to go straight to an alternative allocation mechanism (Art. 20d). In the binding phase, the economic tests are run on the basis of capacity requests made and results are published. Mr. Krug also made the participants aware of the fact that the NC TAR allows for "ringfencing" and fixed tariffs in bigger projects.

Mr. Krug furthermore explained that the underlying rationale is not to necessarily prioritize higher amounts of capacity but to take a set of factors into account to determine priority.

Mr. Kovacs clarified that the amendment is likely to be adopted by mid-2017 after the comitology procedure but that certain steps (particularly in the non-binding phase) can be carried out even before the amendment enters into force. Mr. Boltz stressed that early implementation was indeed a standard instrument that could also be applied here. He added that changes in the text may be possible throughout comitology. However, substantial changes are unlikely judging from today's perspective.

Mr. Konoplyanik said a WS2 task force as proposed earlier could be beneficial for the comitology process as it could make a helpful case for Member States as well. Mr. Kovac replied that the first step to be envisaged should be a reply from Gazprom to the public consultation of the amendment. Mr. Konoplyanik replied that Gazprom

3. Update on recent EU developments

New TYNDP projects in South East Europe

Mr. Lebois informed the participants that ENTSOG launched an exceptional call for new TYNDP projects in April this year following the withdrawal of South Stream. He mentioned that all projects submitted are in South East Europe and are PCI candidates (PL-UA, Eastring, Tesla, TAP-Albania-FYROM, SK-HU, Renovation of the BG system, HU-UA). Mr. Lebois further explained that these projects were put in a specific addendum to the TYNDP not in the TYNDP itself. The addendum was published on 29 June 2015. In his presentation, Mr. Lebois also touched upon demand and supply outlooks and various scenarios in relation to transit disruptions in Ukraine and Belarus. He also analyzed the consequences of cooperative and uncooperative approaches among European Member States and their effects on European gas dependence.

Mr. Konoplyanik asked whether ENTSOG had any statistics on project delays. Mr. Lebois responded that delays usually occur before the final investment decision is taken but no clear percentages or other statistics are known in this regard. The actual construction process is usually not causing project delays according to Mr. Lebois.

Mr. Konoplyanik also wanted to know how ENTSOG factored in the cancellation of South Stream. Mr. Lebois said that the gas foreseen for South Stream was distributed to existing infrastructure. Mr. Lebois added that ENTSOG's assessments did not eliminate transit through Ukraine but only diminished it.

LNG & storage public consultation

Mr. Boltz gave an overview of ongoing European security of supply initiatives. He mentioned that a public consultation on the revision of the EU Security of Supply Regulation (No 994/2010) took place recently and that another public consultation on a strategy related to European LNG & storage was currently ongoing (until end of September).

On LNG & storage, Mr. Boltz explained that a number of questions are currently examined such as how Europe could become a more attractive market for LNG, how member states could get access to LNG (especially when not located at a seashore), whether a strategic storage reserve should be introduced, if security of supply should remain a national or a European responsibility, etc.

Mr. Boltz informed WS2 that CEER is currently working on a security of supply concept paper with a special emphasis on LNG & storage. The paper contains a number of policy recommendations and will be published soon.

Mr. Boltz explained that security of supply should primarily be ensured through functioning market and price signals. Market interventions should only be an option in case of real emergencies. He added that CEER sees a big potential for LNG in Europe and that the EU has the necessary infrastructure to receive substantial volumes (~200bcm annual import capacity), however, most terminals are concentrated in western and southern European countries which are not well connected to the rest of the continent (Central Europe, Scandinavia, Baltics and South East Europe). Further interconnections in Europe would be necessary to reap the full potential. Mr. Poillion added that bottlenecks between the western and eastern half of Europe exist mainly because LNG is not always a competitive option. He agreed that more interconnections are necessary but also argued in favor of more small scale LNG facilities in the Baltics and south east Europe. Mr. Boltz explained that there are periodic price swings between pipeline gas and LNG. He noted that LNG had been very expensive for years, while prices are now significantly lower as compared to 2014. The key question in Mr. Boltz' opinion was which price differentials would justify a move towards more LNG as compared to pipeline gas. He explained that it was not always obvious at first sight which option would be cheaper. As an example, he cited that a pipeline from Spain to Bulgaria may be more expensive than building an LNG facility in Bulgaria; however, between the Netherlands and Germany the same could not be said as clearly without a detailed analysis.

At the end of his presentation, Mr. Boltz ran through some of CEER's policy recommendations and mentioned that some harmonization of security of supply measures would be helpful on an EU or at least regional level in order to ensure cooperation and solidarity in an emergency. This would need to be put into binding agreements in order to ensure enforcement.

4. EU update on EU Energy Union

Mr. Boltz presented the content of the European Commission's Energy Union Summer Package published on 15 July 2015. The presentation was circulated to the participants. He mentioned that the areas covered mainly relate to electricity and climate policies and that the package consisted of 4 different parts: 1) New electricity market design incl. public consultation 2) retail market strategy "A new deal for consumers" 3) Proposal for ETS reform 4) New Energy Labelling proposals.

After a brief outline of the individual contents of the summer package a short Q&A followed and the the meeting was concluded.

5. Concluding remarks and Next meetings

No discussion on when the next WS2 meeting will take place was held.

WALTER BOLTZ

ANDREY KONOPLYANIK

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AGENDA

Time	Items	Presenters
Morning Session **10:00 – 12:30**	**1. Greetings / Opening remarks by Co-Chairmen** **2. Update on recent EU developments:** **2.1. LNG & storage public consultation** • **Presentation of key points** • **Discussion** **2.2. New TYNDP projects in South East Europe** • **Overview and Status Quo** • **Discussion** **2.3. CAM-INC recent update**	W.Boltz, A.Medvedev/ A.Konoplyanik W.Boltz ENTSOG ACER
Lunch **12:30-13:30**		
Afternoon Session **13:30 –16:30**	**3. On WS2 expert group for the comparison of existing and new options for creating new capacity in EU (CAM-INC, Exemptions, PCI…)** **4. EU update on EU Energy Union (if time permits)** • **Overview** • **Issues of concern to the Russian side (based on list of Qs)** • **What next on the European side as far as known at the moment** • **Summer package** **5. Concluding remarks and Next meetings**	A.Konoplyanik, A.Barnes W.Boltz W.Boltz, A.Medvedev/ A.Konoplyanik