Meeting of the EU-Russia Gas Advisory Council's Work Stream on Internal Market Issues (WS2 GAC)

14 February 2017

European Commission Representation in Austria

(Wipplingerstraße 35, 1010 Vienna, Austria)

MINUTES

The agenda and list of participants are attached to the Minutes.

1. Greetings / Opening remarks

Mr. J. Wojahn, Head of the Representation of the European Commission (EC) in Austria, welcomed the participants and whished a successful meeting.

The Co-Chair of the Gas Advisory Council Mr. K.D. Borchardt thanked Mr. Wojahn and the delegation for hosting the meeting and the readiness to host future meetings. Mr. Borchardt welcomed the participants and informed that both Co-Chairs of the Gas Advisory Council, Mr. A. Yanovsky and Mr. K.D. Borchardt, wish to attend work stream meetings from time to time. He underlined that Work Stream 2 is the only still active Work Stream.

Mr. Borchardt expressed his regret that his Co-Chair Mr. Yanovsky and the Co-Chair of the Consultations, Mr. A. Medvedev, could not attend this meeting.

Mr. Borchardt informed participants that the Co-Chairs wanted to discuss and agree how to even better organise Work Stream work and cooperation even in times of difficult geopolitics. Mr. Borchardt underlines that an open discussion is important and that issues need to be solved at the beginning to avoid them to become real issues.

Furthermore, Mr. Borchardt informed that the formal Gas Advisory Council meetings are still suspended but that the informal technical consultations in this Work Stream may continue.

The GAC Work Stream 2 Co-Chairs Mr. Boltz and Mr. Konoplyanik thanked the Ambassador for hosting the meeting and welcomed the participants.

Mr. Konoplyanik thanked Mr. Borchardt for his participation in the meeting and submitted words of regret on behalf of Mr. Yanovsky and Mr. Medvedev who could not join the meeting due to force majeure. He underlined that it is not possible to exclude politics in general in energy debate on cross-border issues, but that the discussions in Work Stream 2 are as unpolitical as possible.

2. Capacity (transportation) contracts: remaining implementation problems at intra-EU IPs and at IPs between EU Member States and Energy Community Contracting Parties

Mr. Borchardt explained that the full application of EU legislation at EU-internal Interconnection Points (IPs) is of paramount importance for the achievement of the Energy Union, especially regarding the gas market itself, security of supply and the concerned countries themselves. Therefore, he welcomed the progress made so far on the open issues regarding intra-EU IPs in South-East Europe (SEE), namely Bulgaria-Romania (BG-RO) and Bulgaria-Greece (BG-GR). However, he underlined also that the European Commission cannot any longer accept (long-term) blocking of the application of the relevant legislation. Mr. Borchardt informed that he has personally addressed these issues

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with the RF Ministry for Energy as well as the Head of Gazprom Export (GPE) and that the response was positive from the Russian side.

Furthermore, he informed about progress being achieved regarding the establishment of reverse flows at the BG-GR border, which is also being used already. Mr. Borchardt underlined that this is only a first step, even though an important step, but there are still outstanding issues to be resolved. He explained that the reverse flow is still in a testing phase but he is ensured that the positive signals received will lead to a permanent solution rather soon.

Regarding the BG-RO border Mr. Borchardt explained that much more work lies ahead.

Mr. Borchardt explained the importance of the RO-UA IPs for achieving benefits for SEE out of the improvements being made on the borders in BG, RO and GR. He underlined his understanding that this border/issue is much more complicated due to the political situation, the contractual structure in place and the ongoing arbitration. He invited GPE to prepare for the time once the Stockholm arbitration court has made its ruling which is expected for May/June this year and expressed the readiness of the European Commission to discuss these issues to pave a way for a solution.

In this respect Mr. Borchardt underlined also the fact that natural gas has, at least in Europe, lost a lot of reputation not only due to greenhouse gas (GHG) emissions but also due to the geopolitical situation and security of supply issues which receive a lot of public attention. From his perspective it is of importance to remove obstacles to improve the perception of gas in order to allow it to have a suitable role in the future energy mix.

Mr. K. Kovács (EC) added that the European Commission is looking at a set of rules to ensure a stable system. For BG-GR good progress has been achieved and a first draft of the BG-GR Interconnection Agreement (IA), which is approaching the existing EU legislation (and specifically the technical market rules/network codes),) is in force, however, further work by all sides involved (TSOs and shippers) are needed to ensure that a final IA (fully compatible with EU rules) can be signed by the TSOs. He is confident that an agreement will be reached on the so-called version 2 of the IA between DESFA and Bulgartransgaz and the protocol between Bulgartransgaz and GPE for the transportation contract by the agreed (and prolonged) deadline of 1 April 2017.

Furthermore, he explained that non-EU Energy Community (EnC) countries such as Ukraine and countries in the Western Balkans will apply the EU energy acquis. Co-operation between EU and EnC National Regulatory Authorities (NRAs) to apply network codes (NC) across those borders is envisaged as most of the system interconnection points in gas (save for UA-MD and SRB-BIH) lie between the countries of the EU and EnC and not within the EnC. He underlines that he is confident that it is possible to find solutions to bring the (historic) contracts under today's framework. EU and Ukraine will have to think about possibilities and means to ensure the transit of gas through Ukraine in a contractual framework that complies with EU rules but also ensures security of transit of Russian gas. Even though, the ruling of the arbitration court (in the gas transport contract case between GP and NAK) needs to be waited for, he echoed the invitation of Mr. Borchardt to start dialogue on these issues already now. Concluding he stated that he is looking forward to the feedback of GPE colleagues.

Mr. A. Krutko (GPE) presented the history of the development of the supply contracts of GPE and the logistics portfolio of GPE in line with those supply contracts. Due to the changing market structure the contracts are undergoing almost permanent changes in the last decade. He underlined, that 2016 was a GPE record year for annual supplies and daily export records for GPE despite the geopolitical obstacles and that the Russian natural gas is attractive for European partners.

Mr. Krutko stated that the current contractual framework is well balanced and structured and that he is confident that the remaining open issues can be settled in constructive discussions. He reminded that GPE has already gained experience in adapting contracts in e.g. Germany and the Netherlands when the market was structurally changed there and that transit of Russian gas was never under risk. However, he underlined also the need to test solutions prior to setting them as permanent. Test period, according to Mr. Krutko, is the time for gaining operational experience in new circumstances (learning curve for all parties), to check on consequences, not to face commercial losses due to change of rules and to the necessity for adaptation of new rules. He explained that the contracts on the Balkan route are more complicated as the historic contracts there foresee only one supplier and, therefore, many commercial issues need to be tackled. Work on the Greek and Bulgarian sides of the borders at BG-GR interconnection point is still needed. Mr. Krutko stated that the solutions should be found soon and finalization seems to be reachable soon subject to resolving the bilateral contracting issues with the Bulgarian TSO and issues on the Greek side and that he hopes that the 1st of April 2017 deadline will be respected.

However, Mr. Krutko underlined the GPE openness of GPE to adapt the contracts at intra-EU IPs. Any change at IPs where GPE has an existing contract concerns GPE and needs to be scrutinized against the existing contractual framework. He made it also clear that Gazprom understands that the relevant changes should not affect external EU points. He underlined that Ukraine is a very sensitive issue as unilaterally taken steps will lead to numerous potential overwhelming operational difficulties and jeopardize contractual structure of the transit through Ukraine to the EU. The existing contractual structure has proved to be efficient in maintaining security of supply along the Ukrainian transit route. The existing contracts expire at the end of 2019, and before this time it is not a good idea to change the well-functioning contractual framework. If the current effectively working structure of the 10-year-long transit contract is broken, the negative effect of this can be much higher compared to unclear benefits from third party access for potential hypothetical shippers. However, discussions in any case may not be started before the ruling of the arbitration court.

Mr. Gudkov (Gazprom) highlighted that following the logic of the ruling of the European Court of Justice in case "Commission v. Slovakia" adopted in 2011, new EU energy rules should not apply to historic long-term capacity contracts as long as these contracts are covered by pre-accession international treaties with third states. In that case the European Court of Justice ruled that third party access rules as required by the EU Directive should not apply to a long-term capacity booking made by a Swiss company in a Slovakian transmission system because this booking represented an investment protected by a pre-accession investment treaty between Slovakia and Switzerland; as a result, the capacity contract in question was not required to be renegotiated. In this respect Mr. Gudkov raised a question whether the comparable approach could by analogy be adopted in relation to those GPE's historic long-term capacity contracts in the EU Member States, which fall under relevant pre-accession international treaties between respective EU Member States and Russia, so that respective investments of GPE (historic capacity rights) are also properly protected.

Mr. Kovács responded that the European Commission is absolutely confident that the rules do apply. Mr. Borchardt further explained that an individually acquired right and investments have to be protected, however, in case of new legislation rights are grandfathered. A contractual framework as basis for future contracts has to be adapted otherwise legislation would be frozen.

Mr. S. Solheim (YARA International) welcomed that a solution for BG is close, however, he stated that it is difficult to understand why this is not solved so far. He referred also to the consequences for the reputation of gas as energy source.

Mr. Konoplyanik asked why it is necessary to adapt the existing (and working) contracts in Ukraine now as they will expire 2019 anyways. He referred to "Pacta sunt servanda" principle which protects the contract until its expiration date. He also mentioned that he could have understood if there was a proposal to start working now on the new contractual post-2019 UA transit framework, non-dependent what will be the final decision on post-2019 transit of

Russian gas through Ukraine, but not the proposal to change existing contractual structure before expiration date of 2009-2019 transit contract.

Mr. Borchardt underlined that once the ruling of the Stockholm court is delivered the contracts will need to be adapted anyways. From his point of view it would be devastating to wait until 2019 and to start negotiations only then. The Bulgarian contracts are to expire only in 2030 and the Romanian are already expired (T2) or will expire in 2023 (T3).) He insisted that the legal regimes need to be brought in line. The remaining two years should be used to negotiate a new contract and to decide then whether this approach can be applied also for other IPs even prior expiry.

Mr. Konoplyanik clarified that he mentioned an option to use the natural transition period prior to 2019 for discussion on post-2019 transit framework (in line with the EU energy acquis being implemented in Ukraine as a party to EnC), even if it is not yet clear whether and for what volumes/duration such transit will be needed, if any at all, post 2019, and not to start such discussions/negotiations after 2019.

Mr. Boltz concluded that there is a lot of experience in operating intra-EU IPs under EU rules and that he is as well confident that the remaining issues can be solved soon. Everybody is aware of the difficulties and sensitivities regarding Ukrainian IPs and hope for a quick start of discussions and negotiations. He welcomed the readiness of the EC to support those discussions if needed and underlined that today we have sufficient proof that the EU gas market regime works and gas flows under the existing regime.

3. **Critical evaluation of default values for assumed GHG emissions of the natural gas supply chain (results of the study initiated by joint Russia-EU effort)**

Mr. Konoplyanik thanked the EC for their quick organizational support on this issue when it was raised by the Russian side in June 2016.

Mr. G. Müller-Syring (DBI-Gut) presented the results and main findings of the study on carbon footprint of natural gas. The results of the EXERGIA study on the carbon footprint of natural gas could be decreased by approximately 40% due to updated data and through the change of modelling of Russian supply corridors (3 instead of one) in the EXERGIA model (with support of the EXERGIA people as subcontractor to the study). Mr. Müller-Syring informed that inventory reports often overestimate emissions and are out of date once they are being published. Therefore, he recommends to change the methodology to collect the necessary data. Furthermore, he pointed to the fact that methane emissions are, beyond carbon dioxide, important and that the gas industry should consider them more.

The Co-Chairs thanked Mr. Müller-Syring for his presentation and the very interesting study. Mr. Konoplyanik highlighted that the biggest change – compared to the EXERGIA study – is now being calculated for Russia. Mr. Borchardt highlighted that this might be due to the fact that Russia did deliver outdated data for the EXERGIA study.

Mr. M. Kuhn (Gazprom-Germania) thanked the Chairs for his invitation and came back to the earlier mentioned theme of the role of natural gas in the energy system of the future and discussions about the reputation of natural gas. In this context it is important to have transparent and public available data about the environmental benefit of natural gas. In this vein, Mr. Kuhn presented two studies looking at the carbon footprint of gas: the DBI / Zukunft Erdgas study for Germany and EU Central and the NGVA / Thinkstep study for the whole EU. Mr. Kuhn explained the difference in scope and work between both studies (slide 2). He recalled that the Thinkstep/NGVA study is currently under review and that the DBI study is finalized and currently presented to stakeholders. Mr. Kuhn then put the results of the DBI Study into context, by comparing the emissions and the carbon footprint of gas with coal, showing clear advantage for gas (slide 3). He pointed to the fact, that if the EU wanted to fulfill its ambitious climate goals it would need to act swiftly on phasing out coal.

Following this brief presentation, Mr. Kuhn presented the joint proposal to the European Commission. He expressed the wish to extend and further develop the idea of the GHG emission expert group established by DG ENER C.3 to other experts from JRC DG JRC C.4 / DG JRC A.2; DG CLIMA C.4; DG CLIMA C.2; DG MOVE C.1; DG ENV C.2; DG ENV C.4. Further Mr. Kuhn expressed Gazprom's interest in harmonizing carbon footprint calculations together with relevant DGs (e.g. DG JRC).

Furthermore, Mr. Kuhn enquired about the position of the EC regarding the review of methane emissions as expressed in the Council documents and asked about the EC position regarding the G20 German presidency.

Mr. Borchardt answered that this position is not finalized yet. Furthermore, he welcomed the approach of initiating studies with transparent assumptions and methodologies to correct the image of gas. From his point of view, such an approach is required to keep gas in the energy mix. However, he highlighted that a 40% reduction will need to be very well argued, as such an impressive result might be questioned as well. He will raise the proposal of carbon footprint calculation harmonization with DG JRC. Furthermore, he stated that so far no studies on this issue are envisaged for 2017, however, that new studies or an update of the EXERGIA study might be useful.

Mr. Kuhn responded that Gazprom has since years invested in new best available techniques and infrastructure to reduce emissions, while also pointing out to existing Russian legislation[1].

Mr. Kuhn highlighted that a Council document states that the EC is working on a study which shall be finalized in 2017. Gazprom would appreciate if any such study would be prepared with the involvement of DG ENER and the GAC Work Stream 2 framework.

Mr. Borchardt clarified that the EC will not do an EC-Gazprom study on this issue. It is up to the European companies and associations to do so. Furthermore, he underlined that the EU has committed itself to the COP21 goals and made them binding within EU.

Mr. A. Gnatyuk (GPE) underlined the importance of accurate numbers for any decision and assumed that environmental policy might be tuned as there are different views at climate change issue among scientists. He noted that from his perspective it is rather the availability of energy sources and security of supply that is the central questions regarding energy.

Mr. Borchardt informed that the 'Quo Vadis' study on the future of the EU gas market regulatory framework is about to be launched and a very transparent stakeholder engagement process is planned and in fact already ongoing. Furthermore, he explained that he does not expect the need for dramatic changes to the EU regulatory framework at all. Gazprom is invited to participate in the open stakeholder engagement process. Furthermore, he informed that any input from Work Stream 2 for the study must be delivered within the envisaged timeframe. No immediate legislative proposals are to be expected from the outcome of the study. The study results will be an input for the next Commission. Furthermore, Mr. Borchardt clarified that no satellite discussions or separate workshops are called for on this issue in the frame of the Works Stream 2.

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[1] In accordance with Russian legislation, methane is not only a greenhouse gas, but also a pollutant (in other countries, including OECD countries, methane is not a pollutant). Therefore, methane emissions monitoring is carried out by legal entities and individual entrepreneurs under the state account of harmful effects on the atmosphere and the pollutant emissions inventory, the results of which are presented in the annual federal statistical data sheet № 2-TP (air). The completed forms signed by the respective management create the basis for the levying of charges for negative impact on the environment. The inventory of methane emissions is mandatory for all operating processes of the oil and gas industry. In addition, the Federal Service for Supervision of Natural Resources proves the information provided and carries out regular spot checks. Thereby transparency and completeness of the data collection in terms of methane emissions is guaranteed.

Mr. Kovács explained that the aim of the ['Quo Vadis'] study is to test whether the existing EU gas market regime is also fit for future challenges facing the EU gas sector such as declining domestic production, expiring transport contracts, etc. and whether a more integrated EU market can be achieved. He underlined that the EC sees an important role for gas also in the future. It is foreseen that the study will be finalized in October 2017. Open workshops are planned. At the next meeting of Work Stream 2 the EC may give an update on the progress of the study.

Mr. Boltz underlined the shared interest in correct data underlying any decision, especially regarding changes of the legislative or regulatory regime. Furthermore, he summarized that all participants are welcome to provide their views as for the reasons behind the picture emerging from the EXERGIA study and that now it is important to underline these reasons/factors and communicate them.

Mr. Borchardt added that he will think about possibilities to launch an update on the EXERGIA study taking into account the now submitted correct numbers for Russia.

[Due to travel arrangements and availability of speakers agenda item 4 and 5 were swapped.]

4. **Security of supply of EU gas supplies: discussion of irregular pressure levels / pressure drops of gas entering Ukrainian gas system from Russian system**

Mr. Borchardt informed that the EC is concerned about fluctuations of pressure and deviations of nominations for gas entering Ukraine at the border with Russia (Suja) as this puts a huge pressure on the Ukrainian TSO which is getting close to the limits of its technical possibilities. He asked why the technical agreement – setting out the operational conditions such as pressure levels – was unilaterally cancelled by Gazprom Export in 2015 and what the reasons for such fluctuations were? Furthermore, he asked whether it would be possible to put the technical agreement back in place again.

Mr. Krutko explained that the current transportation contract between Gazprom and Naftogaz stipulates that the Ukrainian side has to accept over-nominations up to 4.5% from the day before based on the existing contracts and highlighted that it is incentivized financially for doing so. Over-nominations beyond 4.5% could be declined by the Ukrainian TSO in case Ukrtransgaz cannot manage the corresponding fluctuations and such situations in the past did occur and were accepted by GPE. The technical agreement was terminated after the development of GPE's storage portfolio in the European countries. He admitted that it might be sometimes difficult, but that there is no need for GPE for such a technical agreement with Ukraine anymore. Regarding the issue of pressure fluctuations, he stated, that in his view the situation is exaggerated by the Ukrainian side. However, Mr. Krutko confirmed the GPE's and Gazprom's readiness to look into the matter further and is confident that the by way of involving experts from Gazprom`s dispatching department it will be possible to solve such issues.

Mr. Borchardt thanked Mr. Krutko for his willingness to solve these issues and invited Mr. J. Ingwersen (ENTSOG) to establish contacts between the relevant technical experts.

Mr. Ingwersen welcomed as well the openness for discussions and confirmed ENTSOG's readiness to involve experts to clarify the matter. He will establish the contacts.

5. **Gazprom long-term positioning on internal and external markets: current and new production basins and related transportation infrastructure development**

In his introductory remarks, Mr. A. Konoplyanik has explained his vision of the "matrix effect" for Russian gas export strategy to the EU (within unbundled EU gas market) due to the important changes in the EU-oriented Russian gas value chains. These objective changes should be considered while assessing arguments of the Russian side on the

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best effective instruments on providing continued secure and stable Russian gas supplies to the EU post-2019 while Russian long-term gas supply contracts to the EU are still in place for long. Among these challenges he has mentioned:

(1) the steady move of key Russian gas production from old (Nadym-Pur-Taz) to new (Yamal) resource basin;

(2) increases of Ukrainian transit risks and costs, both due to technical (high depreciation and low maintenance), legal (introduction of new gas market architecture due to membership in the Energy Community and resulting increase of transit tariffs due to new principles of tariffs formation), and political reasons (increasing probability of transit interruptions[2]);

(3) the resulting challenge for Russia of either modernization of historic old transportation route to the EU through Central Russia and Ukraine from Nadym-Pur-Taz (which is almost half-longer, more obsolete and more risky route) vs new construction of alternative routes, incl. direct route from Yamal through Northern Russia to Baltic Sea and through Nord streams 1 and 2 pipelines directly to the EU (Germany) (which will be a shorter, modern, non-transit route, means less costly per unit value and more secure).

Mr. D. Leonov (Gazprom) stated that Gazprom being a global energy company pays a significant attention to the trends and perspectives of the global energy markets and gas in particular. For example, long-term forecasts of demand for European market are characterized by a high degree of uncertainty unlike production forecasts.

Gazprom's strategy is based on the principle of producing natural gas in volumes determined by demand. He said that company brings new fields into production pursuing the goal of cost effectiveness achieved through expansion of gas production facilities concurrently with transmission and storage capacities.

Mr. Leonov reminded that modern development of Gazprom's production and transmission capacities is determined by a gradual shift of the main production centre from the basic fields of Nadym-Pur-Taz Region further to the North. There is an emerging demand for new gas production centres in the new regions of the country (Yamal Peninsular, Eastern Siberia, Far East), as well as for the reconstruction and further development of the United Gas Supply System (UGSS).

At present, Gazprom is implementing a number of priority gas production projects which in case of favourable economic conditions (in the next 10 years) will allow Gazprom significantly increase its gas production to more than 650 bcm per year.

He explained that in a long-term perspective the Yamal peninsular will become one of the major production centers. Total gas reserves of all 32 fields are above 26 tcm of gas. He said that it is expected that Yamal will produce up to 360 billion cubic meters of natural gas annually, and all that volumes will be delivered to the internal and external markets via Northern Corridor.

Mr. Leonov specified that Gazprom being making consistent efforts to develop the new gas production center in the North of Russia reshapes the geography of gas flows for both domestic supplies and exports. In such situations the Northern Corridor becomes fundamental to gas supplies throughout European Russia and integral to the shortest, most reliable and efficient new route for gas exports to Europe. He also mentioned that the Nord Stream is a natural continuation of the Northern Corridor of the UGSS and it is almost 2000 km shorter than Ukrainian corridor. Nord Stream in combination with Blue Stream are already playing special role in supplying European

[2] which results based on corresponding methodology and calculations were presented at the previous meeting of WS2 on 21.10.2016 in Saint-Petersbourg

region. Nowadays these two pipes account for around 35% of the total volumes of Russian gas exports transmitted towards Europe and Turkey.

Nord Stream trunk pipeline lands in the northern regions of Europe where gas infrastructure already exists but which has been designed for big amount of indigenous production. Due to the steady decline tendency of European gas production it became obvious that unsupplied gap needs to be covered from third country's sources. According to existing estimations, uncovered supply requirements of third countries' gas by 2035 solely in North-West Europe could exceed 100 bcm per year. It predetermines movement of Russian export routes from central to northern direction from the demand side.

Finally Mr. Leonov noted that at present North-West Europe does not have the appropriate infrastructure to bring from abroad on the market additional 100 bcm and that most of unused capacities of LNG regasification terminals are located in other EU regions. It is well known that gas projects life-cycle takes more than several years. In order to securitize additional gas import in 10-year period appropriate additional transportation infrastructure needs to be built right now.

Further he explained that Gazprom has also ecological (shorter distance; 5.6 times CO_2 emission reduction) as well as economic (1.5 times more cost-efficient based on current tariffs) reasons for Nord Stream 2 stemming from the fact that the pipeline will be fed from fields on the Yamal peninsula (lying much further north) as opposed to the historic Western Siberian Gazprom fields further to the south.

Mr. Kovács informed that he expects the tariffs in Ukraine to drop after 2019.

Mr. I. Gudkov (Gazprom) and Mrs. A. Zhur (GPE) explained that the Ukrainian NRA has recently stated in a press release a factor 1.5 increase of tariffs, however, no transparent methodology was published so far. Mrs. Zhur questioned whether the announced early implementation of the NC Tariffs (TAR) will take place.

Mr. Konoplyanik continued that implementation of the new tariff system based on entry-exit principle in Ukraine since early 2016 with the intended immediate application to Russian gas in transit through Ukraine, is not possible due to "pacta sunt servanda" principle. But such increase resulted from transition of Ukraine to the EU-based architecture of the gas market (Entry-Exit system) will definitely refer to Russian gas in transit through Ukraine post-2019 period if/when some amount of Russian gas will stay in transit through Ukraine for some time. This will not only mean an increase in transit tariffs compared to their current values, but, according to his knowledge, also an accelerated increase of the entry-exit tariffs at the Russian-Ukraine border with slower increase or even corresponding decline of the entry-exit tariffs at the western Ukrainian border which will refer to the reverse flows of (basically Russian) gas supplies to Ukraine from the EU (as presented in EWI, Rethinking Entry–Exit, Cologne December 2015 and in EWI/EUCERS Study, October 2016). So Mr. Konoplyanik summarized that the Russian side does not see lower tariffs to appear post-2019.

Mr. Solheim stated that he can follow the argumentation of Mr. Leonov, however, the route does of course matter for the customer and this should be considered as well.

Mr. Leonov reminded that according to the Third Energy Directive and entry-exit regime once gas entered the European gas transportation system for end-users it automatically appears everywhere and physical route is «not so a big matter» anymore even for TSOs.

Mr. R. Dickel (Energy Consulting) asked whether Gazprom intends to close some strings of the central (Russian) corridor.

Mr. Konoplyanik referred to a statement of Mr. A. Miller (CEO Gazprom) who publicly announced that all decisions are based on economic rationale and that some pipes will be closed bearing in mind redirection of the export flows from NPT and Central Russian corridor through Ukraine to the Northern corridor from Yamal to Baltic Sea, and diminishment of post-2019 transit flows through Ukraine.

Mr. Boltz asked whether it is correct that the domestic Russian market will be oversupplied for the next e.g. ten years and furthermore, he highlighted that the export capacities are limited.

Mr. Leonov explained that it is possible to think about additional export capacities, however, currently the European market is stagnating. Russia would have sufficient reserves to deliver additional gas to Europe.

Mr. A. Ischia (E-Control) asked whether shale gas is considered in the numbers of Russian gas reserves and where they are located due to the fact that it is not easy to find official statistics about that.

Mr. Leonov explained that Russia has plenty of conventional gas reserves and therefore shale gas considered as one of possible additional unconventional energy resources.

Mr. Gnatyuk noted record high volume of Gazprom deliveries to Europe in 2016 and pointed out that contrary to some industry experts' expectations LNG supply continued to be limited and terminals were significantly underutilized last year. He asked about the long term targets for EU gas demand and supply also in light of import capacities.

Mr. Boltz answered that the price (also in relation to electricity price) will decide and that he personally expects growing competition between LNG (based on its cash costs) and pipeline gas in the next five to ten years. He also mentioned in this regard the upper limit of market share (30 to 35%) based on antimonopoly limitations to competition. He paid attention that much will depend on whether gas will be used in the end-use (in households in non-electrified world) or as intermediary energy (for power generation).

Mr. Dickel stated that the EU market is in global competition for LNG and that he believes that this situation will continue.

6. Cooperation between SPIMEX & CEGH

Mr. G. Steiner (CEGH) and Mr. B. Cherniy (SPIMEX) introduced their companies and idea of cooperation which came out of the discussions in Work Stream 2. Mr. Steiner highlighted that market design and how markets are integrated as well as the physics are the key factors for the development of a successful exchange. First results of the discussions on a cooperation will be available next year and will be presented to Work Stream 2.

Mr. Cherniy explained briefly the business model of SPIMEX in Russia and described its key achievements on the Russian liberalising gas market. Mr. Steiner informed that CEGH had the best year in its history in 2016 where tremendous growth could be seen.

The Exchanges' representatives proposed to arrange 2 fact-finding seminars in Russia and in Austria during this year, and the intention to engage with that process the key gas market participants and infrastructure organizations. The advantage of a possible cooperation for CEGH would be in the knowledge gain about the upstream markets and for SPIMEX – the comprehension of how effective EU liberalised gas market might be based on the Austrian CEGH-Pegas example.

First results of the discussions on a cooperation will be available next year and will be presented to Work Stream 2.

7. REMIT: issues of reporting and of information exchange

Mr. T. Shtilkind (RF Ministry of Energy) in his presentation introduced Russian concerns regarding the REMIT Regulation and a preliminary list of open questions to European participants for subsequent discussion. One of them was whether the data set which Gazprom regularly reports to the ACER is sufficient for its participation in European Early Warning System, keeping in mind that the related invitation was made by ENTSOG last year.

Mr. Kovács explained that the Regulation stems from the experiences gained in the 2008 financial crisis. As Gazprom is active in the European market exerting a significant influence, it is important that REMIT is applied also to Gazprom and all other producers of natural gas. This also applies to Gazprom activities in Russia as that is the source of the gas being sold on the EU market. Gazprom is currently already reporting to ACER which is welcome by the EC. The EC would appreciate if this continues. Furthermore, he stated that it is also necessary that Gazprom starts providing relevant inside information as per REMIT. In case Gazprom wishes to discuss the modalities thereto with EC and/or ACER, the EC is happy to do so and Mr. Kovács will establish contacts between the relevant experts.

Mr. Konoplyanik has responded that, from his view, access to potentially sensitive to individual company commercial information, on the one hand, and participation in the development of the neutral, balanced, mutually acceptable for all participants within the cross-border gas value chain regulation at the target (EU) gas market, on the other hand, is not the same 'by definition' and might not be considered as absolutely symmetrical. Moreover, REMIT might have different effects, which should be considered, for the supplier (especially if it is an intermediary/midstream company and not a producer/upstream company) and for the exporting producer (who is facing producer/upstream risks which an intermediary company does not face). Also Mr. Konoplyanik proposed to distinguish that in the producer/exporter case REMIT will have different effects for suppliers/exporters from the individual fields directly to the market (like in the case of, say, Southern EU gas corridor which is fueled by the production of individual Azery field Shakh-Deniz-2, so relevant data on the field and reservoir risks is of key importance for the EU gas supply security) and for the supplier/exporter from the system (like in Russia where the gas from all fields is supplied to the UGSS and then part of this gas is sent to the domestic market, part to the export markets, part to UGSs; so the upstream/supply/reservoir risk is thus minimized to the absolute low values contrary to the export supplies from the individual fields).

Mr. A. Aksenov (GPE) presented the issues faced on a practical level with REMIT. In general, he pointed out that organized operational contact as well as clarity on structural issues are lacking so far.

Mr. Kovács responded that the issues raised appear legitimate and that he is confident that these can be solved quickly. He will contact ACER and DG ENER colleagues to organize a first telephone conference to discuss these issues within the next couple of weeks.

Mr. Dickel gave an overview of experiences from Norwegian gas deliveries to Germany with respect to information exchange. He explained that a comprehensive information exchange was necessary and took place based on the applicable legislation at that point of time.

Mr. Boltz summarized that it is in the interest of the buyer side to know about upcoming risks regarding delivery as soon as possible – and at the same time it is important for other market participants. Furthermore, he explained that in general insider information is understood as something unexpected compared to more stable/static information on e.g. a company's strategy.

8. **The co-chairmen signed the minutes of the previous GAC meeting on 21.10.2016**

9. **Any other business / concluding remarks / next meetings WS2 consultations**

The WS2 Co-chairmen announced that the next meeting will be held in the second half of May 2017 in Brussels (particular date will be further clarified), thanked the host of the meeting and all participants for the intensive discussion and closed the meeting.

Due to time issues it was necessary to postpone agenda item 10 – 'The drivers of European gas prices: has the pricing paradigm changed?' – to the next WS2 meeting

Co-Chair Mr. Boltz

Co-Chair Mr. Konoplyanik

AGENDA

Time	Items	Presenters
Morning Session 10:00-13:00	1. Greetings / Opening remarks	K. D. Borchardt (EC), A. Yanovsky (RF Ministry of Energy), A. Medvedev (GP), W. Boltz (EU), A. Konoplyanik (GPE)
	2. Capacity (transportation) contracts: remaining implementation problems at intra-EU IPs and at IPs between EU Member States and Energy Community Contracting Parties	
	- Presentation of the state of play of implementation of applicable rules by EC	K. Kovács (EC)
	- Presentation of Russian actions / position relative to the EU concerns	A. Krutko / V. Mazilov (GPE)
	3. Critical evaluation of default values for assumed GHG emissions of the natural gas supply chain (results of the study initiated by joint Russia-EU effort)	G. Müller-Syring (DBI)
	- Comments on the study and further joint actions proposals on carbon track	K. Romanov, D. Leonov (GP) / N. Sudarev (GP-NGV), M. Kuhn (GP-Germania)
	4. Gazprom long-term positioning on internal and external markets: current and new production basins and related transportation infrastructure development:	
	- Preamble	A. Konoplyanik (GPE)
	- Presentation	N. Kislenko / D. Leonov (GP)
Sandwich Lunch 13:00-13:30 (at the premises of European Commission Representation in Austria)		
Afternoon Session 13:30-16:30	5. Security of supply of EU gas supplies: discussion of irregular pressure levels / pressure drops of gas entering Ukrainian gas system from Russian system:	
	- EC concerns,	K. Kovács (EC)
	- Russian reaction / comments	A. Krutko / V. Mazilov (GPE) (tbd)
	6. Cooperation between SPIMEX & CEGH	G. Steiner (CEGH), A. Rybnikov / A. Karpov (SPIMEX)
	7. REMIT: issues of reporting and of information exchange:	
	- Russian view (part 1)	T. Shtilkind (Ministry of Energy), A. Aksenov (GPE)
	- EC reaction	K. Kovács (EC)
	- Exchange of information: historical experience from Norwegian gas deliveries to Germany.	R. Dickel (Energy Consulting / OIES)
	8. Signing of the minutes of the 28th round of Consultations / 21st WS2 GAC meeting as of 21.10.2016	W. Boltz (EU), A. Konoplyanik (GPE)
	9. Any other business / concluding remarks / next meetings WS2 consultations	A. Yanovsky (RF Ministry of Energy), K.D. Borchardt (EC), W. Boltz (EU), A. Medvedev (GP), A. Konoplyanik (GPE)

	<u>*The following item will only be covered if time permits, otherwise it will be shifted to the next meeting:*</u> *10. The drivers of European gas prices: has the pricing paradigm changed? - Russian view*	*A. Gnatyuk (GPE)*

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List of participants

Last Name	First Name	Organisation	Function
Russian/Gazprom Group side			
Aksenov	Artem	Gazprom Export	
Cherniy	Boris	Saint-Petersburg International Merchandise Exchange (SPIMEX)	
Feygin	Vladimir	Foundation "Institute for Energy & Finance"	Co-speaker GAC from Russian side
Gnatyuk	Alexey	Gazprom Export	
Gudkov	Ivan	Gazprom	
Kochevrin	Ilya	Gazprom Export	
Konoplyanik	Andrey	Gazprom Export/Russian State Gubkin Oil & Gas University	Co-head of WS 2 GAC/Coordinator of Consultations from Russian side
Krutko	Andrey	Gazprom Export	
Kuhn	Maximilian	Gazprom Germania	
Leonov	Denis	Gazprom	
Mazilov	Vladimir	Gazprom Export	
Nemtsova	Anna	Gazprom Export	
Orlova	Ekaterina	Foundation "Institute for Energy & Finance"	
Petchenko	Maxim	Gazprom Export	
Shtilkind	Theodore	Ministry of Energy/Russian Energy Agency	Co-head of WS 3 GAC from Russian side
Sudarev	Nikolay	Gazprom NGV	
Zhur	Anna	Gazprom Export	
EU side			
Boltz	Walter	Boltz	Co-chair WS2/Consultations
Borchardt	Klaus-Dieter	European Commission	Co-chair GAC
Dickel	Ralf	Energy Consulting	
Governatori	Matteo	European Commission	
Hartmann	Reiner	Uniper Global Commodities SE	
Ingwersen	Jan	ENTSOG	
Ischia	Alessandro	E-Control	
Kovacs	Kristof	European Commission	
Müller-Syring	Gert	DBI Gas- und Umwelttechnik GmbH	Consultant, Presenter on the study prepared by joint RF-EU initiative
Poillion	Christophe	GRTgaz	
Sedlacek	Milan	Eustream	
Solheim	Steinar	YARA International	
Steiner	Gottfried	CEGH	
Vitovsky	Jan	ENTSOG	
Wernig	Kerstin	Boltz	
Wojahn	Jörg	European Commission	Head of EU Representation in Austria

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