



E-CONTROL



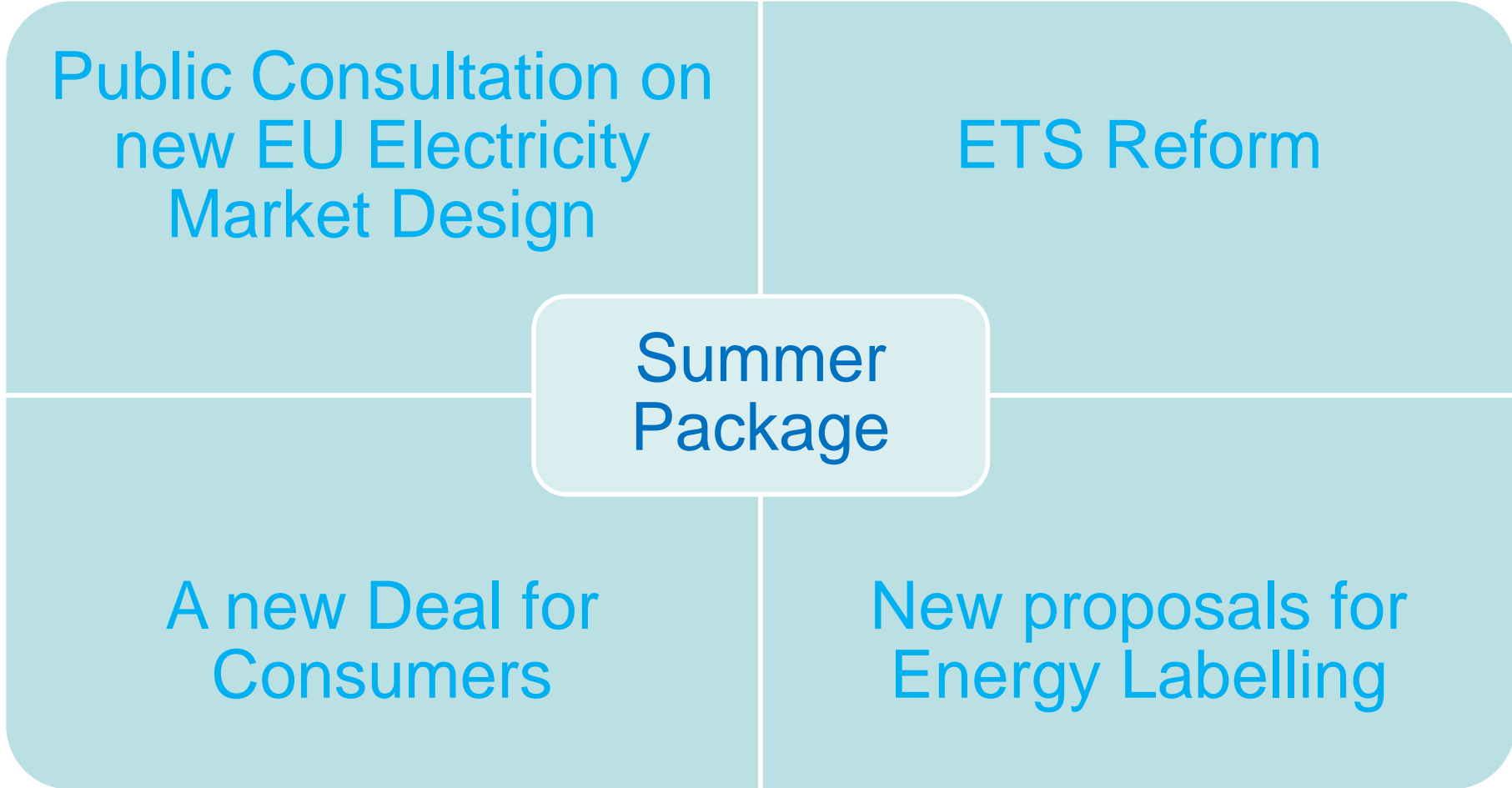
**Energy Union
Walter Boltz**

EU Russia Dialog, 30.11.2015

Recap of Energy Union Dimensions

- Supply Security
- A fully integrated internal energy market
- Energy Efficiency
- Emissions reduction
- Research and Innovation

Energy Union Summer Package Content



EC published „State of the Energy Union“ in November 2015 – gas specific topics (1)



E-CONTROL

A fully-integrated internal Energy market

- **Progress in developing the Gas network:**
 - LNG terminal in Lithuania brought supply diversification to the Baltic states
 - Interconnector between Poland and Lithuania will put an end on isolation of the Baltic states
 - Interconnector between Hungary and Slovakia
 - High Level Groups for gas interconnectivity
 - Central East South Europe Gas Connectivity
- **Way forward**
 - PCI need an urgent political push
 - More than a quarter face delays
 - Fully implementation of the provisions in the TEN-E Regulation, in particular those related to permit granting
 - Continued strict enforcement of competition rules
 - Ensuring that markets are not partitioned by artificially restricting the use of existing capacity

EC published „State of the Energy Union“ in November 2015 – gas specific topics (2)



E-CONTROL

Energy Security, Solidarity and Trust

- **Progress made**
 - Conclusions on the energy diplomacy and action plan
 - Increased capacity for reverse flows
 - Support of the reform process in the Energy community
 - International Energy Charta co-signed by EU Commission in May 2015
- **Way forward**
 - Developing the energy diplomacy action plan
 - Important to strengthen regional cooperation between Member States
 - Developing strategy for LNG and storage
 - Proposal for revision of the current Decision on intergovernmental agreements
 - Promoting cooperation on regional level (e.g. CESEC)

Upcoming Energy Union Gas Initiatives



„Winter package“ to be published by the EC in February 2016

Revision of
SoS
Regulation

LNG and
Storage
Strategy

Review of
Decision on
information
exchange
mechanisms -
IGAs

+

Various External Energy Policy Initiatives throughout the year₆

Energy Union Questionnaire for WS2 from Gazprom



Questionnaire by Gazprom on specific Energy Union aspects well received

EU side conclusion:

- GP has a number of legitimate questions
- However, many of them cannot be answered at this stage as work is still very much in progress

Proposal:

- EU side to deliver answers as they become available through stepwise integration of relevant topics in the regular WS2 agenda

Questions of the Russian side in respect of the Energy Union Package (1)



- The Framework strategy contemplates creation of European Fund for Strategic Investments. What is added value of this instrument as compared with the existing ones (including recently created Connecting Europe Facility)?
- The Framework strategy contemplates “options for voluntarily demand aggregation mechanisms for collective purchase of gas during a crisis and where Member States are dependant on a single supplier” and recognizes that these options shall comply with WTO rules and EU competition rules.
 - May these options apply only to new gas supply contracts?
Whether there is practice available of demand aggregation mechanisms for collective purchase of energy (except for Euratom)?
 - Whether collective purchase of gas in your view may trigger collective marketing of gas?

Questions of the Russian side in respect of the Energy Union Package (2)



- The Framework strategy recognizes “Ukraine’s importance as a transit country”. Does it mean that the EU:
 - is interested in preserving existing transit role of Ukraine? ???
 - is willing to share risks associated with transit through Ukrainian territory? ???
- (Info) Gazprom now claims that it will cease all trans-Ukrainian gas exports when its contract with Kiev ends in 2019.
 - is not willing to promote projects aimed at diversification of transit routes through by-passing Ukraine?
EU supports different projects within the PCI process
 - disagrees that it is the sovereign right for the sovereign resource-owning exporting state to define/decide which transit route to the target market is less/least risky compared to other(s)?
And if such exporting state decides to use some other route, compared to the preferential one of existing transit state(s) and/or destination state(s), this justified choice of resource-owning state shall be respected, especially since it provides financial security for construction of new capacity (in unbundled gas markets) by advanced booking of not-yet-existing capacity by transit (cross-border transportation) contracts needed to ensure fulfillment of supply contracts of resource owner (or its agent).
UN resolution 1803 (XVII): Permanent sovereignty over natural resources; Russia should (and have the right to) choose the transport routes for exporting its gas.

Questions of the Russian side in respect of the Energy Union Package (3)

- The Framework strategy foresees that the Commission shall be informed by Member States about negotiations of new intergovernmental energy agreements before they are concluded in order to monitor their compliance with EU rules and “security of supply criteria”. Three questions in this regard:
 - Previously the Member States rejected to give such right to the Commission. How do you assess the chances that such right will be granted now? What new arguments have appeared in favour of such request since last (unsuccessful) attempt?
 - What is meant by “security of supply criteria” (is it currently defined; if yes – where is it defined; if no – who defines it and on the basis of what act)?
 - Intergovernmental energy agreements with third parties mostly mean such agreements between energy-importing EU states and energy-exporting non-EU states. The latter have “security of demand” as energy security criteria more important for any exporter compared to “security of supply” which is more important for importer. To find the balance of interests (optimal solution) in such bilateral deal both criteria shall be taken into consideration in the energy interdependent world, especially if such interdependence is based on fixed immobile capital-intensive infrastructure with long life-cycles. Why Framework strategy is not aimed from the very beginning at finding optimal balanced solution (is not taking into consideration justified exporter’s concerns in regard of “security off demand”) while it is agreed that EU will stay as energy import-dependent state?

Questions of the Russian side in respect of the Energy Union Package (4)



- The Framework strategy foresees increase of transparency of commercial gas supply contracts (while preserving confidentiality of sensitive information).
 - Why this increase of transparency is needed given that there are already a number of EU acts (including REMIT) which impose strict and broad reporting requirements in respect of gas supplies?
 - What new transparency requirements are foreseen (as compared to those already established, in particular by REMIT)?
- The Framework strategy foresees preparation a comprehensive strategy for LNG and its storage.
 - How the main new initiatives on transparency on gas supply (IGAs and commercial GSAs) as well as on voluntary demand aggregation mechanism for collective purchasing of gas will be reflected in the comprehensive strategy for LNG?
 - What type of mechanism is envisaged for overcoming the market driven low utilization rate of the European regas facilities in order to establish functional LNG storage and/or emergency back up.

Questions of the Russian side in respect of the Energy Union Package (5)



- In the Framework strategy it is mentioned that “the Commission will also work to remove obstacles to LNG imports from the US and other LNG producers”. Could you please clarify what kind of obstacles does the Commission refer to?
- The Framework strategy proposes the creation of “Regional operational centers” which shall effectively plan and manage cross-border electricity and gas flows. Could the Commission elaborate on what is the idea of such centers and wouldn't it duplicate functions of the ENTSOG/E?
- The Framework strategy is fixing that the “EU-wide regulation of the single market should be strengthened, through a significant reinforcement of the powers and independence of ACER to carry out regulatory functions at the European level”. Please specify what kind of powers and competences are planned to be introduced?
- According to the framework strategy it is mentioned that “as part of a revitalised European energy and climate diplomacy, the EU will use all its foreign policy instruments to establish strategic energy partnerships with increasingly important producing and transit countries or regions such as Algeria and Turkey; Azerbaijan and Turkmenistan; the Middle East; Africa and other potential suppliers”. Please specify what kind of “foreign policy instruments” can it be?

Questions of the Russian side in respect of the Energy Union Package (6)



- The only direct reference to Russia in the text is “[w]hen the conditions are right, the EU will consider reframing the energy relationship with Russia based on a level playing field in terms of market opening, fair competition, environmental protection and safety, for the mutual benefit of both sides.”
Three questions in this regard:
 - Is Russia still considered by EU as strategy partner? What does such “reframing” means?
 - Don’t you think that to put Russia, which covers a third of EU gas consumption, in the end of the list of EU partners, with a questionable remark that EU will “consider reframing the energy relationship with Russia”, means to provide a clear signal to the outside world that EU would like to move away from Russian gas, that EU would not like Russian gas anymore, that EU thus presenting its new political aim that Russia is the least welcome EU supplier?
 - What do you think is meant under “level playing field” and “fair competition” in this particular regard?

Questions of the Russian side in respect of the Energy Union Package (7)



- On Security/Diversification of Supply issues:
 - The paper talks about the possibility of having option type contracts for the supply of LNG in an emergency. Does the EU have similar thoughts in mind for pipeline gas contracts?
 - What does the EU envisage the proposed LNG strategy covering?
Where does the EU see the line between continuing to have market-based measures during an emergency, and moving to “command & control” measures? Is Value of Loss Load going to be implemented?
 - What type of storage obligations, if any, does the EU envisage imposing on gas suppliers who rely on imported gas?
 - Is the EU considering Capacity payments to storage facilities to keep them open even if the spreads do not justify them?
 - Increased interconnections will increase the asset bases of TSOs but gas usage is forecast to increase. Is the EU concerned about the resultant stranded asset problem and how will this impact gas capacity tariffs?
 - The paper says that "...the necessary infrastructure must also be in place inside the EU, including the possibility of reverse flows, to bring the gas to where it is needed". The question is: how could the reverse flows be sent to the pipeline when the capacities are reserved at 100%, but are not used completely? In case the capacities temporarily could not be used at a full rate, how these capacities could be put on sale?

Questions of the Russian side in respect of the Energy Union Package (8)



- On Climate Change issues:
 - How does the EU view the role of gas in the energy mix during the next 30 years, in particular compared to coal?
 - Gas will likely be needed as a back-up fuel for renewables for many years. But decreased gas burn in power generation has made CCGT's uneconomic and will increase the unit cost of gas transportation, as utilization rates of gas pipelines decrease. What impact does the EU see this having on gas demand in the EU?
- On Electricity market issues:
 - The paper talks about a fundamental redesign of the electricity market. What will be the main features of the redesign and how will it affect gas fired power generation?



E-CONTROL

Contact

DI Walter Boltz



+ 43 1 24 7 24 201



walter.boltz@e-control.at



www.e-control.at