8th EU-Russia Gas Advisory Council Meeting

Moscow, 19 November 2013

Work Stream 2

Internal Market: Progress report since 7th GAC

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Outline

Status and Overview of Current WS2 Activities

Progress Made Since last GAC in June 2013

Major Conclusions (GAC Co-Speakers 6 Qs List) & Next Steps

Status and Overview of Current WS2 Activities

Status Update since last GAC in June 2013

Subject Area	Status
Incremental & New Capacity Case Study	Input submitted to ACER as agreed in SPB, ACER Guidelines discussed Nov'07
Framework Guidelines and Network Codes	Regular Updates; cont'd debate on Tariffs Guidelines in relation to New Capacity dev't
Future of Delivery Points	Discussion closed; mutual agreement reached both on existing & new contracts
Russian Pipeline Access Regime	One full-day information round (Sept'11, SPB) based on EU list of 42 Qs
Glossary of Gas Market Terms	Ongoing; to be restructured (?)

Progress Made Since Last GAC in June 2013

Incremental & New Capacity Case Study

Background

- Discussion on CEER work on Incremental Capacity ongoing since beginning 2013: ***Incremental*** vs ***New***
- Key question raised in this respect: which regulatory procedures are needed to develop ***New*** capacity ***without*** exemption from the 3rd Package if the market requires it (see: 3rd Gas Directive, Art 13.2):
  - "Each transmission system operator ***shall*** build sufficient cross-border capacity to integrate European transmission infrastructure accommodating *all economically reasonable and technically feasible demands for capacity* and taking into account security of gas supply".
- 7th GAC Meeting (June): Decision to examine this question through a case study by small WG

Rationale for Case Study

- Rules in Network Code CAM insufficient to accommodate large new pipeline projects

- Case Study to run test on what is needed and in which way => **GOAL:**

  - **To develop jointly option/procedure best effective for new capacity (incl. of cross-border EU/non-EU character) => GAC as best effective format for this**

  - **Timely provision of Case Study results to ACER => to contribute to ongoing CAM NC amendment process**

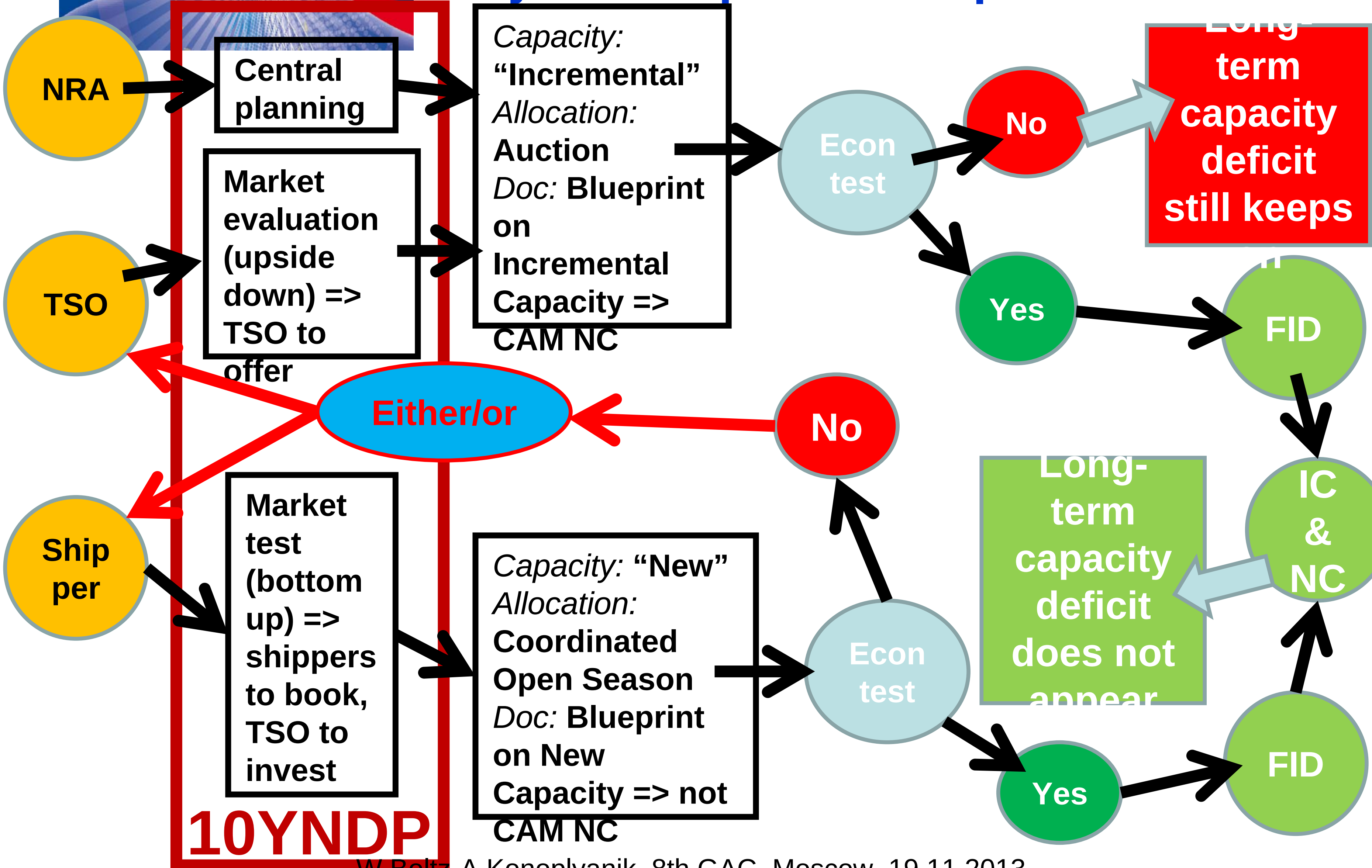
What happened so far

- Establishment of Case Study Task Force (EC, ENTSOG, CEER/ACER, RF/Gazprom Group)
- 5 Telcos & 3 Workshops dedicated to Case Study
- Production of ‘Coordinated Open Season Procedure Strawman’ Paper (early Sept.)
- WS2 meeting, SPB 10.09.13: Full-day discussion of key issues/preparation of RF/Gazprom input to ACER public consultation on Incremental (*and New*) Capacity/amendment CAM NC
- Discussion of first EU feedback (ACER Telco 07.11)

Overview ‘COS-Strawman‘ Paper

- Outlines proposal for COS procedure to enable *new* capacity demanded by the shipper across a chain of several E/E zones
- Describes 5 phases until final investment decision
  - Phase 1: identification of need for new capacity *(market test)*
  - Phase 2: preliminary open season phase *(market test)*
  - Phase 3: initial project scoping phase *(economic test)*
  - Phase 4: final open season phase *(economic test)*
  - Phase 5: final investment decision

How CAM NC and COS procedure can come together (Graph on Strawman provided by RF/Gazprom Group for WS2 in SPB)



Some key Issues Discussed (detailed description in WS2 SPB presentations circulated to GAC members)

1	CAM NC auction for incremental vs. open season for new capacity
2	Shipper’s NPV and/or other criteria in economic test
3	Up/down-sizing of project design – producer limitations
4	Capacity mismatch of two types (at individual IPs & between IPs through the route) & TSO’s cross-border coordination
5	F-factor (cost coverage, socialization of costs, who decide, financeability)
6	10% quota regarding new capacity for future short-term trade (acc. to CAM NC approach) & its influence of financeability
7	Project promoter participation in financing & project management support (implementation of ownership unbundling principle); possibility for newly established (incl. cross-border) ITSO & its relations with companies affiliated with shippers prior to start of operation of new built capacity,
8	Cross-border issues (coordination between corresponding TSOs at IPs through the route)/coordinated Open Seasons
9	Tariff issues for new capacity (financeability)

ACER Guidance to ENTSOG for CAM amendment (in preparation, draft of 04.11, discussed 07.11/Telco)

- …define in CAM NC **when an offer of incremental or new capacity shall be made** at least
- …clarify that close **cross-border co-ordination** between TSOs and NRAs is required and on which subjects at least
- …define **minimum information to be provided to the market** including economic test parameters
- …reiterate **principles**: non-discrimination, transparency, bundling, short term quota
- …test and consult **how best to integrate incremental capacity into CAM NC algorithm** and draft detailed provisions accordingly
- …clarify that **Open Season procedures are still possible** where integration into CAM NC allocation is impractical and to lift some GGPOS principles. Conditional bids / bid revisions possible.

ACER Guidelines for ENTSOG: major points raised at Telco 07.11 by RF/GG (1)

- Distinction: market test vs economic test (p.2)
- Economic viability vs efficiency of execution of investment within regulatory regime (p.2)
- Identification by ENTSOG of “physical capacity gap in… a reasonable peak demand scenario” in TYNDP (p.3)
- “A failure *(by TSO?)* to test *(market demand?)* incremental or new capacity… is deemed to be in breach of… Reg.715” (p.3)
- Approval by the NRA - *before an offer of IC or NC for binding commitment -* of the level of network users commitment that should be necessary to enable investment from economic perspective (p.4) *(F-factor: decision by NRA or by market participants: TSOs, shippers & financiers?)*

ACER Guidelines for ENTSOG major points raised at Telco 07.11 by RF/GG (2)

- Reference to applicable tariffs & methodology published by TSOs (p.4,5) *(but financeability due to economic difference: system-based (trade/existing capacities) vs project-based (investment/new capacity) tariffs)*
- ENTSOG is requested to develop… amendment to CAM NC …keeping the integrity of the ascending clock algorithm (p.5) *(but: non-financeable for new capacity, contradicts to COS)*
- Willingness-to-pay (p.5,6) *(vs readiness-to-pay: RTP = WTP x regulatory-created risk)*
- Decision to use OS is subject to NRA approval (p.6) *(market participants takes investment risk vs NRA takes decision)*
- *(To add section on financeability requirements ?)*

Next Steps

- ACER to table final incremental & new capacity guidance paper by end November (for submission to ENTSOG)
  - *A number of RF/GG proposals contained in Strawman of 17.09.17 were covered*
  - *Whether above-mentioned RF/GG comments as of 07.11 will be addressed?*
- ENTSOG to prepare amendment to CAM NC

What practical effect of Strawman / COS for currently yet to be developed projects?

General COS procedure based on Art.13.2 3rd Gas Directive (Blueprint on Incr. & New Cap., Strawman, ACER Guideance to ENTSOG, …) – future projects

2017 ?

Non-contradictory dev't though within corridor of flexibility both can differ

SS Special case COS-based procedure since interim period (in case other options fail)

Grandfather clause to cover time-gap?

SS-special interim solution?

Full compliance with EU acquis, corridor of flexibility within TEP rules

Special case: South Stream, onshore EU

RF-EU MSs bilateral IGAs: "no go" for EU, unlikely

RF-EU bilateral agreement on PMI: "a long & winding road", unlikely that EU deviates from acquis & RF adopts acquis

Art.36 derogation: not desirable for RF/GG (OPAL negative precedent) & not possible (SS construction started)

2013-2015?

Deviations from EU acquis

Framework Guidelines and Network Codes

Framework Guidelines and Network Codes

- Regular updates on current status of framework guidelines and network codes
  - scope of FGs/NCs
  - explanation of content
  - possibility to raise concerns
  - timing
  - next steps

Framework Guidelines and Network Codes (points for further discussion – RF/GG vision)

- Regular updates provided particularly on
  - CAM NC:
    - Allocation of *existing* capacity (auctions)
    - Allocation of *incremental* capacity (auctions)
    - Allocation of *new* capacity (COS)
  - Tariffs FG:
    - Tariffs for operating *existing* systems & developing *incremental* capacity (**system-based** tariff methodology)
    - Tariffs for development *new* capacity (**project-based** tariff methodology: project ring-fencing through pay-back period)

Future of Delivery Points

EU MSs and Delivery Points in existing & new contracts (1)

- EU-level rules (CAM NC) do not foresee mandatory bundling of capacity in existing transmission contracts (contrary to new capacity contracts)
- Consequently flange delivery points for existing contracts may continue to exist
- Upon request from the Russian side, the EU side obtained confirmation from NRAs in a number of Member States that no national provisions exist that indicate a move of delivery points in existing gas contracts from the flange to the virtual point
- The discussion on this issue can be considered closed with mutually satisfactory results

EU MSs and Delivery Points in existing & new contracts (2)

- Existing capacity contracts:
  - Delivery points at country border/flange can exist until their expiration date or mutual decisions of contract parties to move delivery point to hub before existing contract expires
- New capacity contracts:
  - Delivery points at zone/area border (E-E points) can not exist any more (capacity bundling)
  - New capacity contracts can be delivered at hub and/or at physical delivery point within this zone

Russian Pipeline Access Regime

What happend so far

- GAC Meeting January 2013:
  - Members endorse information exchange on Russian gas market issues (see Conclusions para 5-6)
- WS2 meeting January 2013:
  - Topic was briefly introduced through presentation on the main characteristics of the Gazprom-owned Unified Gas Supply System (UGSS)
- WS2 meeting September 2013:
  - First detailed full-day discussion based on the list of 42 detailed Qs provided by EU side at invitation of RUS side

Ongoing Discussion

- The European side produced a detailed list of questions for the Russian side covering the following subject areas:
  - Overall context / basic market characteristics, criteria for network access, tariffs, capacity allocation, access to end-consumers, gas exports
- The Russian side provided answers to a selected number of questions at the last meeting

Legal Basics

- EU side was informed about main actors in the Russian gas market, relevant state authorities and their responsibilities
- Pipeline owner is obliged to grant TPA if there is spare capacity in the system
- Definition of spare capacity is defined in the law
- TPA since 1997 in Russia
- In case access is denied, concerned parties can appeal

Access Criteria/Procedures

- EU side was given an overview on required documents, data and application deadlines for TPA
- Contracts are concluded in calendar, not in gas years
- No pipelines in Russia are exclusively reserved for the use of Gazprom
- Main reasons for denial of acces: 1) lack of spare capacity; 2) applicants ask for more capacity than they can produce/have in stock
- Novatek, Rosneft and Novyj Urengoi Gas Company are the major independent producers in Russia

Tariffs

- Federal Tariff Service is responsible for setting tariffs in Russia
- EU side was given an overview on tariff elements
- Calculcation on the basis of zone to zone tariffs
- Some issues regarding the tariff methodology still needs further clarification/explanation to EU side

Gas imports to Russia

- Central Asian gas coming to Russia is further transported to Europe via Gazprom Export contracts
- Gas flows coming from Central Asia into Russia are not considered imports as they do not cross an ‚economic border‘ given the customs agreements in place

Glossary of Gas Market Terms

Glossary of Gas Market Terms

- Living reference document with explanations/definitions of common gas market terms
- WS 2 chairs decided to establish a small task force to continue work on this document based on a “necessity” (case by case) approach

Major Conclusions (GAC Co-Speakers 6 Qs List) & Next Steps

WS2 & GAC Co-Speakers 6 Qs List: Conclusion

- Q1: settled for mutual satisfaction
- Q2: *… (???)*
- *Q3: to be dealt within WS3*
- Q4: to be further dealt within Case Study Task Force
- Q5: to be further dealt within Case Study Task Force
- *Q6: to be dealt within WS3*

Further Actions

- The activities planned for 2013 were largely fulfilled
- WS2 Co-Chairs working proposal for further actions: to concentrate on Case Study/CAM NC amendement (COS/new capacity still open issues)
  - Case Study Task Force to be continued:
    - Workshop on **financeability** (NPV-test, WTP vs RDP, F-factor, system-based vs project-based tariffs, non-discriminatory booking of existing vs new capacity, etc.)
    - Workshop on **TSO cross-border coordination** (ITSO, ring-fencing of cross-border ITSO, ITSO vs project promoters/shippers, prevention of 2 types contractual mismatches, etc.)

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