



Basics of Russian Gas Market Legal Regulation



Saint Petersburg, September, 11, 2013

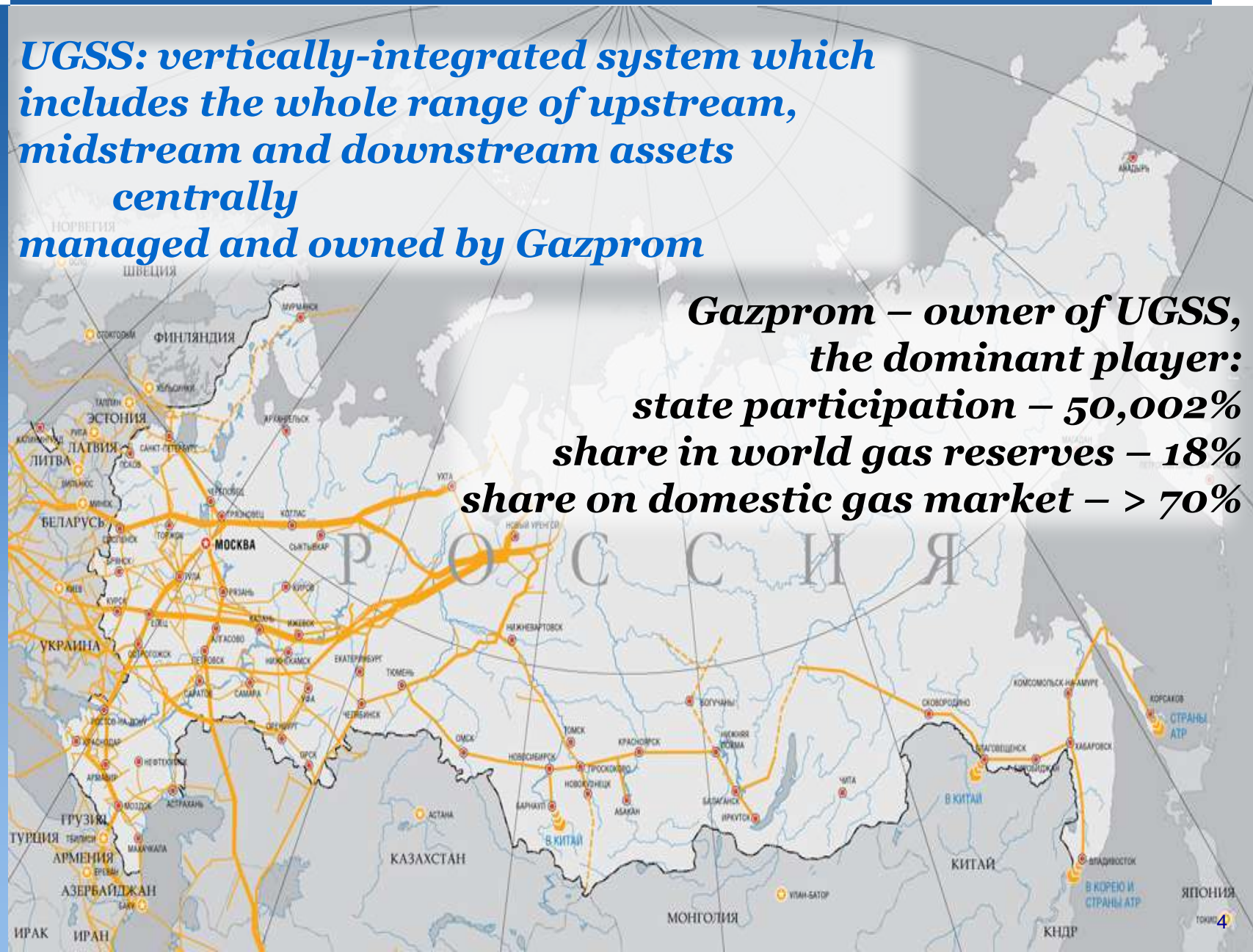
- Ministry of Energy (Minenergo)
- Ministry of Natural Resources and Environment (Minprirodi)
- Federal Agency on Subsoil Use (Rosnedra)
- Federal Service on Supervision of Natural Resources Use (Rosprirodnadzor)
- Federal Service on Environmental, Technological and Nuclear Supervision (Rostekhnadzor)
- Federal Tariff Service (FST) = **NRA**
- Federal Antimonopoly Service (FAS) = **NCA**

Main players on Russian gas market:

1. Producers/suppliers with their own gas transmission systems = owners of “gas supply systems” (UGSS+3 regional systems)
2. Independent producers/suppliers (e.g. Novatek, Itera, Rosneft etc.)
3. Consumers: electricity, industry, population

UGSS: vertically-integrated system which includes the whole range of upstream, midstream and downstream assets centrally managed and owned by Gazprom

Gazprom – owner of UGSS, the dominant player: state participation – 50,002% share in world gas reserves – 18% share on domestic gas market – > 70%



Federal law of 1999 No. 69 “On Gas Supply” establishes the following principles:

- Indivisibility of UGSS
- State ownership of 50%+1 share in Gazprom
- Exclusive right of Gazprom to manage objects connected to UGSS
- Special procedure of liquidation of Gazprom

Main Legal Instruments

Upstream (exploration & production):

1. Federal law of 1992 No 2395-1 “On Subsoil Use”
2. Federal law of 1995 No 187 “On Continental Shelf”
3. Federal law of 1995 No 225 “On Production Sharing Agreements”

Midstream (processing, transmission, storage):

1. Federal law of 1995 No 147 “On Natural Monopolies”
2. Governmental Regulation of 1997 No 858 “On Ensuring Access of Independent Organizations to Gas Transmission System of Gazprom”

Downstream (distribution, supply & use):

1. Federal law of 2006 No 117 “On Gas Export”
2. Governmental Regulation of 1998 No 1370 of 1998 №1370 “On Approval of an Order of Access of Organizations to Local Gas Distribution Networks”.
3. Governmental Regulation of 1998 No 162 “On Approval of Gas Supply Rules”

- Only licensing regime is used
- Special licensing regime for subsoil plots of federal importance
- Only state-controlled companies are allowed to use Russian continental shelf
- 3 existing PSAs are exception

Midstream Regulation Principles

- Third Parties Access (TPA): pipeline owner must provide all organizations with gas transmission services on non-discriminatory conditions if there is a spare capacity available in the pipeline

Basis of TPA: Art. 27 of Federal law of 1999 No 69 “On Gas Supply” and Article 8 of Federal law of 1995 No 147 “On Natural Monopolies”;

Conditions and procedure of TPA: Governmental Regulation of 1997 No 858

- Right to appeal the denial of access: FAS or Court
- Tariff regulation of gas transmission services: Federal Tariff Service approves tariff annually on the basis of «zone to zone» model

1997



Gazprom opens up its gas transmission system for independent organizations

2010



23 independent organizations are granted access to UGSS

2011



26 independent organizations are granted access to UGSS



Share of independent gas - 64.5 billion m³ out of 661,1 billion m³



Share of independent gas - 72.8 billion m³ out of 683,2 billion m³

- Internal market suppliers: Gazprom and independent producers
- External market suppliers: only Gazprom and Gazprom export (Federal law of 2006 No 117 “On Gas Export”)
 - Regulated prices for Gazprom’s wholesale supplies & retail supplies to population
 - Unregulated prices for independent producers’ wholesale supplies & supplies at gas exchange

- Wide scope (any gas: natural gas, LNG, CNG, ethane, propan, butan)
- Exception only for existing 3 PSAs
- Possibility of agency scheme

*LNG projects of independent producers:
amendment of Law “On Gas Export”?*



**THANK YOU FOR YOUR
ATTENTION!**



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