



Gas prices and tariffs: Regulation aspects



Saint Petersburg, September 2013

Gas prices and tariffs regulation in Russia is carried out in accordance with the following Federal Laws and Government Decrees:

- Federal Law №147-ФЗ 17.08.1995 “**About Natural Monopoly**”
- Federal Law №69-ФЗ 31.03.1999 “**About gas supplying in Russian Federation**”
- Government Decree №1021 29.12.2000 “**Main aspects of gas pricing and gas transmission tariffs determination and State regulation in Russia**”

According to Federal Law №147-ФЗ 17.08.1995 “About Natural Monopoly” (Article 4):

Gas transmission is the subject of State Regulation

According to Article 21 of Federal Law №69-ФЗ 31.03.1999 “About gas supplying in Russian Federation”:

1. Gas transmission regulation **may be substituted for gas prices regulation** for end users and gas transmission tariffs regulation for independent gas producers in Russia.
2. Tariffs and Prices State regulation in Russia is carried out by the Federal Body of Executive Power - **Federal Tariffs Service** (FTS of Russian Federation).
3. **The owner of the Unified Gas Supply System determines prices and tariffs** for products (gas, gas refinery products etc.) and services (gas transmission, underground storage etc.) of its subsidiaries.

Gas transmission tariffs divided into two groups:

- Regulated tariffs

Applied in case of transportation of Russian Independent Producers Gas by Gazprom Unified Gas Supply System and by Regional Gas Transmission Systems (Sakhalin-Khabarovsk-Vladivostok etc.)

- Transfer tariffs

for Gazprom's subsidiary gas transporting companies

General Description of Gas Transmission Tariffs Regulation

Gazprom (as owner and operator of GTS) submits to FTS necessary tariffs levels and then Regulator sets up tariffs using:

Methodology of transmission tariffs determination which was adopted by Regulator in August 2005 (Order of FTS №388-э/ 23.08.2005)

Transmission charges are approved by Regulator **annually** (before 2012 - since 01 January; nowadays – since 01 July (in 2013 – since 01 August as an exception)

Methodology of transmission tariffs and Transmission tariffs Rates are published on **FTS website (www.fstrf.ru)**

Regulating method - **Cost plus**

Total revenue calculated excluding gas transportation OPEX and CAPEX in pipelines not included in Gazprom Unified Gas Supply System (East Siberian and Far East pipelines)

Profit is calculated as

a sum of expenses, valid for FTS,
minus
sources of its financing
(depreciation, credits and etc.)

Two parts of regulated transmission tariff:

Capacity charge

- Fixed costs
- $\approx 70\text{-}80\%$ revenue
- roubles per 1000 m³
- depends on certain pair of entry zone and exit zone
- now are payable on gas flowed
- calculation is based on average weighted transmission distance between entry and exit zones

Commodity charge

- Variable costs (fuel gas etc.)
- $\approx 20\text{-}30\%$ revenue
- roubles per 1000 m³ for 100 km
- unified for the whole pipeline system
- are paid by shippers for actually transported volume of gas by the real route

There are different tariffs for **2 categories of shippers** according to the point of natural gas delivery:

- For shippers delivering natural gas to Russian and other customers of “**Tariff Union**” (Belarus and Kazakhstan)
- For shippers **exporting** natural gas (including CAPEX in export pipelines construction: South Stream, North Stream and others)

Entry and exit zones

Russian GTS included in Unified Gas Supply System is divided into many entry and exit zones

Entry zones (number N=34):

- Gas production areas (8)
- Gas processing plants (9)
- Underground storage facilities (14)
- Borders with other countries (3)

Exit zones (number M=95):

- Regions of Russian Federation (65*) * 6 regions include 2 exit sectors
- Underground storage facilities (14)
- Borders with other countries (16)

Tariff scale for Capacity charge

		Entry zones (gas production areas, Underground storage facilities, Gas processing plants, borders with other countries)			
		1	2	...	N = 34
Exit zones (Regions of Russian Federation, Underground storage facilities, borders with other countries)	1	*	*	*	*
	2	*	*	*	*
	...	*	*	*	*
	M = 95	*	*	*	*

Real costs of gas transportation service of Gazprom **are higher** than FTS's tariffs

Share of independent gas producers:

- in total Gazprom transmission service is **14%**
- in total gas transmission revenue is **10%**

Gazprom transmission Revenue covers less than 50% of CAPEX counting on the share of independent gas producers

So, share from shippers does not correspond to their share of cost in the system

The reason of existence of underestimated tariffs level is –

low rate of indexation used by Regulator (not higher than inflation ratio for the last 2 years)

	2007 y	2008 y	2009 y	2010 y	2011 y	2012 y	2013 y	2014y (F)
Rate of tariffs indexation	21%	22%	15,7%	22,9%	9,3%	3,5%	6,1%	7,1%

During the next 5 years the rate of regulated tariffs indexation will not exceed inflation ratio *

**according to the latest official documents*

Perspective changes in Regulated Tariffs calculation

In coordination with Gazprom Scientific Institute we are studying a possibility of applying for Russian GTS **new Methodologies of :**

- **Revenue calculation (RAB)** from Gazprom Transportation Services for independent gas producers;
- **Determination of Entry and Exit tariffs** for respective Entry and Exit zones.

Results of the mentioned researches will be passed to Regulator and the possibility of their implementation depends on FTS opinion

General description of gas prices Regulation

Gas price for the end users consists of 3 parts (point 3 part I of The main points of formation and government regulation of gas prices and transmissions tariffs in Russia (confirmed by the Government Decree №1021 29.12.2000))

Each part is set up by the Regulator.



According to the current law regulated wholesale gas prices are set up in the following way:

1. Prices of gas produced by Gazprom and its affiliated companies **only are regulated**.
2. Wholesale prices are set up according to **price zones**, which in most cases coincide with the country's regions.
3. Wholesale prices are set up **at citygate**.
4. Prices are set up for 2 categories of consumers: the **population** and the **other consumers**.

Wholesale gas prices Indexation

Nowadays wholesale prices are **set up by the index method**.

The Ministry of economic development works out and The Government approves of The forecast of social-economic development of the Russian Federation for a three-year period, where indices of gas prices increase are set up.

According to these data FTS sets up wholesale prices for the population.

For the other consumers prices sets up using the **method of equal revenue of gas supplies to the internal and external markets**.

The general price formula for the i-zone is the following:

$$C_i = C_{p\partial} \times K_{\text{пониж}} \times K_i, \text{ where}$$

$C_{p\partial}$ – the price providing equal revenue of gas supplies to the internal and external markets (net-back);

$K_{\text{пониж}}$ – reduction ratio;

K_i – differentiation ratio.

According to the Government Decree №1205 31.12.2010:

- 2011-2014 is a transition period, during which the gas price formula is used;
- beginning with 2013 gas price fluctuations of 3% are possible;
- by the end of 2014 a decision is expected to be taken whether or not to regulate gas tariffs for Gazprom instead of gas prices.

***Thus nowadays the equal revenue price
is used just as a benchmark!***



**THANK YOU FOR YOUR
ATTENTION**



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