

Gazprom's supplies to the EU & de-politicisation of the European gas market

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Record Gazprom's supplies to the EU

- 2016 Gazprom's supplies to Europe (EU-25 plus Turkey) up 12.5 % to 178.3 bcm (+19.9 bcm if compared to '15) with average delivery price of \$167/1000 cm; gas consumption in the EU-28 up by 7 % in 2016 (Eurogas).
- 01/17 – 05/17: Gazprom sales up 13.3 % YoY (9.5 bcm of additional supplies, including 3 bcm to Germany); record winter supplies (636.4 mcm on 27/01) stay high (523 on 01/06) during the summer.
- The share of Gazprom's gas in Europe went up from 30.2 % in 2014 to 34 % in 2016. **Should Europe fear dependency on Russian gas?**

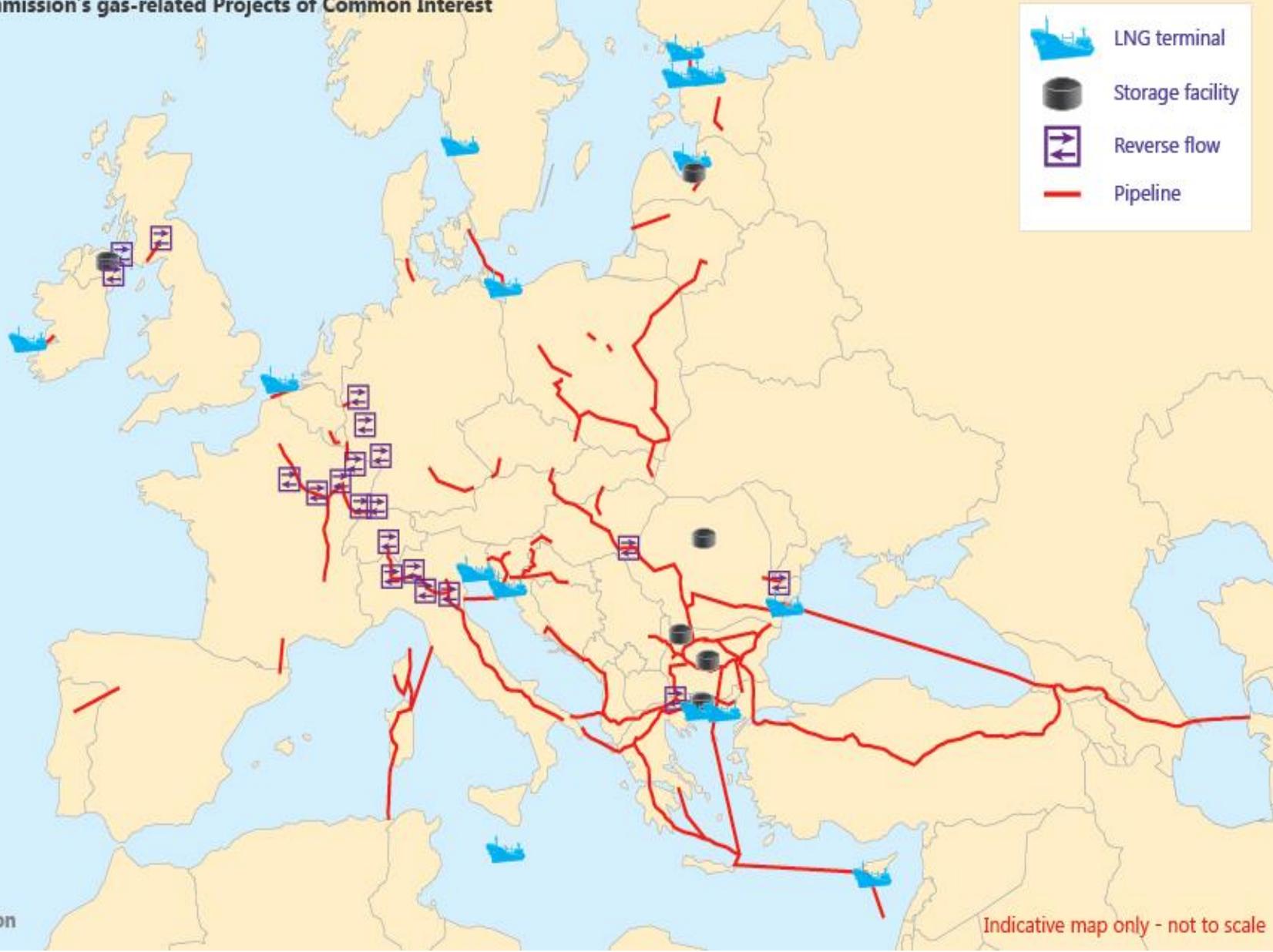
LNG Silver Bullet?

- 02/'16: the EC released the “EU strategy for liquefied natural gas and gas storage”. Access to LNG to increase security of supply, reduce dependence on Russian gas?
- June '17: first U.S. LNG landed in northern Europe (Rotterdam); and in Poland (Swinoujscie). ‘Cheap energy’ access?
- “Business model underpinning LNG production is ... rigid. The result is a basic lack of short-term upswing capability in LNG” (IEA, 2016).
- LNG-dominated regions subject to the sharp price spikes; on 01/'17 France’s TRS hub reached 45 euro per MWh. In '16 Qatar decreased shipments to Europe by 16 % to 17.5 millions tonnes. Competition for LNG supplies ahead?

Security of supply? Already in place!

- Consumers in Europe currently have a vast of choice of alternative supplies – LNG & pipeline gas.
- By the end of 2016, total regasification capacity in the EU and Turkey (23 terminals in the EU-28 and 2 in Turkey) stood at 216 bcm/year, amounting to 40% of EU demand and 55-60% of EU gas imports.
- In 01/16 – 04/16 average usage of Europe's re-gasification - 17 % (GIE).
- In 2016 Russia, Norway and Algeria respectively exported to the EU-28 153 bcm, 107 bcm and 34 bcm.

The European Commission's gas-related Projects of Common Interest



European Commission

(C) Interfax Global Energy Services, European Commission

Interconnectors : key to the Security of Supply

- Energy security significantly improved in 22 out of 28 MS also due to the connectivity (Maros Sefcovic, 01.02.17)
- In 2015 CEE reverse flow capacity - 147 bcm/year; further 42 bcm/year of new interconnection capacity added within Eastern Europe and between Central and Western Europe in 2010 -2015.
- Interconnectors already changed gas flows dynamics: e.g. gas flows from Germany to Czech Republic went up from 8.7 bcm in 2011 to 35.6 bcm in 2015; CZ-SLK flows up from 2.7 bcm in 2011 to 10.9 bcm in 2015.

FIGURE 22 - COMPARISON OF OEU WHOLESALE GAS PRICES DURING THE FIRST HALF OF 2014

Price in €/MWh

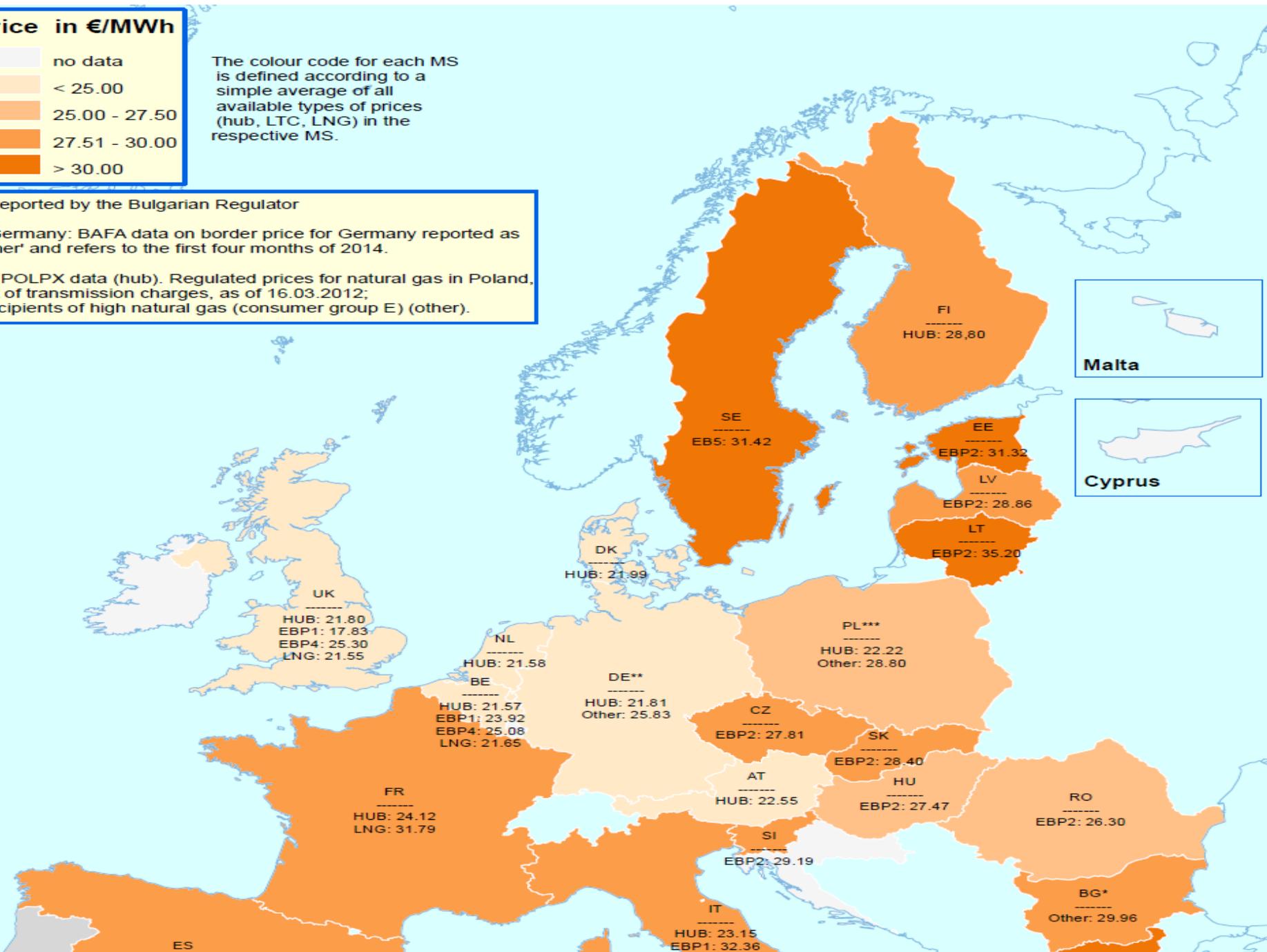
- no data
- < 25.00
- 25.00 - 27.50
- 27.51 - 30.00
- > 30.00

The colour code for each MS is defined according to a simple average of all available types of prices (hub, LTC, LNG) in the respective MS.

* Reported by the Bulgarian Regulator

**Germany: BAFA data on border price for Germany reported as 'other' and refers to the first four months of 2014.

*** POLPX data (hub). Regulated prices for natural gas in Poland, net of transmission charges, as of 16.03.2012; Recipients of high natural gas (consumer group E) (other).



Malta

Cyprus

ES

IT

BG*

Other: 29.96

RO

EBP2: 26.30

HU

EBP2: 27.47

SK

EBP2: 28.40

CZ

EBP2: 27.81

PL***

HUB: 22.22
Other: 28.80

DE**

HUB: 21.81
Other: 25.83

BE

HUB: 21.57
EBP1: 23.92
EBP4: 25.08
LNG: 21.65

NL

HUB: 21.58

FR

HUB: 24.12
LNG: 31.79

SI

EBP2: 29.19

AT

HUB: 22.55

DK

HUB: 21.99

UK

HUB: 21.80
EBP1: 17.83
EBP4: 25.30
LNG: 21.55

SE

EB5: 31.42

FI

HUB: 28.80

EE

EBP2: 31.32

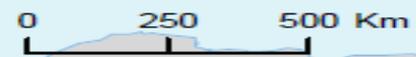
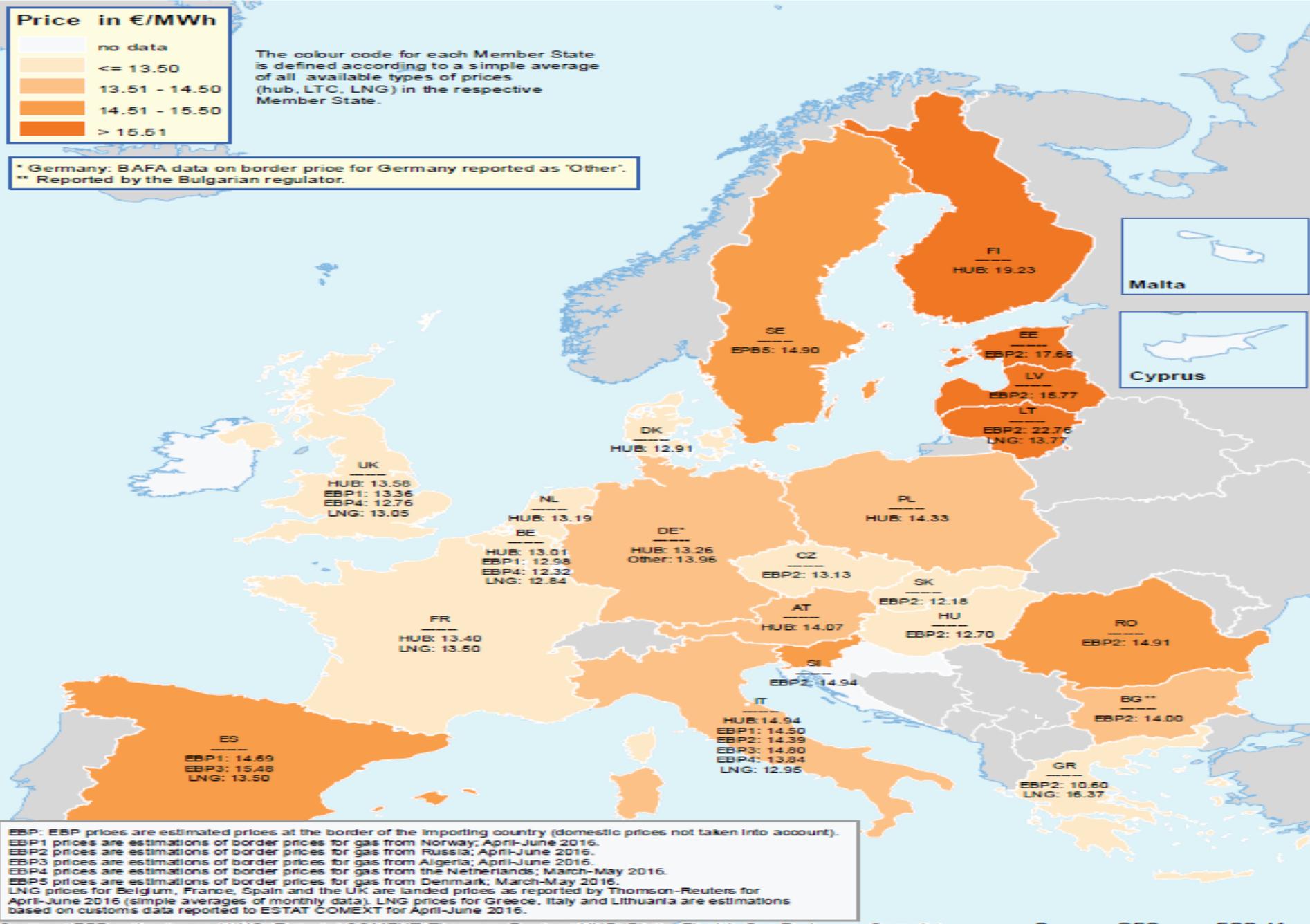
LV

EBP2: 28.86

LT

EBP2: 35.20

MAP 1 – COMPARISON OF EU WHOLESALE GAS PRICES IN THE SECOND QUARTER OF 2016



Czech Republic: Confident Consumer

- *Václav Bartuška, Czech ambassador-at-large for energy security (Interfax Natural Gas Daily, 02/05/17):*
- “We don’t get this anti-Russia rhetoric, as the whole logic of the common EU market is that when Russian gas crosses EU border, it’s no longer Russian, nor Norwegian nor Algerian. It’s simply gas that is measured by its economic value. We find it a safe resource”
- “Our interest is to have as many pipelines with our neighbours and as many gas sources as possible. We already buy gas from Russia, Norway and the German exchange.... We have learned that having a bunch of interconnectors only helps the market in getting a better price from the suppliers.”

Single Energy Market by 2025?

- Interconnectors (‘hardware’) and regulations, securing market opening/liberalization (‘software’) led to a price convergence in Europe.
- This connectivity helps to spread the sense of confidence that exists in the mature markets in Western Europe to the new Member States.
- We will see a fully functioning Energy Market by 2025 with energy security concept becoming less relevant for the European consumers.

Single Energy Market by 2025?

- NS-2 "inhibits market integration of Western and Eastern Europe, resulting in a higher price difference" (REKK (02/'17)).
- CEE is likely to be at least partly supplied via Ukraine (up to 15 bcm/year to be transited via Ukraine).
- "east-west" price difference to incentivize new interconnectors=> market players able to book pipelines (via an open auction process) to access alternative supplies; unused capacity, even if it is booked, is always available to the market.
- Greater West-East gas flows following the launch of Nord Stream 1 and Opal pipelines has already brought greater correlation to Western European prices (Eurogas).

Less politicized gas market?

- The recipe (for securing competitive and reliable supplies) is simple – Europe should let different infrastructure projects compete with each other for customers and a market share.
- Market (and consumers) should decide which infrastructure is more suitable. No infrastructure projects should not be discriminated if they respect market rules and are financed by private investors.
- MS to fully open their markets, play by the rules and not select rules ‘a la carte’?