CENTRAL EUROPEAN GAS CONGRESS

II Kongres Polskiego Przemysłu Gazowniczego

Gas Market Regulation in V4 countries.

Barriers for Gas Market Development.

KIG

Instytut Studiów Energetycznych

Izba Gospodarcza Gazownictwa

Andrzej Sikora

Wisła, October, 26-28th. 2010

Disclaimer

The information on which this presentation is based derives from our own experience, knowledge, data and research. The opinions expressed and interpretations offered are those of Energy Studies Institute and have been reached following careful consideration. However, the Oil&Gas business is characterized by much uncertainty and all of our comments and conclusions should be taken in that light. Accordingly, we do not accept any liability for any reliance which our clients may place on them.

Panelist presentation

Gábor Molnár - Director Hungarian Gas Association

Technical University of Heavy Industry as mining engineer in Miskolc, 1975.
International Computer and Education Centre as computing system organizer in Budapest, 1980

Experience:
01/05/2004 - Managing director of the Hungarian Gas Association
01/11/2003 – 30/04/2004 Head of Business Development in the Gas Business Division of MOL
01/11/2001 – 31/10/2003 Head of Gas Supply int he Gas Business Division of MOL. He directs the activities of the gas supply chain based on business licence of the gas sales.
01/12/2000 – 31/10/2001 After esthablising of the daughter companies in the gas business, CEO of the Transmission Company in Siófok
15/12/1999 – 30/11/2000 Head of the Gas Sales in the Gas Business Division of MOL. He is responsible for direction of the natural gas wholesale activities-
From 1991 – till 1999 Head Energetic Information Centre of MOL

Panelist presentation

Ivan Weiss - Planning and Risk management, SPP

Dealing also with pricing policy and regulation.
In charge of the communication with the regulator
regarding the prices for gas supply
in regulated segments.

Panelist presentation

Oldřich Petržilka - President, Czech Gas Union

36 years in gas industry mainly on the field of STRATEGY!

Starting in investment section of Czech Gas Company,
then 15 years in Plynoprojekt for mathematic modeling for gas grids and hydraulics flow.

Now in charge of the communication with the regulator and the state administration

Panelist presentation

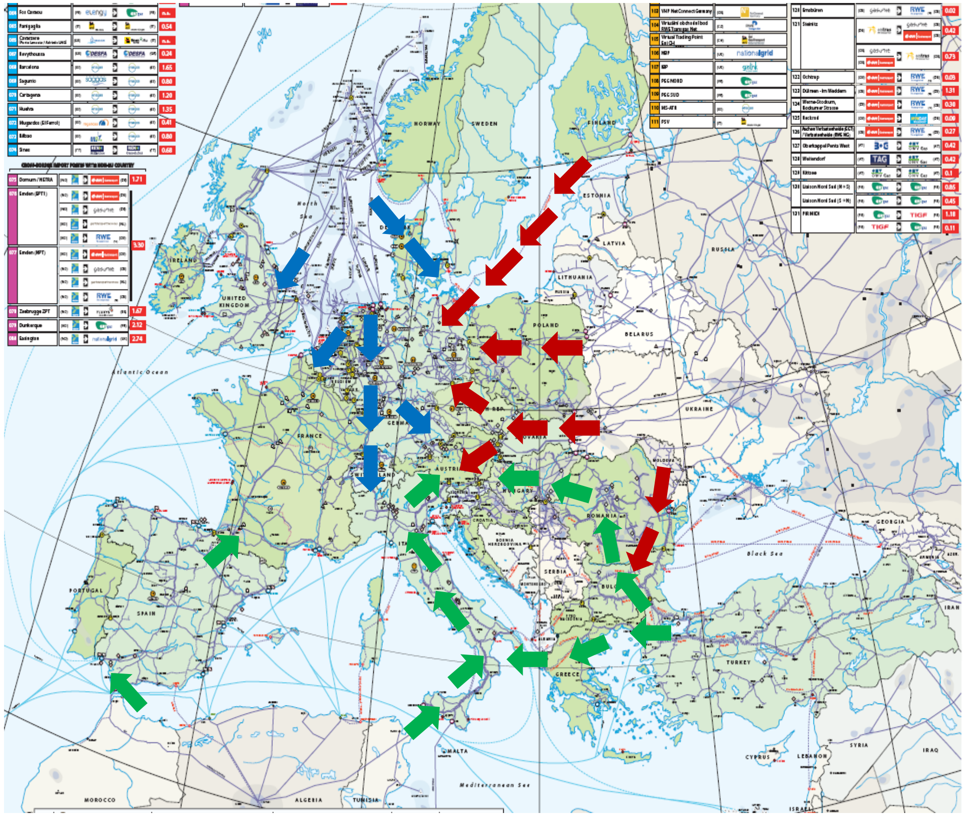
Marek Kamiński - Director, Performance Improvement Group, Business Advisory, Ernst & Young Warszawa.

Marek has over 12 years experience in business consulting for clients in gas and electricity segments. He took part in projects dedicated to financial advisory services, improving the operational efficiency of enterprises, restructuring and organizational change. He is currently responsible for the comprehensive advice to the Oil & Gas Industry in the Energy Group, Ernst & Young in Poland.

Uniwersytet Gdański – Master degree in economy – foreign trade.
Sworn auditor in Poland
MBA completed at Manchester Business School Great Britain.

Wish you were here ?

- ✓ Examine current development of physical and commercial infrastructure in CEE gas market
- ✓ Legal and institutional framework for gas trading facilitation
- ✓ Potential barriers for the implementation of the „Securitity of Supply" regulation
- ✓ Identify possible solutions and how to implement changes



Source: Energy Studies Institute, 2009 based on own calculations and GIE maps.

Wish you were here ?

„The ***third internal energy market package has laid out the framework conditions for a fully*** *functioning and competitive internal market, which ensures more choice and the lowest possible energy prices for consumers and business, greater transparency and competition as well as strengthened security of supply by improving the conditions for investments in power plants and transmission networks. Work is well underway for the establishment of a European Agency for the Cooperation of Energy Regulators (ACER) which provides for regulatory oversight at EU level. With the new European Networks of Transmission System Operators (ENTSOs) progress is made on harmonized network rules and coordinated investment plans.*

The emergence of a number of regional electricity markets is a positive sign of further market integration. Greater attention is also given to individual energy consumers and the functioning of retail electricity and gas markets."

Topics & Questions during our Panel:
One European Agency?
One Gas Market?
The role of the local Regulatory Offices.
Framework of possible cooperation.

Source: *Stock taking document Towards a new Energy Strategy for Europe 2011-2020*.

Potential barriers for gas market development

- Do you have an access to competitive gas supplies?;
- Maintenance of free and fair trade on the EU market; especially state fixed price and/ or dual-gas pricing
- Spot market versus long term contracts – is there any space for trade, for speculation? The role of Regulatory Office in your country.
- Expansion of the (CE) European market economy model, especially with our neighbors in the East and around the Mediterrean areas.
- WTO Accessions of Russia: compliance with "market economy" order and principles

New challenges of the Central European Gas Market

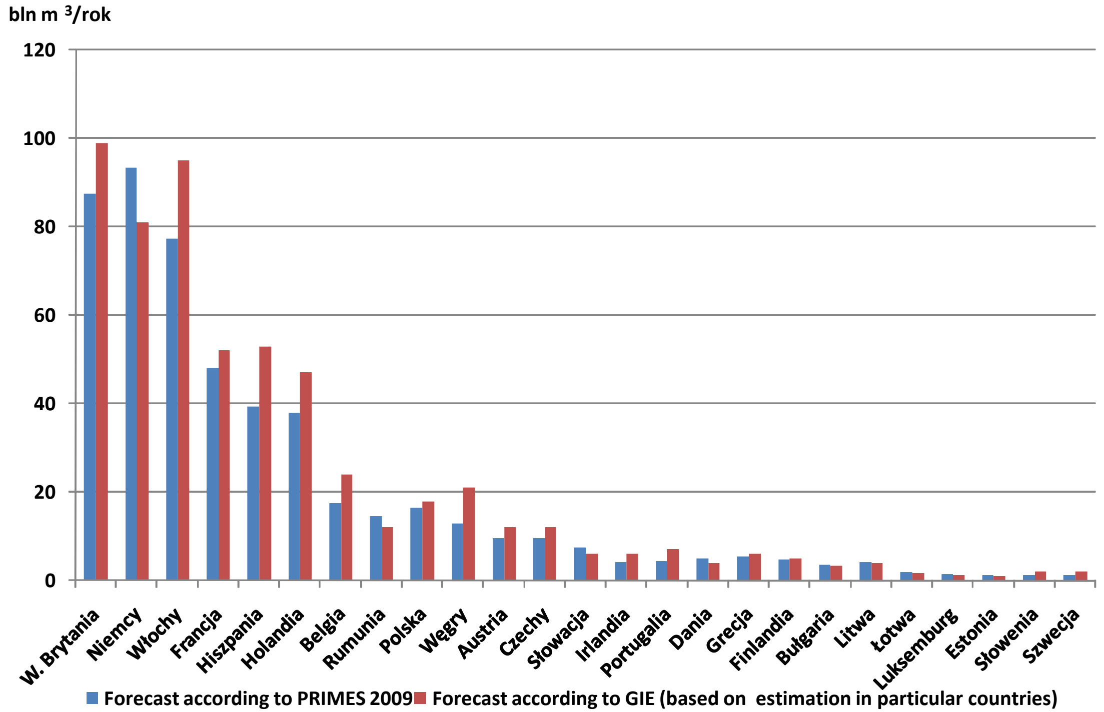
- Local Regulators vs ACER- *„Agency with promise of real harmonised Network Code at regional and EU levels"*
- GAS PRICES: Market European gas prices vs State fixed Russian & Ukrainian gas prices
- EU – RUSSIA STRATEGIC PARTNERSHIP (GLOBAL ENERGY)
- A role of the LNG deliveries; More Infrastructure supply, pipeline and LNG gas to the EU market; more supply will give lower prices?
- Direct access to the producer/suppliers of gas, ie restricting the national incumbents current dominance of national EU markets;
- Big consumers access to producer suppliers; consumers access to physical / financial hubs, stats / data;
- Promotion of the regional interconnectivity with the promise of sub-regional 10 year investment plans tackling infrastructural blocks or bottlenecks;

Do we have a problem with consumption forecasts?

Main sources of the forecasts:

- New version of the PRIMES model (Baseline 2009) dated Aug., 5th. 2009
- Consumption forecasts and own production from „Infrastructure Europe „GTE+ Demand Scenarios vs. Capacity report" June 2009, have been prepared by the member countries based on their own internal's documents and forecasts (energy policies, emergency and contingency actions, infrastructure development plans etc.).

- In our opinion the forecast adopted to the new PRIMES model could be too low. For example in 2015 total consumption of the natural gas for the EU-27 is predicted to the level of 511 bln m^3, when we have already consumed in 2008 ca. 490 bln m^3. The Member States own estimation show that consumption in 2015 will be 575 bln m^3.
- Having on mind security of the supply we need to use and adopt higher level of the forecast.
- Higher estimation and higher parameters are more secure in the prognosis.



Source: Own calculation based on data from PRIMES MODEL (Baseline 2009) Aug., 5
GTE+ Demand Scenarios vs. Capacity report July 31st 2009

Comparison of the forecasts for production, consumption and importation of the natural gas (netto) for Poland[1]:

Volume / Forecast mld m^3	2007	2010	2015	2020	2025	2030
Natural gas production Baseline 2007	4,33	3,56	3,44	3,33	3,11	3,00
Natural gas production ARE 2009	4,33	4,48	4,63	4,63	4,63	4,63
Natural gas production Baseline 2009	4,33	3,56	3,44	3,33	3,11	3,00
Natural gas consumption Baseline 2007	13,75	15,68	18,60	21,21	23,72	25,90
Natural gas consumption ARE 2009	13,75	13,33	14,44	16,33	17,89	19,11
Natural gas consumpotion Baseline 2009	13,75	15,17	16,48	16,14	16,12	16,44
Natural gas import netto Baseline 2007	9,17	12,12	15,15	17,88	20,61	22,90
Natural gas import netto ARE 2009	9,17	8,92	9,94	11,60	13,37	14,53
Natural gas import netto Baseline 2009	9,17	11,62	13,04	12,81	13,01	13,44

Source: Own ISE calculation based on PRIMES Baseline 2009 & Baseline 2007 & Agencja Rynku Energii.

[1] Volumes in mln toe are recalculated into mld m^3 where burning heat is equal to 37,7 MJ/m^3, ARE forecast was based on burning heat ratio 35,5 MJ/m^3, so all data in ARE's projections are 6% higher.

Gazprom and PGNiG settle cooperation issues in gas sector…

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RELEASE

Gazprom and PGNiG have settled the Russian-Polish cooperation issues in the gas sector. The parties agreed to increase the volumes of Russian gas supply to Poland and to extend the existing supply contract until 2037. In addition, they resolved the issues relevant to EuRoPol GAZ management and its tariff policy when transmitting Russian hydrocarbons. The agreements reached were fixed in the Joint Statement of the Parties to come into effect after Russia and Poland sign the relevant documents on the intergovernmental level.

Background

Poland's annual natural gas consumption is about 13.7 billion cubic meters with around 30 per cent produced domestically.

In 2008 Gazprom export supplied Poland with 7.9 billion cubic meters of Russian gas.

Natural gas is exported to and transited via Poland under the long-term intergovernmental contracts with PGNiG and EuRoPol GAZ on the basis of the Intergovernmental Agreement of 1993 as amended.

PGNiG is Poland's largest petroleum company dealing with oil and gas field development, energy resources production, storage and transportation, oil and gas transmission network construction and expansion, as well as natural gas exports and imports.

The EuRoPol GAZ Transit Gas Pipeline System was incorporated in September 1993. The company owns the 684-kilometer-long Polish section of the Yamal – Europe gas pipeline and five compressor stations, jointly providing for the gas pipeline capacity of some 30 billion cubic meters per annum.

Gazprom and PGNiG are the key shareholders of EuRoPol GAZ.

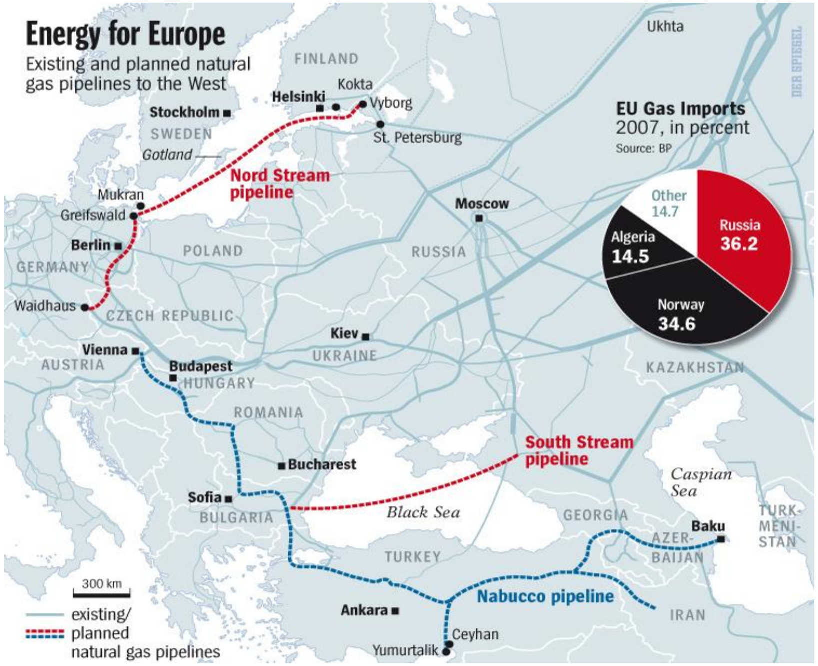
Source: www.gazprom.com

So ….diversification of the sources of supplies is not the only problem to be solved!

Strategy…

- ✓ Stable and long term energy policy
- ✓ Strategic planning
- ✓ Development of the market
- ✓ Pro-ecological solutions: Clean Coal with CCS? Nuclear?
- ✓ Support for an access to high efficient & flexible technology and services

Existing and planned natural gas pipelines to the West



Source: *Der Spiegel*, January 2009

So ….diversification of the sources of supplies is not the only problem to be solved! CHALLENGE?

Foto: AFP / East News

From left:
Abdullah Bin Hamad Al-Attiyah,
Qatar's Deputy Prime Minister
and Energy & Industry Minister,

Gholamhossein Nozari, Iran's Petroleum Minister,

Alexey Miller,
Chairman of the Gazprom's Management Committee

Establishment of truly competitive and effective Single Market for Gas!

About Energy Studies Institute

Energy Studies Institute
is a Polish consulting
company dedicated for oil
and gas sector. Our services
are well-know in heavy
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Questions ?

Thank you very much !

☺

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