

Deja Vu...

Deputy Prime Minister for the Fuel and Energy Complex Igor Sechin gave an interview to The Wall Street Journal

Tags: [Igor Sechin](#)



Igor Sechin expressed his point of view about the Yukos case (a criminal case on tax evasion, murders and attempted acts) and refused to have anything to do with controversies between TNK-BP shareholders.

By itself, the fact of giving an interview to an American newspaper confirms the last-months trend, that I. Sechin (as Deputy Prime Minister and Chairman of the Rosneft's Board) has become the principal driving force of attracting Western companies to operate in the Russian oil and gas industry. Now a new phase of redistribution of the property in favor of the state-participated company has been almost finished in the Russian oil&gas industry. But it has significant development limitations without foreign investments and technologies.

According to I. Sechin, 25% of the Russian oil sector are already owned by foreign companies. The elaborated formula of partnership assures the balance of interests between national security and attracting of investments. As an example, he mentioned the partnership with BP and development of cooperation with ExxonMobil (saying that the company had settled the problems within Sakhalin I Project and had made the decision of investments to the Black Sea shelf exploration). He confirmed as well, that Moscow judged from the assets exchange priority, since it enhanced the confidence between the partners (for now, though, such agreements have been signed with BP only, and the deal was blocked by the court's decision because of the controversies of the TNK-BP shareholders).

I. Sechin announced that Rosneft was not considering its participation in TNK-BP (because no one was selling its share), but mentioned that 50/50 relation was a rather strange and unreliable structure. Along with that, he left open the possibility of filing the claims in case of losses (or lost profits) caused by the delayed deal. ➤ Page 3

Valuable Prime Minister's word

The Higher Arbitration Court (HAC) Presidium confirmed justification of the fine in the sum of RUR 4.7 bn imposed in summer of 2009

Tags: [FAS](#), [Gazprom neft](#), [fine](#)

Rebelliousness demonstrated by Gazprom neft during the negotiations with FAS (the Federal Antimonopoly Service) on the amicable agreement has turned for it the largest antimonopoly fine in the Russian history. Gazprom neft has to pay the fine until March 15.

Last year, all forfeited oil companies, except for Gazprom neft, came to amicable agreements with FAS. For that,

the companies abandoned the claims within the "first wave" of cases (penalties in the sum of RUR 1-1.5bn), paid the penalties into the state budget and then agreed for the prescriptions; then FAS, within the frameworks of amiable agreements, reduced the penalties within the "second wave" (from RUR 4-6 bn to the same RUR 1-1.5 bn). Gazprom neft abandoned the «first wave» claims too. But it

was a litigation on the "second wave" to the uttermost (even addressed the Constitutional Court with a request), and was punished for that.

At the meeting of the HAC Presidium, Gazprom neft's representatives did not even try to assert the decisions of Saint-Petersburg courts in the favor of the company. They asked only to reduce the sum of the penalty to 1% of the turnover (about RUR 1.9 bn, instead of RUR 4.7 bn). The lawyers explained that Gazprom neft cooperates with FAS: the company had refused to dispute RUR 1.35 bn of the penalty for 2008 and sent a draft amiable agreement to FAS. FAS representatives confirmed that the company had followed the prescription of the Service, having increased the exchange auction volumes, but noted that cooperation started after the moment when the Gazprom neft case was submitted to the HAC Presidium. FAS did not ask the court to reduce the sum of penalty, leaving this question for consideration of the court, which made a decision not in favor of the oil companies.

It is possible that the recent public rebuke, made by Vladimir Putin to Gazprom neft and TNK-BP for excessive diesel prices, has played a certain role in this case.

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As it was supposed, after giving the rebuke to the oil companies, Prime Minister Vladimir Putin paid his attention to the **growth of electric power prices**. At the meeting of the government, V. Putin expressed his indignation with the fact that power prices for end consumers in early 2011 had increased over the planned 15%. I. Sechin suggested changing the market parameters for generation and network tariffs for 2011, in order to achieve total savings of RUR64 bn. ➤ Page 3

A month before the deadline scheduled for the final investment decision on the **Stokman field** development, Phase 1, the Russian officials have announced that the date of its bringing to operation may be postponed one more time. Deputy Head of Rosnedra Peter Sadovnik reported that the bringing of the Shtokman field into operation might be rescheduled to 2018. Talks on rescheduling may represent a tool of pressure on the government used by the Project's participants in the matter of new tax preferences for the project. ➤ Page 5

Mr Putin's criticism of Gazprom at the meeting in Saint-Petersburg, and this rebuke provided a stimulus to the industrial lobbyists. According to mass media, it was suggested to include a highly exotic proposal into the agenda of governmental discussions: to provide the **priority access to the transportation system** to independent gas producers to supply fertilizer producing companies. ➤ Page 6

«Gazprom neft» bought the shares of the oil company **Sibir Energy** from the Moscow administration, thus becoming its only owner. 22.39% (85.25 million shares) of Sibir Energy brought \$740 mn to the capital's budget. ➤ Page 6

The meeting of shareholders of the operator for construction of the **Burgas-Alexandropolis** oil pipeline was held. Before it, the rumors had been circulating that the Russian shareholders - Transneft, Rosneft and Gazprom neft (is the three of them control 51%) would announce termination of the project's budgeting, which would have been equal to withdrawal from the project. The Russian officials denied these guesses. Along with that, the meeting decided on maximal reduction of the costs of the Trans-Balkan Pipeline's operation. In fact, that means freezing of the project until the better time comes, not refusing from it at the same time. ➤ Page 7

The Gazprom's largest European client – E.ON suggested that Gazprom would totally eliminate the **oil connection from the long-term contractual price formula**, connecting the prices instead to spot contracts. Gazprom rejects this categorically, but pressing is becoming stronger. ➤ Page 7

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Deja Vu...

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In addition, he indicated that “the agreements or terms to be agreed before the deal should have to be determined by our English partners”, and that was a part of BP’s responsibilities.

Being questioned on the possible reform or change of management in Gazprom, I. Sechin gave very guarded

answers. He said that, in comparison with the oil market, the gas market was more complex, and Gazprom itself «was developing very intensely and was emerging from the crisis». He “has heard nothing” about preparations to change the management of the corporation, and no momentary decisions are possible in such a serious situation.

ERTA view

Logically, the first attempt to build a new post-Soviet organizational system of the Russian fuel and energy complex has led to PSA projects. This attempt was qualified by relevant agencies as “selling of the Motherland”. At that moment, the Yukos management actively supported the fight against PSA.

Large corporate agreements may be called a logical result of the next round of development of the Russia oil and gas industry: Gazprom tried to agree with Ruhrgas, LUKoil – with Conoco, and Yukos – with Exxon. The latter failed, though. The next “selling of the Motherland” was not realized.

One may assume that now Russia will have right agreements with the right companies (unlike the previous ones).

Due to economical globalization and rapid technological development, our country cannot avoid large-scale international cooperation in the area of fuel and energy. But it seems not correct to stigmatize every previous cycle as “betrayal of Motherland”.

Valuable Prime Minister’s word

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Meanwhile, the government immediately obliged the oil companies to register off-exchange trades and extended the traditional discount for fuel and lubricants for the agricultural producers for the year of 2011.

According to the first of the documents, oil and products are listed as exchange commodities; all off-exchange trades with them should be registered. According to the order, sales should be registered by the producers listed in the register of business entities as those dominating on the market (market share exceeding 35%). Price information will be provided by FAS: new price indicators are more precise and less sensitive to manipulations as exchange

prices. It is not yet clear, though, how the market share of 35% will be calculated (correspondingly, which deals are subject to registration).

According to the second document, the agricultural sector will be able to buy the fuel from the oil companies at the prices as per November 1 of 2010 (i.e. preceding the fuel price growth, which became a n issue of governmental investigations in mid-February) with 10% discount. It will be free for the budget, its burden will be put on the oil companies again, and in 2011, they will pay RUR5-10 bn for the state support of the agricultural complex, instead of RUR3.3 bn in 2010.

Knights are leaving the chessboard

I. Sechin suggested changing the energy market parameters, but the producers and the consumers refuse to follow the suggested rules

Tags: [electricity](#), [Igor Sechin](#)



that power prices for end consumers in early 2011 had increased over the planned 15%. According to the Prime Minister, the prices in particular regions have increased for more than 30% (e.g. in Astrakhan Region – 46.5%, Penza Region – 37%, Kursk Region – 33.2%). The energy

As it was supposed, after giving the rebuke to the oil companies, the Prime Minister paid his attention to the growth of electric power prices. At the meeting of the government, Vladimir Putin, expressed his indignation at the fact

supervisor, Deputy Prime Minister Igor Sechin responded that “the upside potential” of the price growth for more than 15% was forecasted for 38 regions together with individual groups of consumers. According to Sechin the reasons of that jump included: fuel price growth, low tariff base in certain regions (Khakassia and the Irkutsk Region for example), investment premiums included into hydro power stations (HPS) and nuclear power stations (NPS) tariffs, high tariffs for constrained generation, as well as the growth of tariffs of grid companies (federal grid companies (FGC) and interregional grid companies (IRGC) transiting to RAB-regulation.

I. Sechin suggested changing the market parameters for generation and network tariffs for 2011, in order to achieve total savings of RUR64 bn.

Knights are leaving the chessboard

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In total, the government plans to save up to RUR34 bn in the account of grid companies. First, the inflation indexation should be excluded from capacity payments (savings of RUR12bn). Second, investment premium of the state-owned Rosenergoatom and RusHydro should be corrected for RUR15 bn (in total, RUR 45bn approximately; i.e., they should be reduced to RUR30 bn). Deputy Prime Minister plans to save additional RUR7 bn due to calculation of tariffs for forced power generators, which will touch primarily TGC. Generation companies have already threatened to reduce investments into maintenance and development of the capacities.

More RUR30 bn, according to Igor Sechin, can be saved on account of the grids, mainly IRGC. He suggests reducing the earning of FGC for RUR5 bn and IRGC for RUR25 bn by means of optimization of the investment program. This anticipates correction of the long-term RAB tariffs introduced in 2009-2011, which allows including the necessity of the return of investments, thus raising their level highly.

It is not yet clear, which of these suggestions will be implemented into life. The state will be able to reach momentary effect only in case if it will act in a prescriptive manner. Resources for this purpose are available: in the electric power field, Russia does not have a real market, but only a "quasi-market price determination mechanism". Interference of the state is still very intense, while its efforts are placed very ineffectively. A new system of regulation has not been built, causing significant industrial risks of failure of investment programs and deficit of generation and grid capacities.

Meanwhile, major consumers have their own suggestions on reduction of the prices. In particular, following RUSAL, which, in the last year, supported the possibility to transfer or sell the rights by the capacity supply contracts, other consuming companies (NLMK, TNK-BP, Bashneft) started searching for possibilities to invest in their own capacities.

This idea is already being discussed in the government, though it hasn't yet taken any precise shapes.

The Capacity Supply Agreements (CSA) (in total, 30 GW is to be built under them) are signed for 10 years by energy producers (who take responsibility to bring into force the required capacity volumes in time) as well as by consumers (who are responsible to pay for them). The Centre for Financial Accounting (the unified accounting centre of the energy market) operates as an agent. By the CSA, the energy companies get the guarantees of return of 71 to 95% of their investments into new constructions (because the capacity brought into operation according to CSA is paid as a priority). In case of failure to meet the schedules, penalties will be imposed. The subscription company ended in December. And it happened so, that the largest Russian power consumer UC Rusal refused to sign the document. The holding company considered it too expensive: UC Rusal's payments to energy producers for 10 years could amount to \$6.7 bn. However, the holding company could not as well refuse to pay for CSA; in that case, according to the rules of the energy market, it would lose the right to buy electric power and capacities on the wholesale market, where they were cheaper than on the retail market. To avoid this, US Rusal suggested that, in exchange for the CSA signing, the permit would be given to build independent power stations, using the investment return mechanism. The holding company has already initiated consultations with energy producers, asking to transfer the CSA rights to it, but these negotiations have not given result yet.

This tendency may have a massive reaction and change the market configuration. Such leave of major clients may bring serious business problems to the existing owners of generation companies. At the same time, some investors can avoid being punished for non-performance of their responsibilities, and there a lot of those failing to meet the schedules.

ERTA view

Russian businessmen are used to take low into their own hand. This is how they actually do business in Russia. This behavior has its certain logic: one who takes a figure from the chessboard cannot put it back. Refusing to sign the CSA, RUSAL could not but offered a constructive alternative in exchange.

The logic of that suggestion is still business. And it has reasonable continuation. The similar situation takes place in other branches (for example, in gas distribution). Major producers, considering the price offered for the gas distribution from trunk pipes to the end consumption points, quickly realize that it will be easier for them to build their own supply pipelines and to maintain them at their own expense.

This is quite normal. Only these evaluations may provide a real picture of the costs of new constructions. One must construct (because the old structures will decay sooner or later). But construction needs adequate costs. Functional price formation mechanisms approved by consumers and producers are required – if it's not the market, then what is it?

So, it happens so that suggestions made by I. Sechin are tactical decisions designed for a year or two, while it is possible to contain dissatisfaction of one of the parties.

Specially protected Russian Arctic

A new scandal has occurred around the Rosneft-BP's deal

Tags: [Rosneft](#), [shelf](#), [BP](#), [Arctic](#), [ecology](#)

Rosprirodnadzor confirmed the appropriateness of remarks made by ecologists from WWF and the non-commercial partnership "Transparent World" on allocation to Rosneft of the exploration sections in the Kara Sea near the shores of Yamal and Novaya Zemlya, which should further be invested into a new joint venture with BP. License sections allocated by the government partially covered the territories of especially protected natural zones: the national park "Russian Arctic" and the Yamal wildlife reserve. It should be noted that exploration and production of oil and gas on the protected zones are prohibited by federal law. After that, the Ministry of announced that the licenses for the East-Prinovozemelsky-1, 2, 3 sections would be changed. They would not include the boundaries of the sections of the Russian Arctic national park.

The key question which the Ministry of Natural Resources cannot solve for now: are BP and Rosneft allowed to drill horizontal and directional wells into the national park. In theory, the law protects all resources of such reserves. Risks may be caused by elimination of consequences of possible emergencies (in this case, drilling of one more well on the territory of the national park may be required).

Whether oil companies will be allowed to perform works in the Yamal wildlife reserve, will depend on the federal entity's decision. By now, no procedures concerning the development have been agreed with the Yamal-Nenets autonomous districts, but, as a rule, the companies manage to come to an agreement with regional authorities in exchange of social programs and budget payments.

Talks as a tool of pressure

Sadovnik thinks that rescheduling of the launch of the Shtokman field up to 2018 is possible

Tags: [Shtokman field](#), [Total](#), [Statoil](#), [tax preferences](#), [taxes](#), [Shtokman Development](#)



In a month before the deadline scheduled for the final investment decision on the Shtokman field development, Phase 1, the Russian officials have announced that the date of its bringing to operation may be extended. Deputy Head of Rosnedra Peter

Sadovnik reported at the round-table meeting in the Federation Council, that the bringing of the Shtokman field into operation may be rescheduled to 2018. Gazprom's representatives were reported to speak about this possibility. Now, it is planned that production will start in 2016, and LNG supplies are scheduled for 2017.

Talks on rescheduling may represent a tool of pressure on the government in the matter of new tax preferences for the project. At the moment, the Shtokman economical

model is elaborated in accordance with the national tax regime; it is clear, though, that the shareholders will have a lot of problems with implementation of such a complex project in the conditions of a very uneasy environment on the world gas markets. Nevertheless, no lobbying for preferences has been seen yet. Or they were insufficient (Project of NOVATEK and Gennady Timchenko – Yamal LNG has got several preferences and a substantial list of possible instruments of state support).

Now, representatives of foreign shareholders are saying outloud that the project will not be launched without preferences. A week ago, this statement was made by a representative of the Norwegian Statoil, followed by similar comments by the head of Total representation office in Russia Pierre Nergararian at the conference "The Russian Shelf-2011". According to him, Shtokman Development will soon name the sum of expected capital and operational project expenditures, and then it will be clear which tax exemptions are required.

ERTA view

The Ministry of Finance's position is as follows: let's set a reasonable level of taxation for everybody, let's reasonably differentiate the tax levels... for all (no preferences for individual projects). It is evident that, giving preferences for the East Siberian projects at first, then for the Yamal LNG and others, one should expect new preference applicants.

Traditionally, the Russian laws balance their severity by their non-mandatory fulfillment. One should press at first, in order to release, if necessary – to raise taxes and to give individual legal preferences after that.

All are equal... some are more equal

Vladimir Putin criticized Gazprom at the meeting in Saint-Petersburg, and this rebuke produced a stimulus to the industrial lobbyists

Tags: [TPA](#), [independent gas producers](#)

According to mass media, it was suggested to include a highly exotic proposal into the agenda of governmental discussions: to provide independent gas producers with the priority access to the transportation system to supply fertilizer producing companies.

Gas accounts for the lion's share in the cost value of production of these enterprises. For long they have been trying to obtain preferences. Early in this year, they sent letters to Deputy Prime Minister Igor Sechin, asking for special pricing conditions (to include into the export equal profit price formula not only long-term Gazprom contracts, but spot prices as well). For now, however, this is no more but pure ideas. Moreover, I. Sechin has not even yet held a meeting on the development of the mineral fertilizers market.

Agrochemical companies are not listed as largest gas consumers in the country (6-7% of the consumption volume). Energy sector accounts for 38%, population – 16-17%, and public utilities – about 13%. But, unlike the energy sector, they make even gas purchases within a year and can plan consumption more precisely, and this is an advantage for a supplier as well.

ERTA view

The initiative on the priority access for gas delivery to the producers of fertilizers was caused to a significant extent by the discussions of the mechanisms of the support of agricultural producers. They are the largest consumers of fertilizers.

However, the most part of fertilizers produced is exported. And Gazprom is known to having been holding a grudge against the export brand, saying: "They earn big money from our gas. They must share the profits!"

Our overview

On setting a broader standards of construction prices for a wide range of non-producing industrial facilities and civil engineering infrastructure

The Ministry of Regional Development of the Russian Federation published its new orders on new standardized construction prices (by many branches, including railroads, gas supply, heat supply...).

It is not clear, what is new in them. Indexation of old prices and tables has been held annually. It may be a sign that now, in the conditions of extreme price growth during implementation of new investment projects, the cost of a single construction unit will be controlled in a harder form.

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Gazprom increases by Sibir

Gazprom neft bought the shares of the oil company Sibir Energy from the Moscow administration, becoming its only owner

Tags: [Sibir Energy](#), [Gazprom neft](#)



Gazprom neft bought the shares of the oil company Sibir Energy from the Moscow administration, becoming its only owner. 22.39% (85.25 million shares) of Sibir Energy brought \$740 mn

to the capital's budget. Previously it had been supposed that the Moscow administration would have expand its package in the company, which, together with Gazprom neft, controlled the Moscow refinery, to the blocking level (it had even bought a small package from Gazprom neft). After appointment of Sergei Sobyenin to the post of the city administration chief, the plans were changed due to the necessity to look for the funds to cover the budget deficit.

The deal with Sibir Energy's shares could be paid quickly, and it would fill the budget and, at the same time, release it from a part of obligations (the money were needed to expand the share).

The major producing asset of Sibir Energy is Salym Petroleum Development, owned by it on the parity basis with Shell. Total reserves amount to 88 mnt of crude, production amounts to 4.5 mnt annually. The company owns more than 130 fuel filling stations in Moscow and the Region, together with eight licenses for subsoil blocks in the Khanty-Mansiisk autonomous district (KhMAD). Also, Sibir Energy owns 50% of Moscow NPZ Holdings B.V. (the rest 50% is owned by Gazprom neft), which controls about 95% of the Moscow Refinery.

ERTA view

One may say that embraces between Shell and Gazprom (in this case, through Gazprom neft) are becoming tighter. But the one saying this must be a man who has no knowledge of the Russian business specifics. In practice, this partnership may have no significance in terms of development of strategic partnership between the companies.

As for S. Sobyenin, one can say that, for now, he keeps his word. Moscow starts getting rid of the assets which the city has no real need in.

Closure can not be postponed

The meeting of shareholders of the operator for construction of the Burgas-Alexandropolis oil pipeline was held in Rome

Tags: [Transneft](#), [Rosneft](#), [Gazprom neft](#), [Bulgarian](#), [Burgas-Alexandropolis](#)



The meeting of shareholders of the operator for construction of the Burgas-Alexandropolis oil pipeline was held in Rome. Before it, the rumors had been circulating that the Russian shareholders -

Transneft, Rosneft and Gazprom neft (their common share is 51%) would announce termination of the project's budgeting, which would have been equal to withdrawal from the project. The Russian officials denied these guesses. In spite of the problems with the Bulgarian government, which has not invested its share into budgeting of engineering works for long, making clear that it is not interested, Moscow is not ready to refuse from this pipe by political reasons. This may significantly weaken its positions in the Black Sea and Caspian Sea regions, since it will be no choice rather than to join the Turkish Samsun-Jeikhan project.

It should be noted that Greece, which has not made any loud political statements against the pipe, does not pay its share of project expenditures as well. To Greece, it concerns even more than to Bulgaria (debt of Sophia under the project is EUR7.3 mn, of Athens – EUR129 bn).

Along with that, the meeting decided on maximal reduction of the costs of the Trans-Balkan Pipeline's operation (to

reduce the staff and administrative expenditures and to transfer the contractual relations with the counteragents to the status requiring no regular payments). In fact, that means freezing of the project until the better time comes (or the political environment in Bulgaria changes), not refusing from it at the same time.

An additional reason was provided by the fact that, for the time being, the Caspian oil volumes are not sufficient to fully load the new oil pipeline's system. One should take into consideration that Transneft is now building the Baltic Pipeline System (BPS) -2, and the latest negotiations with the East European countries (e.g. participation in privatization of the Polish refineries, possible purchase of the Lithuanian facility) can likely force Moscow to refuse from transition of the oil transportation volumes from BPS-2 from the Druzhba pipeline.

The Burgas-Alexandropolis pipeline was planned as early as in the 1990s as an alternative to tanker shipping along the Turkish Straits. However, the project was launched only in 2008. Current oil volumes transported through the Turkish Straits amount to approximately 85 mnt annually. This is their maximal throughput capacity. In December, stockholders of the Caspian Pipeline Consortium (CPC) agreed on extension of the Tengiz – Novorossiysk oil pipeline from 35 mnt to 67 mnt annually. It was planned that the additional oil volumes would be sent to the Burgas-Alexandropolis pipe.

ERTA view

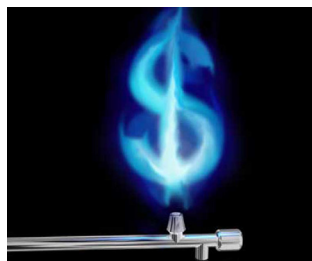
Since the very beginning, the belief in realization, as well as in total closure of this project was very slim. Look at the role of representatives of our power structures in the Russian fuel and energy complex! It is great. And now, imagine the point of view of a usual patriotically intended national security man. To close the Bulgarian project and to be left with a Turkish project only (and the straits are controlled by Turkey)... No! This goes beyond their common sense.

That is why the decision "closure can not be postponed" was predictable, especially in the Russian interpretation, which highly politicizes the international economical processes. It is not possible to leave the Turkish line alone. And the Bulgarian one can not be realized for the moment. So – be postponed.

The history bites its own tail

Gazprom refuses to sell gas at spot prices

Tags: [E.ON](#), [long-term contracts](#), [the price of gas](#), [exports](#)



The Gazprom's largest European client – E.ON suggested that Gazprom would totally eliminate the oil connection from the long-term contractual price formula, connecting the prices instead to spot contracts. Gazprom rejects this categorically, but

pressing is becoming stronger.

Last year, the major buyers initiated the negotiations on changing of the contracts, getting smaller concessions from the Russian corporation. Gazprom agreed to sell

approximately 7% of gas to Europe by spot prices. At first, concessions were given to the Italian Eni, and then to the German Wingas and E.ON Ruhrgas. The price calculation formula included 16% spot component (although it is subject to severe selecting obligations). Then the similar provisions were included into the contracts with the French GDF Suez, Dutch GasTerra and Austrian GWH Gashandel and EconGas. Changes of the contracts were requested by smaller partners too, such as the Italian EGL and Sinergie Italiane, negotiation are underway with the Czech RWE Transgas and Slovak SPP.

Long-terms contract are very well protecting the Gazprom's interests. Incompletely taken

The history bites its own tail

Continued from page 7

volumes are accompanied with penalties for the consumers (in the same way, incomplete delivery results in penalties for the supplier). Review of the contracts may be initiated once in three years. It means that the Gazprom's partners will be able to legally enter the official negotiations not earlier than in 2013-2014. Until that time, the gas market

environment may restore. Growth of supply on the LHG market will slow down, as Qatar will exhaust the resources for rapid expansion of capacities, and the other gas producers have slowed down investments due to the crisis. In addition, restoration of the economics is expected.

ERTA view

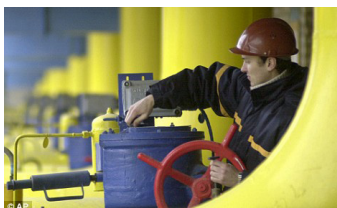
For the German company, its suggestion has a particular commercial interest and sense. Consumers are pressing, and they should be given some particular answer.

Development of this story is well known. Russia is talking about the mechanisms to support and to guarantee investments into exploration and transportation. Europe is talking about the necessity of access to production and transportation, for the cost control purposes. In turn, Russia announces its wish to contact with the end gas consumers, in order to obtain its margin. Et voila, everything comes full circle. As usual, the price paid is not publicized.

Unilateral unification

Minsk claims for gas supplies at the internal Russian prices

Tags: [Belorussia](#)



Last week, the Belarusian Deputy Prime Minister Vladimir Semashko visited the Gazprom's office to discuss the terms of a new gas supply contract (the previous one is to be expired in the end of this year). Such an unusually early beginning of the negotiations initiated by the gas buyer is explained quite easily: Minsk has the reasons to get more favorable supply conditions. Within the Customs Union, supplies of the Russian gas to Belarus are free of 30% export duty; and, as a partner of the Common Free Market Zone, Minsk claims for gas supplies at internal Russian prices. When the parties signed the earlier 5-year contract, it was supposed that the Russian as well as Belarusian consumers would receive gas under the terms of equal profitability with the European export in 2011. When the

crisis came, the RF Government decided to postpone the transition until the year of 2011 at least, while refusing to review the contract with Belarus at the same time.

All that gave V. Semashko the reason to announce after the negotiations that, by his opinion, the parties had reached a compromise.

Although, it is clear that the decision can be made only at the highest political level. Gazprom, which, beginning with this year, has been selling gas to Belarus at prices of equal profitability with the export prices (\$229/mcm) without any discounts, stands against changing of the terms. Last autumn, however, the Russian Prime Minister Vladimir Putin gave Minsk a promise that the return to the Russian gas price formation system could be possible if Belarus would precisely and timely fulfill all obligations and procedures within the Common Free Market Zone, which would come into force after January 1 of 2012.

ERTA view

The documents signed within the framework of the creation of the Common Free Market Zone (in particular, in the gas area) anticipate full unification and achievement of equal profitability by prices to the year of 2015. And the documents state this very distinctly.

Naturally, a certain transition period is required. But, as it often takes place, the Belarusians were hasty (having their own opinion, as usual). Let us unite momentarily, based on the internal Russian prices! Russia, though, is not ready to practice equal profitability in 2012.

Results of the reform

Total liberalization of the market has been achieved – only 10% of electric power is sold freely

Tags: [reform](#), [electricity](#), [price](#)



The Chairman of the Board of the non-commercial partnership “Council of the Market” Dmitry Ponomarev told about the results of liberalization of the Russian power wholesale market and its development prospects. Further growth of power prices, on his opinion, is inevitable, but the state will preserve the tools of influence on the price formation mechanisms.

First, liberalization touched power generation only, and, according to evaluations of the “Council of the Market”, only 40% of the production volumes are sold at the prices formed with consideration of supply and demand. The rest of the volumes are still sold at the state-regulated prices. Moreover, the price liberalization level for the retail sector (for consumers not able to buy electric power on the wholesale market) is only 10%.

Second, D. Ponomarev explains the growth of prices caused by liberalization by the fact that the consumers must now more actively consider energy savings (enhancement of power efficiency). In addition, D. Ponomarev practically confirmed that the growth of electric power prices in the pre-elections year would be quite moderate (10% for the European part of the country, 2% - for the Urals), in spite of the increased cost of gas and coal. And the state will preserve the limitation tools, due to regulated tariffs as well as assistance in determination of maximal prices on the capacities market.

Third, the capacity market, which is operating since January 1 of 2011 (and which, assuming, helps to cover capital costs of the operators and to have guarantees of the return of investments into development), is now operating in the temporary regime, its mechanism to be corrected. It is subject, in particular, to determination of «unavoidable generators», or the companies which failed to submit the competitive application to the market of fuel and lubricants, but will still get the payment under the FTS tariff, as their operation is critically important for the regional system.

ERTA view

He reported what had been done with his participation and under his tender supervision. But he did not mention about the end failures. As it is known, when RAO UES of Russia was liquidated as a united corporation, the capacity market was planned as a market of standardized exchange-traded contracts. And for now, we have the spot market with a whole set of empirical limitations.

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