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The issue of transit in a liberalised EU market

(or „is it really possible to forget of transit and to speak of gas transport only?“)

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Content

The presentation focuses on treatment of gas transit, identifying and focusing on differences between the transport of huge gas volumes over long distances and the transmission in a meshed EU grid.

1. Objectives

2. Definition of transit

3. Gas transit statistics and analysis

4. Legal issues

5. Comparison and analysis

6. Conclusions



Objectives

Conclusions of the 8th meeting of the European Gas Regulatory Forum Madrid, 8-9 July 2004

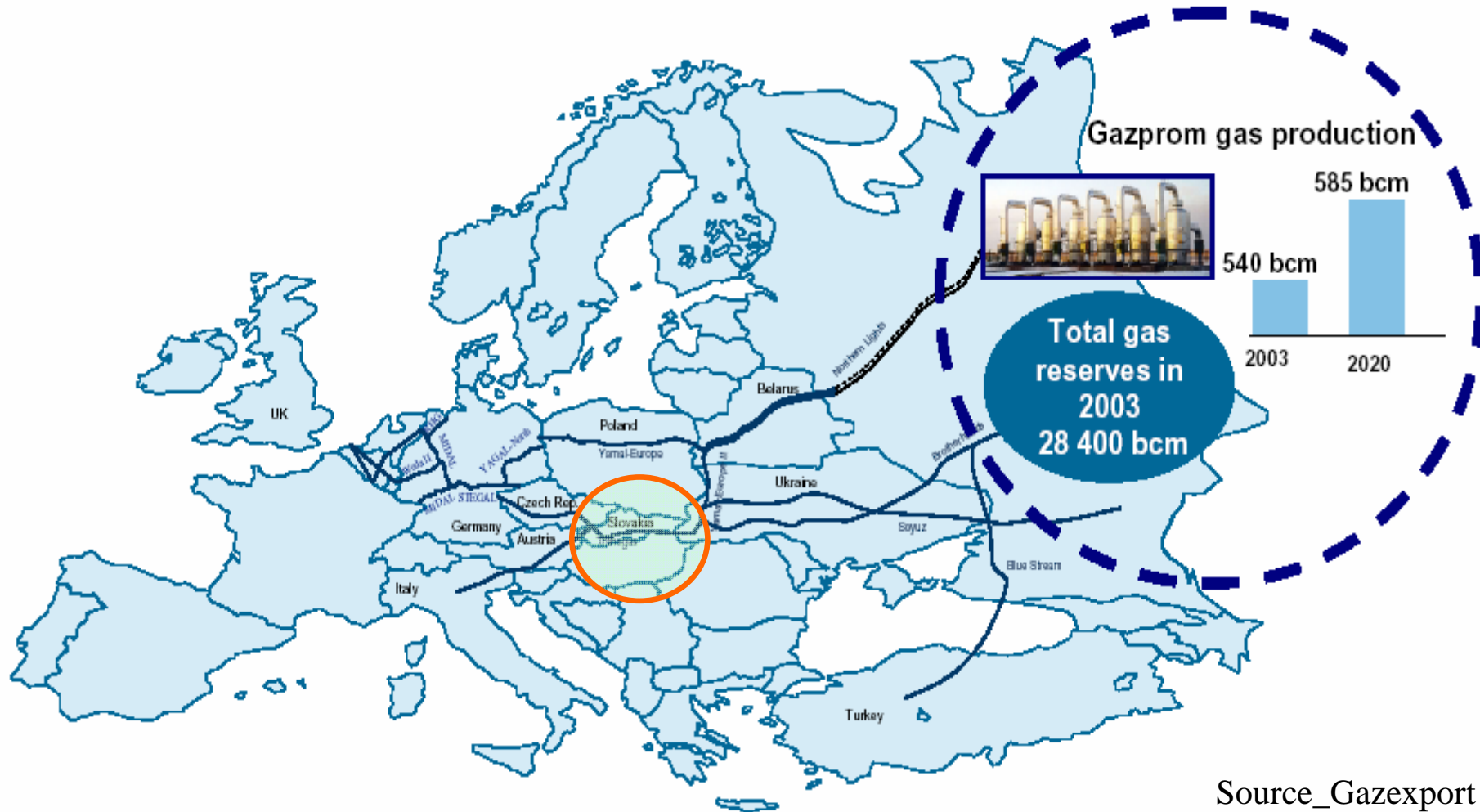
With respect to the issue of compatibility of transit and transportation tariffs in some markets, the Forum suggested to deal with this issue in more detail. The Commission and network users invited ERGEG, in accordance with the usual consultation procedure to present a report outlining **how to deal with transit under a regulated access regime.**

Response: GTE.....2005...Transit position paper
CEER, ERGEG...paper under construction



Gas sources for Europe are distant

Largest Reserves Available to Europe



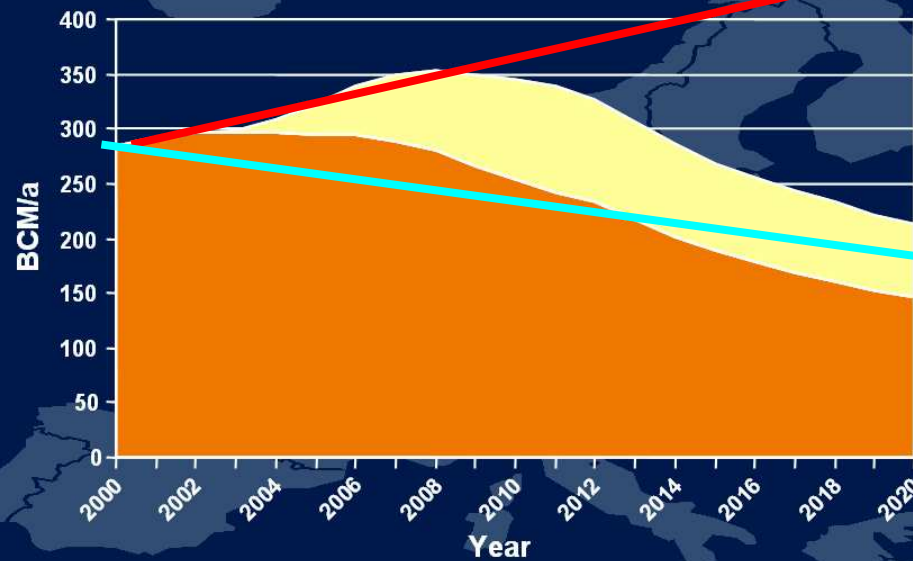
Source_Gazexport

And import dependence is growing

And it brings the issue of gas transit into the spotlight...

Trend consumption

EU/EEA Production Forecast



Base Additional Potential

International Association of Oil and Gas Producers



Trend indigenous
production

Trend
import

Definition of transit



Consensus not easy. Candidates:

- Repealed directive on transit 91/296/EEC
- Energy charter treaty
- GATT ... Article 5



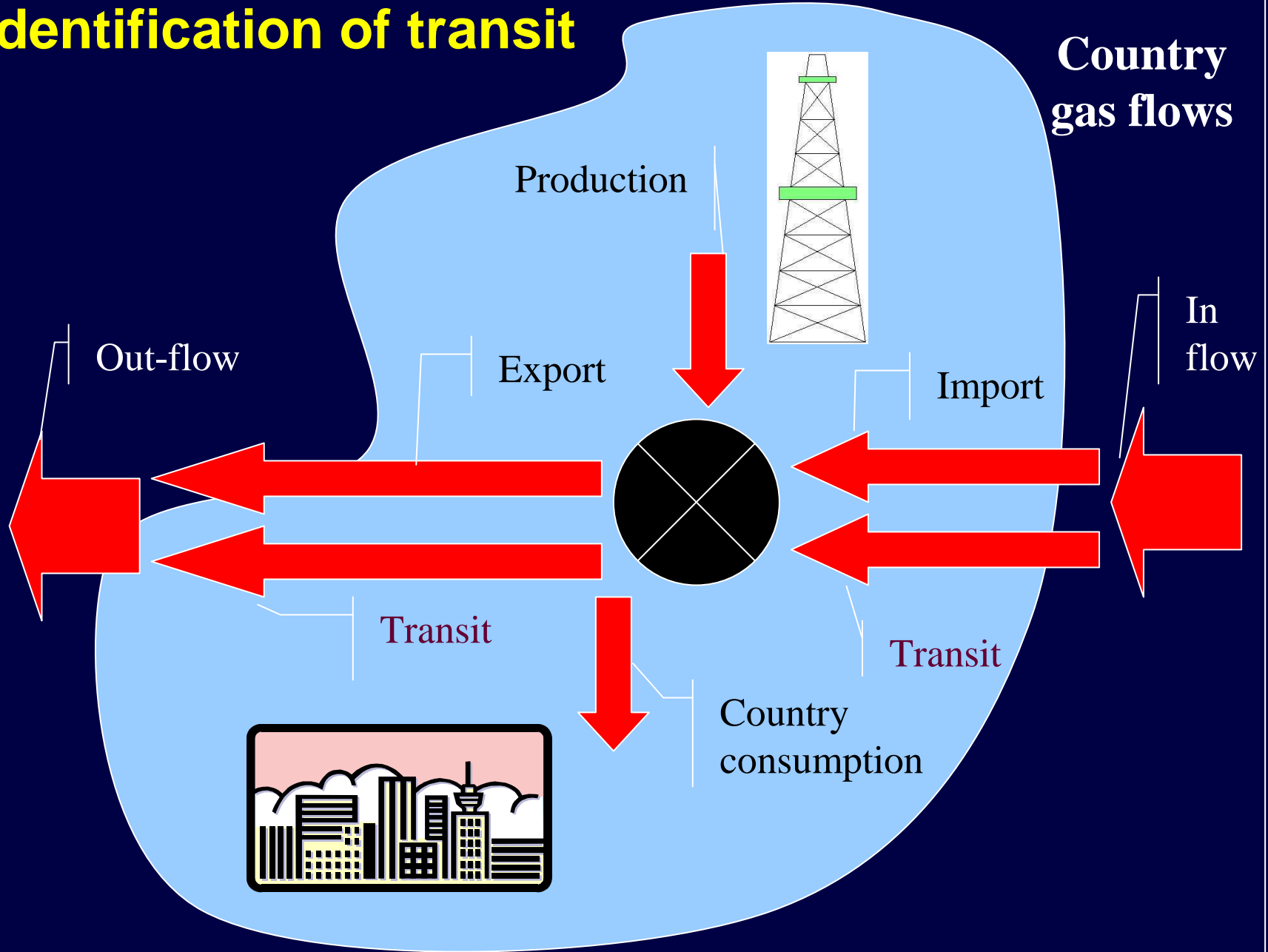
Article V

Freedom of Transit

1. Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without trans-shipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this article "traffic in transit".

Identification of transit

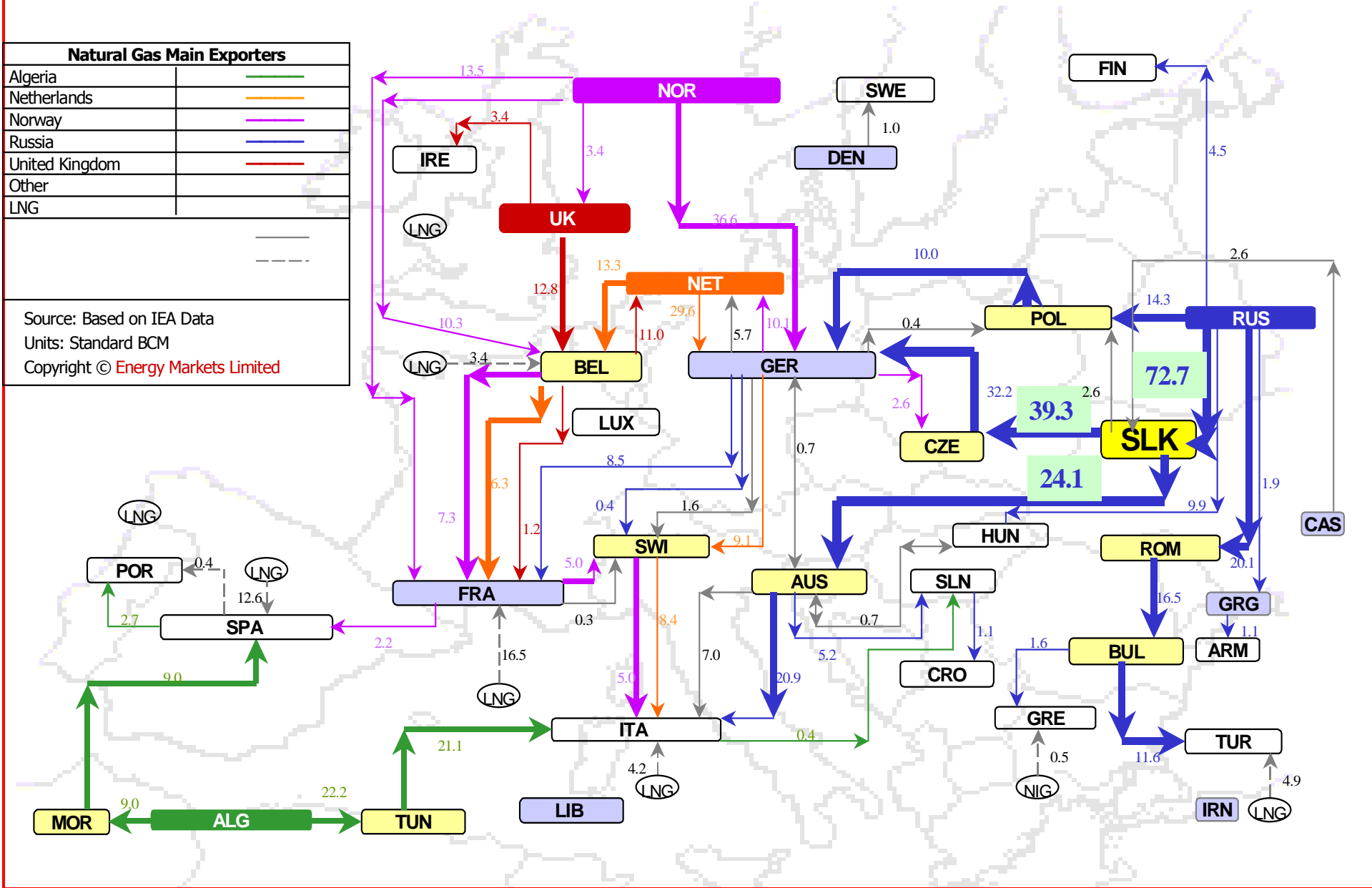
Country gas flows



2002 EUROPEAN GAS FLOWS

Natural Gas Main Exporters	
Algeria	
Netherlands	
Norway	
Russia	
United Kingdom	
Other	
LNG	

Source: Based on IEA Data
Units: Standard BCM
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Identification from the balance of flows

Country, data in bcm/a	A: Production	B: Import for domestic market	C: Consumption	D: Country Out-flow	E: Country In-flow	G: Transit: E-B	Ranking	Importance of transit: G/C
Austria	2,05	6,87	8,92	33,6	41,1	34,23	47	3,84
Belgium	0	17,5	17,5	29	43,6	26,1	35	1,49
Czech republic	0,09	9,56	9,65	28,7	37,5	27,94	38	2,90
Denmark	9,24	0	4,85	2,3	0	0	0	0,00
France	1,35	47,15	48,5	10,7	53,9	6,75	9	0,14
Germany	18,5	72,2	90,7	40,9	121,1	48,9	66	0,54
Hungary	2,78	11,32	14,1	0	11,8	0,48	1	0,03
Italy	12,8	67,1	79,9	0,5	68,4	1,3	2	0,02
Netherlands	74,3	0	44,3	49,4	17,8	17,8	24	0,40
Poland	4,45	9,55	14	17,2	27,1	17,55	24	1,25
Slovak republic	0,16	6,19	6,35	74,7	79,8	73,61	100	11,59
Spain	0,35	29,55	29,9	2,4	29,3	0	0	0,00
Switzerland	0	3,28	3,28	16,5	19,7	16,42	22	5,01
UK	97,7	2	99,7	10,3	12,1	10,1	14	0,10

Degree of importance for the country

The transit flows have varying degree of importance via-a-vis overall gas flows in the transit country.

In some countries, transit volumes are quite substantial relative to domestic supply.

Transit country is a country, where the volumes of gas crossing the country do significantly exceed the gas consumption of the country.

Development of the international transmission of natural gas and supplies for the Slovak Republic from the transit system (in billion m³)

Transmission	1998	1999	2000	2001	2002	2003
Abroad	79,9	83,4	73,9	66,3	65	67,7
Domestic	4,2	4,9	5,3	5,2	5,4	5,0
Total	84,1	88,3	79,2	71,5	70,4	72,7

Importance of transit flows

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Final score-card

By volumes	Importance of transit	By importance for country
Slovak republic	1	Slovak republic
Germany	2	Switzerland
Austria	3	Austria
Czech republic	4	Czech republic
Belgium	5	Belgium
Netherlands	6	Poland
Poland	7	Germany
Switzerland	8	Netherlands
UK	9	France
France	11	UK
Italy	11	Hungary
Hungary	12	Italy



Pipeline systems for the Russian gas



Discussion: Is transit somehow different?

Does transit differ to transportation – i.e. is there really a need to think about these differently? Especially when directive 2003/55/EC repealed Transit directive 91/296/EEC?

Some countries (and probably most of regulators) consider that, as far as the service and the conditions are identical, similar tariff rules and principles should apply to transits and transportations for delivery within the domestic market.

Nevertheless, some countries consider that transit implies specific types of services and risk sharing.

It could justify the application of specific conditions, **provided that the application of the principle of non discrimination is ensured.**



Some good reasons for voting Yes



1. A final customer will often only be able to use one system, whereas there are competing transit-systems
2. The service rendered in a transit contract may be different from a domestic transportation contract : for instance, lower balancing tolerances and higher load factor for transits ;
3. transportation within a country may have specific economical, social or political objectives, such as public service obligations, market development, which can be achieved through different tariff methodologies, whereas transit contracts are based on commercial conditions agreed between parties ;

4. due to the large volumes implied in usual transit contracts, there are special risks associated with transits, against which existing users have to be protected (risks associated to large investments implied by large volumes) ; these risks have to be shared between the transmission company and the transit requester (there are partly covered by long duration contracts which is another difference with contracts for the domestic market) ; the tariff for transit is a result of this specific sharing of risks between the transmission company and a shipper (or a group of shippers)

5. EU border countries and regimes in adjacent non-EU systems



Is transit always the monopoly pipeline?



Investment issue

From TSOs' and shippers' point of view:

Investments for new main transit pipelines need to be financially secured, and not in risk of stranded costs, as TSOs can't manage the risk related to gas markets outside their own area.

Shippers have to be secured as they arrange their business through a robust supply / demand chain.

Consumers of the countries which are crossed by transits should not subsidise (or be subsidised by) consumers of other countries.

These elements are satisfied if new investments needed by transit are secured by long-term commitments on booked capacity.

Investment issue

On the other hand, Commission and Regulators underline limits:

Transits should not impede competition

Dominant players should not block access to pipelines, but instead should let new entrants who have competitive gas, and customers for it, have access to freed capacities.

Transit should be consistent with domestic transmission

Problem in interpretation, but:

CONSISTENT IS NOT EQUAL



Investment issue

The financial risk could not be solved by integrating these investments in a regulated asset basis:

Either the regulation is “cost +” oriented, the risk of future under-use and under-booking for transit capacities would result in an increase of the current tariffs and a to develop unacceptable cross-subsidisation.

Or the regulation is “price cap” or “benchmark” oriented, the risk of under-use capacity and stranded costs should come fully on the investor’s shoulders, lowering profitability, as he would not be allowed to increase his tariffs.

What could be the solutions?

It should be appropriate that TSOs set out a scheme especially designed for transit investments.

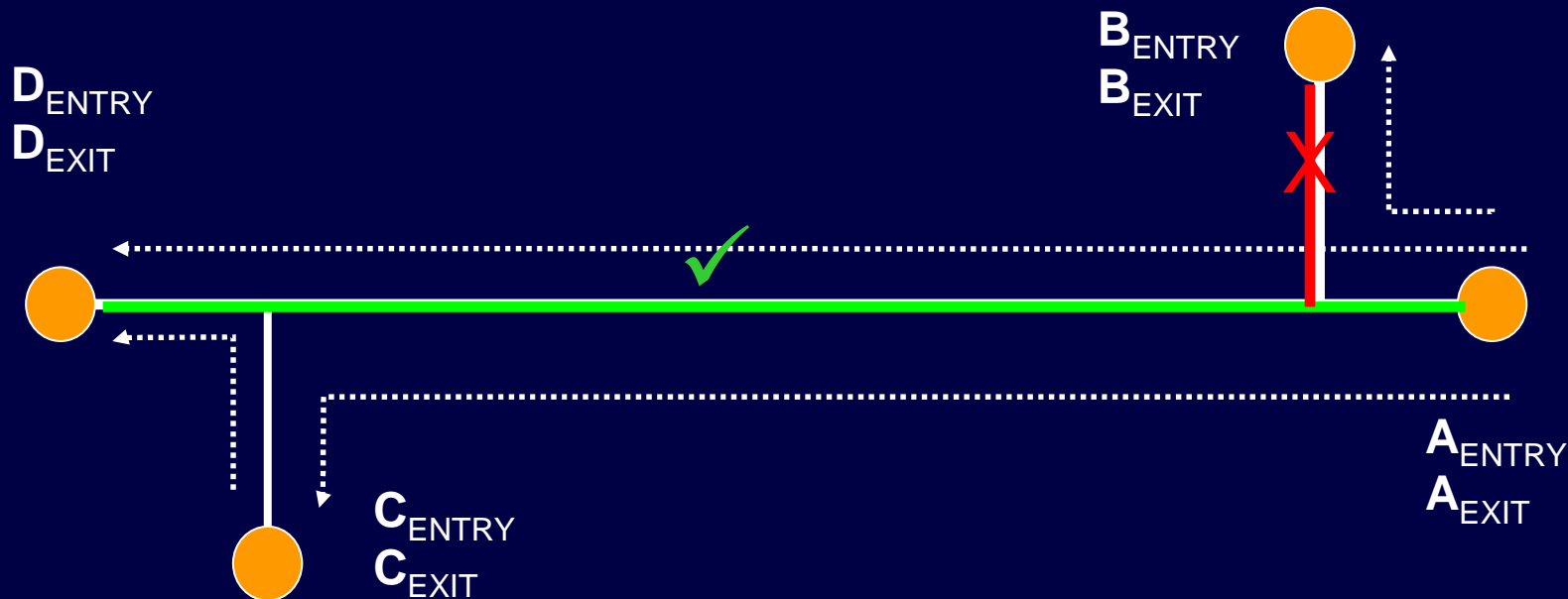
Entry – Exit system in practice

Entry/Exit tariffs gradually became the norm inside the EU. Except for small and simple systems. In practice, can those small and simple ones afford the luxury to be different from the norm? Let us see the result.



Entry – Exit system in practice

Although simple and user-friendly, entry-exit system is imperfect.



If A_{ENTRY} is big to have A-D and A-C cost-reflective, than A-B is deformed

If A_{ENTRY} is small to have A-B cost-reflective, than C-D and D-C are deformed

Balancing of transit pipelines

TSO operating in Slovakia with 80 bcm/a in transit and 7 bcm as a transport for domestic market. There is no liquid gas market available in the neighbourhood.

The TSO is offering tolerance of 5 % to domestic transport, and no tolerance for transit. Equal treatment could mean:

- offer 5 % balancing tolerance also to transit customers, which leads to the need of storing the gas volumes
- stop to provide the balancing service to domestic transport because of the need of equal treatment.

The annoying result is that the strict request of equal treatment will either deform provision of gas transit through the country and jeopardise the security of supply of Europe or complicate and worsen the situation of country consumers.

Challenges to transit– 1775/2005 regulation



(1) Transmission system operators shall offer firm and interruptible services down to a minimum period of one day.

Transmission system operators shall publish at least the following information about their systems and services:

Transmission system operators shall publish daily updates of availability of short-term services (day-ahead and week-ahead) based, *inter alia*, on nominations, prevailing contractual commitments and regular long-term forecasts of available capacities on an annual basis for up to 10 years for all relevant points.

Sounds good, especially when taking into account:

-Russian federation: 2000 km

-Ukraine: 1000 km

-Slovakia: 460 km

-Czech rep.: 450 km

-Germany: 700 km

-Etc.

-Total: 4600 km

-Gas flow velocity in a transit pipeline: 30 km/h

Then: flow from the producer to the consumer country: min. 6 days

Conclusions

- Gas transit is a security of supply issue
- Competitive routes do exist
- Treatment of transit vs. transport
- On-size fits all approach does not work everywhere and anytime

