

The future of European gas markets

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Our landmarks:

- Company created in **mid-2006**
- First sale to the end user: end of **2006**
- **2007-2008**: direct sales to very large end users-monosite
- **2009-2010** : expanding to medium –size end customer market and multi-site large clients
- **2009-2010**: First smart meter installed
- **2011**: development of the sales to small and medium clients
- The total of about **1 bcm** delivered in **2010**

French sales organization is integrated inside GM&T Energy team (Manchester) active in England, Ireland, Belgium, Netherlands, Germany.

What we offer to our clients:

1. **The guarantee of large physical portfolio back up by the world leading gas producer**
2. **Access to all market tools and flexibilities**
3. **From gas deliveries to energy services**

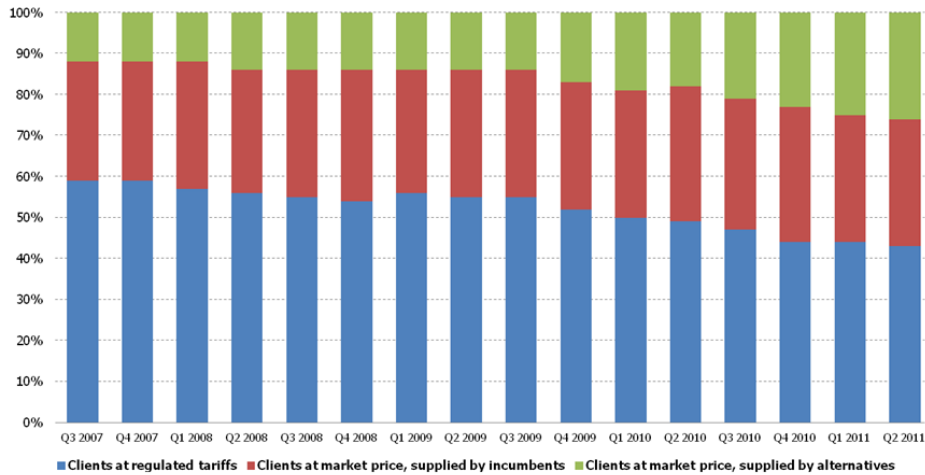
August 2000: liberalization of the market for sites consuming more than 237 GWh/y (\pm **20% of the market is open** – roughly 600 sites)

August 2003: liberalization of the market for sites consuming more than 83 GWh/y (\pm **37% of the market is open** – roughly 1200 sites added to the liberalized market)

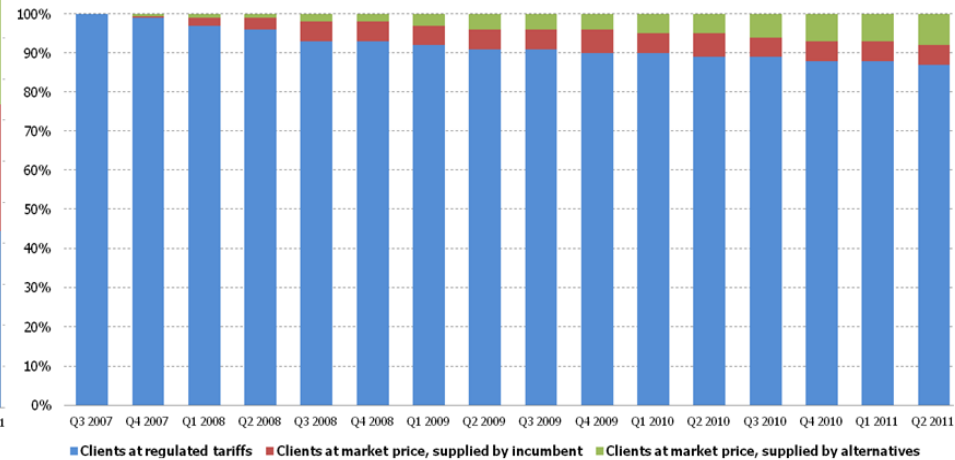
July 2004 : liberalization for the professional clients (\pm **70% of the market is open** – roughly 640 000 sites added to the liberalized market)

July 2007: liberalization of the domestic market (11 millions sites) = **total liberalization of the market**

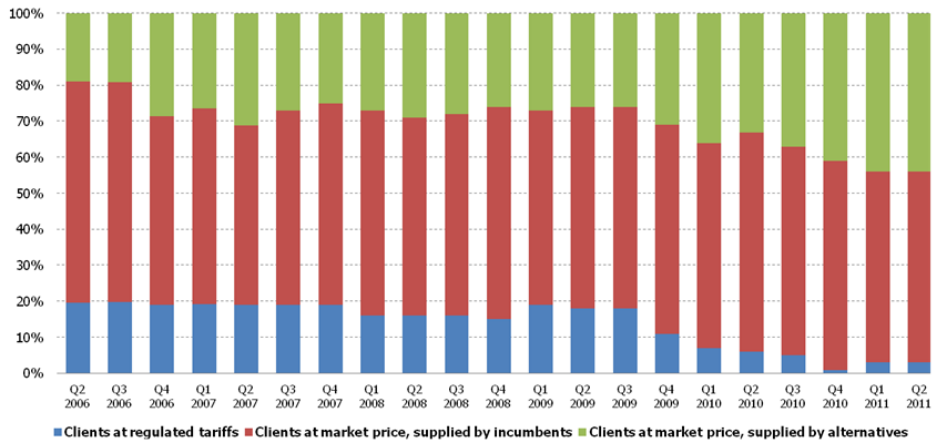
Liberalization of the gas market - all clients



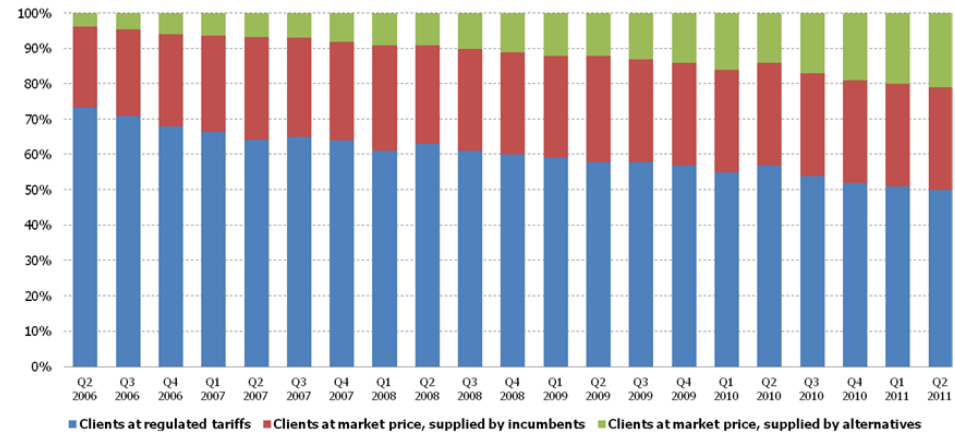
Liberalization of the gas market for Residential clients



Liberalization of the gas market for clients connected to the transmission network (Medium to Large Industrials)



Liberalization of the gas market for clients connected to the distribution network (Small Industrials / Professionals)



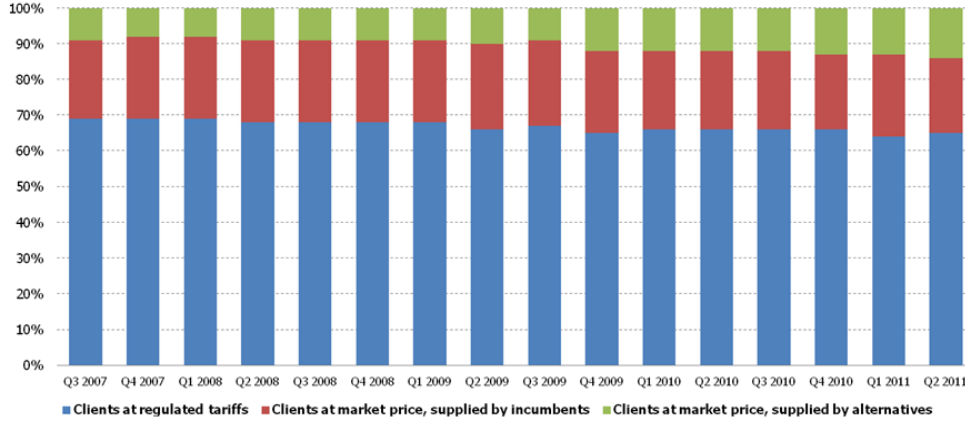
July 2000: liberalization of the market for sites consuming more than 16 GWh/y (\pm **30% of the market is open** – roughly 1300 sites)

February 2003: liberalization of the market for sites consuming more than 7 GWh/y (\pm **37% of the market is open** – roughly 3200 sites added to the liberalized market)

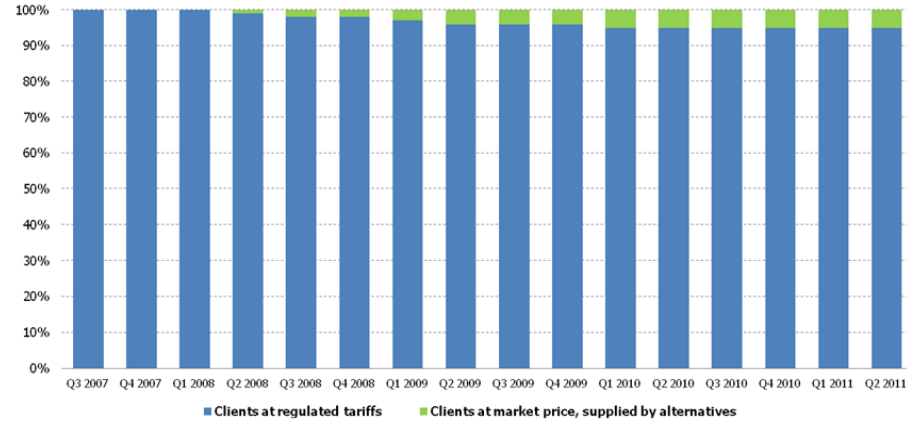
July 2004: liberalization for the professionals and local authorities market (\pm **70% of of the market is open** – roughly 4.7 million sites added to the liberalized market)

July 2007: the liberalization of the domestic market = **total liberalization of the market** (27 millions of domestic sites added to the liberalized market)

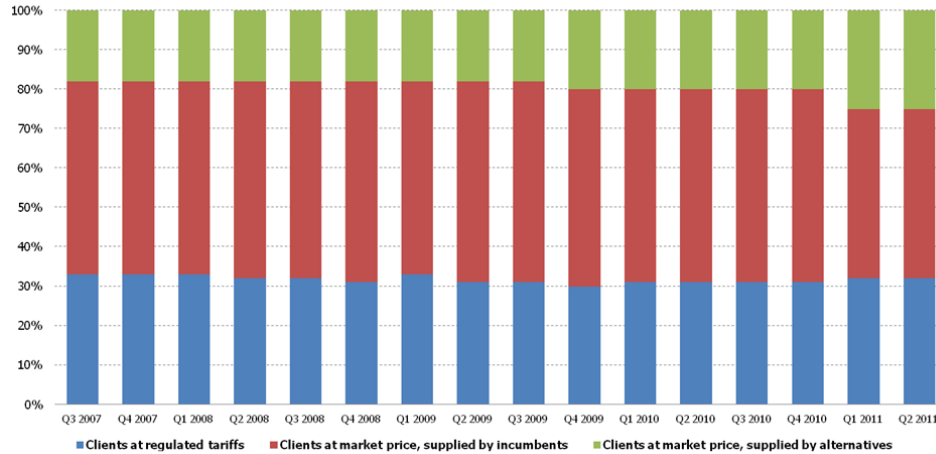
Liberalization of the power market for all clients



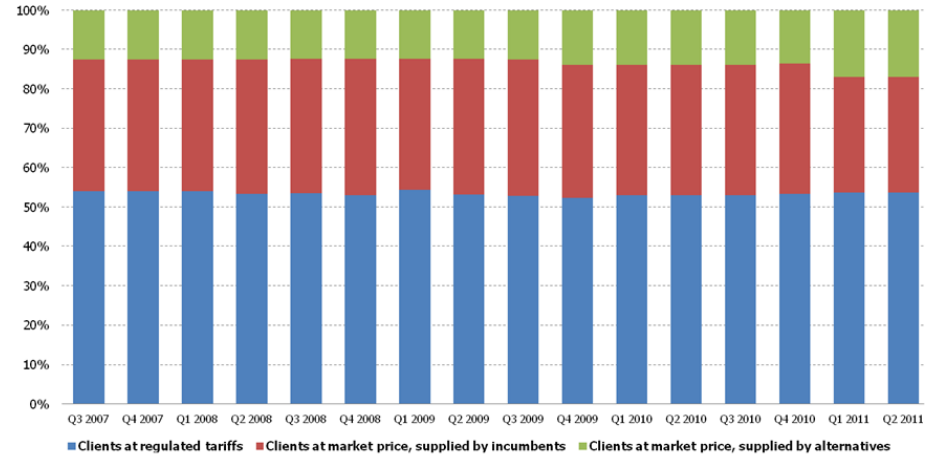
Liberalization of the power market for Residential clients



Liberalization of the power market for Large Non-Residential clients



Liberalization of the power market for Non-Residential clients



The gas market in the early 21st century should be discussed in an increasingly global scale.

Changing markets and changing patterns of work –some principles remain unchanged:

⇒ It is the principle of **long-term contracts** with oil products index and the “**take-or-pay**” conditions that our parent company and the entire Gazprom Group in foreign markets base their activity upon.

The calls to renounce this principle and switch over to gas pegging in pricing and buying gas on spot: what are the reasons and what's behind?

Oil-peg versus spot: strong logic in pricing

During the crisis: prices in the spot markets of continental Europe significantly lower than the oil-pegged price due to stringent conditions on the off-take for local players.

Overcontracted volumes dumped in the spot market, forcing down the price there. After the European customers had a chance to adjust their contracts, the excessive volumes on spot disappeared and spot prices went up.

⇒ **Could such a volatile spot market serve as an adequate pricing reference?**

⇒ **Oil-pegged pricing is predictable and protected against the abuse of any market player.**

The spot market in continental Europe is not yet mature, liquid and deep enough.

Gazprom Group: not against spot peg, but its share is limited by the economic reasons.

What's behind:

The production and transportation of “blue fuel”, mostly, is only reasonable under long-term contracts with off-take obligations.

No one would construct a costly pipeline without a firm belief that it will be filled with gas.

This is guaranteed by **long-term contracts on supply and transportation**.

8th November 2011: launch of the **Nord Stream** pipeline in Greifswald.

Gas from Russia will directly reach consumers in the EU, bypassing transit countries, bringing additional volumes and flexibility across Europe.

The project involves shareholder companies from Germany, the Netherlands, and France.

This gas will reach the Czech Republic through OPAL, expanding Czech transit opportunities.

Why build new pipelines?

The continent's needs for imports will grow.

Europe's need for imported gas will reach 380 bcm by 2020 and 430 bcm by 2030, or at least 130 bcm above the current level of imports by 2030.



**Europe remains the most important market for Gazprom outside Russia.
The equal treatment and equal opportunities are essential.**

The free competition protected at the European level is intended to give equal opportunities to suppliers and ensure a minimum price to customers.

In practice, the regulatory measures taken under this slogan result in ineffective decisions and increase in prices.

Long-term environmental problem, the nuclear phase out, and the renewable energy:

- What will be able to replace the generating capacity being phased out?
- What solution would be best if we decide to reduce nuclear power generation?

At the same time, the number of imperfections in regulation was revealed. The 'merit order' in electricity intended to stimulate renewable sources, nips in the bud all the incentives of investing in other areas of generation.

Natural gas: the best solution for environmentally safe and economically efficient generation in the decades ahead.

The McKinsey study on ways to reduce the CO2 emissions: the costs to achieve the same EC emission reductions goals are much lower under “gas scenario” than with renewables.

Achieving the EC goals of reducing emissions through renewable sources: up to one and a half trillion dollars, of that 820 billion to be paid from the budget of the European states, is required.

The “gas scenario” would cost Europe 500 billion dollars less by 2030, and 850 billion less by 2050 than the scenario of “renewable sources”.

Gas is available, its reserves are predictable, and its supply routes are growing.
It can cover the peak load at any time.

Thank you for your attention!