

# Russian gas – European possibilities

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

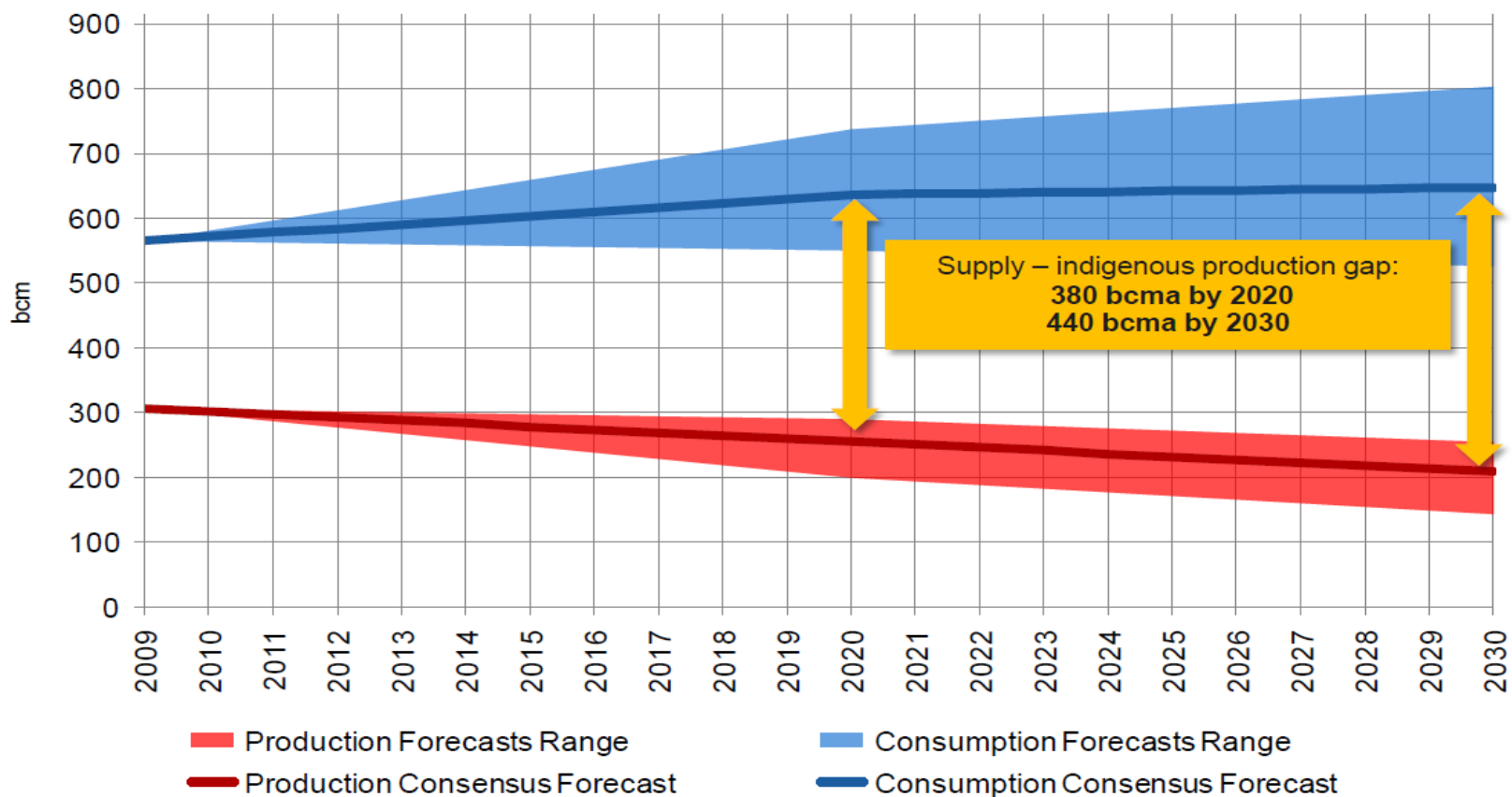
*The European Gas Advocacy Forum commissioned a study on the best ways to reduce the CO2 emissions: the costs to achieve the same EC emission reductions goals are much lower under “gas scenario” than with renewables.*

*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.

## Gas consumption and production scenarios and forecasts for 2020 and 2030



Combination of countries included in the forecast may vary slightly between the forecast makers.  
 All the numbers are calculated based on CAGRs, published by forecast makers.  
 All volumes are up to the Russian gas quality standard.

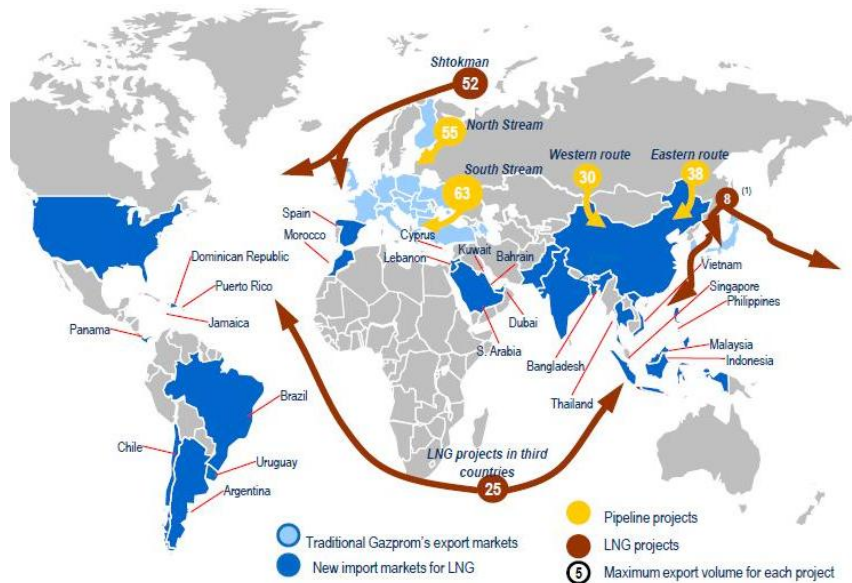
Last Update: Sept. 2010

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 (as demonstrated recently during the February cold snap).

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**.

**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.



### 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.**

### In France, GM&T also has a activities

- **Gazprom representative functions in France and admin support functions;**
- **To manage the EU REACH program for GAZPROM & SIBU (Registration of chemicals products exported to EU)**
- **To develop through BST synergies between all BU's of GM&T and all others entities of the Gazprom group.**



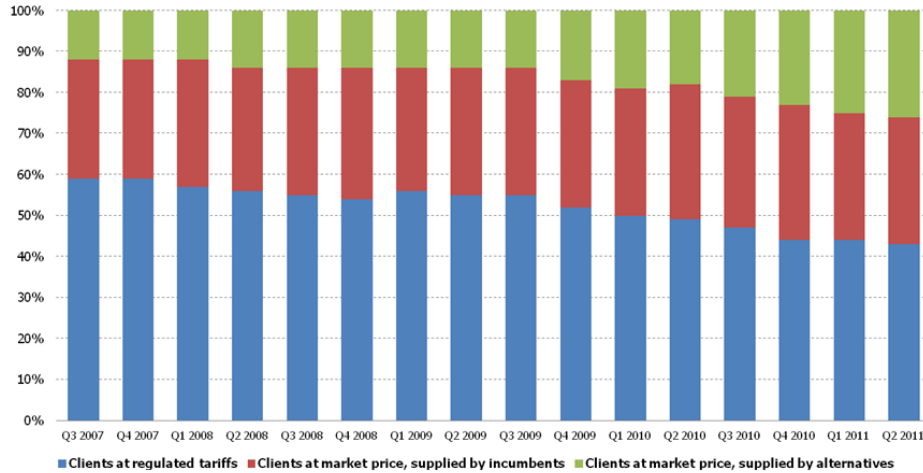
August 2000: liberalization of the market for sites consuming more than 237 GWh/y ( $\pm$  **20% of the market is open** – roughly 600 sites)

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)

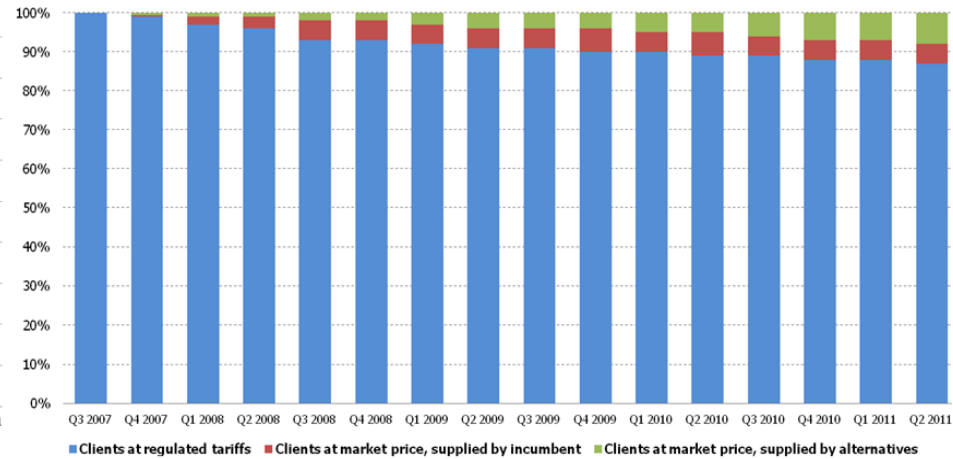
July 2004 : liberalization for the professional clients ( $\pm$  **70% of the market is open** – roughly 640 000 sites added to the liberalized market)

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

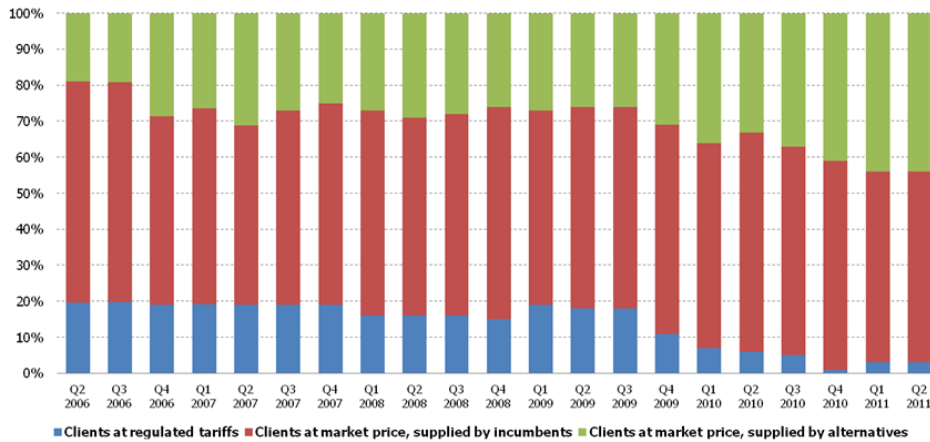
Liberalization of the gas market - all clients



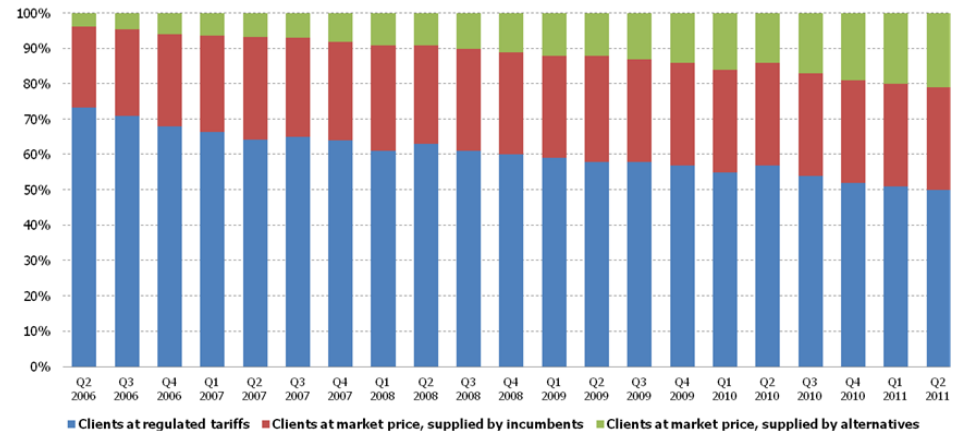
Liberalization of the gas market for Residential clients



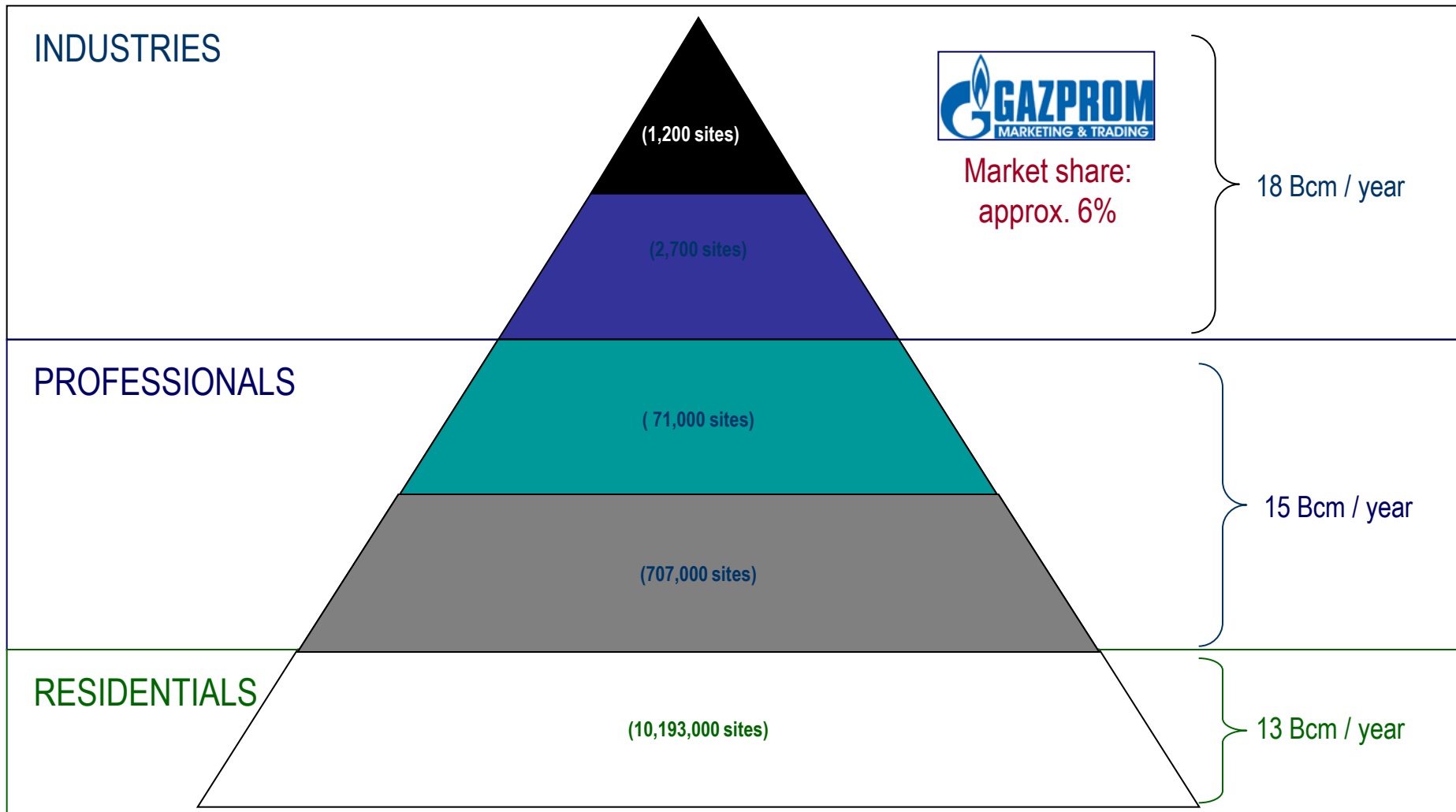
Liberalization of the gas market for clients connected to the transmission network (Medium to Large Industrials)



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



# French gas market structure overview and GM&T position in 2011



**Thank you for your attention!**