



**GAZPROMBANK**

Gazprombank (Open Joint-Stock Company)

**EBC WORKING COMMITTEE  
“ENERGY”**

**15 March 2013, Paris**

# Russian gas and power markets in 2012 and new challenges

***Natalia Porokhova***

***Chief Expert, PhD***

*Natalia.porokhova@gazprombank.ru*

*Тел. +7(495) 287-61-00*

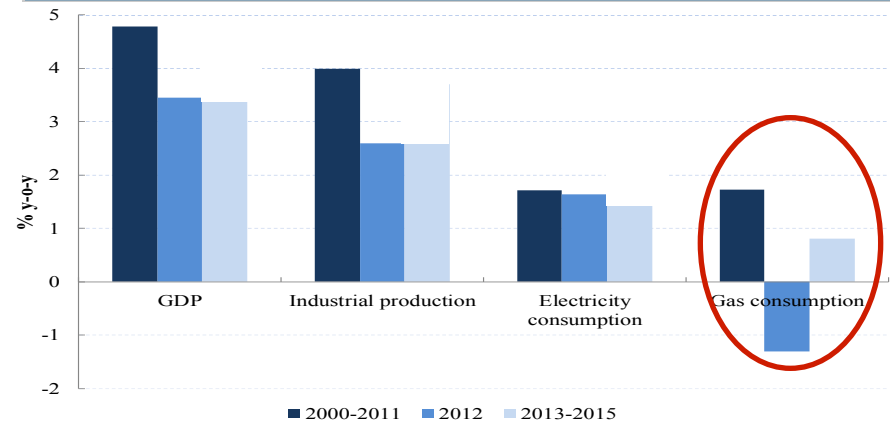


# Russian gas sector: domestic market

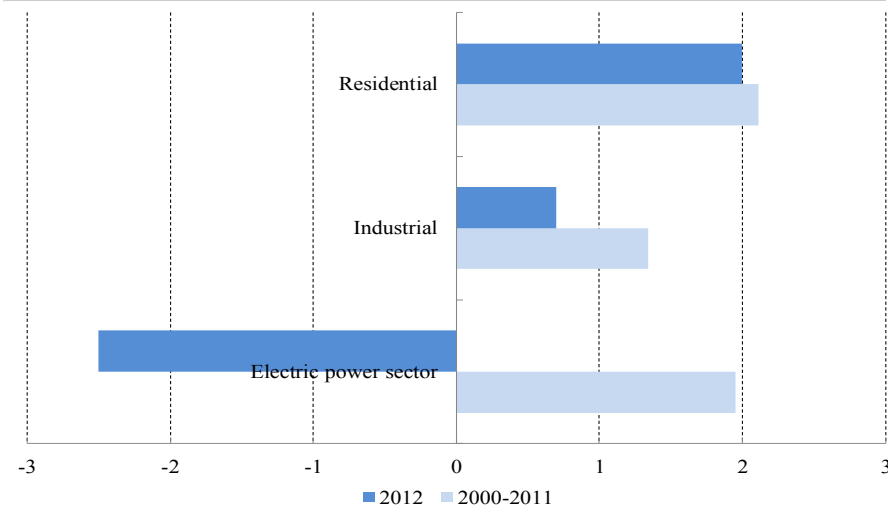
## Key trends

- **Dynamics of the domestic gas market have changed dramatically in the past five years - the deficit was replaced by oversupply.**
- **In 2012, for the first time since the crisis of 2008-2009 domestic gas consumption decreased (-0,8% y-o-y).** Major reasons are linked to the introduction of new, more efficient thermal power plants (CCGT) and nuclear power, as well as sluggish demand from the industrial sector.
- In the coming years, **these factors will contribute negatively to the growth of the domestic market - in 2013-2015.** It will not exceed 0.8% y-o-y (an increase in electricity demand of 1.4% y-o-y).
- Domestic gas market is largely saturated in demand terms.

## Gas consumption and macroeconomic indicators



## Natural gas consumption by sectors



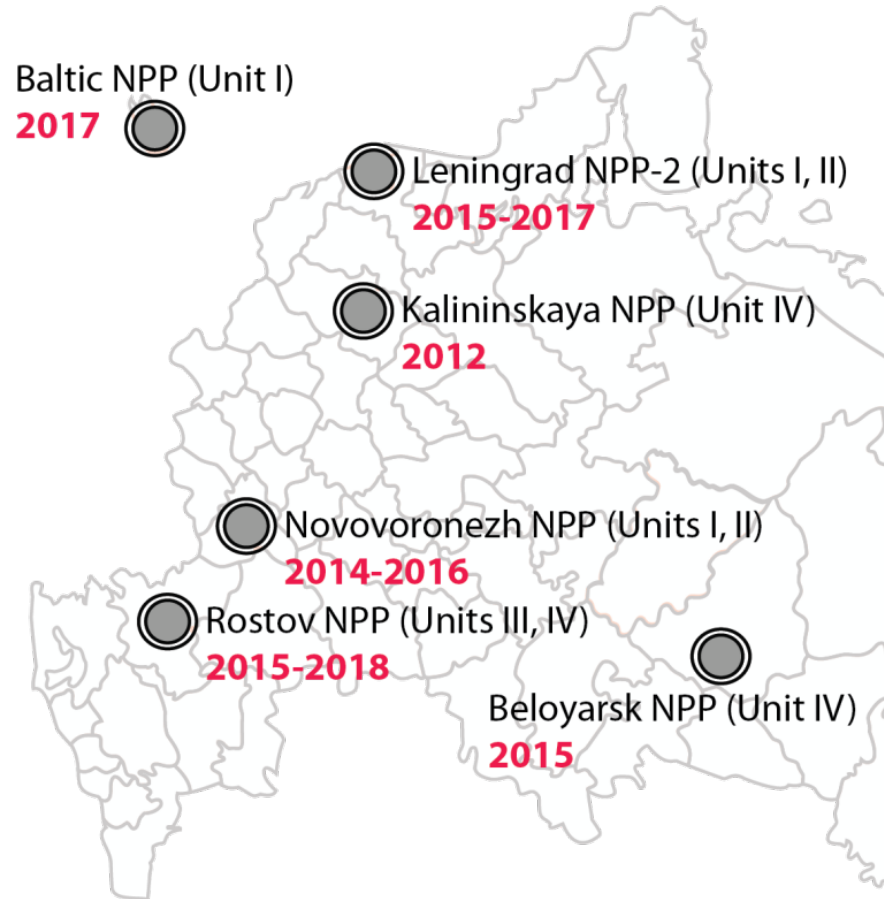


# Russian gas sector: domestic market

## Key trends

- Long-term gas consumption growth is expected to grow around 1,0-1,2% y-o-y (low economic growth, low demand of electricity sector).
- New nuclear power capacities are going to displace near 20 bcm by 2018.
- New CCGT capacities are expected to displace near 12 bcm by 2017. Total potential value of gas consumption may decrease by 50 bcm as a result of the ongoing old thermal capacities modernization.

## New NPP



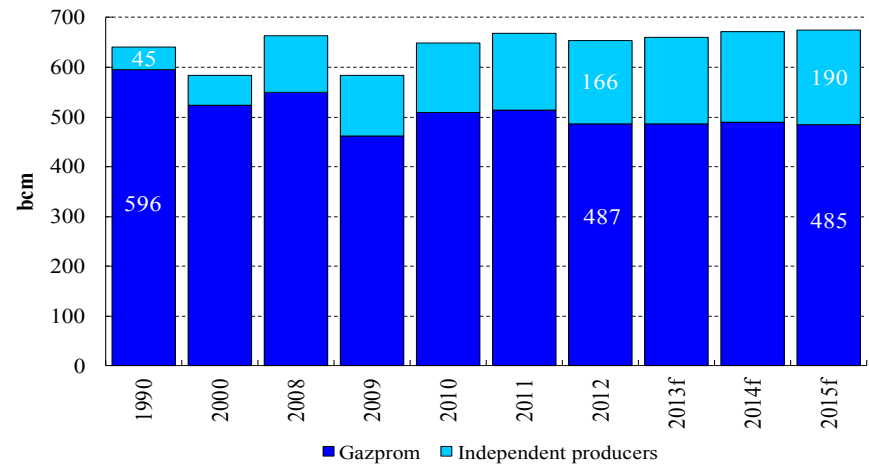


# Russian gas sector: gas production

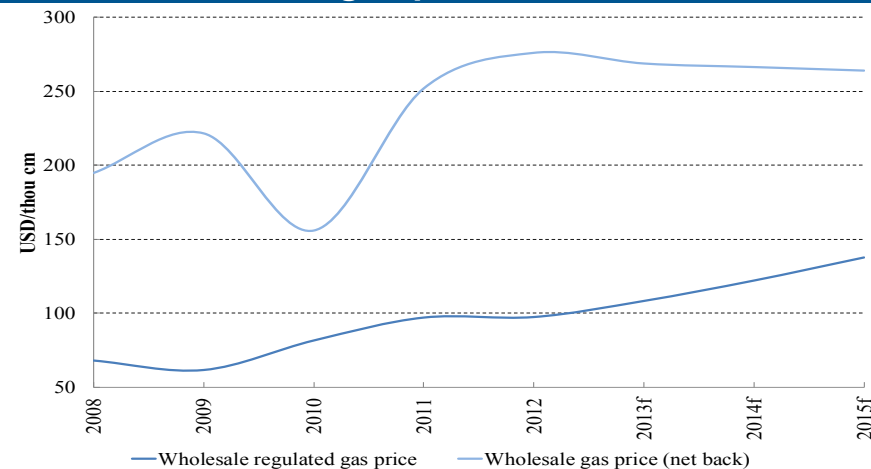
## Key trends

- Russian gas production in coming years will rise by 1,1% y-o-y due to slow internat gas consumption growth rates and sluggish gas market in EU.
- Almost all increase will come from independent producers, mostly from oil companies, which should utilise more than 95% of associated natural gas.
- Despite the rapid growth of domestic prices, wholesale market prices are still significantly below net-back price and it is unlikely to be achieved in the medium term. Furthermore, the low rate of consumption growth and the worsening situation in the industry may force the government to abandon the annual indexation of tariffs by 15% per annum.

## Russian gas production



## Russian wholesale gas prices\*



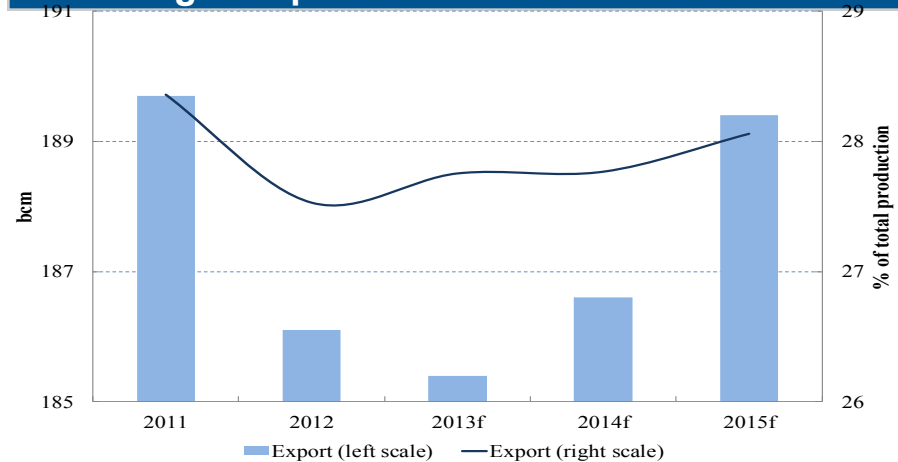


# Russian gas sector: gas export

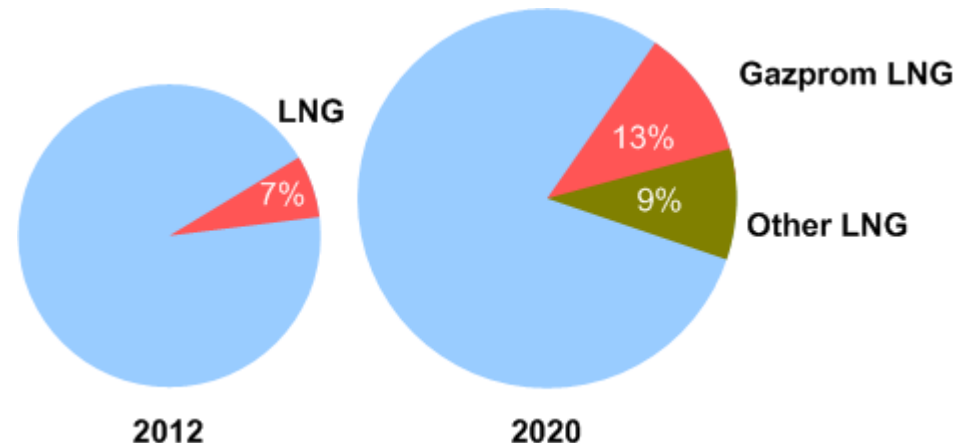
## Key trends

- **Russian exports in the coming years will stay under pressure** due to the recession in the EU and low prices on the spot European markets.
- **It is expected that exports in 2015 will not exceed the level of 2012.**
- **The role of the Asia-Pacific market in the medium term will continue to grow** through the implementation of LNG projects in Vladivostok, Sakhalin and Yamal LNG in 2015-2020.
- **However, in the next 4-5 years, Russia will probably supply only 14-15 bcm to Asia-Pacific** (the first stage of the Sakhalin LNG).

## Russian gas export



## Russian LNG export



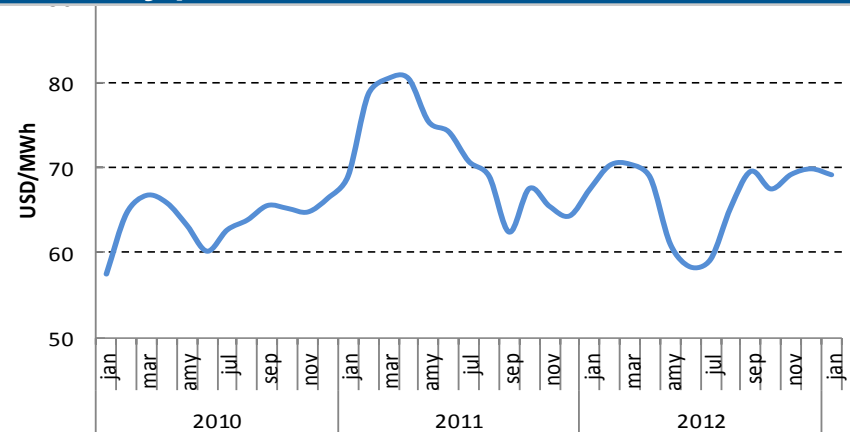


# Russian gas sector: power sector – new prices

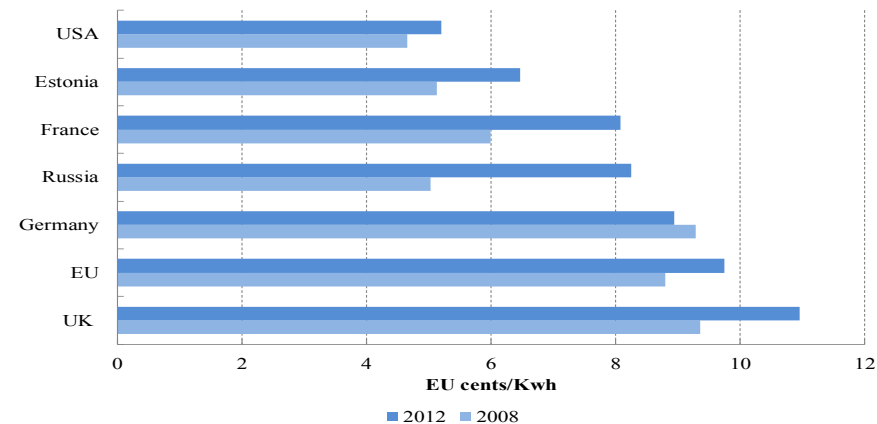
## Key trends

- Gradual RAB implementation and growing gas and coal domestic prices resulted in upward pressure on electricity prices at wholesale and especially retail.
- At the same time Government tries to limit the growth rates of electricity prices by “smoothing” RAB base. These decisions helped to stabilise prices in 2011-2012.
- Electricity sector becomes squeezed by growing regulated domestic prices on natural gas (>15% per annum) and investment costs on grid development.
- Growing costs put downward pressure on profitability margins of the companies and make current situation unsustainable in the long run.

## Electricity prices on wholesale market



## Electricity prices in different countries





# Power sector – new market structure

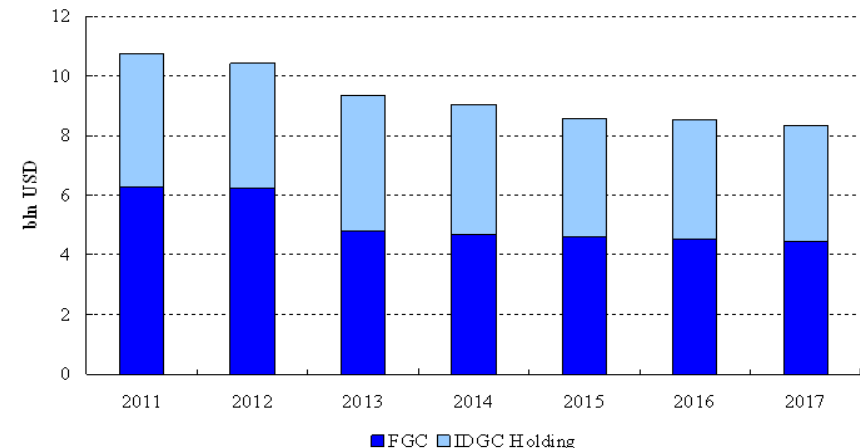
## Key trends

- The consolidation of generation companies: in October 2012 OGK-1 and OGK-3 became part of Inter RAO. RAO ES of the East came under the control of RusHydro. Currently four largest generating companies (3 - under direct government control) account for 55% of electricity production in Russia. Consolidation probably will continue into the future as profitability of the sector declines.
- Consolidation in the grids: the creation of "Russian networks" based on FGC and IDGC Holding will create the largest power grid company.
- To reduce the price pressure, government widely uses the mechanisms of financing investments through direct contributions to the capital of state-owned companies.
- Government gets more opportunities for direct regulation of market...

## Electricity production, TWh

	2009	2010	2011	2012
<i>Rosenergoatom</i>	163,3	170,1	172,7	177,3
<i>Gazpromenergoholding</i>	164,6	174,6	172,8	166,9
<i>Rushydro</i>	107,9	109,9	107,3	112,7
<i>InterRAO</i>	91,9	104,0	109,9	na
E.oN WGC-4	53,9	55,8	62,5	64,2
IES Holding	63,3	61,6	61,1	na
Eurosibenergo	82,9	87,1	80,4	78,2
Enel WGC-5	41,4	45,1	44,5	46,8
Sibirskaya GC	33,5	36,8	34,1	35,0

## Capital expenditure of FGC and IDGC Holding





## Power sector – changes in market regulation

---

- In late 2012, the **Ministry of Energy and Market Council submitted their proposals for reform of wholesale and retail electricity market**, aimed at increasing market competition and slowing growth in prices.
- Ministry of Energy proposes to appoint itself as a single state body responsible for the development of the model and development strategy of wholesale and retail electricity markets, including:
  - Additional responsibility for price establishment in the regulated part of the market;
  - System of certification of electricity distribution companies (retail market);
  - Introducing standard contracts for retail market
  - Unified payment structure of the market
- ⇒ **Importance of the Market Council as a major regulatory body will diminish if these plans become true.**
- Market Council proposes further advances in system of bilateral contracts, standardization of contracts structure (baseload, peak load), changes in rules of capacity market trade.
- => **It is expected that these changes will increase state and regulatory power over the electricity market but probably will lead decline in investment activity.**