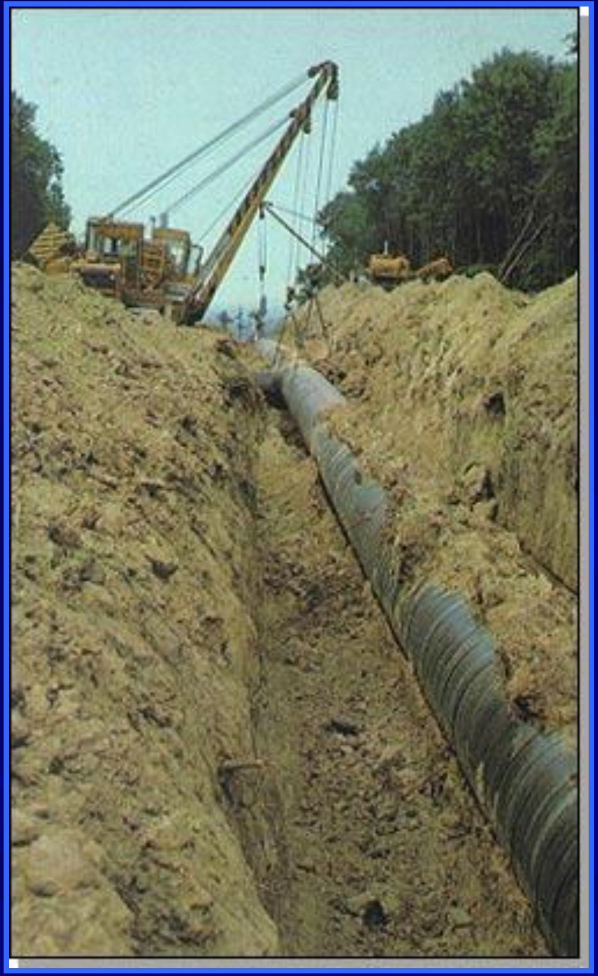
Achieving Access to Russian Pipelines



- Pipeline capacity and daily flows – simple exercises
- Future bottlenecks in the pipeline system
- Third party access
- Signs of liberalization of the Russian gas market and some other signs
- Gazprom: Limits to growth

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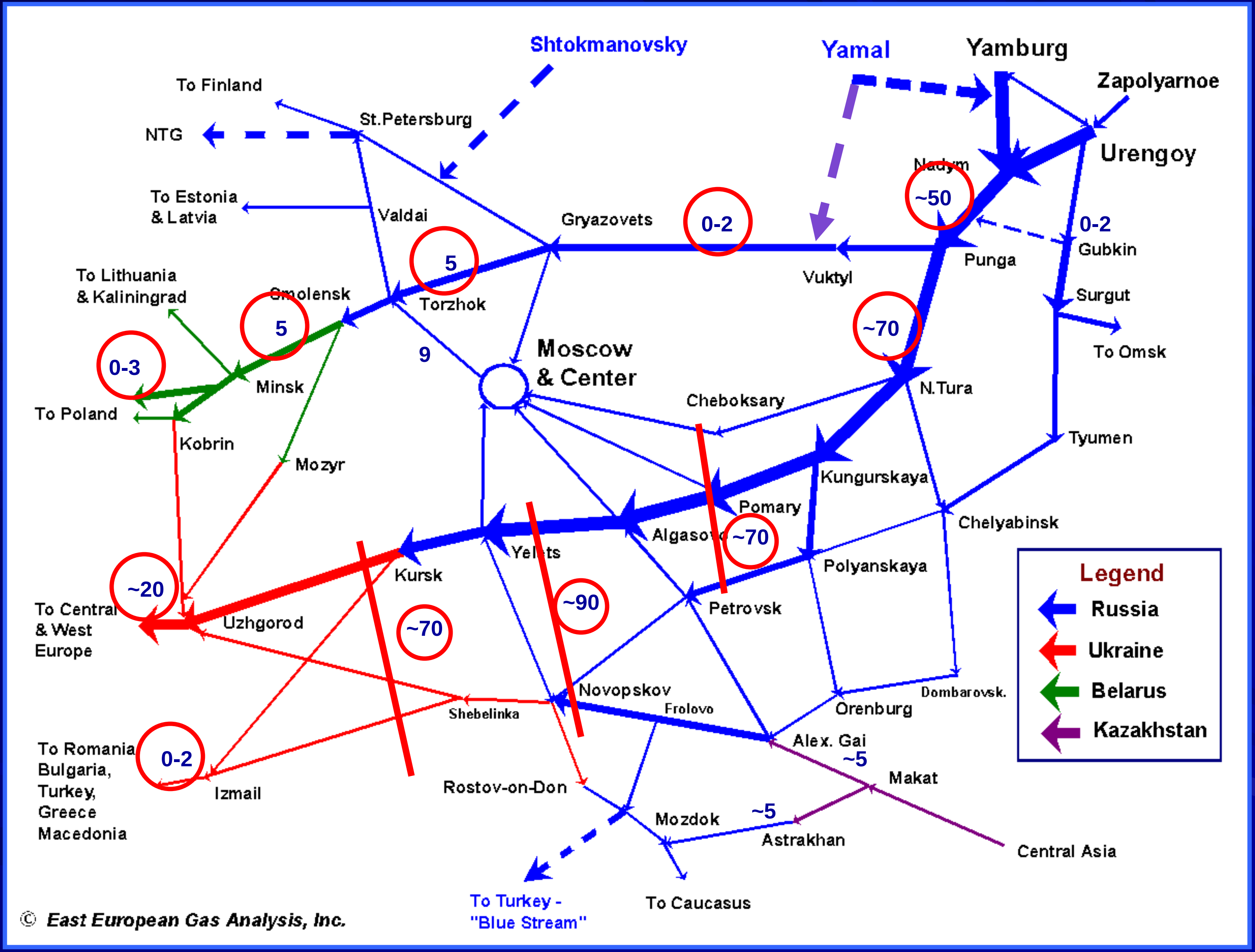
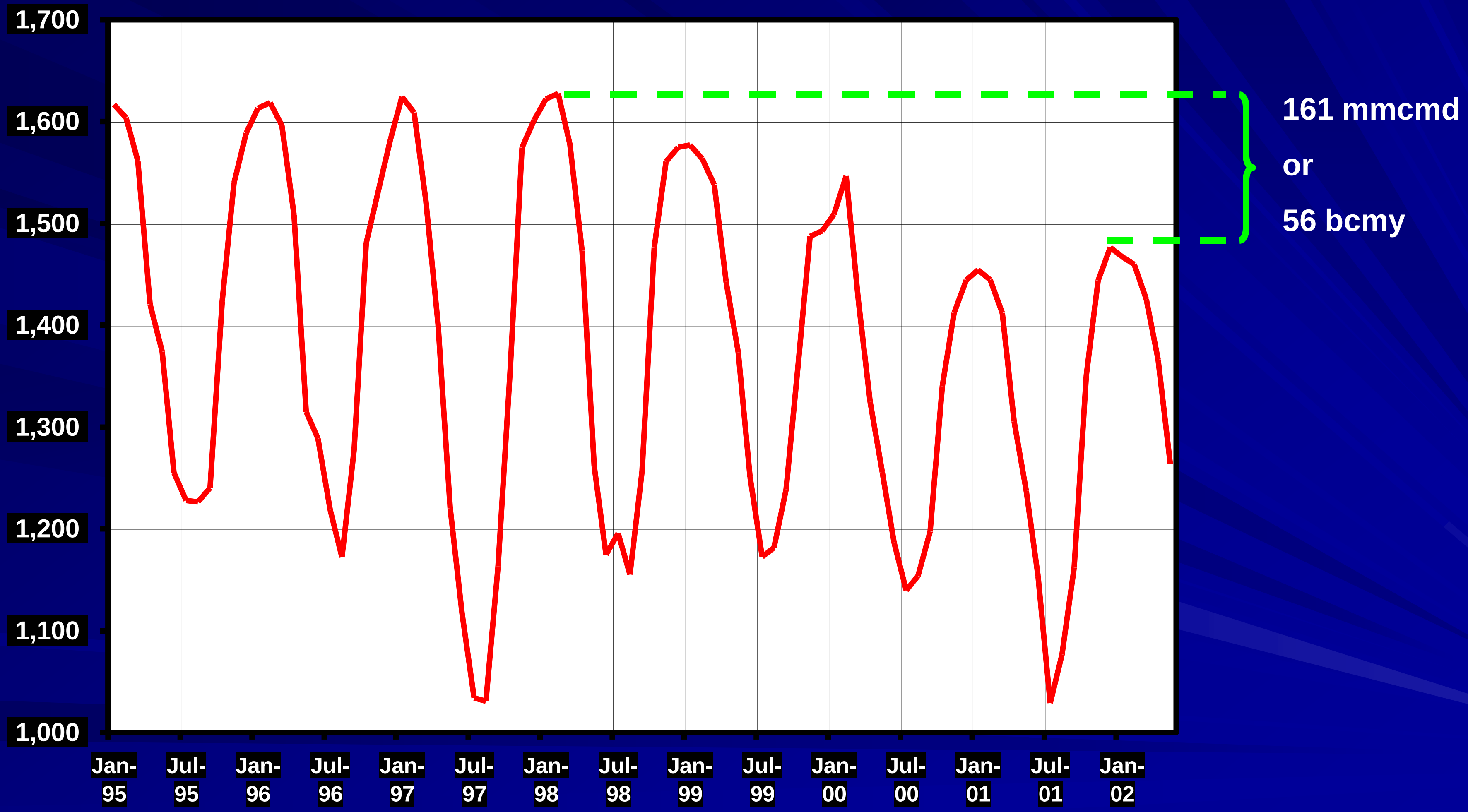
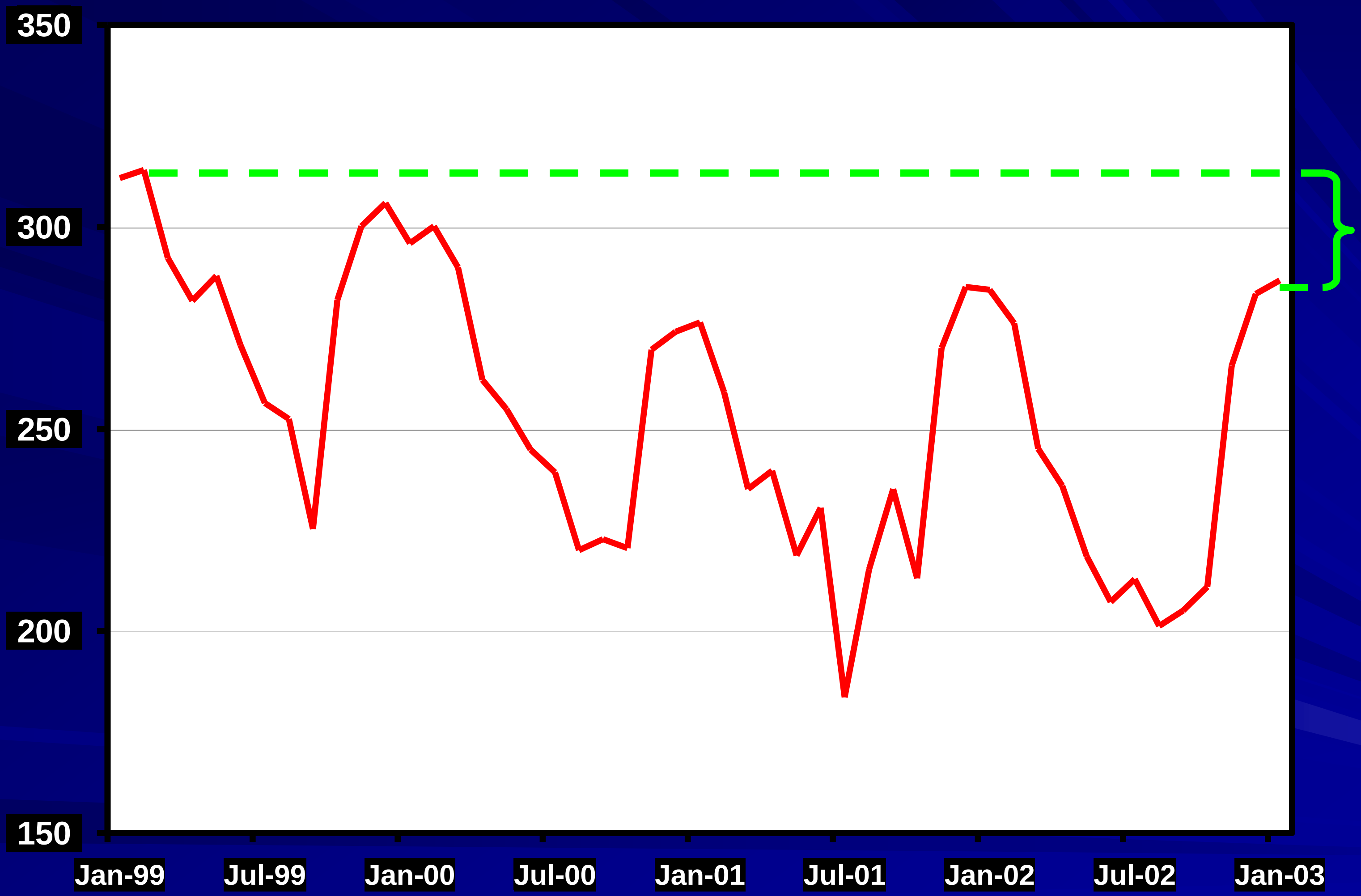
Spare Capacity in 2002, bcm/year



Exercise 1 - Upstream Capacity:
Gazprom’s Daily Production in W.Siberia, mmcmd



Exercise 2 - Downstream Capacity:
Uzhgorod Export Flow, mmcmd



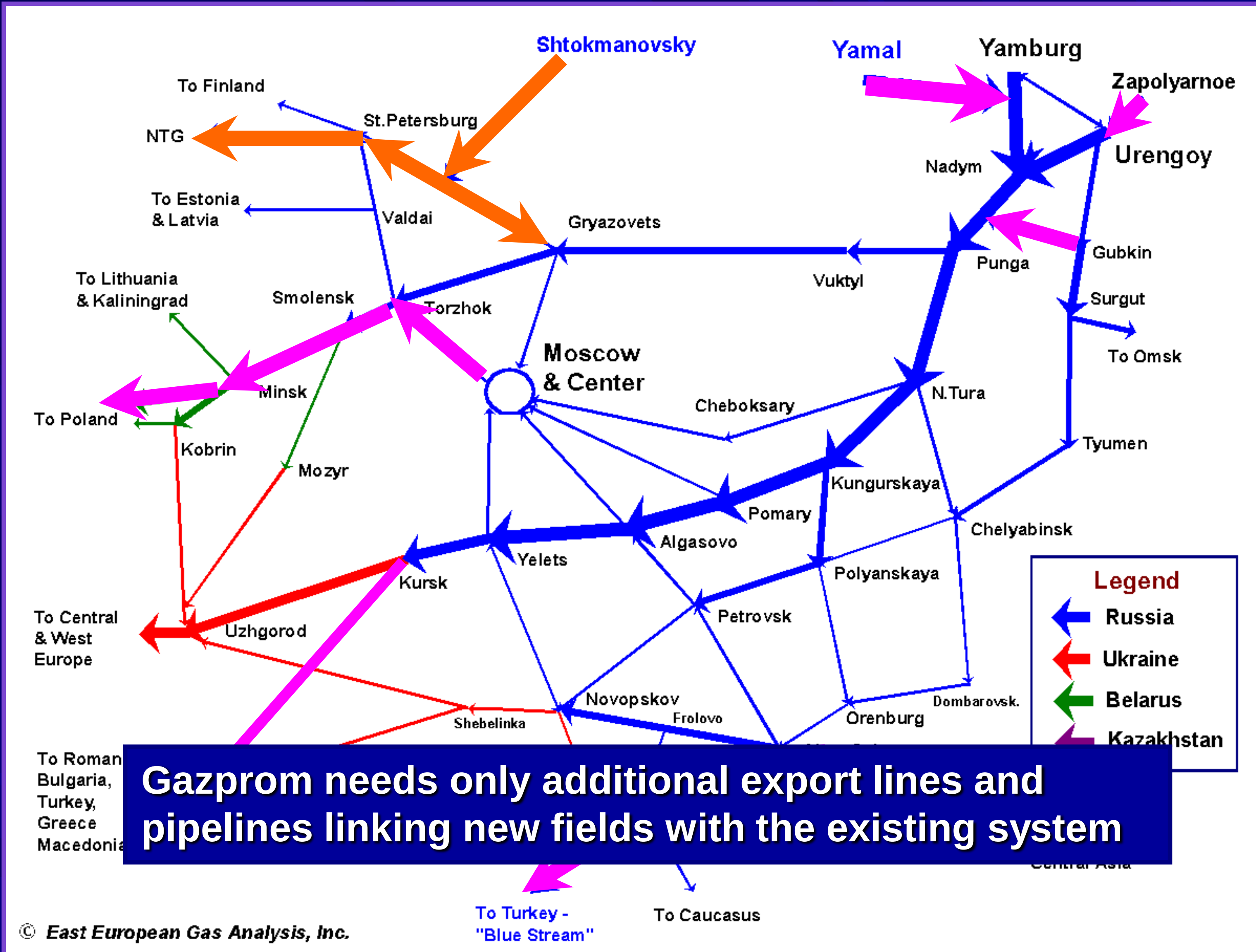
27 mmcmd

or

10 bcmy

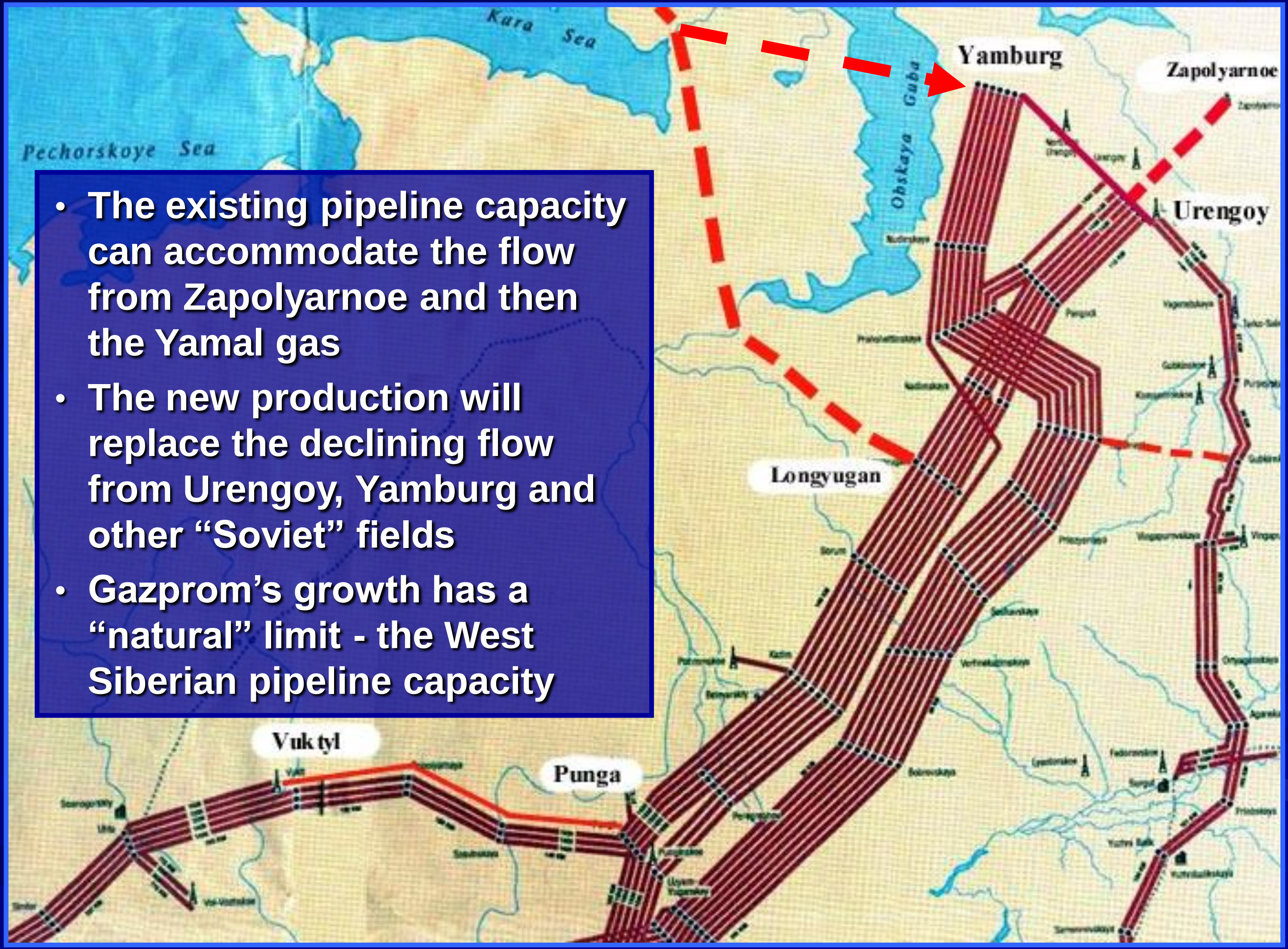
from the level of February 1999

Future Bottlenecks, 2003-2020



Gazprom needs only additional export lines and pipelines linking new fields with the existing system

Upstream Capacity

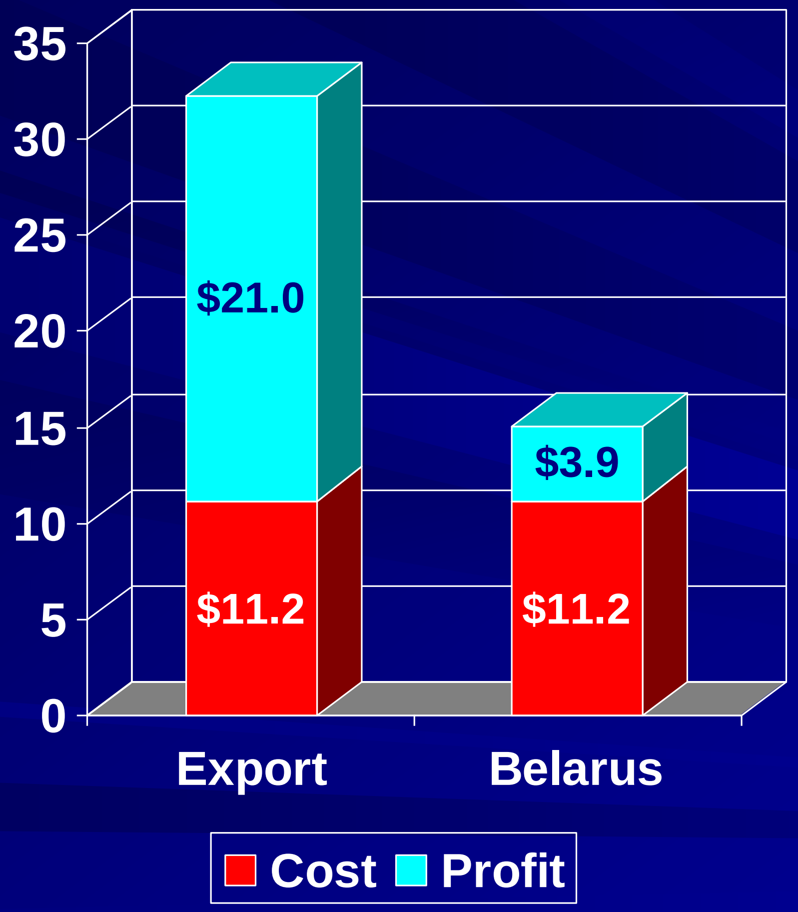


- The existing pipeline capacity can accommodate the flow from Zapolyarnoe and then the Yamal gas
- The new production will replace the declining flow from Urengoy, Yamburg and other "Soviet" fields
- Gazprom's growth has a "natural" limit - the West Siberian pipeline capacity

Third Party Access

- TPA to Gazprom pipelines is regulated by the state
- Transit tariffs are set by the RF Federal Energy Commission
  - domestic: RUR16.56 / mcm per 100 km (~USD 0.52) - compare with the Russian price of about $20/mcm
  - export: USD1.10/mcm / 100 km
- Gas must meet the quality standard
- Gazprom determines spare capacity and sets up the transit route (may be longer than the shortcut)
- FEC may start monitoring spare capacity of Gazprom

Transit Services: Costs & Benefits, $/mcm



- Transit from Yamburg area to Belarus or Western Russia brings Gazprom a profit of ~$3.9/mcm (a loss if Gazprom sells its own gas)
- Transit from Yamburg area to the Russian border generates a profit of ~$21/mcm
- Under current taxation, Gazprom can hardly get a profit of $21/mcm on the export sales of Yamal gas (though it can on gas from Urengoy and Yamburg)
- Selling transit services to gas exporters is a profitable business

Liberalization or Tightening the Control?

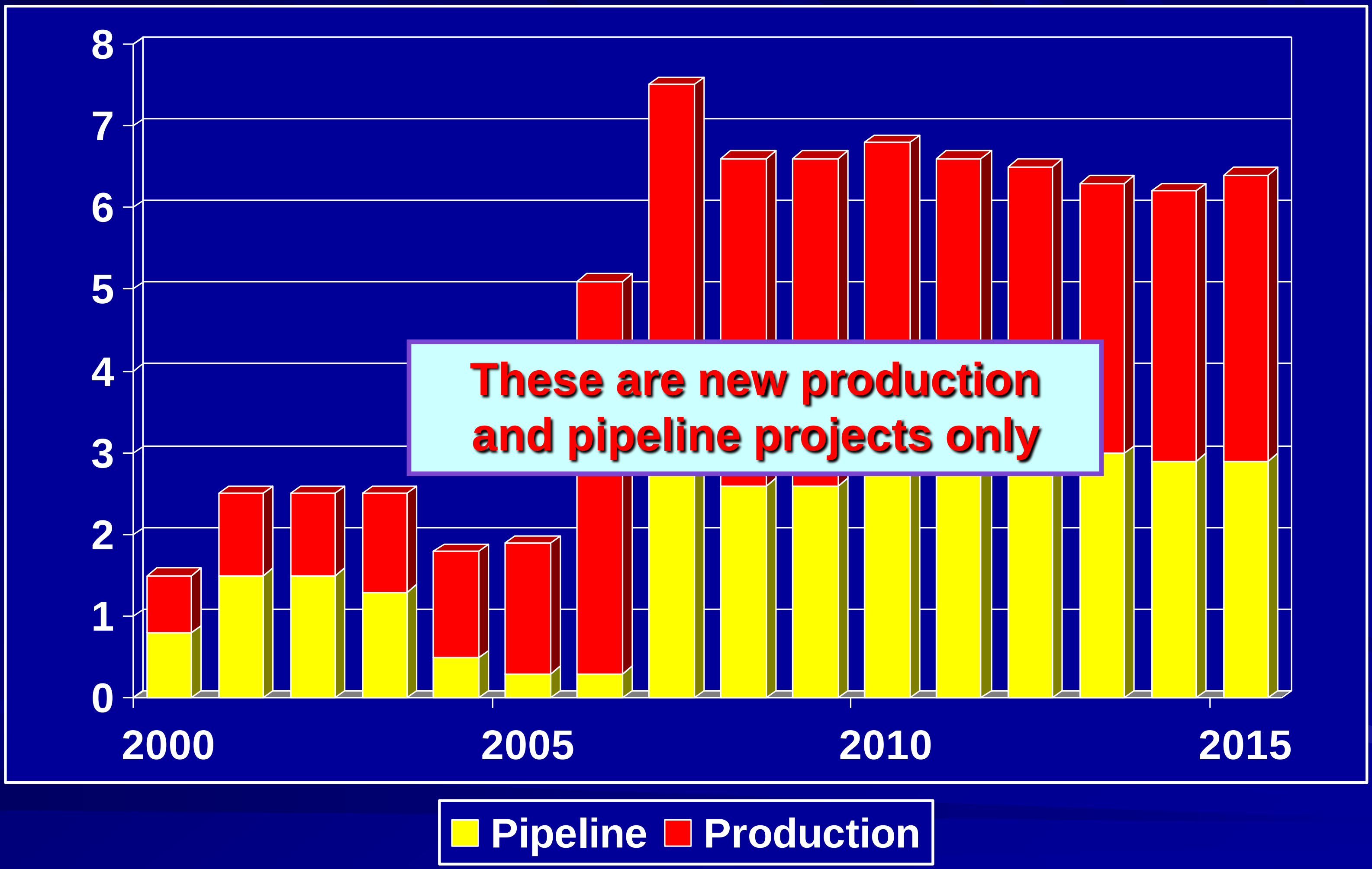
GOOD SIGNS

- Oil companies selling more gas to Russian customers and having big plans
- Ukraine re-exports Russian and Turkmen gas
- Russian and Central Asian companies about to start exporting small volumes of gas to Europe soon
- Gazprom learns accounting tricks
- ITERA is very much alive and active

BAD SIGNS

- "Return of stolen assets" causes negative impacts on Gazprom performance
  - Purgaz and Belarus
  - Payment rate in Ukraine
- Gazprom is still production oriented
  - Underestimating the role of sales and overestimating the role of production
  - Cutting down transit volumes
- Internal power struggle in Gazprom

Pipeline & Production Investment, USD Bn/year (shown at two previous Flame conferences)



What Gazprom Would Do If They Were Market-Oriented

- Increase sales of transit services, including for export
- Create a friendly environment for independent producers and oil companies to provide a steady and low-risk cash flow from transit services
- Attract additional flows of Central Asian gas
- Participate in the Yamal and other new fields' development as a minority shareholder (<20%)
- Start cost-saving program

Alexey Miller

WOULD GAZPROM DO IT?

Yes, as soon as they get a word from the person in charge