



Evolution of gas pipeline regulation in Russia: Third party access, capacity allocation and transportation tariffs

Executive Summary

Russia has been reforming its domestic gas transportation regime since the mid-2000s and achieved significant progress, the extent of which has been largely underestimated by European observers. This is not surprising as the latter have traditionally viewed the lack of ownership unbundling and the existence of Gazprom's pipeline export monopoly as the sole criteria for measuring the reform's success. While signaling that the reform may still have far to go, it has, in its first stage, successfully laid down the structural foundation for a non-discriminatory access regime by introducing legal unbundling and, in its second stage, established a legal/regulatory framework for non-discriminatory access. The reform's relative success has most evidently manifested itself in the dramatic increase of (non-Gazprom) third party gas transportation through the UGS (Unified Gas Supply) system which has taken place since the late 2000s.

The existing framework remains insufficiently developed both in scope (e.g. non-applicability to non-UGS systems, storage and LNG infrastructure) and content (e.g. significant room for discretion in choice of routes for third party gas and capacity allocation in the event of capacity deficit). The new draft framework, currently under discussion in government, aims to address these problems.

Transportation tariff design has also evolved significantly. The introduction in 2005 of new zonal tariff methodology (used for calculation of regulated tariffs charged to third parties for transportation of their gas through the UGS system) addressed some third party concerns, although questions remain about Gazprom's choice of routes for third party gas and the methodology's cost-reflectivity, not least because of its lack of transparency.

From the Russian state's point of view, the aim of domestic gas market reform – including the reform of the gas transportation regime – is to establish a level playing field for Gazprom and non-Gazprom parties in order to ensure the optimal development of the domestic gas sector and the Russian economy as a whole, while preserving the country's competitive position as an exporter to both European and Asian gas markets. At present, these aims are to be achieved by increasing direct government involvement and strengthened FTS (Federal Tariff Service) and FAS (Federal Antimonopoly Service) oversight. However, should these measures fail, then more radical measures might be required. In such a situation it is not inconceivable that abolition of the UGS system indivisibility principle, with subsequent Gazprom ownership unbundling, might take place with (potentially) the state becoming the owner of both the UGS and non-UGS networks. In early 2015, as this paper is being completed, this seemed a 'last resort' measure which was not under consideration by the authorities.