

Will gas prices in Europe de-link from oil in the next 5 years?

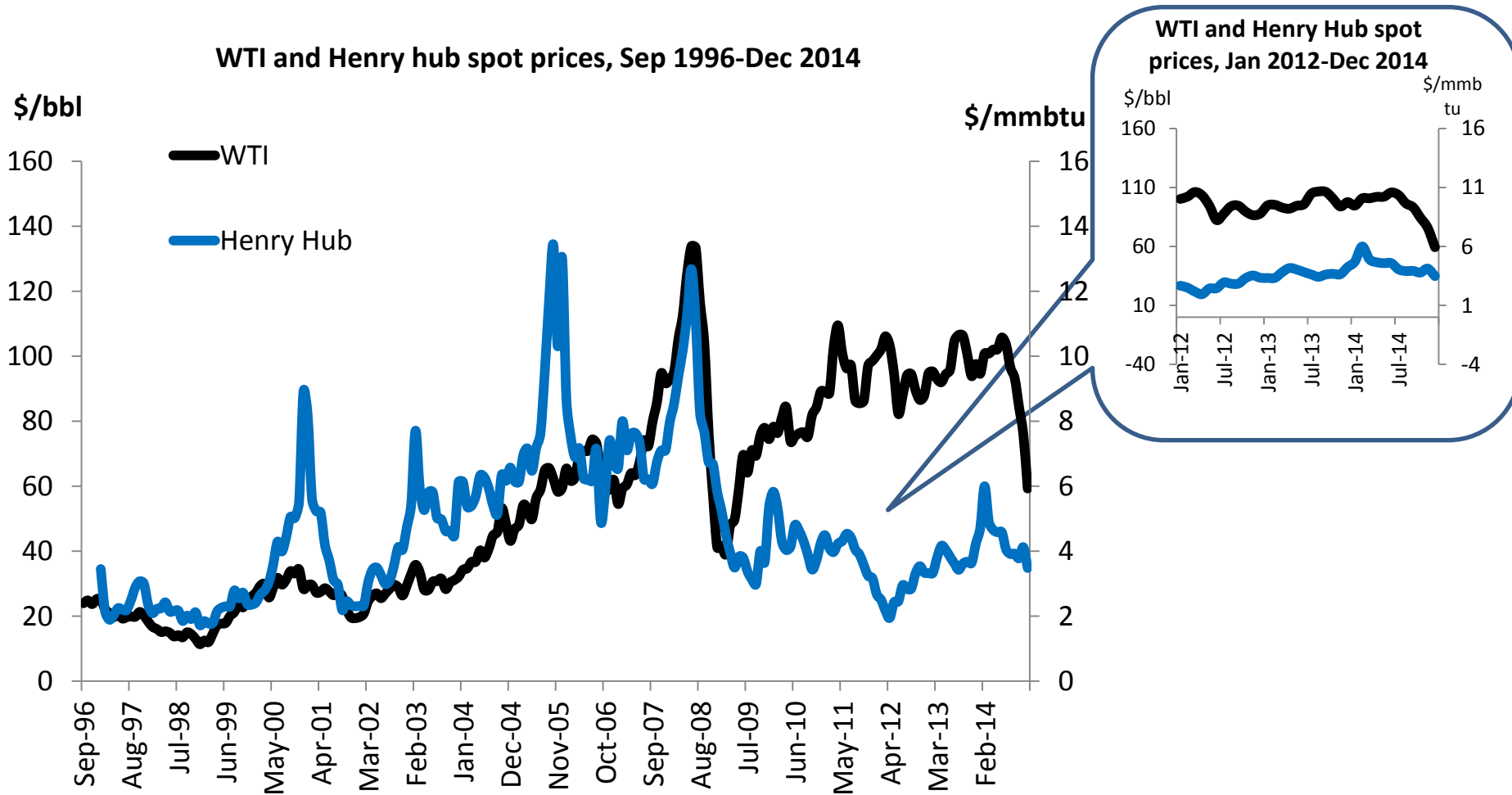
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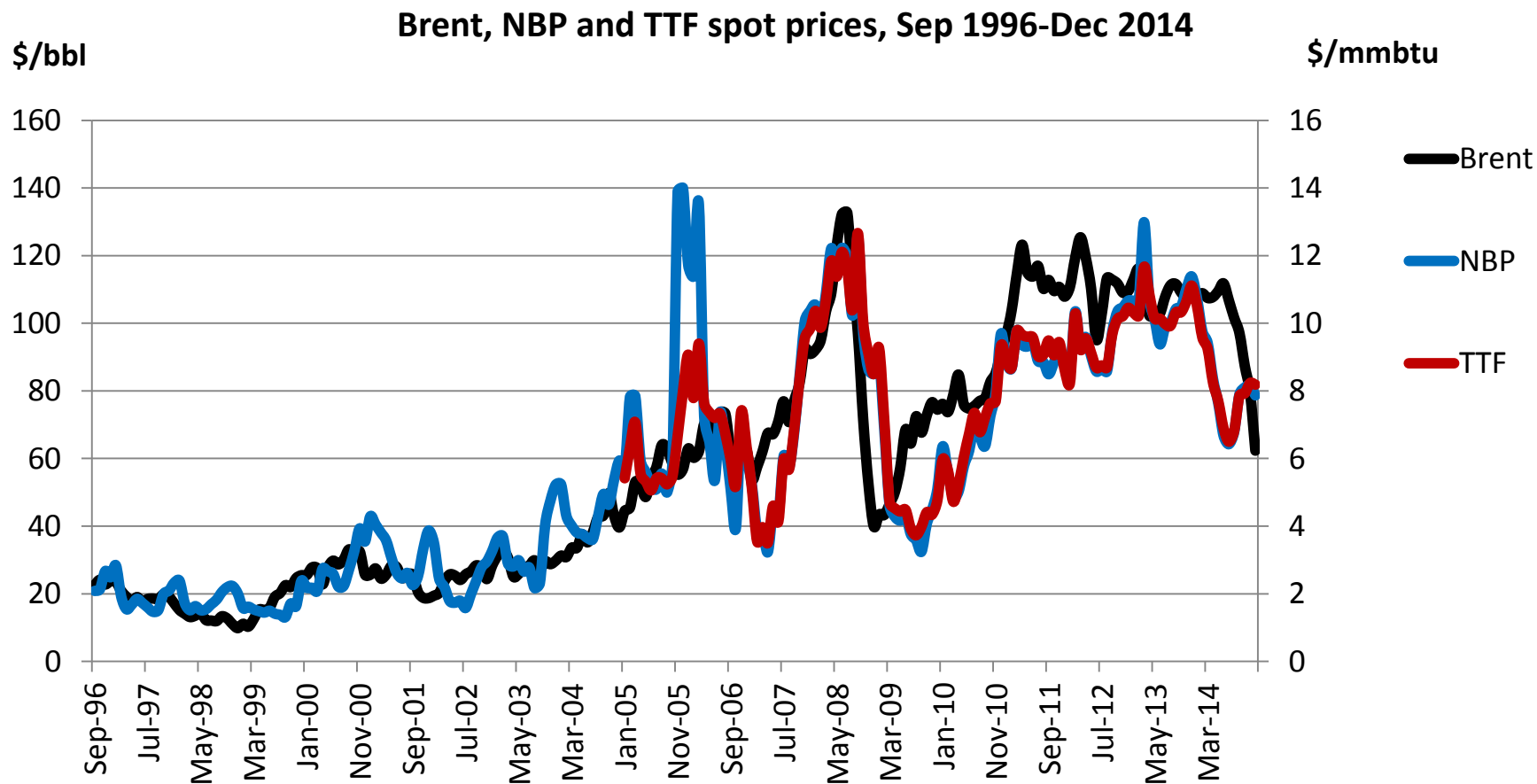
**European Gas Conference
Vienne, January 29, 2015**

- ❑ Correlation with the oil prices remains even in the most liberalized markets in the US and UK
- ❑ There still is an extensive portfolio of oil-linked contracts in Europe
- ❑ Lower oil prices could change preferences of the consumers
- ❑ Eastern Europe simply does not have liquid hubs
- ❑ What if Russia moves completely to the hub-pricing (and to which exactly hub pricing)?

Correlation with the oil prices remains even in the most liberalized market in the US

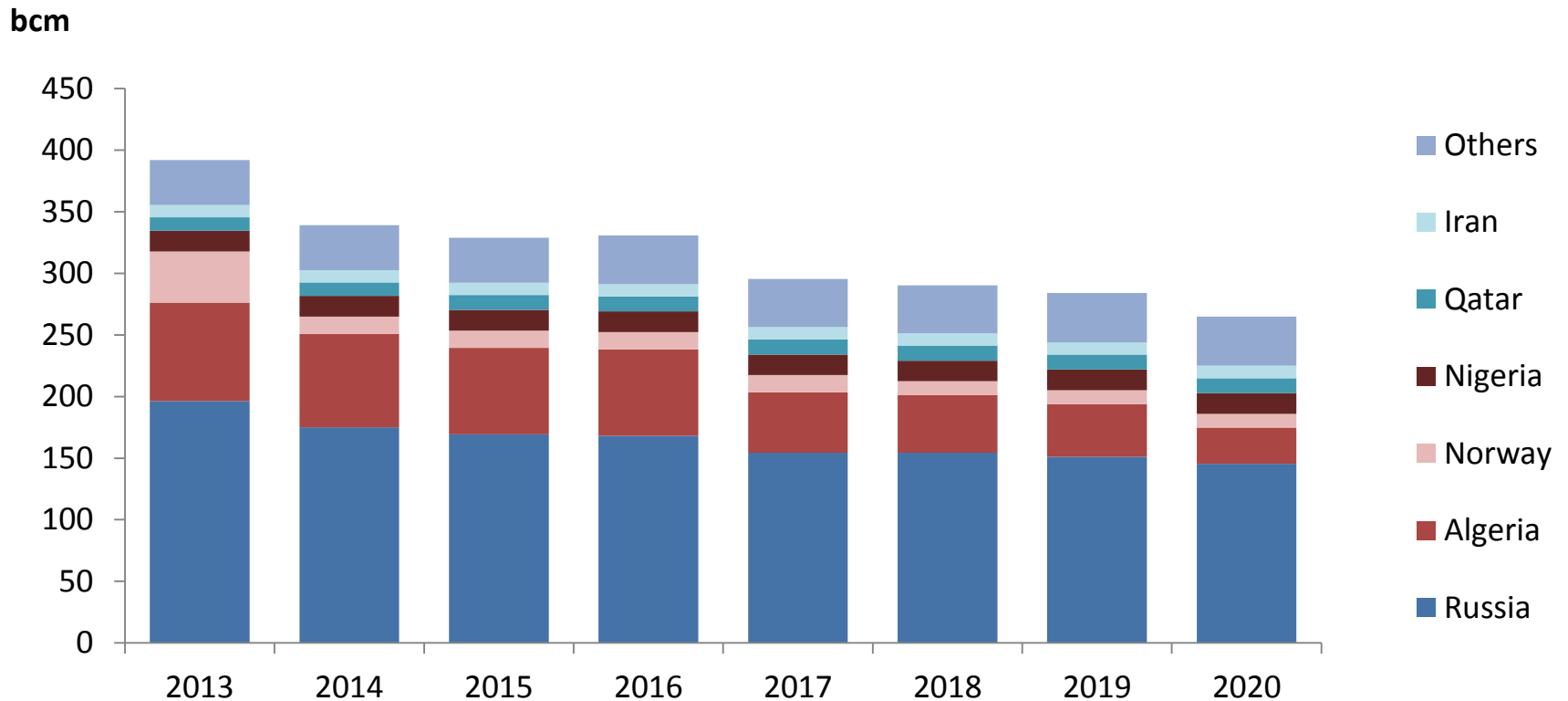


In Europe pot gas prices in Europe strongly correlate to oil price (coefficient of correlation between Brent and NBP price amounted to 0,86 for Sep 1996-Dec2014)



Existing oil-linked long-term contracts to Europe total 265 bcm by 2020, and only half of them are from Russia

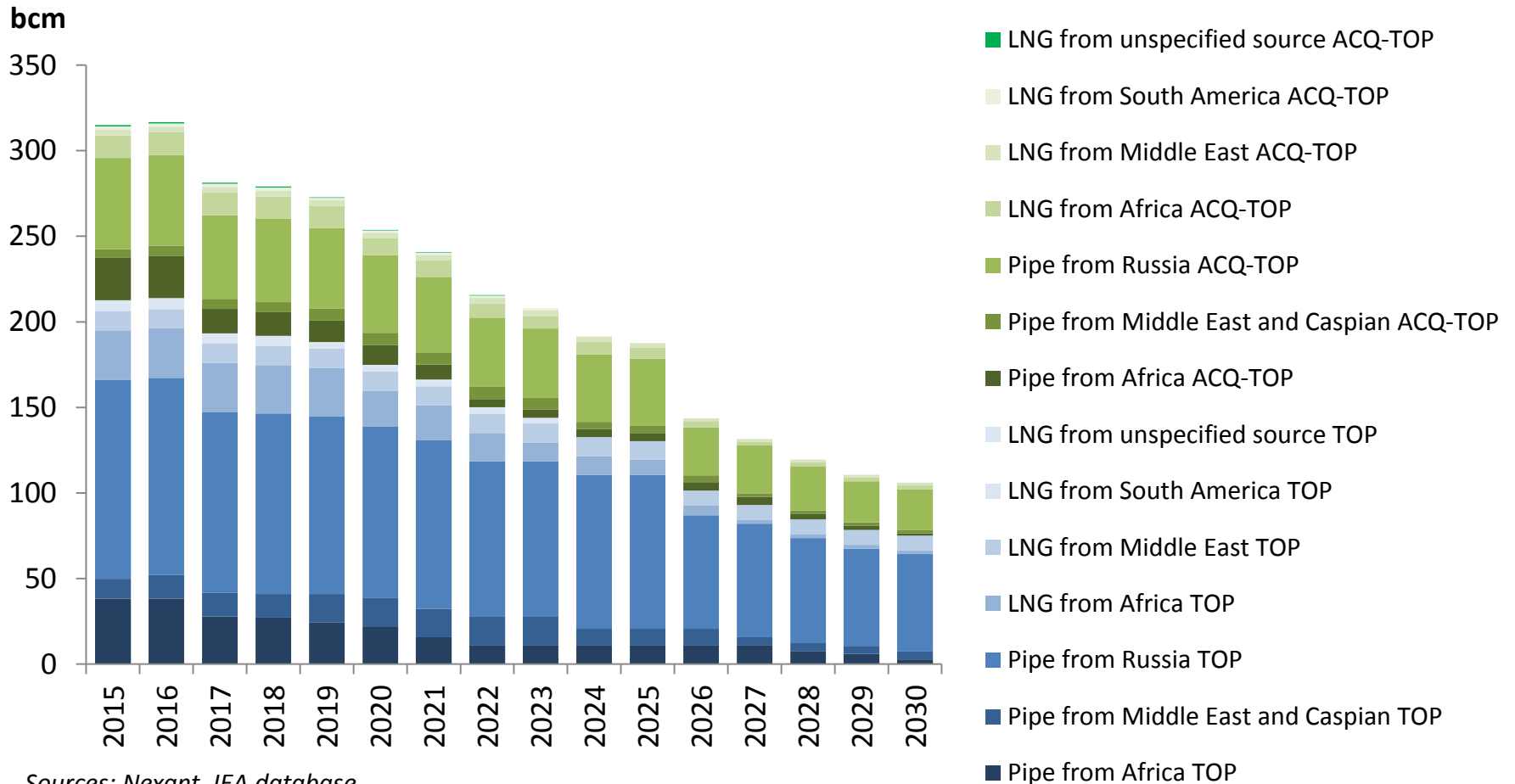
Oil-linked contacted volumes for gas supply to Europe



Sources: Nexant, IEA database.

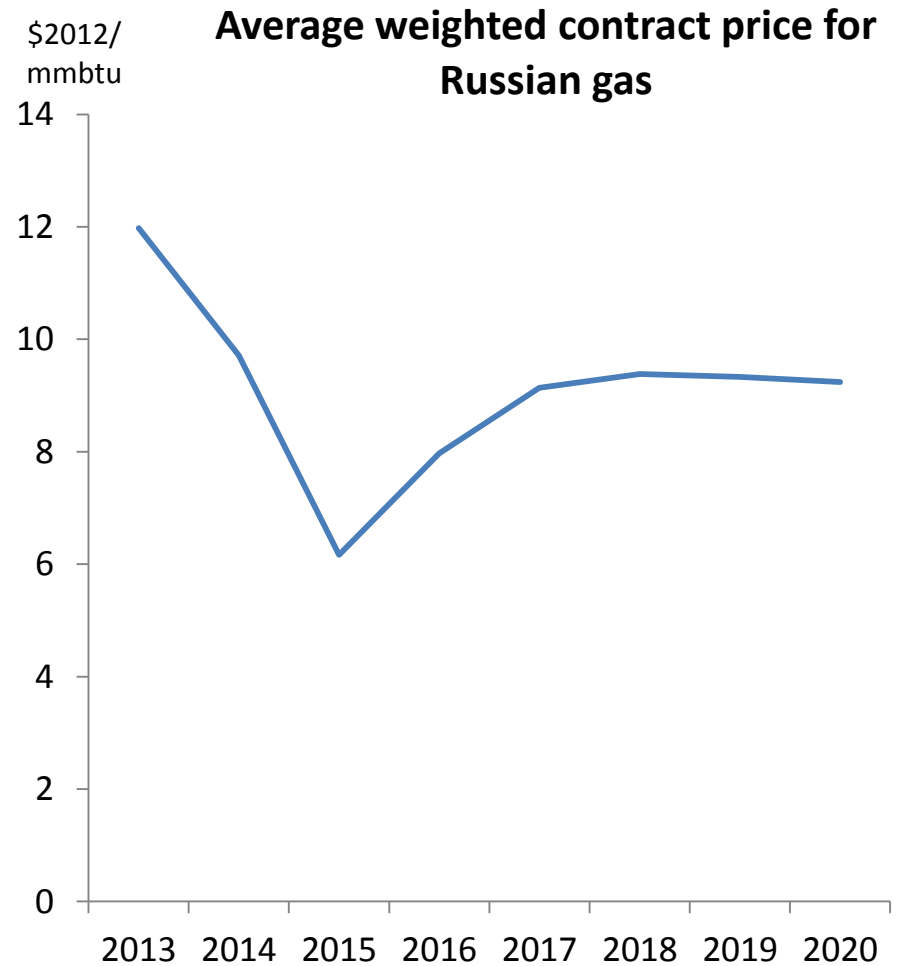
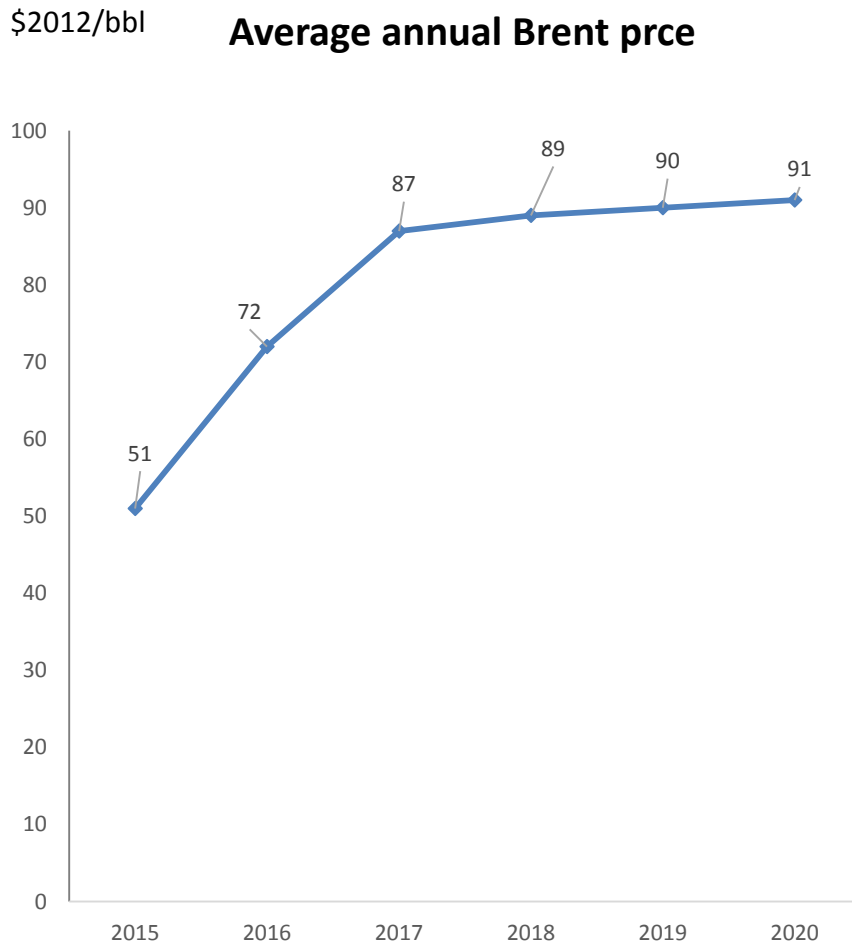
Oil-indexed LTCs even at TOP represent 185 bcm (more than European net-imports in 2013)

Oil indexed gas supply contracts to Europe by source



Sources: Nexant, IEA database.

Lower oil prices could change preferences of the consumers



Mediterranean and South East Europe still have very low share of hub indexation

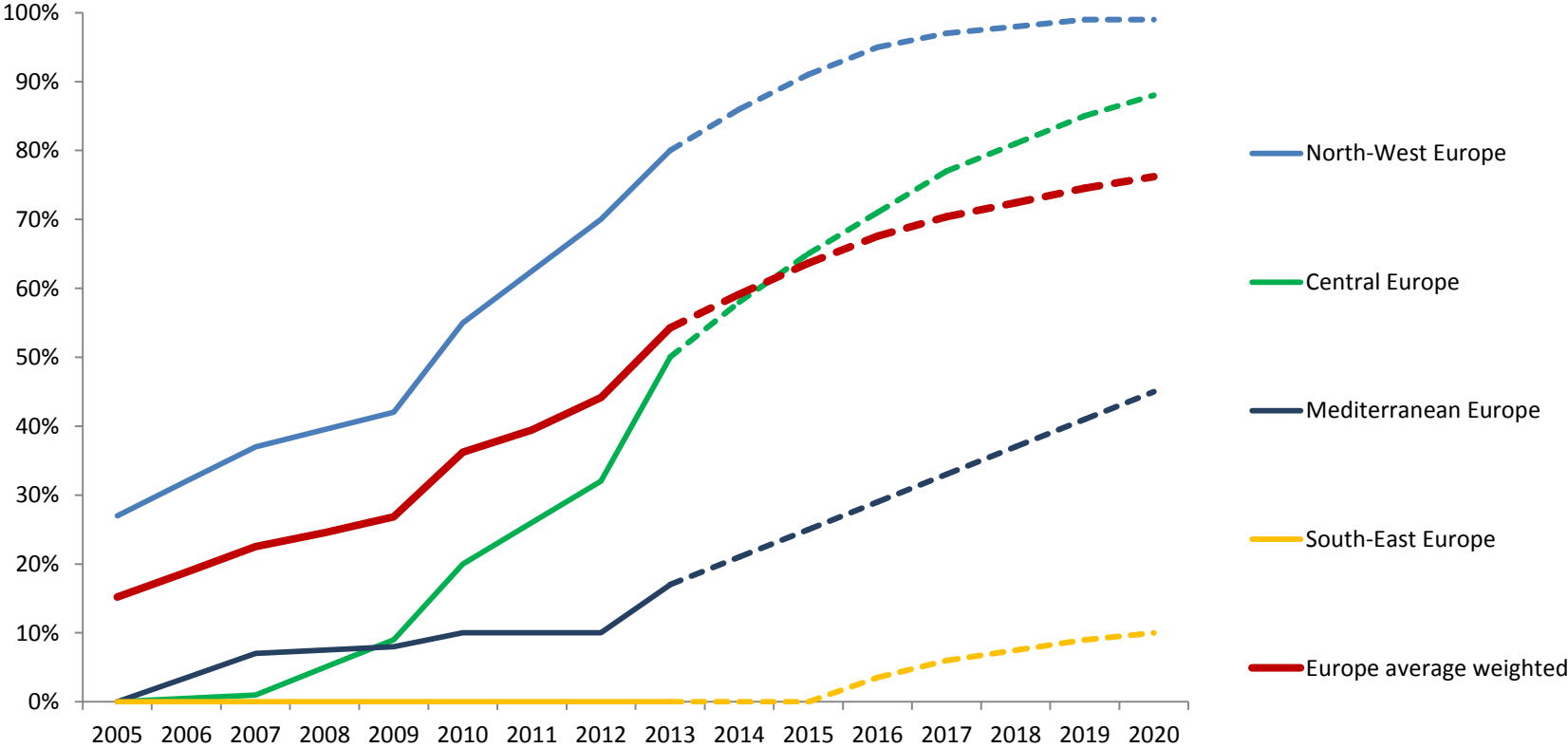
European wholesale gas pricing 2013, %

REGION (approximate % of total european demand)	Oil Price Escalation (OPE = oil-linked pricing in long term contracts)	Gas on Gas Competition Price (GOG = hub price)	Regulated Cost of Service Price (RCS)	Regulated Social Price (RSP)
NORTH WEST EUROPE (50%)	20	80		
CENTRAL EUROPE (10%)	35	50		15
MEDITERRANEAN EUROPE (30%)	85	15		
SOUTH EAST EUROPE (10%)	41		47	12

Note: A full description of the price formation mechanisms: OPE, GOG, RCS and RSP can be found on p.7 of the source. **North West Europe:** Belgium, Denmark, France, Germany, Ireland, Netherlands, UK. **Central Europe:** Austria, Czech Republic, Hungary, Poland, Slovakia, Switzerland. **Mediterranean Europe:** Greece, Italy, Portugal, Spain, Turkey. **South East Europe:** Bosnia, Bulgaria, Croatia, FYROM, Romania, Serbia, Slovenia.
Source: IGU (2014), pp. 26-27.

...and even by 2020 only North-Western Europe will be able to completely de-link from oil

Share of GOG in Europe by region



Source: 2005-2013 IGU, since 2014 - own estimates

Oil indexation is there for a long time