

# **GAS SUPPLY TO DOMESTIC MARKET. EXECUTING RUSSIAN REGIONS GASIFICATION PROGRAM**

**Kirill Seleznev**

Member of the Management Committee – Head of the Gas and Liquid Hydrocarbons Marketing and Processing Department, Gazprom;  
Director General, Gazprom Mezhregiongaz.

# Gazprom Group Gas Sales

## Gazprom Group gas sales\*



## Gazprom Group gas sales proceeds



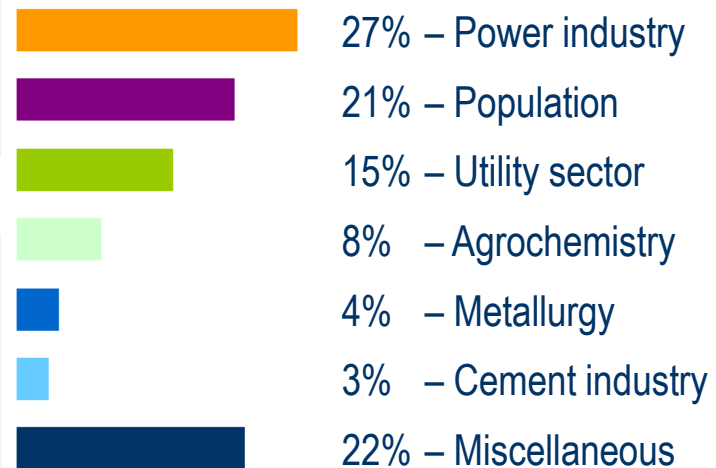
## Average domestic price of Gazprom Group gas



## Reasons for gas supply decrease:

- irregularly warm weather round the year, especially in Q1 and Q4, which affected gas consumption
- independent producer's gas supply increase

## Sales structure\*



\* – excluding intra-Group sales

# Gas Sales by Gazprom Mezhrefiongaz Group

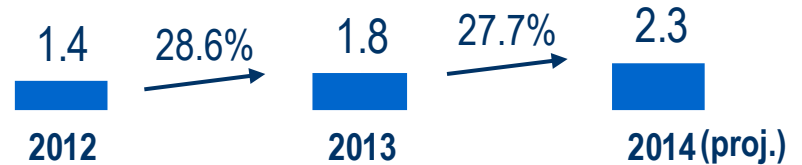
## Sales of gas owned Gazprom and other producers

TOTAL, bln m<sup>3</sup>



## THE FAR EAST

(Kamchatka and Primorye Territories, Sakhalin Region), bln m<sup>3</sup>



## Gas sales to socially significant consumer groups\*

bln m<sup>3</sup>



**30%** of total supplies were distributed to socially significant consumers groups (utilities, population and public entities) in 2013

\* – excluding entities acting partially as utilities

## Gas sales at the prices set by Russian Government Decree No.333



**2/3** of total supplies were sold at prices below marginal level. Domestic wholesale contract price exceeded minimum wholesale price set by FTS of Russia by 3.3% in average

\*\* – in case of 7.6% increase in wholesale gas price for industrial consumers in 2014

## Gazprom and Russian Energy Ministry keep on creating tools for orderly gas trades. Trade resumption will make it possible to get market indices essential for improved gas pricing system

Following amendments to regulations are essential to enhance efficiency and reliability of trading :

- equal activity conditions for all participants;
- raising responsibility for failing to take off contracted gas volumes.

- Submission of proposals on amending Russian Government's draft Decree "On amending Russian Government directives related to gas sales" stipulating principles for gas trading at non-regulated price.
- Draft "Basic provisions for gas biddings arrangement" is developed and agreed on with entities recommended by Russian Energy Ministry.

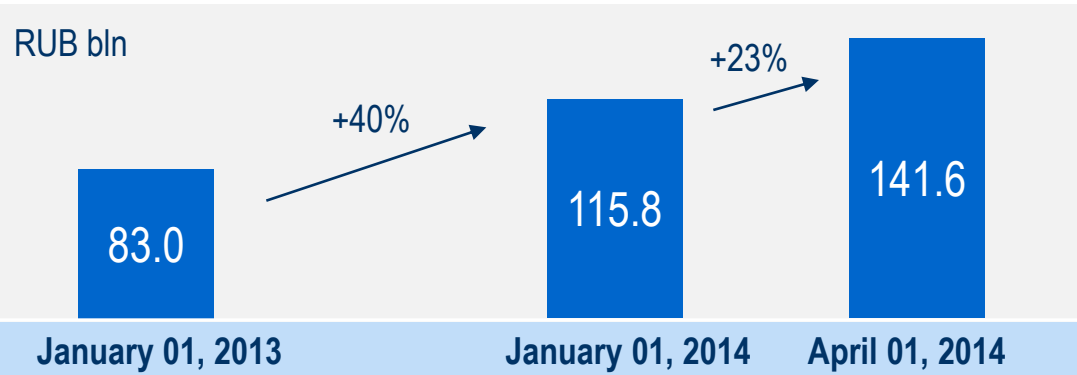
## Enhancing natural gas pricing procedure

Russian Government considers possibility for amending "Basic provisions for setting and regulating gas prices and domestic transmission tariffs" (approved by Russian Government Decree No. 1021 dated December 29, 2000).

- Possibility for wholesale price cut for domestic industrial consumers by **15%**.
- Boosting domestic gas market competition.

# Gazprom Mezhregiongaz Group Receivables for Supplied Gas

## Fluctuation of consumer's overdue debt to Gazprom Mezhregiongaz Group for supplied gas



## RUB 27 bln

increment of socially-significant consumers' debt (exceeds general increment (RUB 25.8 bln) due to reduction of power generation companies' debt)

## Overdue debt structure as of April 01, 2014

Consumer Group	Overdue debt (RUB bln)	Debt paid (%)
Population	52.6	89.1
Utility sector	46.2	78.3
Public consumers	6.5	63.1
Power industry	12.1	105.2
Miscellaneous	24.2	95.4

About **75%** of debts are owed by socially-significant consumer groups

## Total overdue debt of utilities comes to RUB 46.2 bln (as of 01.04.2014)

	Debt (RUB mln)	Debt paid (%)		Debt (RUB mln)	Debt paid (%)
Moscow Region	7,350.2	78.6	Perm Territory	1,326.6	41.4
Republic of North Ossetia-Alania	4,341.0	18.4	Republic of Dagestan	1,231.7	14.9
Krasnodar Territory	2,420.1	71.5	Republic of Chechnya	1,169.6	29.9
Republic of Kabardino-Balkaria	2,265.6	18.8	Ulyanovsk Region	1,056.9	50.9
Tver Region*	2,026.7	53.1	Saratov Region	1,025.9	65.4
Tula Region	1,625.0	61.7	Novgorod Region	893.6	77.8
Volgograd Region	1,586.8	59.2	Orenburg Region	816.5	60.4
Vladimir Region	1,466.6	56.8	Yaroslavl Region*	774.2	65.9
Bryansk Region	1,366.5	64.1	Orel Region	750.3	52.2
Republic of Bashkortostan	1,340.4	54.8	Samara Region	734.7	63.3

### Reasons:

- Intermediaries represented by managing companies within chain of heat payments from population
- Deliberate bankruptcy of private operators of heat generating facilities
- Fixing unreasonable heat tariffs in some regions
- Out-of-date, worn and inefficient equipment and heating networks

20 regions with greatest debt represented\* – Excluding TGC-2 debt

Some regions (Moscow, Tver and Yaroslavl Regions) are requested to arrange gas supplies to defaulters from third parties

**Overdue debt of power generating companies amounts to RUB 12.1 bln as of 01.04.2014**

**57%**

of power generating companies' debt comprise TGC-2 debt

**TGC-2 debt was defined as RUB 6.9 bln at meeting presided by Russian Prime Minister Dmitry Medvedev on October 29, 2013. As of April 1, 2014 debt stayed unchanged.**

**TGC-2 companies debt comes to RUB 6.9 bln, including:**

- Tver Region – RUB 4.0 bln\*
- Arkhangelsk Region – RUB 1.6 bln
- Yaroslavl Region – RUB 1.1 bln
- Novgorod Region – RUB 0.1 bln
- Vologda Region – RUB 0.1 bln

\* – Debt of TGC-2 subsidiaries (TKS, Tverteplo)

Special concern was expressed over Tver Region failing to solve issue of long-standing multi-billion debt of TGC-2 subsidiaries, i.e. Tver Utility Systems (TKS) and Tverteplo

Criminal proceedings on TKS deliberate bankruptcy is reported to have been taken

**Overdue debt of public entities amounts to RUB 6.5 bln as of 01.04.2014**

**83%**

of public entities debt comprise debt of Russian Defense Ministry entities (REU, Slavyanka) – RUB 5.4 bln

**Main reason for debt accumulation is Russian Defense Ministry refusing direct agreements with gas supplier since 01.01.2012**

Resuming previous procedure for direct contracting with Russian Defense Ministry is preferred to solve issue. However, Russian Defense Ministry has not so far taken any adequate measures to settle matter.



## 80% of total debt comprise North Caucasus regions

	Debt (RUB mln)	Debt paid (%)		Debt (RUB mln)	Debt paid (%)
Republic of Dagestan	21,085.3	33.0	Nizhny Novgorod Region	851.5	93.3
Republic of Chechnya	8,856.2	48.7	Samara Region	695.3	94.8
Republic of Ingushetia	4,192.9	33.1	Saratov Region	593.7	92.5
Republic of Kabardino-Balkaria	3,776.2	56.0	Republic of Bashkortostan	441.3	95.3
Republic of Adygea	1,581.7	55.4	Saint Petersburg	270.4	96.1
Stavropol Territory	1,452.6	84.6	Orenburg Region	250.2	96.9
Krasnodar Territory	1,404.3	90.0	Ulyanovsk Region	236.0	95.3
Republic of North Ossetia – Alania	1,279.4	72.0	Moscow	227.0	95.4
Republic of Karachay-Cherkessia	1,179.5	66.2	Belgorod Region	204.0	98.6
Astrakhan Region	1,032.7	70.0	Tula Region	202.3	93.8

20 regions with biggest debt are represented

1. Claims filed against debtors in amount of RUB **161.9 bln**
2. Bills filed against debtors amounted to RUB **66.1 bln**
3. Judgements on bills and court orders amounted to RUB **46.5 bln**
4. Debts recovered through execution amounted to RUB **49.7 bln**
5. Debt assigned from insolvent to solvent entities amounted to RUB **9.3 bln**, assigned debts paid amounted to RUB **6.7 bln**

## **Gas supply was tripped for 159.7 debtors (individuals) in 2013.**

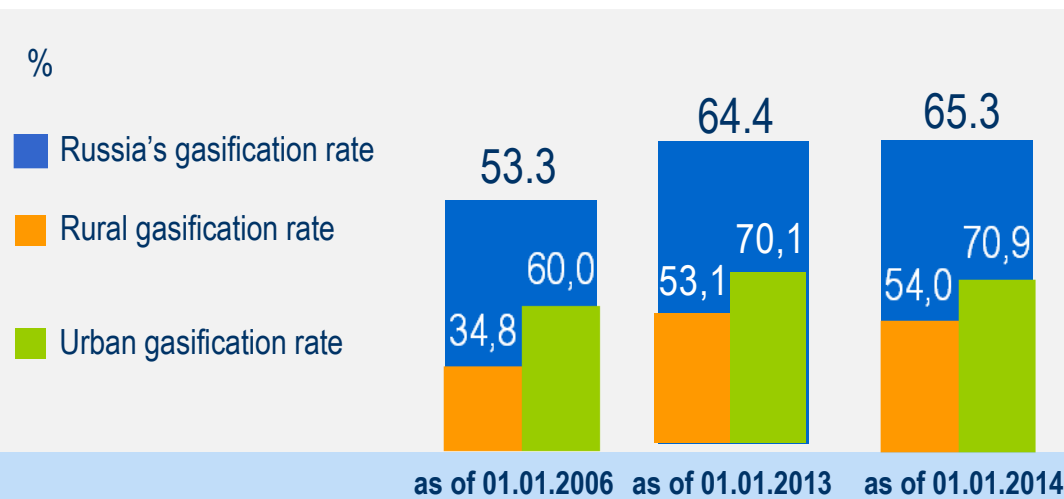
Gazprom Mezhrefiongaz Group was forced to schedule gas supplies restriction and termination to nearly 700 utilities in 57 regions failing to meet contractual obligations (at end of heating season 2013/2014).

Actionable debt recovery lacks efficiency. It implies long term (not less than 6 months) as per prescribed procedural terms, resulting in accretion of heat suppliers debt and granting unsecured commodity credit by Gazprom Mezhrefiongaz Group. Further debt growth frequently results in uncontrollable bankruptcy of heat suppliers failing source for accrued debt recovery.

Total investments for 2005–2013 amounted to about RUB 214 bln



## Russian regions gasification rate



## Gasification Program implementation

	2005–2012	2013
<b>Investments</b>	nearly RUB 180 bln	RUB 33.9 bln
<b>Gas pipelines constructed</b>	1,527	170
<b>Gas pipeline extension</b>	above 22 thousand km	2.5 thousand km
<b>Gasification approved for</b>	3,623 boiler houses, above 600 thousand households and apartments	400 boiler houses and 72 thousand households and apartments

# Regions Failing to Meet Obligations as per Gasification Program

**Regions failing to meet gasification obligations and make payments for gas resulted in 2014 investment shrinkage by 18.6 % (RUB 27.6 bln)**

Gazprom was forced to cease gasification financing in Arkhangelsk, Astrakhan, Vladimir, Vologda, Moscow, Penza, Smolensk, Tver, Ulyanovsk and Yaroslavl Regions as well as in Ingushetia

	Commencement of obligations breaching		Commencement of obligations breaching
Arkhangelsk Region	2006	Republic of Ingushetia	2013
Volgograd Region	2008	Republic of Karachay-Cherkessia	2011
Kaliningrad Region	2008	Republic of Karelia	2011
Kostroma Region	2007	Republic of North Ossetia – Alania	2010
Krasnodar Territory	2007	Stavropol Territory	2012
Republic of Adygea	2010	Khabarovsk Territory	2011
Republic of Dagestan	2009		

Gazprom’s investments into regions gasification to be adjusted depending on meeting obligations to provide consumers fit for gas taking and accrued debt recovery by Russian constituent entities

**THANK YOU FOR YOUR ATTENTION!**