Russian Gas Supplies next winter for Europe ?

Posted by Heading Out on September 7, 2006 - 3:49pm
Topic: Supply/Production
Tags: france, germany, russia, sakhalin, shell, ukraine, united kingdom [list all tags]

The weather is still pleasantly warm, and winter seems, as yet, to be just an unpleasant thought that can be put off until, at least, Thanksgiving. But unfortunately for those who have to look towards energy supplies for the winter, particularly in Europe, it may already be coming too quickly. To simply describe what is likely going to turn into yet another mess this winter, let me try a quick summary of what seems to be in the offing.

Gazprom you may recall has been buying into, or acquiring more control of, pipelines that carry their gas from Russia to the West. In the process, last year, it had a bit of a row with Ukraine, over the price that should be paid for the gas Ukraine was using. By offsetting the cheaper price that was to be paid for gas from Turkmenistan, the deal that was cut gave Ukraine the promise of gas at a price that would allow it to continue to function. Well, unfortunately for that agreement, Gazprom has just agreed to pay more for Turkmen gas. At a price of $100 per thousand cubic meters this is already $5 above the price that Ukraine was going to pay for a blend that also contained $230 Gazprom gas.

The fact that Gazprom can keep competing gas products from its pipelines means that it can control who gets what, as it gets colder in Europe this winter. But, unfortunately, the story may not be restricted to Eastern Europe. As we saw last year the dispute cut into Western European supplies that continued, especially for Italy, to last beyond the initial dispute between Russia and the Ukraine. Several of us have noted in these columns different moves by Gazprom over the past year to acquire more control. The latest of these is apparently now unfolding with the Russian EPA going after Shell and Sakhalin 2 . Although the nominal cause is, inter alia, failure to take anti-erosion measures, the story goes on to note

> Observers have suggested that the ministry's attention to Sakhalin-2 is aimed at pressuring Shell to offer state-controlled gas monopoly OAO Gazprom better terms as it jostles to join what will be the world's biggest liquefied natural gas development.
> Gazprom is offering Shell access to the far northern Zapolyarnoye-Neocomian field, the world's fifth-largest gas deposit, in exchange for a 25 percent-plus-one-share stake in Sakhalin-2.
> Last July, Shell said the expected cost of developing Sakhalin-2 -- which is overwhelmingly dedicated to producing liquefied natural gas -- had doubled to around $20 billion. The company blamed the increase on currency swings and rising prices of commodities such as steel.
> Gazprom argues the cost increase has diminished the value of the stake it wants to take and wants to reduce the assets it is offering in the swap deal.

And just to show that Gazprom has many fingers, it is also involved in the newly agreed pipeline between Greece and Bulgaria. With the intent of bypassing the Bosphorous, the pipeline will carry Russian oil to the Greek harbor of Alexandroupolis.

And now Leanan has pointed us toward disquieting reports that this year could be worse. Moscow's mayor is concerned that their energy deficit might reach 20%. One of the immediate solutions being proposed is to replace lightbulbs which if comprehensively carried out (2.2 million bulbs) would save 88.5 megawatts (their calculation) out of the record 16,200 megawatts used last Jan 20th. Possible forced blackouts between 3 pm and 9 pm are already being bruited.

Bear in mind that if Russia, that is now supplying greater percentages of Western European fuel, feels the bite, then it is likely that this will be transferred and get worse as the fuel flows out along the pipelines to other countries. Thus the prediction of lower prices in the UK later this year

> However, industry watchers, including Sir John Mogg, chairman of the energy regulator Ofgem, believe energy prices will start to drop back later this year or early next.

are likely to, again, be proved over-optimistic. Storage is recognized as being potentially inadequate and there is some concern that increasing demand will not be met. The control that Gazprom now holds over supply cannot help but raise concern

> However problems with supply from Europe drove prices higher last winter and fears remain that gas could be withheld from the UK again this winter, despite calls from the European Commission and UK regulator Ofgem for a more open market.

The Germans and French are already on board with Gazprom. Already Gazprom are threatening Bosnia .

> Russian gas giant OAO Gazprom threatened to cut natural gas exports to Bosnia on Oct. 1 unless Bosnia begins to pay its debt, Bosnian state-controlled gas importer Energoinvest said in a statement. Bosnia, which receives all its gas from Russia, owes Gazprom nearly $105 million from 1992-95. Representatives of Energoinvest and BH-Gas, Bosnia's state gas transportation company, met with Gazprom in Moscow on Aug. 22.

Can one doubt that the Russian company will have more success with Centrica soon, as the cost of doing otherwise gets heavier. It has been suggested that UK demand for natural gas has already grown, this year, beyond the increased capacity of the pipelines from Europe to supply. And lest the US get too complacent, it should be remembered that some of our longer term plans for LNG supplies will also come from Russia. Provided, of course, that we are a satisfactory customer.