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INTERVIEW

Russia's Spimex Presses for Market-Based Gas Pricing

Russia has excluded previous plans for the gradual deregulation of domestic gas prices from its recently approved 2050 energy strategy. This raises questions about the prospects for a gas exchange benchmark price, still not achieved due to stagnating trade volumes. Sergei Trofimenko, managing director for natural gas and power market at The Saint Petersburg International Mercantile Exchange (Spimex), tells Energy Intelligence in an interview how the exchange, which in technology terms is ahead of the domestic market's capability, could help to realize the "economically justified prices" sought by the energy strategy.

Q: What does the 2050 energy strategy say about the development of the domestic gas market? Is price liberalization not a priority now?

A: The strategy doesn't mention price liberalization. It doesn't include the provisions from the previous [2035] strategy, which mentioned gradual price deregulation. Instead, a key definition has emerged: the need to establish economically justified prices. This is what I'd emphasize. At the conference today, we discussed this very question: What is an economically justified price? Could it be a tariff somehow justified "economically," or could it be a price formed through competitive auctions? Experts argue that a price determined by competitive auctions, based on the supply-demand balance, is the truly economically justified one. That is what economic theory says, and we agree with that. All gas market development directions, historically, have moved toward this goal — every regulatory decision by the government has been aimed at achieving benchmark gas prices through exchange trade. Look at the decrees on competition development and road maps — they're all tied to fostering competition and forming economically justified prices. Now, everything depends on what mechanisms are used to determine this price. A document will be drafted based on the energy strategy outlining the detailed steps to implement the strategy. At this stage, the energy strategy doesn't clarify this.

Q: Could this "economically justified price" just become a way to compensate Gazprom's costs amid lost export revenue, effectively by raising regulated tariffs?

A: We agree that market prices cannot be determined based on costs. Theoretically, it's incorrect — it contradicts economic principles. If the term "economically justified" is used, it should align with economic theory. Otherwise, it's just a "justified" price — justified to cover costs. An economically justified price is one formed by supply and demand. In terms of the gas market development, the energy strategy places significant emphasis on long-term investment projects, including the use of gas as motor fuel and the construction of new gas processing and gas petrochemical capacity, whose efficiency directly depends on gas prices in the medium and long term. Therefore, establishing a transparent and predictable pricing mechanism would help reduce project costs. Additionally, the 2050 energy strategy includes a key objective of achieving technological sovereignty and enhancing the competitiveness of the energy industry. As the US experience shows, the adoption of modern technology, both in upstream and gas transportation, has significantly reduced costs within the industry, resulting in lower market prices. That means that "establishing economically justified prices" must account for multiple factors and create incentives for industry players to adopt advanced technology.

Russia's gas exchange trade is different from other countries — there is no speculative trading, no over- or underpriced contracts. Our spot market reflects the real supply and demand.

Q: So do these "economically justified price" formulations in the strategy signal a move toward deregulation? What is the direction the Russian market is headed to?

A: Today, the term "controlled deregulation" was used. We've long heard that regulated prices should be kept for socially vital consumers — households or certain regions like in electricity

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markets — and critical industries like defense. But for sectors where regulated gas prices inflate end-product margins, is regulation necessary? Market participants doubt it. The solution is segmenting the market: Some sectors stay regulated; others transition to market pricing.

Take Turkey: [State-run gas company] Botas sets weekly/monthly price caps for certain consumer groups. It's a successful hybrid model — regulation and market discipline coexist. In Russia, the share of gas in the energy mix, as we know, is uniquely high. Therefore, the power sector, as the largest gas consumer, shapes the entire gas market. And cost optimization in the industry will obviously be based on improving consumption discipline across all consumer categories. The power sector is wary of this — Gazprom data shows that the amount of contracted gas that remains unused without any penalties reaches 40 billion cubic meters [per year]. Turkey's example demonstrates that a commercial balancing model for all wholesale consumer segments works successfully even when the largest gas company combines the roles of gas seller and transmission system operator.

Q: With exports down, it's been said over the past three years that the domestic market should become a revenue driver for exporters. Is this happening?

A: Revenue growth hinges on industrial demand, not household gasification, which is a small increment. Petrochemicals and fertilizers are key. If we stop importing Chinese plastics and produce domestically, gas consumption will rise. The main volumes will come from gas processing for value-added goods production — both domestic and export-oriented. However, the issue of investments in gas production and transportation remains highly relevant.

Q: Are producers' strategies changing, including on the exchange?

A: The exchange's commercial balancing mechanism, introduced several years ago, works well. There are some independent producers that now sell around 80% of their gas via exchange — effectively a take-or-pay model, which Gazprom is now pushing for, trying to sell its gas on priority terms. Independent producers that have surplus gas that was contracted but not used by the buyer sell this surplus gas on the exchange. This year's early results show that the volume of trade by independent producers on the exchange has increased year on year and exceeded Gazprom's exchange trade volumes.

Q: Why?

A: All surplus, including above-plan production, goes to the exchange.

Q: Wasn't it said that independent producers have no spare gas for the exchange trade because all their volumes are contracted?

A: Yes, they are. But here we are talking about the contracted volumes that have not been offtaken by the term-contract buyers. They go to the exchange.

Q: Does Gazprom have such surplus?

A: Gazprom trades only when prices exceed regulated levels. We see that both in the summer and winter seasons.

Q: How does the energy strategy affect St. Petersburg Exchange's plans?

A: Technologically, the exchange is ahead of the industry's current state — it's like having a Ferrari with no road to drive it on. Our plans include the development of all gas market tools seen in mature markets. We have T+2 trade and can launch T+1 and T+0. If Gazprom becomes a guaranteed supplier of last resort, we can launch deliverable futures. The technology has already been tested, including with Gazprom. We can launch long-term contracts, contracts for 12 months of the next year with variable prices. The exchange is ready to provide all the tools that the market needs. This would create a fully functional market component for establishing "economically justified gas prices."

Q: So, under the new strategy, these tools aren't yet needed?

A: Right. They're available but not yet utilized. However, other strategic documents such as the federal project for the development of competition, overseen by Deputy Prime Minister Alexander Novak, include the objective of establishing transparent market benchmarks for natural gas in Russia. This cannot be achieved without a broad range of exchange-traded instruments.

Q: What are your immediate plans for 2025?

A: This year, we continue our work on the commercial balancing mechanism on the over-the-counter market. The revised rules of gas supply are scheduled to take effect in September 2025. Their implementation is contingent upon approval of gas balancing rules, which must technically incorporate existing

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exchange-developed solutions. We anticipate an intensive process of consensus-building among industry participants and adaptation of exchange instruments to current market requirements.

Q: Why do you no longer work on the entry/exit transportation system? What is the alternative model you're working on?

A: That is rather a question to the Federal Antimonopoly Service. But entry/exit doesn't work properly due to the difference in transportation costs for delivery to different regions of Russia. It also dilutes the liquidity on the individual balancing points. An alternative model involves uniting balancing zones based on the equality of regional prices, net of transportation cost, rather than on geography. That would result in a reduced number of balancing zones to five or six, with an option of commercial balancing of gas in the pipeline system within these zones.

Q: What did you discuss during a recent visit to the Istanbul exchange? Are there plans for cooperation in terms of gas trade? Is the Istanbul exchange ready to launch the so-called Turkey gas hub for sales to Europe?

A: Together with key market participants, we examined the details of the balancing mechanism under the specific conditions of the Turkish market. The information shared [by the Turkish colleagues] proved highly relevant, and we presented it at today's forum. In turn, our Turkish colleagues expressed interest in our pricing methodology and supply mechanisms for a broad range of energy products.

Q: Why has the work stalled on the establishing the united gas market within the Eurasian Economic Union (EAEU)?

A: That is a question to the Eurasian Economic Commission. Our position remains unchanged — we are prepared to implement a pilot project for gas trading with EAEU industry players to refine the framework of a future market.

Staff reports