

# Pipeline gas sales – developing an effective framework for energy security

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## Introduction



- Security of supply is key for India
- Issue for gas importers around the world
- Key components: volumes; form; quality; price
- Importers need gas, not claims/compensation
- Non-legal strategies for security of supply
- What legal strategies can maximise security?

No simple answer

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## Pipeline gas – security challenges

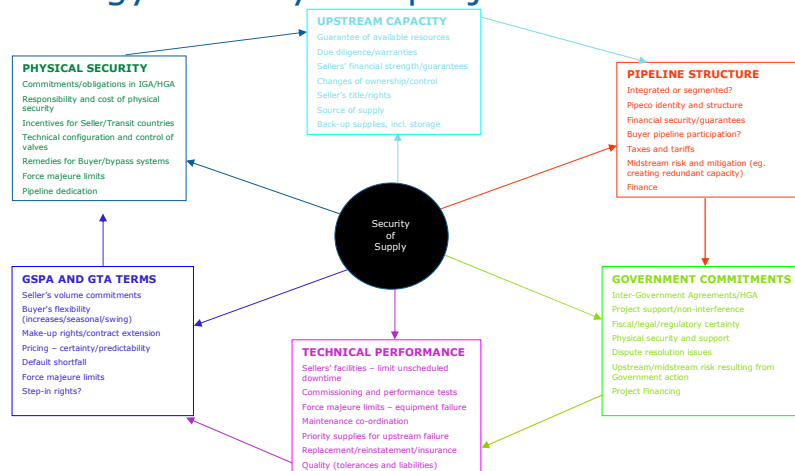


- Multi-party, conflicting interests
- Lack of uniform rules and regulations
- High fixed costs; inflexibility; lack of alternatives
- Long value chain; changing circumstances over time
- Vulnerability – attack; market failure; political weapon
- Obsolescing bargain – power balance changes once built

Unique and complex challenges

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## Energy security in a project context



Security of supply permeates and underscores all aspects

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## Using structure to reduce risk

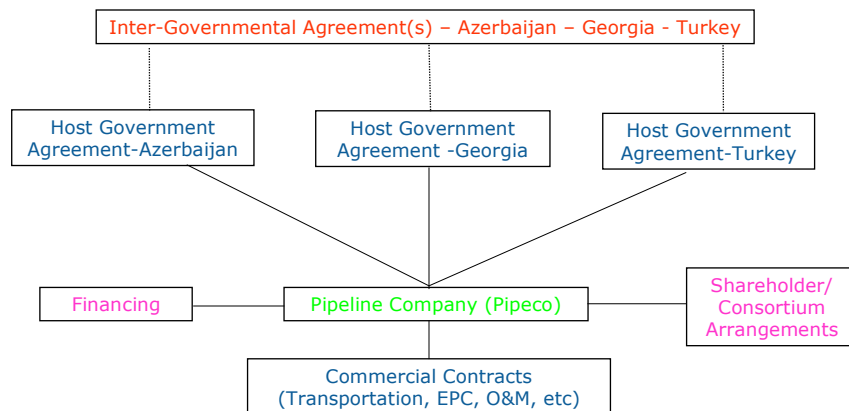


- Integrated project structure – pipeline as single asset
- Single harmonised legal and regulatory framework
- Avoid national segmentation/multiple ownership
- Integrate and align different parties' interests
- Strong country to country commitments
- Robust framework – reduce risk of unilateral action

Basis of ECT Model Agreements

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## Integrated project structure (BTC project)



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## Creating contracts to stand the test of time



- Key objective – clarity, certainty, but flexibility
- Sustainable over 30+ years – cater for changes
- Re-opener clauses important – but must be workable
- Use of clear criteria/objective parameters
- Must enable an expert to decide
- Bad re-opener clauses encourage abuse of bargaining power

Excessive/inadequate flexibility = disputes

## Mechanisms to balance and align interests

- Multi-party projects – interests diverge over time
- Is it cheaper to breach than to honour...?
- Commercial incentives to honour contractual commitments
- Benefits to all parties to keep gas flowing
- Vertical integration more likely to achieve this
- Effective (neutral) dispute resolution key to resolving problems



Commercial drivers, balanced framework

## Conclusions



- Energy security can best be achieved contractually by
  - Strong, robust, integrated structure
  - Contractual certainty with flexibility for change
  - Balanced interests and commercial incentives
  - Fair and effective conflict resolution
- Challenge – to keep the gas flowing through good times and bad

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