Government Regulation of Pricing in Gas Industry

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Abstract: This article provides an overview of how natural gas prices are regulated in the Russian Federation. The legal framework for regulating natural gas prices is described followed by more specific discussions of setting wholesale gas prices, gas transportation tariffs, and retail gas prices. On the whole, natural gas is regulated on a cost-of-service basis but there is currently transition taking place within wholesale gas markets toward market-based pricing principles for gas supplied by Gazprom and its affiliated companies.

Keywords: country-wide gas supply programs, distribution and logistics support fees, Distribution/Logistics Support Services, double-rate tariff, economically justified costs, federal energy systems, federal gas supply system, Federal Tariff Service (FTS), franking/prepayment method, gas distribution systems, gas pricing, gas pricing formula, gas transmission systems, gas transportation services, gas transportation tariff, Gazprom, indexing method, liquefied gas, liquified gas prices, main gas pipelines, market-based pricing, Methodological Guidelines, regulated prices (tariffs), retail gas prices, single-rate tariff, special tariff surcharges, Unified Gas Supply System, wholesale gas prices

The overarching law governing gas pricing issues in Russia is Federal Law No.69-FZ On Gas Supply in the Russian Federation dated March 31, 1999 (Articles 8, 20, 21, 23, 23.1), hereinafter referred to as the Law. In its turn, the Law is based on the Russian Federation Constitution defining the federal government as the ultimate authority on the issues related to federal energy systems (and the Russian federal gas supply system refers to the federal energy systems1), to regulatory framework of the nation-wide market, to pricing policy principles, and security of the Russian Federation. The government regulation of tariffs on gas transportation services is done in accordance with Federal Law No.147-FZ On Natural Monopolies2 dated August 17, 1995.

According to the Law, the Government of the Russian Federation defines pricing guidelines for gas and its transportation services over gas transmission and distribution systems, as well as procedures for introduction of special tariff surcharges for gas transmission by the distribution entities.

In view of the above, the Government of the Russian Federation adopted the following documents:

- Resolution of the Government of the Russian Federation No.1021 dated December 29, 2000 *On Government Regulation of Gas Prices and Tariffs for Gas Transportation Services within the Territory of the Russian Federation*, where the main provisions were approved regarding government regulation of gas prices and tariff rates for the gas transportation services within the Russian Federation (hereinafter referred to as the Main Provisions);


The Government of the Russian Federation also regulates the liquefied gas prices through Resolution No.332 of April 15, 1995 *On Measures to Streamline the Government Regulation of Prices on Gas and Raw Materials for its Production*.

In accordance with the above legal framework in the Russian Federation territory, the government regulation covers the following:

a) wholesale gas prices, apart from wholesale prices for natural gas sold at the commodity exchanges;
b) tariffs on transmission services when transporting gas by main pipelines for independent organizations;

c) tariffs on transmission services when transporting gas by pipelines owned by independent gas transporting organizations;

d) tariffs on transmission of gas by gas distribution systems;

e) fee levels for distribution and logistics support services provided by gas suppliers to the end users (when gas wholesale prices are regulated);

f) retail prices on gas sold to the residential consumers;

g) special tariff surcharges on transportation of gas by distribution systems meant for financing the country-wide gas supply programs;

h) wholesale prices for liquefied gas for residential sector; and

i) retail prices for liquefied gas sold to the residential sector.

It is worth mentioning that the regulated wholesale price and fee for distribution and logistics support are not applicable to gas produced by entities unaffiliated with Gazprom joint-stock company and/or owners of the regional gas supply systems, or by entities established under Decree No. 1403 of the President of the Russian Federation of November 17, 1992 *On Special Features of Privatization of State-Owned Enterprises, Production and Research Associations in Oil and Oil-Refining Industries, as well as in Petrochemical Product Supply Sector, and Their Reorganization into Joint-Stock Companies* (except for entities – owners of regional gas supply systems). It does not concern the natural gas produced and sold at the commodity exchanges by Gazprom open joint-stock company and its affiliated entities in the amount as specified by the Government of the Russian Federation.

The Federal Tariff Service (FTS)⁵, a federal executive body on government price/tariff regulation, and relevant executive authorities of the constituent entities of the Russian Federation

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⁵ Pursuant to Resolution of the Government of the Russian Federation dated 30.06.2004 No. 332 *On Approval of the Regulation on Federal Tariff Service* (Collection of Laws of the Russian Federation, 2004, No. 29, Article 3049; 2006, No. 3, Article 301; No. 23, Article 2522; No. 48, Article 5032; No. 50, Article 5354; 2007, No. 16, Article 1912; No. 25, Article 3039; No. 32,Article 4145; 2008, No. 7, Article 597; No. 17, Article 1897; No. 23, Article 2719; No. 38, Article 4309; No. 46, Article 5337; 2009, No. 1, Article 142; No. 3, Article 378; No. 6, Article 738; No. 9, Article 1119; No. 18 (Part 2), Article 2249; No. 33, Article 4086; 2010, No. 9, Article 960; No. 13, Article 1514; No. 25, Article 3169;No. 26, Article 3350; No. 30, Article 4096; No. 45, Article 5851;
Federation are the executive authorities mandated to exercise government regulation of prices (tariffs) in the gas industry.

The FTS mandate includes regulation of wholesale prices for gas (including liquefied gas), as well as gas transportation tariffs, distribution and logistics support fee levels.

The constituent entities of the Russian Federation are mandated to regulate retail prices for gas (including liquefied gas), special tariff surcharges for gas transmission by the gas distribution systems to finance region-wide gas supply programs.

Regulation of retail gas sold to the residential consumers, tariffs on gas transportation by distribution systems, distribution and logistics support fees for the services provided to the end users by gas suppliers, as well as setting of the tariff surcharges, follow the Methodology Guidelines approved by the FTS of Russia. The executive authorities of the Russian Federation constituent entities may not approve the methodologies for price/tariff and surcharge estimation.

Currently, the legal framework as defined by the FTS of Russia includes the following:

- Methodological Guidelines regulating the retail prices for gas sold to residential consumers approved by Order No. 252-e/2 of the FTS of Russia dated 27.10.2011;
- Methodological Guidelines on regulation of a fee level for distribution and logistics support services provided by the gas suppliers to the end users, as approved by Order No. 412-e/8 of the FTS of Russia dated 15.12.2009;
- Methodological Guidelines on regulation of tariffs for transportation of gas by gas distribution systems, as approved by Order No. 411-e/7 of the FTS of Russia dated 15.12.2009;
- Methodology for tariff calculation for services related to transportation of gas by main gas pipelines, as approved by Order No. 388-e/1 of the FTS of Russia dated 23.08.2005;
- Methodology for estimation of special tariff surcharge levels for transportation of gas by distribution entities to finance country-wide gas supply programs, approved by Order No. 154-e/4 of the FTS of Russia dated 21.06.2011;

2011, No. 14, Article 1935; No. 32, Article 4831; No. 42, Article 5925; 2013, No. 11, Article 1126, No. 13, Article 1555).
- Methodological Guidelines on regulation of wholesale prices for liquefied gas sold to the residential consumers, as approved by Order No. 312-e/8 of the FTS of Russia dated 28.11.2006;

- Methodological Guidelines on regulation of retail prices for liquefied gas sold to the residential consumers, as approved by Order No. 129-e/2 of the FTS of Russia dated 15.06.2007;

- Regulations on gas pricing formula approved by Order No. 165-e/2 of the FTS of Russia dated 14.07.2011.

Government regulation of prices in gas industry is consistent with the goals and principles set forth by the Law and other legislation framework.

Regulated prices for gas and its transportation tariff rates are established in the form of fixed prices (tariffs) or their caps based on the following assumptions:

1) to let the entities involved in the regulated activities recover the economically justified expenditures related to production, transportation, processing, storage, distribution, delivery/sales of gas (when wholesale prices are regulated), and economically justified costs associated with the transportation and distribution of gas (if tariffs are regulated);

2) to establish a reasonable rate of return on the capital spent by the entities involved in regulated activities on those regulated activities (until a methodology is developed to identify the cost of fixed assets, other real and financial assets used in the regulated activities, it takes into account the profit level needed to provide the above mentioned entities with the resources to pay for the debt capital, for production development and financing of other justified expenditures). The regulating authorities consider the following in the cost/benefit analysis:
   - cost/tariff predictions for products (services) consumed by the entities involved in the regulated activities, as well as taxes and other mandatory levies required by the Russian legislation;
   - anticipated profit from gas exports;
   - the level of profit needed to provide the above entities with the resources to pay for the borrowed capital, development of production, payment of dividends and other reasonable expenses;
   - plans of capital investments of the above entities and sources of their funding to take into account the cost of borrowing and other forms of fundraising for investment purposes in the price/tariff structure, as well as reports on investment capital disbursement in the previous years;
   - cost-profit ratio for the previous regulated period and the inflation indicators for the previous year.

3) to meet the solvent demand for gas, to balance the economic interests of gas buyers and suppliers;

4) to account for all taxes and other compulsory payments in the structure of regulated prices (tariffs) in accordance with the Russian legislation;
5) to account for the difference in the cost of gas transportation and delivery (sales) to various consumer groups and to different areas; and

6) to promote competition within the sector (in the gas delivery area) and between the sectors (with substitution fuels), and compare wholesale gas prices against the foreign market gas prices.

The key input data for price (tariff) calculation is the estimated volume of products (services) for the regulated period and estimated total earnings (for the regulated period).

Regulated prices (tariffs) are estimated following the above Guidelines separately for each entity involved in the regulated activities, based on segregated accounting for products (services) and production costs.

The method of economically justified costs is the key method used in regulation of gas prices (tariffs), however, the indexing method can also be used, where the fixed gas price (tariff) is multiplied by the price change index determined by the regulating authority with consideration of the average parameters for annual wholesale gas price change and the inflation projections established by the Government of the Russian Federation.

Regulated gas prices, gas transportation and distribution tariffs, special tariff surcharges for transportation of gas by distribution grid meant for financing the country-wide gas supply programs, the level of fees for distribution and logistics support services provided by gas suppliers to the end users, may differ from one consumer group to another, depending on the grid pressure levels where those consumers are connected, the pricing regions within the country, seasonality, time for gas delivery contract execution and performance, gas offtake mode, gas consumption rates, and other factors.

Gas price for the final consumers at the border separating the gas distribution grid and the networks of end users consists of the regulated wholesale gas price or the wholesale gas price agreed by the parties with consideration of established ceilings, tariffs for gas transportation over the gas distribution systems, special tariff surcharges for gas
transportation over the gas distribution systems earmarked for financing the country-wide gas supply programs, and the fee for the distribution and logistics support services.

The government regulation of prices/tariffs is based on the requests from the entities involved in the regulated activities; it is initiated by the regulating authorities. The decisions of regulating authorities to set forth (change) prices/tariffs shall be made by the Board\(^6\) of the regulating authority within forty (40) days from the date when the request to set forth (change) the price/tariff is received.

The Board’s decision shall be forwarded to the entity involved in regulated activities within five (5) days since the date it is made.

The Main Provisions allow an entity, after acquiring the full rights and duties of the entity involved in the regulated activities in the current regulated period through the universal legal succession, use the tariff (price, fee, surcharge) as established for the restructured entity, until its own tariff (price, fee, surcharge) is defined by the appropriate authority in accordance with the effective procedure.

**Wholesale Gas Prices**

The Main Provisions define a regulated wholesale gas price as the price for gas set forth under the established procedure (or the price for gas derived from the formula approved by the federal executive authority responsible for the government regulation of prices/tariffs, seeking the same rate of return from gas sales in the foreign and domestic markets and taking into account the cost of alternative fuels). This is the price for gas suppliers to sell gas at the

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\(^6\) By Resolution of the Government of the Russian Federation dated 30.06.2004 No. 332 *On Approval of the Regulation on Federal Tariff Service* (Collection of Laws of the Russian Federation, 2004, No. 29, Article 3049; 2006, No. 3, Article 301; No. 23, Article 2522; No. 48, Article 5032; No. 50, Article 5354; 2007, No. 16, Article 1912; No. 25, Article 3039; No. 32, Article 4145; 2008, No. 7, Article 597; No. 17, Article 1897; No. 23, Article 2719; No. 38, Article 4309; No. 46, Article 5337; 2009, No. 1, Article 142; No. 3, Article 378; No. 6, Article 738; No. 9, Article 1119; No. 18 (Part 2), Article 2249; No. 33, Article 4086; 2010, No. 9, Article 960; No. 13, Article 1514; No. 25, Article 3169; No. 26, Article 3350; No. 30, Article 4096; No. 45, Article 5851; 2011, No. 14, Article 1935; No. 32, Article 4831; No. 42, Article 5925; 2013, No. 11, Article 1126, No. 13, Article 1555), the FTS Board was established in Russia.
output from the gas mains directly either to the ultimate consumers who use gas as a fuel and/or raw material, or to the entities for further sales to the end users.

Table on Average Wholesale Prices for Natural Gas in the Russian Federation for Industrial and Residential Users (Rubles/1,000m³)

Wholesale prices for gas delivered in the domestic market by the Unified Gas Supply System to all consumers (apart from the consumers listed in Clause 15 (1) of the Main Provisions) are defined by the gas pricing formula aimed at a gradual achievement of the equal rate of return from gas sold in the domestic and international markets during the transition period, taking into account the cost of alternative fuels. The Main Provisions regard the time from 2011 through 2014 as a transition period when conditions shall be created to implement market-based pricing principles for gas supplied by Gazprom and its affiliated companies, and when all preliminary work should be completed to move from the
state regulation of gas wholesale prices to the government regulation of tariffs on its transportation by the gas pipeline mains.

The FTS of Russia assigns reducing factors to the gas pricing formula (and factors differentiating the gas prices for various regions of the country), to account for the specific features of pricing in the domestic market, as well as a minimum and maximum price limits derived from the formula, based on the average parameters of annual changes of gas wholesale prices for all but residential consumers, as established by the Government of the Russian Federation.


Transition to quarterly estimates of wholesale prices by the formula within the parameters (corridor) as established by the Russian Government on 31.12.2010 in Resolution No.1205 (+/- 3%) took place in 2013. In principle, the average annual parameters for wholesale gas prices are the function of the Socio-Economic Development Projections in the Russian Federation for the relevant period.

Gas prices differ from one pricing region to another (as applied to the administrative borders of the Russian constituent entities) depending on the average distance from the gas production area to the consumers with consideration of production costs and expenses incurred in conditioning of gas for transportation.

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7 Order of FTS of Russia No. 266-e/2 dated 13.11.2012 On establishment of reducing factor and factors to specify the price differentiation for natural gas for various regions of Russia, those factors being the components of the gas pricing formula, minimum and maximum values estimated using the gas pricing formula (registered by the Ministry of Justice under No.26047 on December 10, 2012), Rossiyaskaya Gazeta, No. 289, 14.12.2012.
Prices are estimated for the following standard gas parameters:

- temperature \( t = 20 \, ^\circ\text{C} \);
- pressure \( p = 760 \, \text{мм рт. ст.} \);
- humidity = 0%;
- estimated volumetric heat of combustion = 7,900 kcal/m\(^3\) (33,080 kilojoule / m\(^3\)).

The FTS of Russia sets forth differentiated wholesale prices for gas for all buyers in the Russian Federation (except for consumers who are offered a wholesale price derived from the formula) in accordance with the procedure specified by the FEC of Russia on 29.05.1998 in Resolution No.22/1 *On Approval of the Provisional Statute on Government Regulation of Differentiated Wholesale Gas Prices*.

Wholesale gas prices are agreed between the parties in the range between the maximum and minimum levels of the wholesale prices for the following consumer groups (apart from residential consumers):

- end users who have signed their first gas delivery contract where the first delivery is scheduled after July 1, 2007 (except for the entities set up as the result of restructuring of entities which used to buy gas produced by Gazprom open joint-stock company and its affiliated companies, or for the entities who have bought (including through successor arrangements) gas consuming equipment that used to be operated on the gas produced by Gazprom open joint-stock company and its affiliated companies);
- end users buying gas in the amount exceeding the levels specified in the gas purchase contracts for 2007 (excluding the additional amounts as specified by the modifications to the above agreements).

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8 Resolution of FEC (Federal Energy Commission) of Russia dated 29.05.1998 No. 22/1 *On Approval of a provisional statute on the government regulation of the differentiated gas prices* (registered by the Ministry of Justice on 02.07.1998, under the number No. 1548), *Newsletter of the regulatory documents of the federal executive authorities*, No. 16, 27.07.1998.

9 Order of FTS of Russia dated 05.06.2013 No. 110-e/4 On Approval of the wholesale gas prices used as maximum and minimum values of whole prices for gas produced by Gazprom and its affiliated companies and sold to the Russian consumers specified in paragraph 15.1 of the Main Provisions for price setting and government regulation of prices for gas and tariffs for its transportation over the territory of the Russian Federation, approved by the Resolution of the Russian Federation Government on 29.12.2000 under No. 1021, and on amendments to Order of the FTS of Russia dated 13.11.2012 under No. 266-e/2.
The maximum and minimum values for wholesale gas prices of the FTS of Russia are based on the wholesale prices derived from the gas pricing formula.

To avoid ambiguity in using the gas price values charged to residential consumers, the category of residential consumers is interpreted in accordance with paragraph 2 of the Main Provisions, to include the following:

- natural persons (citizens) – home-owners (tenants);
- gas buyers, including municipal utilities, to use gas in the boilers of all types or in other equipment for generation of electric and/or thermal power to meet the public living needs of tenants of apartments in multifamily buildings and for shared living space in the above buildings;
- other entities buying gas to be used by persons (citizens), namely:
  - providers of communal and municipal services (management companies, homeowners’ associations, housing or other specialized consumer cooperatives);
  - lessors (or their authorized representatives), leasing to individuals a living space of the specialized housing stock – employer-provided apartments, dormitory accommodations, temporary public housing, public welfare homes, housing stock for displaced persons and people with a refugee status, and housing for social protection of vulnerable groups;
  - not-for-profit associations of garden-, orchard-, and dacha cultivators.

It is a common practice for the FTS of Russia to establish the wholesale gas prices, including for the gas sold to the people, for the entire calendar year by issuing an order with the status of a regulatory document (Order No.273-e/1 issued on 27.11.2012 On Approval of Wholesale Prices for Gas Produced by Gazprom Joint-Stock Company and its Affiliated Companies, Meant for Further Sales to Residential Users.)

**Gas Transportation Tariff**

The Government regulates tariffs on transportation of gas by high-pressure pipelines (main gas pipelines), by medium- and low-pressure pipelines (gas distribution system).

Tariffs are set for at least a year. However, the tariffs may be reviewed in case of a significant reduction of the volume of services associated with a government-regulated activity, or if any other valid circumstances produce a detrimental impact on the regulated activity.
Tariffs for gas transportation by mains are set at the fixed levels depending on the structure of costs of an entity under regulation and the transportation mode:

- a single-rate tariff – if there is no gas compressing in the mains system, or if the share of costs related to electric power and gas used for operational functions of a regulated entity during gas transportation does not exceed 1% in the total transportation cost price. Single-rate tariffs may also be put in place for the regional gas suppliers;
- double-rate tariffs – for other cases.

A double-rate tariff consists of the following rates:

- rate for the use of main pipelines (pipeline rate);
- rate for the work needed to transmit the gas (delivery rate).

The pipeline rate is set for transportation of 1,000 m$^3$ of gas between the input and output of the gas pipeline.

A single rate tariff and the delivery component of a double rate tariff are set for transportation of 1,000 m$^3$ of gas if the same route is used to deliver gas to all consumers of transportation services. The same approach may be used for setting the tariffs for regional gas distribution systems. In other cases a single rate tariff and the delivery rate are set for transportation of 1,000 m$^3$ of gas for the distance of 100 km.

Tariffs (or rates) may be set for the gas transmission services:

- for domestic market delivery and for exports to the Customs Union member countries;
- for exports to the other countries.

In 2012, the FTS of Russia issued Order 143-c/1 On Approval of Tariffs for Independent Entities for Transportation of Gas by Gazprom Main Gas Pipelines Included in the Unified Gas Supply System, dated June 8, 2012, where double-rate tariffs were set.

Some consideration should be given to estimation of costs of services related to transportation of gas by gas distribution networks (low- and medium-pressure pipelines). The FTS of Russia imposes tariffs for transportation of gas by gas distribution systems in accordance with the Methodological Guidelines on the regulation of tariffs for transportation
of gas by gas distribution systems, as approved by Order No. 411-e/7 of the FTS of Russia dated 15.12.2009.

Executive authorities of the constituent entities of the Russian Federation take part in the regulation of tariffs for services related to transportation of gas by gas distribution systems following Resolution No.950 of the Russian Federation Government dated December 10, 2008, *On Involvement of the Constituent Entities of the Russian Federation in Government Regulation of Tariffs while Performing Government Regulation and Oversight Functions over the Natural Monopolies*.

Thus, the above tariff is set by the FTS of Russia incorporating the opinion of the executive authority of a constituent entity of the Russian Federation in charge of the tariff regulation.

A transportation tariff is differentiated by the groups of end users.

The end users are broken down into 8 various groups depending on the volume of gas they consume:

1. users consuming more than 500 million cubic meters of gas per year;
2. users consuming from 100 to 500 million cubic meters of gas per year;
3. users consuming from 10 to 100 million cubic meters of gas per year;
4. users consuming from 1 to 10 million cubic meters of gas per year;
5. users consuming from 0.1 to 1 million cubic meters of gas per year;
6. users consuming from 0.01 to 0.1 million cubic meters of gas per year;
7. users consuming from 0.01 million cubic meters of gas per year; and
8. households.

The Table below: **Tariff Rates for Transportation of Gas by Distribution Grid Broken down by Consumer Groups**, displays the amounts in Rubles/1,000 m3 for 8 groups of...

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In addition to tariffs for transportation of gas by gas distribution systems, the executive authorities of the constituent entities of the Russian Federation approve of the special surcharges (in coordination with the gas distribution entities), to finance the country-wide gas supply programs.

The level of surcharges is consistent with the methodology endorsed by the FTS of Russia.

However, the level of a special surcharge may not exceed 25% of an average tariff for gas transportation by distribution systems to the end users (including the entity profit tax resulting from the surcharge application).

An important regulation-relevant amendment to the Law on Gas Supply was made by Federal Law No.291-FZ\(^\text{11}\) passed on 30.12.2012. The amendment stipulates that the FTS of

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Russia, starting from April 1, 2013, should keep the gas distribution tariffs in effect for the period of at least 3 years but not to exceed 5 years.

**Fee for Distribution/Logistics Support Services**

The Main Provisions define a regulated fee for distribution/support services as an approved fee for such services provided by gas suppliers to the end users and charged in addition to the regulated wholesale gas price.

A gas supplier is usually a business focused on generation of profits; therefore it duly expects recovery of all other expenses unrelated to gas production and purchase but essential for gas delivery.

The list of expenses essential for delivery is established in Annex 2 of the Methodological Guidelines on regulation of a fee level for distribution and logistics support services provided by gas suppliers to the end users, as approved by Order No. 412-e/8 of the FTS of Russia dated 15.12.2009.

The fee levels for distribution and logistics support services vary by the end user groups, similar to a transportation tariff rate.

Price differentiation by groups depends on the complexity factor in service delivery, as specified in the guidelines.

The table below: **Trends in Fees Paid for Distribution and Logistic Support Services by Different Consumer Groups.**
Retail Gas Prices

The Main Provisions define a gas retail price as the price for gas sold to the residential consumers for personal, family, household, and other needs (except for the gas for fueling vehicles), unrelated to any business (professional) activities.

The retail gas prices are established at the fixed level with their further differentiation by the following areas of gas utilization:

- for cooking food and heating water on a gas stove (when gas is not used for anything else);
- for heating water using a gas-fired water heater when there is no centralized hot water supply system (when gas is not used for anything else);
- for cooking food and heating water on a gas stove and for heating water using a gas-fired water heater when there is no centralized hot water supply system (when gas is not used for anything else);
- for heating and simultaneous use of gas for other purposes (apart from heating and/or electricity generation using boiler equipment of any type, and/or other equipment commonly owned by all tenants of multifamily buildings);
- for heating and/or electricity generation using boiler equipment of any type, and/or other equipment commonly owned by all tenants of multifamily buildings).
Methodological Guidelines allow different retail prices for gas consumed for heating and/or electricity generation using boilers of all types and/or other equipment co-owned by the tenants in the multifamily buildings.

The average retail gas price in the territory of a constituent entity of the Russian Federation takes into account the wholesale gas price at the output from the main gas pipeline, an average regional component of the retail gas price (consisting of a gas transportation tariff differentiated by consumer groups and a transfer stream tariff; a distribution and logistics support fee for a consumer group; and a special gas distribution surcharge as established by the relevant authority of the Russian Federation constituent entity for a specific end user group), and the value-added tax.

Retail prices for gas are valid during a calendar year and may be reviewed, as specified in the Methodological Guidelines.

**Liquefied Gas Prices**

A wholesale price for liquefied gas is approved by the FTS of Russia and is set in accordance with the Methodological Guidelines on the regulation of wholesale prices for liquefied gas sold to the residential consumers, as approved by Order No. 312-e/8 of the FTS of Russia dated 28.11.2006. It may vary as a function of transportation costs of liquefied gas to residential consumers in the Russian Federation. However, the regulated wholesale prices are deemed ceiling prices, when the regulated household prices for liquefied gas exceed the market value because of short-term or seasonal wholesale liquefied gas market fluctuations.

The relevant executive authority of the Russian Federation constituent entity shall establish retail prices in accordance with the Methodological Guidelines on the regulation of retail prices for liquefied gas sold to the residential consumers, as approved by Order No. 129-e/2 of the FTS of Russia dated 15.06.2007. The price may vary as a function of franking/prepayment method used in the following subgroups:
a) sale of liquefied gas cylinders without delivery to consumers;
b) sale of liquefied gas cylinders with delivery to consumers;
c) sale of liquefied gas from multi-tank gas units; and
d) sale of liquefied gas cylinders from staging locations (warehouses).

A retail price may be set as a fixed price, or as a ceiling price in rubles for 1 kg of liquefied gas including a value-added tax (in addition, when the liquefied gas is sold from gas tanks, the price may be also estimated per 1 cubic meter).

Therefore, it is fair to say that the Russian government approach to regulation of the gas sector prices is based on costing methods adequately defined in the relevant legislation framework.