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Pipeline Capacity Exceeds Transported Volumes Twice Over

By Alexander Panin

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New gas pipelines to Europe continue to be laid, despite the fact that only half of existing capacity is in use.

Russia has huge gas pipeline overcapacity, its oil majors feel they are overtaxed and shale technology is over here and in operation. These were the three most discussed topics at an oil and gas conference organized by Kommersant on Thursday.

The overall capacity of the country's westbound gas pipelines exceeds the amount of gas transported by more than two times, oil and gas analysts said, and yet construction continues unabated.

"Last year, capacity was equal to 250 billion cubic meters, and only 117 billion cubic meters were transported across the border," said Mikhail Krutikhin, partner and analyst at consulting firm RusEnergy.

And this discrepancy is likely to grow even further as new projects like the South Stream pipeline come on line — which is expected by 2015 — at the same time that demand for gas in Europe is flat, Krutikhin said.

Another ongoing trend mentioned at the conference, was that the U.S. shale gas revolution has arrived in Russia. Only here it is being deployed not on gas, but oil.

"We are already using the U.S. shale gas technology to extract oil at rigs where conventional methods are not applicable," said Sergei Vakulenko, head of strategic planning department at Gazprom Neft. "It is still early to judge how well this method will work in the long run, but so far it has been a success."

But while Russian oil companies have been busy implementing new technology in oil extraction, their continued development is limited by a heavy tax burden, the executives said.

Depending on the case, oil majors sometimes pay 100 percent of tax on their revenue, putting the operation of some rigs into the red, and companies are forced to hold them in reserve, hoping the taxation system improves.

"The oil industry is overtaxed. This is why Russia extracts less oil than it could and is investing less in production," Vakulenko said.

The result is that many hard-to-reach reserves are still unreachable, he added, and in the long run, extractable reserves are being depleted.

According to the Ministry of Energy, Russia will pump 517 million tons of oil by the end of the year, a slight dip from the 518 million tons of oil extracted in 2012.

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