

European Energy Forum

What Future For Natural Gas In The Energy World

Eurogas Views on the Third Package

- Latest facts and figures - Forecast to 2030
- Dialogue and Partnership with Producing Countries
- The Gas Coordination Group / Security of Supply
- The Third Liberalization Package of Gas Markets

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Presentation by Mr. Jean-Marie Devos
Eurogas Secretary General



EUROGAS interacts with the following Stakeholders

Private European Organizations

- Industry: BUSINESSEUROPE, Cefic, OGP, Eurelectric, etc.
- Consumer organizations: IREC, Beuc
- Energy market/hub operators
- European Energy Forum
- ...

Private International Organizations

- Industry: IGU, WEC, etc.
- NGO's: WWF, etc.
- ...

Gas Sector and Sister Associations

- GIE
- Marcogaz (Technical)
- GERG (R&D)
- EASEE Gas (Interoperability)
- Cedigaz (Statistics)
- Intergas marketing
- ...

Consumers, the Press, the Public, Academic Institutions

The EU Institutions and other bodies

- European Commission
- European Parliament
- EU Council
- Economic and Social Committee
- Committee of Regions
- ERGEG / CEER (Regulators)
- High Level Group
- Sectoral Social Affairs Committee for Gas: Eurogas/ EPSU/EMCEF

The Public International Organizations

- UN/ECE
- The International Energy Agency (IEA)
- The Energy Charter
- Others
- ...

Official Fora

- Madrid Forum
- Fossil Fuels Forum
- European Sustainable - Energy Forum

Some Key Areas of Interest for Eurogas

- Sustainable Economy and natural gas / studies, statistics and forecasts
- Competitiveness
- Security of Supply
 - *Gas Coordination Group, Berlin Fossil Fuel Forum*
 - *Relations with producing countries (EU Russia Dialogue, Norway)*
 - *Diversity of energy sources: role of natural gas in a diversified energy mix*
 - *LNG*
- Internal Market
 - *Implementation*
 - *Regulatory Forum of Madrid*
 - *Gas Regional Initiative*
 - *Third Package*
- Climate Change and Energy Efficiency – Climate/Energy package
- Customer focus
- EU Social Dialogue for Natural Gas

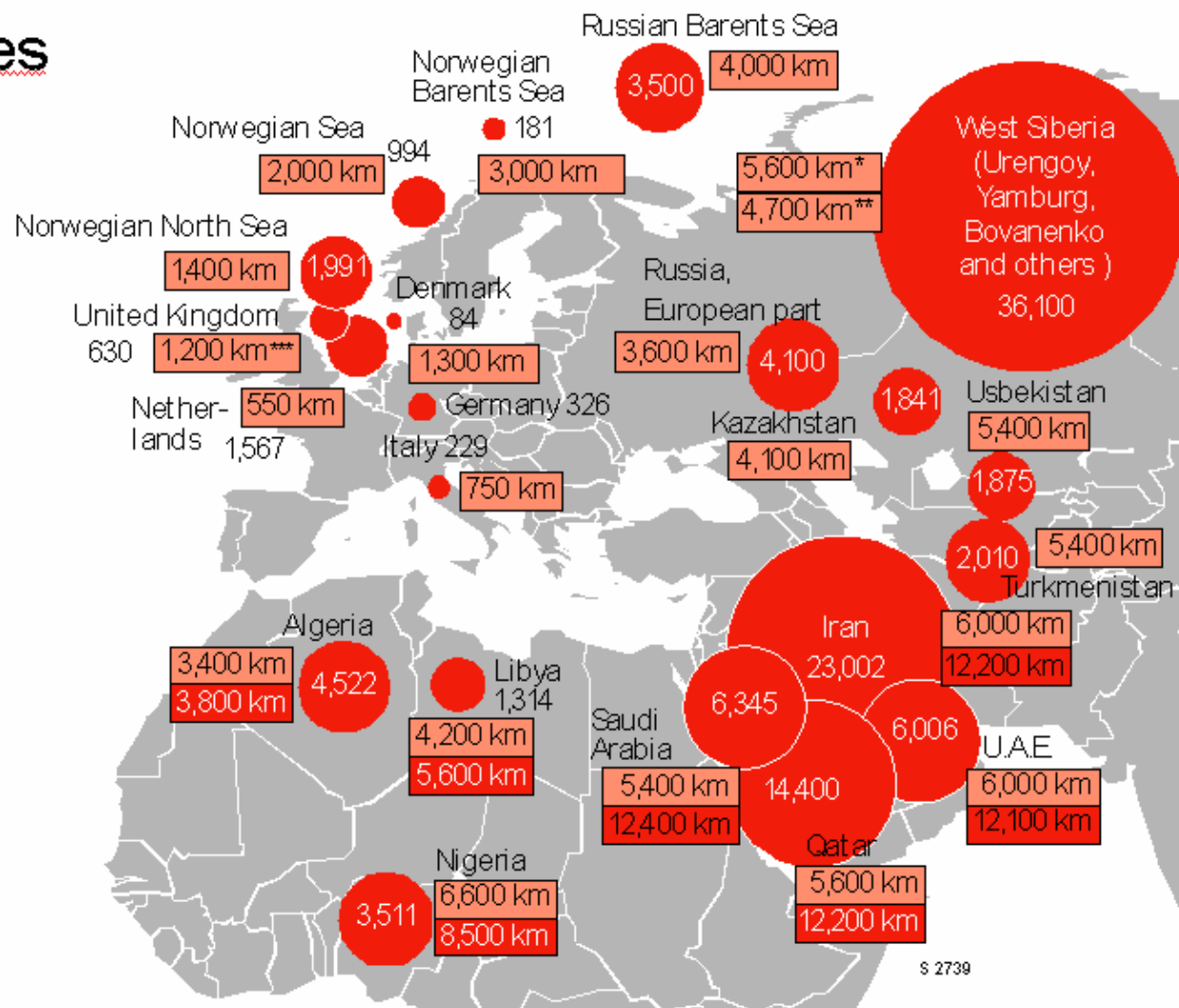
Fact and Figures

*Challenges of European Gas Industry
Dependency
Conditions for Security of Supply*

Natural Gas Reserves and Supply Distances

billion m³

Pipeline to Frankfurt/Main
LNG to Wilhelmshaven

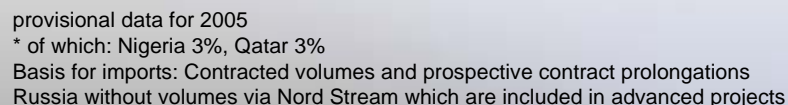


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*Yamburg Area
**Yamal Peninsula
***northern area

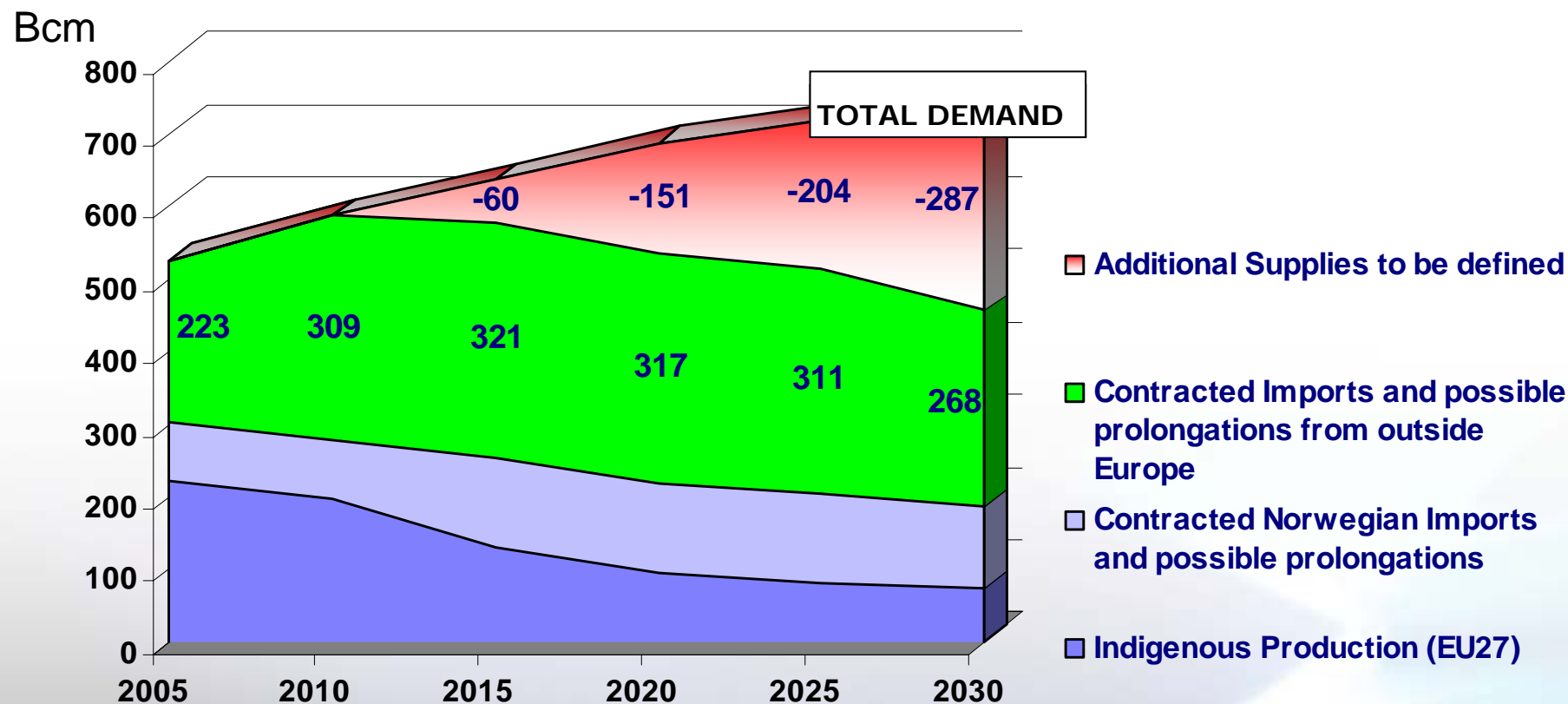
1 m³ = 11.5 kWh

Source for natural gas reserves: Oil and Gas Journal,
Norwegian Petroleum Directorate, others



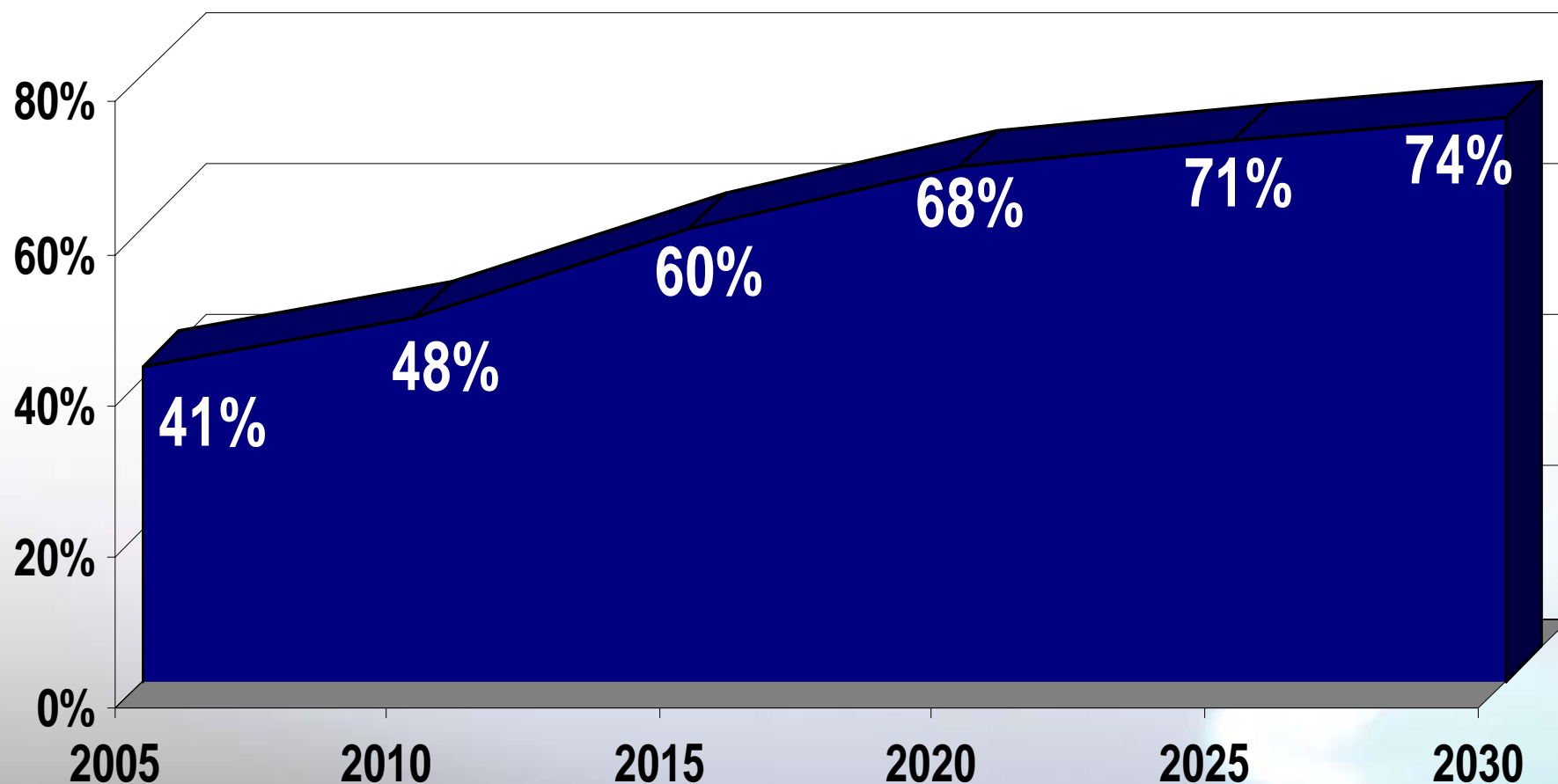
JMD – EEF / EUROGAS DINNER DEBATE 27.02.08

EU 27 will need additional supplies in the long run



1Mtoe = 1,19 billion m³ (39 MJ/m³, GCV)

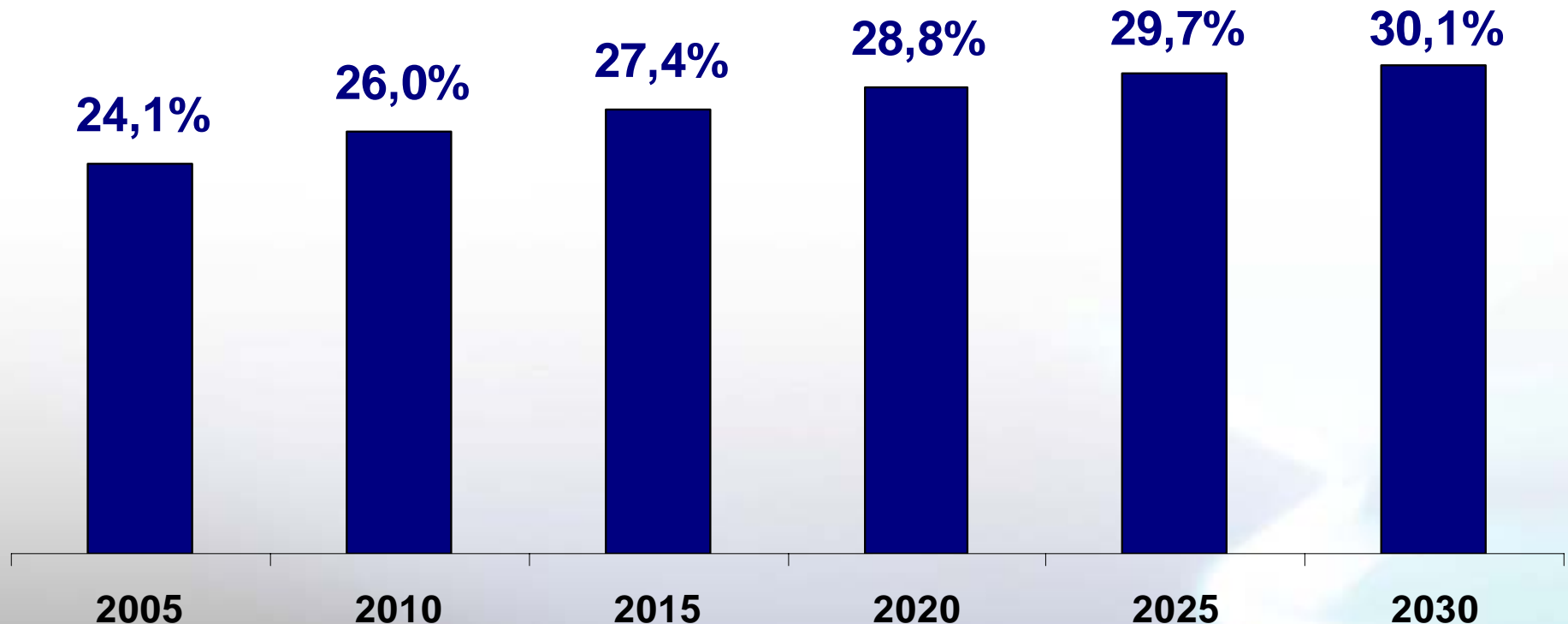
EU27 import dependency from outside* 2005 - 2030



* Excluding Norway

EVOLUTION OF SHARE OF NATURAL GAS in PEC in EU27

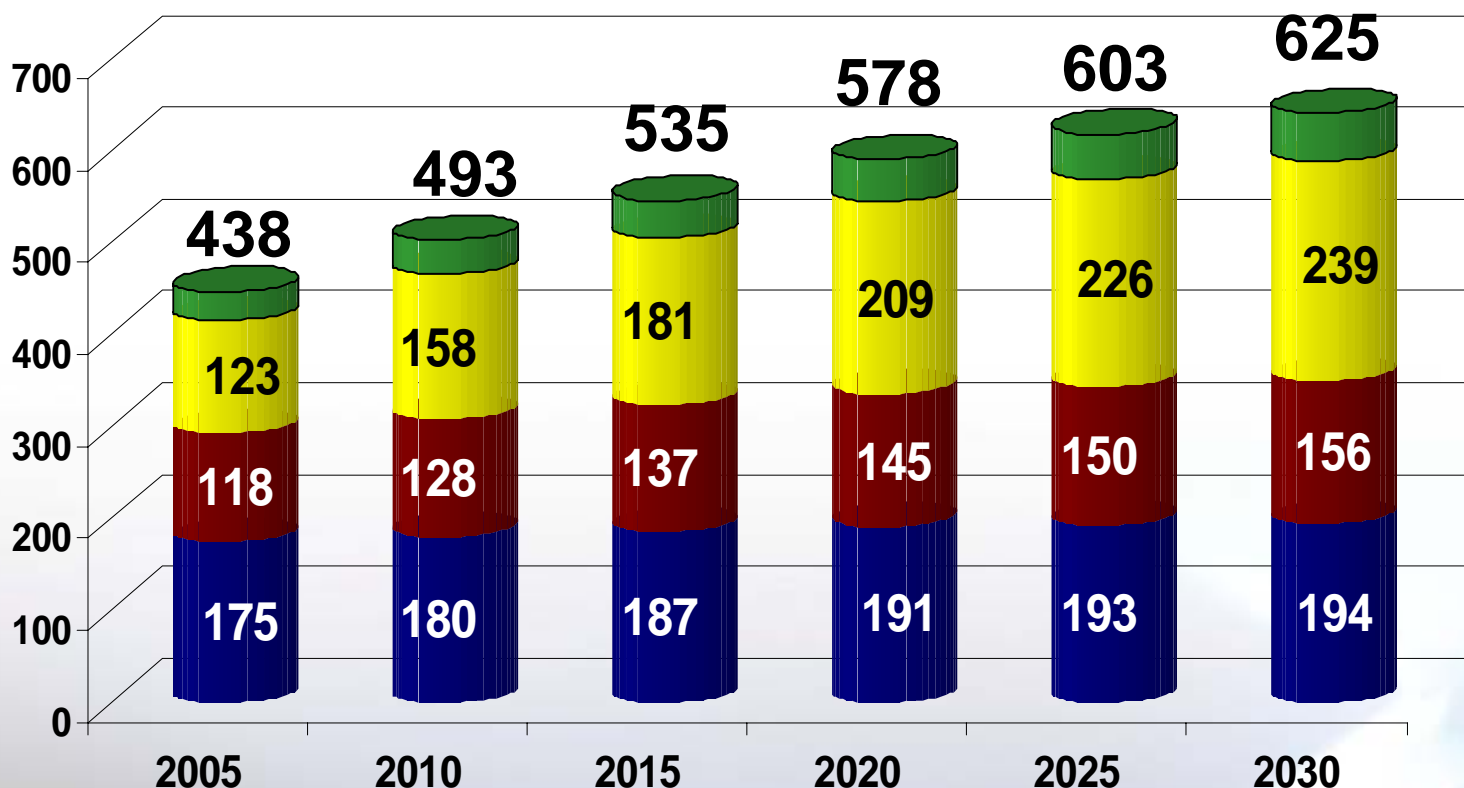
Growing importance of natural gas as a bridge fuel to a sustainable future



EU27 Natural Gas demand outlook per Sector

Gas demand is mainly driven by the power sector

[MTOE]



■ Residential & Commercial
 ■ Industry
 ■ Power Generation
 ■ Others (NGV+Heat Plants and Others)

What Future For Natural Gas In The Energy World?

- Discussion on European energy policy increasingly characterized by security of supply concerns
- At the same time: EU needs to:
 - increase its competitiveness in the global energy market in respect of new environmental requirements
 - to ensure European customers sustainable access to the energy they need

How to achieve Security of Supply through sustainable tools ?

- A diversified energy mix supports security of supply
- Natural gas has a major role to play in the energy mix up to and beyond 2020. (Acknowledgments: European Commission and EP resolution October 2007)
- Good technical / Environmental records compared to all fossil fuels: strong environmental advantages
- Biogas and Natural Gas vehicles

How to achieve Security of Supply to increase competitiveness?

Contributing to reliable supplies to EU



Meeting European Energy needs

SOME MARKET TOOLS AND COMPANIES STRATEGIES

- Competitiveness
- Companies portfolios => seeking economic efficiency optimisation
 - Long Term Contracts
 - Spot
 - Flexibility tools
- Diversification of sources and transit routes => new international MOTORWAYS
- Number of companies move both upstream and downstream
- Energy companies are major drivers for investment

Contributing to reliable supplies to EU

Better cooperation between Member States and EU => Europe should “speak with one voice” in a global energy market **BUT** Member States, Industry and stakeholders fully involved

SOME INSTITUTIONAL TOOLS

Contribution of Eurogas in:

- The EU Commission’s Gas Coordination Group – November 2008 future SOS strategy review expected / Berlin Fossil Fuels Forum
- EU-Russia Energy Dialogue – thematic groups: involvement of industry – Reciprocity and win/win formula – (role of Long Term Contracts, moving upstream and downstream, spot markets)
- Building a level playing field
- The EU-Norway and other similar Dialogues

COHESION IS A MUST! INTERNAL MARKET NEEDS COMPETITIVE EU PLAYERS AND STRONG NEGOTIATING POWER IN THE EXTERNAL DIMENSION!

A STABLE INVESTMENT ENVIRONMENT IS ESSENTIAL TO MEET FUTURE CUSTOMERS EXPECTATIONS!

The Internal Market and The Third Package

Eurogas action



- Publication: «The European natural gas market – Eurogas views on the way forward » (October 2006, 44 p.)
- Since then, number of position papers and actions among which:
 - Position paper on Sustainability and Energy Efficiency
 - Views on Protection of Vulnerable Customers and on Gas Tariffs for Socially Disadvantaged Customers
 - Guidelines for good regulatory practice
 - Position papers on proposals on the internal market: Improved market integration / a strategy for a competitive, secure market
 - 5th December 2007: Position Papers on “Third package” (e.g. Powers of regulators, Guidelines, Interface Agency-Regulators-Commission); (other Position Papers under preparation)
 - intensive work and dialogue on European Parliament amendments

The Unbundling Debate

- Eurogas fully supports efficient and independent TSOs, with clear responsibilities and functional/operational autonomy, incl. in the design of investment plans based on consultation of all market players.
- Number of energy companies are key drivers in the investment process
- Number of companies are concerned that mandatory ownership unbundling or ISO would lead to the weakening of European energy companies, which would reinforce the existing imbalance with non-EU players, esp. natural gas producers
- Forced ownership unbundling may also lead to long-lasting legal disputes centred on a violation of property rights

Which Governance?

Eurogas position on regulatory powers and the respective roles of the national regulators, the Agency, the Commission and the European network of transmission system operators for gas

- It is essential that a **clear policy framework** is established within which the national regulatory authorities can implement their powers
- The policy framework for the regulatory authorities work should include
 - A duty for the regulatory authority to consult with market participants
 - A duty for the regulatory authority to publish fully reasoned decisions
 - Decisions by regulatory authority should be proportionate
 - A memorandum of understanding at national level should be established that sets up the process of cooperation between the national competition authority and the national regulatory authority

Power for the Commission to adopt guidelines on a wide range of subjects

Risks:

- => Comitology procedure is exercised differently to the co-decision procedure: **democratic legitimacy could be restricted**
- => Comitology procedure will only apply in case of amending non-essential elements of the Directive/Regulation: there is a **potential risk of inter-institutional conflict on what is « essential » and « non essential »**

Eurogas proposes :

- No confusion between **law making and regulation making powers**
- Scope of guidelines should focus on **regulated network activities**
- All guidelines should be subject to **regulatory impact assessment by the Commission and ACER**

Role of the national regulators, the Agency, the Commission and the European network of transmission system operators for gas

Role of ACER

- Eurogas endorses the proposal to establish a single independent energy regulatory authority with harmonised powers in each Member State
- The creation of ACER is an important step in the right direction but the degree of independence of ACER from the Commission and national energy regulators is unclear.

ACER should be empowered to

- create adequate incentives for regional and European grid integration
- to coordinate the process of adoption of harmonised technical rules
- enforce compliance with harmonised rules
- review and overrule decisions of national energy regulators that have an adverse impact on other national markets or regional market integration

Regional markets: improvement needed to stimulate their integration

Role of the national regulators

- There should be no confusion between responsibilities of regulators and competition authorities
- Art. 24c (3) of the Proposal for amending Directive 2003/55/EC allows regulators to adopt « any appropriate measures » (e.g. gas release programmes) even in the absence of violation of competition rules
- This creates legal uncertainty and economic instability – Regulators would have a very broad discretion for market design
- The powers of regulators should be clearly restricted to regulated infrastructures and should not include natural gas as a commodity

European Network of Transmission System Operators (ENTSOG)

The third package introduces powers for ENTSOG to establish and adopt technical and market codes.

- ⇒ Eurogas generally welcomes the role of ENTSOG on grid issues. However the reference to « market codes » is misleading
 - ⇒ **Real danger of confusion**
- ⇒ ENTSOG should work within a clear programme established by the Commission on the Agency's advice, and codes should, after elaboration by ENTSOG (with explicit involvement of system users), be confirmed by the Agency
- ⇒ Market players should have a formally defined role in commenting on and participating in the development of any proposed codes.

Exemptions on Major New Infrastructures (Art. 22 of the Proposal to amend Directive 2003/55/EC)

- Eurogas endorses the need for improvements to ensure a more harmonized approach to the current Art. 22
- Eurogas welcomes the principle of a clearer procedure for handling cross-border projects by ACER
- Infrastructure building, timing and operation should be addressed in a time scale to be proposed in each final regulatory decision, but not in the Directive itself
 - ⇒ 2 and 5 years pre-established "validity" of Commission decision to be withdrawn
- Each decision should be handled on a case by case basis

The Citizens Energy Forum

- Eurogas is actively working on customers' issues (in Third Package)
- Eurogas is a stakeholder on the planned citizens' Energy Forum on the 6th of May (European Commission's DGs TREN and SANCO)

Thank you for your attention

www.eurogas.org