



Newsletter

► Eurogas Participation at the Gas Co-ordination Group on 4 January 2006

This meeting of the Gas Coordination Group was organized by the European Commission in Brussels on 4 January 2006 on an informal basis and with short notice. The main objective was to discuss the consequences on security of supply of the gas row between Naftogaz and Gazprom late December 2005 when gas imports price rises temporarily reduced gas flows in some other countries importing Russian gas. The Eurogas delegation was composed of Heinz Riemer and Jochen Weise, E.ON Ruhrgas, Didier Sire, Gaz de France and Margot Loudon and Simona Basiu, Eurogas. The meeting was chaired by Helmut Schmitt von Sydow, DG TREN.

Initially it had been envisaged that Naftogaz and Gazprom would be present at the meeting but the two companies had reached an agreement the day before and therefore did not attend. The Commission reported on the main elements of the agreement. A round table of national reports followed. These reports confirmed that the dispute had led to security of supply problems to some extent but these had been of short duration without entailing national crisis measures. Cooperation between companies, use of gas from storage and flexibility in contracts from other suppliers had allowed delivery shortfalls to be met. Austria in its capacity as EU President and Italy had also made diplomatic approaches to Ukraine and Russian authorities, urging a speedy solution.

Margot Loudon, Eurogas welcomed the timely organization of this meeting and mentioned that Eurogas was relieved that the temporary problem of the reduced gas delivery had lasted a very short time as the two parties had quickly found a settlement on a commercial basis. She added that Eurogas endorsed the emphasis given by several Member States to the importance of the diversification of gas supplies and transport and transit routes. This confirmed the need for a climate conducive to the necessary investments in infrastructure and, to facilitate diversification, the necessity for the European gas market to be able to attract volumes of gas in a competitive global gas market on a long term basis. Finally she mentioned that Eurogas sees in the Directive 2004/67 on measures to safeguard security of natural gas supply to be transposed into national law by May 2006, a suitable framework enabling the EU to respond to any future gas supply disruption.

In concluding the meeting, the chairman mentioned that he would speed up the procedures to establish officially the Gas Coordination Group. Meanwhile, he mentioned that it was necessary for the Commission to collect information about gas flows, storage, and security of supply measures in every country. To this end, questionnaires would be sent to authorities seeking detailed information on national consumption, national production, imports, storage facilities etc.

The press release referring to this meeting is available on www.eurogas.org



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Energy Priorities of the Austrian Presidency, January –June 2006

The Austrian Presidency started on 1st of January and will chair the EU Council for the first half of this year. Amongst its priorities, energy is high on the agenda. The Austrian Presidency will look into the internal gas and electricity markets and how to improve their functioning, including aspects on competition. Security of supply is another important matter the Presidency will focus on especially given the ongoing work on the announced Green Paper on security of supply,

competitiveness and sustainability. International cooperation will also be developed through the EU-Russia and EU-OPEC dialogue and other third countries. With regards to security of energy consumption and production the Presidency will concentrate on two priorities: improvement of energy efficiency and promotion of electricity from renewable sources which will be based on the biomass action plan.

► Eurogas Representatives Participated at the Joint Working Group of the Gas Regulatory Forum of Madrid

A joint working group of the Madrid Forum was held on 19 January in Brussels at which Member States and associations, amongst which Eurogas, were invited. The Eurogas delegation was composed of Dieter Pfaff, E.ON Ruhrgas, Simon Goldring, Centrica, Peter Aertker, BGW, Gert van Gijssel, Distrigaz, and Margot Loudon, Deputy Secretary General Eurogas. Ana Arana, head of unit at DG TREN chaired the meeting.

Stefan Ressler from DG TREN gave a presentation on the draft explanatory note on gas tariffs while emphasizing the non-binding status of the note. This opened a discussion mainly focused on the cost-based principle of the tariff methodology. He gave a second presentation on capacity allocation mechanisms. Other important topics were addressed like interoperability and calculation of available gas capacities.

Eurogas took this occasion to distribute its position paper on capacity allocation and the use it or lose it principle. Dieter Pfaff emphasized that an approach on gas capacity allocation should distinguish between possible different situations

including the question of whether new investment was foreseen as opposed to existing capacity and also take adequate account of security of supply. He also drew attention to Eurogas's discussion paper on capacity allocation that included a view on firm use it or lose it principles and underlined Eurogas views that compensation should be possible if firm capacity were removed from a supplier, who then had to face supply problems. With regard to available capacity calculation he explained the basic position of Eurogas on firm capacity and clarified the relation of this firmness to the force majeure principle.

OFGEM (British regulator) gave a presentation on the contents of the ERGEG proposed Roadmap. Eurogas was happy to announce that the organization would deliver a response to this important paper on time. The chairwoman concluded the meeting by mentioning that follow-up actions will be taken and that the next working group meeting will be organized in March to complete the preparation of the next Gas Regulatory Forum of Madrid which will take place next May.

► Eurogas Response to ERGEG Discussion Paper "Roadmap for a Competitive Single Gas Market in Europe"

The European Regulators for Gas and Electricity Group (ERGEG) issued last year in November a document setting out a Roadmap on gas for consultation by other stakeholders and industry. This document reviewed the situation of the gas markets in Europe of today and detailed the views the regulators on which goals this gas market should have. It set priorities, drafted a timetable and identified few paths leading to progress in this field.

Eurogas responded officially on 23 January. In its views, an integrated European market will be achieved in progressive stages. Market driven regional development is an important next step. Nonetheless, the regional markets concept must not raise barriers or slow down the achievements of the European single market. Therefore progressive convergence of different regulatory and legislative frameworks in the Member States must continue to ensure that the construction of regional markets does not lead to new obstacles at EU level. If regional markets are developed the regulatory structures may have to be thought through. With reference to hubs Eurogas considers that development will be among basic building blocks, additional to long term contracts, towards an efficient liquid market.

Eurogas agreed with the point that gas suppliers in the EU face upstream market concentration, apart from other challenges, in obtaining secure and competitive long-term supplies to Europe. Eurogas is of the opinion that a competitive gas market has to be able to attract gas volumes in an increasingly globally competitive market. Such a market will though remain reliant on long term secure supplies and will be strengthened by

additional market instruments with commercial opportunities. This should increase the market's responsiveness and market liquidity.

As regards competition, choice of gas source and availability of gas, Eurogas welcomes the plea for the freedom of suppliers to determine from the commercial point of view only all the possible sources of supplies in each market but notes that in some markets this freedom is not implemented fully because of a regulatory approach to security of supply objectives.

Eurogas agreed that effective non-discriminatory access to network capacity is a pre-requisite for enhanced competition in the gas market and that it is essential for the continued operation of competitive markets.

Moreover, introduction of regulated entry-exit tariffs with a reasonable return on capital to ensure future investments in regional markets is also of importance.

Finally there is also a need for effective unbundling of transportation activities from gas trade to allow transmission system operators to act in a manner which does not discriminate against any transmission system user in accordance with the current directive.

In conclusion, Eurogas considers that the Roadmap presents a useful analysis on regulatory issues and a valuable basis for future discussions on the way forward.

The full document of Eurogas's response to the Roadmap can be viewed on <http://www.eurogas.org/preview/frameset.asp?page=04>

► Sixteenth Working Gas Party of UNECE – Geneva 24-25 January 2006

The United Nations Economic Commission for Europe held its sixteenth session of the Working Party on Gas on 24-25 January in Geneva. Emilie Marinova, Eurogas attended this two day conference. The Gas Centre presented its achievements of 2005 which included a conference on LNG in Norway, the creation of a new ad-hoc task force on gas infrastructures and tailor-made data increase and presented the programme for 2006.

Presentations were provided by Gazprom, the European Natural gas Vehicle association, and the European Commission DG Competition. Amongst the activities foreseen for 2006, the Gas Centre will organize a Round table on "Secure and reliable natural gas supplies in the context of sustainable development".

► Eurogas President Willy Bosmans Met With Sir John Mogg New President of ERGEG

Willy Bosmans, President of Eurogas met Sir John Mogg the new ERGEG/CEER President on 24th of January in Brussels. This informal courtesy meeting took place in the presence of Jean-Marie Devos, Eurogas Secretary General, Margot Loudon Deputy Secretary General and Una Shorthall Secretary General of CEER. This was one of a series of contacts ERGEG was organizing with industry stakeholders.

Sir John Mogg showed interest in Eurogas organization and activities and especially in the way Eurogas is handling environmental questions. He made two policy statements; first that the integrated European market should not imply a bigger market with an anticompetitive basis and secondly that security of supply

could be used to defend incumbents' positions.

On these issues, Willy Bosmans responded Europe needed a strong market, with a sufficient number of actors, but the market should determine their scale and the number of players. On the security of supply points, he emphasized the need for appreciation of the geopolitical perspective, and also pointed out that substantial investments would be required.

In the conclusions of the meeting the participants agreed on the importance of a good working relationship between Eurogas and CEER/ERGEG especially in the preparatory work for the Gas Regulatory Forum of Madrid.

► IEA/IGU/CIEP High-Level Conference on Regulation of Natural Gas Markets

The joint IEA/IGU/CIEP conference on regulation of natural gas markets took place in Paris last 26th of January. The conference focused on the key strategic features of regulatory regimes in natural gas markets that increase environmental, efficiency and security outcomes. Jean-Marie Devos, Secretary General of Eurogas made a presentation "The EU Natural gas Supply Challenges and

the Impact of Globalization". This conference was considered by Mr. Devos as a revealing event, dominated by a new approach to natural gas issues. In addition to in depth discussion on regulation that was deeply discussed, a lot was said about security of supply, economics and geo-politics. At EU level, both the EU Council and the Commission are engaged in similar discussions.

► A EU Conference on Policy Dialogue “European Energy Security” Took Place in Brussels on 31 January 2006

The European Policy Centre (EPC) and the Clingendael International Energy Programme (CIEP) organized on 31 January a « European Energy Security Dialogue » conference in Brussels.

Didier Sire, Gaz de France and Emilie Marinova, Eurogas attended this event which gathered a number of high level speakers and officials from the industry and from the civil society as well as NGOs and think tanks.

The aim of this Policy Dialogue was to promote public debate on the implications of security of energy supply. Questions like geopolitical developments and their implications for foreign energy policy, evolution of demand and supply issues in

developing countries and concerns on how market liberalization would secure supply were addressed.

In his speech, Didier Sire mentioned that the security of supply question is a constant concern for gas companies and underlined that the gas crisis last January demonstrated that the approach to this issue was both political and industrial. Security of supply for Europe means also provision of security of demand. He insisted that the EU should keep European energy markets attractive for producers and that it would need to count on some strong companies which are able to compete effectively on the international market.

► Eurogas President Willy Bosmans Presented Eurogas Views at the Public Presentation on the Sector Enquiry

The European Commission organized in the framework of an open consultation process a public presentation on the preliminary findings of the energy sector inquiry on 16th of February. Opened by Nellie Kroes, Commissioner for Competition, the session continued with presentation of preliminary findings by the gas team, the electricity team and by the EFTA Surveillance Authority. Two key note speeches were delivered, first by Stavros Dimas, Commissioner for Environment and then by Andris Piebalgs, Commissioner for energy.

In the afternoon panel which was chaired by Philip Lowe, Director General DG Competition, twelve Chief Executive Officers were invited to contribute with a speech. Willy Bosmans, President of Eurogas underlined that the real debate must be focused on how to achieve

sustainable, competitive and secure energy supplies for European citizens and industry. He reiterated Eurogas' full support for a well functioning European competitive gas market.

“Eurogas calls for a consistent approach taking into account Europe’s security of supply needs, a strategy to secure diversified gas supplies in a global competition for new sources and external policy relations that will encourage properly functioning energy markets in neighboring and producer countries and an overall sound and stable framework to incentivise needed investments.”

The full speech of the Eurogas President Willy Bosmans is available on www.eurogas.org

► EU 25 Natural Gas Consumption Figures 2005

Eurogas has published today preliminary figures and estimates from its members of the total natural gas consumption in EU 25. According to the figures natural gas consumption has increased by 1,9% in 2005 in comparison to 2004. In 2005, natural gas consumption in EU25 amounted to 19 208,2 PJ (peta joule), i.e. 492,5 billion cubic metres (BCM)¹, i.e. 413 million tons of oil equivalent (MTOE)², when in 2004 it had reached 18 856,3 PJ / 483,5 BCM / 405,4 MTOE.

At the end of 2005, the total number of gas customers connected to the EU 25 natural gas grid rose by 1,5% in comparison to 2004, to reach 103,306 million customers. The press release is available on our website www.eurogas.org

► Key Events from Mid February 2006

16.02.2006 – Public Presentation Preliminary findings of the Energy Sector Inquiry – Presentation by Eurogas President in the CEO Panel

22-24.02.2006 – NATO Forum on Energy Security Technology, Prague, www.energy-security.org

23.03.2006 – Eurogas Board – Brussels, Eurogas offices

25-27.04.2006 – European Natural gas vehicle association political event and conference, Brussels www.eurogas.org

08.05.2006 – Eurogas – Baltic Gas Association Conference – Vilnius “The Baltic natural gas market within the EU internal market”.

15-16.05.2006 – ERRA – 5th Energy Regulation and Investment Conference

30.05.2006 – Eurogas sponsored dinner debate with the European Energy Forum “The EU Natural Gas Market at Crossroads” - European Parliament, Brussels

06-09.06.2006 – International Gas Union – World Gas Conference, Amsterdam <http://www.wgc2006.nl/>

11-15.06.2006 – Eurelectric Annual conference, Oslo, <http://public.eurelectric.org/Content/Default.asp?PageID=38>

22.06.2006 - Eurogas Board – Bratislava

23.06.2006 – Eurogas General Assembly – Bratislava

21.09.2006 – Eurogas Board – Brussels, Eurogas offices

22.09.2006 – Eurogas Annual Conference – “Ensuring Competitive, Secure and Sustainable Natural Gas for Europe - How to Afford it”, Brussels

28.09.2006 – Gas Infrastructure Europe (GIE) annual conference

04.12.2006 – Eurogas Board – Brussels

05.12.2006 – Eurogas General Assembly - Brussels

¹ Applied calorific value : 39MJ/cubic metre GCV

² Applied calorific value : 41.86 PJ/MTOE NCV