

COREPER Energy

Dr. Wilhelm SCHÖNFELDER

President

Rue Jacques de Lalaing, 8 – 14

1040 Brussels

07L061

Brussels, 30th January 2007

Dear Dr. Schönfelder,

**Re.: Commission communication on *An Energy Policy For Europe*
Initial comments by Eurogas**

On the eve of major political deliberations about the future of EU energy policy, Eurogas wishes to contribute to the current debate and to reiterate its full commitment to the realisation of a secure, sustainable and competitive European energy market.

Eurogas endorses the importance the Energy Package accords to these three interlinked objectives and Eurogas supports the stated aim of establishing an improved policy framework to achieve progress in all areas.

A secure energy market

The Commission communication rightly identifies the importance of an effective external EU energy policy.

A consistent and balanced approach between internal market aspects and the external dimension is of paramount importance for a well-functioning gas market. In a globalising gas market Europe has to compete with other regions for new gas resources, at an increasing distance from Europe and under the control of a limited number of mostly state-controlled suppliers. Large investments are needed and a stable regulatory and political framework is a pre-condition for their realisation. European level dialogues are essential with producer and transit countries that are aimed at solid political relations, based on the principle of reciprocity and will promote market dynamics, that support gas industry business.

Gas contributing to Sustainability

Eurogas believes Europe's energy policy must create the framework for a diversified mix of environmentally friendly fuels, within a competitive market and a stable policy context.

Eurogas endorses the emphasis on intensifying efforts to combat climate change. Eurogas asks, however, if it would not be more effective and coherent with internal energy market objectives to set a single, long-term European target for CO₂ reduction, allowing Member States to choose their own "energy" mix, instead of setting targets for different fuels and activities. Differing national situations mean that Member States should have maximum flexibility in the way in which they are able to achieve targets set at EU level. A bottom-up approach would facilitate the establishment of realistic targets.

We recognize the importance of encouraging the development of renewables, so that they can play their part in reducing greenhouse gas emissions. However, once they are established and the true value of carbon is more certain, we believe the energy mix should be primarily determined by the market, rather than by specific or binding targets. These introduce distortions to the market, particularly when they overlap with existing carbon reduction mechanisms.

Eurogas is confident that gas will remain the fuel of choice and will make an important contribution to a sustainable development policy as a consequence of its abundant reserves, the relatively low level of CO₂ emitted, its clean combustion characteristics.

Advanced gas technologies can also play a useful role, improving the efficiency of energy distribution and enhancing utilisation efficiency, together with other instruments in the Energy Efficiency Action Plan.

Eurogas believes it is essential that the policy framework ensures gas can play a full role in meeting the objectives of a sustainable energy supply, so as to optimise the energy mix in environmental terms.

A well functioning energy market

Although, as the reports identify, progress has been achieved in implementing the 2003 Gas Directive, Eurogas is keen to see further improvements made.

- A well functioning market will be promoted in particular by
 - improved regional co-operation as a step towards a fully integrated EU market
 - a well functioning non-discriminatory access regime throughout Europe
 - an effective customer switching process

underpinned by the necessary transparency, better interoperability, more liquidity, robust investment, and an improved harmonized regulatory process.

- Full and timely implementation of existing legislation, regulations and voluntary agreements will realize further progress. Member States' Governments, national regulators, and companies variously have responsibilities and opportunities in this area.
- If new legislation is required to achieve the objectives, a careful impact assessment is necessary and Eurogas welcomes the Commission's commitment to undertake this.

More focus has to be put on realizing an integrated European gas market. Therefore, Eurogas supports the different actions proposed in the Energy policy package to achieve this objective: effective regulation in every Member State through the harmonization of the powers and independence of energy regulators; acceleration of the harmonization of technical standards and development of common business practices necessary to improve interoperability and to permit cross border trade to work effectively; increased cooperation between Transmission System Operators; increased transparency; fast-track planning and approval procedures for infrastructure projects and coordinated European action on international energy issues.

Eurogas also supports the proposal for a much improved supra-national regulatory approach on well-defined issues related to further market integration such as cross-border trade. The objectives and scope of this European level of regulation have to be clearly defined in order to make an adequate choice of the mechanism (ERGEG or other

process) to achieve the best results, balancing national interests with Community interests to achieve a genuine integrated market.

Effective unbundling is a key element of market liberalisation. It is of paramount importance that suppliers, shippers and consumers have unhindered access to infrastructure under transparent and non-discriminatory conditions. Solutions, however, should be proportionate to the type and importance of the objective to be addressed.

With regard to the specific proposals on unbundling, the implications of the proposal on ownership unbundling are a cause of concern. On the basis of the information we have at this time, Eurogas reserves its position on ISO. Most companies think, however, that also other options based on legal and functional unbundling should be considered combined with an enhanced effective regulation and compliance system. This could be a more proportionate response, with less risk in some countries of running into legal questions or raising problems from an industrial or social point of view. Any solution must guarantee non-discriminatory access and a level playing field,

The unbundling proposals contained in the package do not address the issue of the required level of future investments. Investments in the gas sector have not only a national but also a Community dimension as explained below. High levels of investment have been achieved within markets that have both integrated and non-integrated TSOs. The importance of gas infrastructure investments, which have already been undertaken or are planned, is not sufficiently reflected in the Energy Policy Review.

Whilst there are some common requirements (e.g. transparency), non-discriminatory access, the development of investment and development of regional markets are clearly different objectives requiring different policy tools. A pragmatic approach aimed at meeting the different objectives will yield the most progress towards a single European gas market.

Furthermore several companies are concerned that mandatory ownership unbundling would lead to the weakening of European energy companies, which would reinforce the existing imbalance with non EU players, in particular natural gas producers, who have a determining influence on the worldwide natural gas market since they are not subject to the same rules as European energy companies as they are totally or partially state-owned and protected from foreign competition through monopoly rights.

Delivering Investment for Secure Competitive Supplies

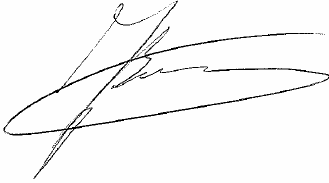
Natural gas is imported from increasingly far away regions at the same time as Europe's gas reserves see an accelerated depletion. The consequence of this is that large investments have to be made, both inside and outside the EU, in large-scale import and transit pipelines to bring the gas to the downstream markets, in gas storage infrastructure and LNG terminals. With the number of both EU and non-EU Member States that new supplies have to cross, these investments have a broader cross border impact and often have longer lead time than for electricity requiring a long-term strategic view of the gas business. Eurogas therefore supports the Commission's initiatives to improve relations with producing countries and within the EU to streamline planning and exemption processes, but in other respects these particular differences between gas and electricity are not sufficiently considered in the Commission's Communication.

Eurogas considers that companies should continue to have the freedom to determine their portfolios and strategies in a complex, competitive and global environment.

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These comments are based on preliminary discussions within Eurogas. Eurogas is further working on a more elaborated position on the different aspects of the Energy package and is willing to contribute in the ongoing debate on the future European energy policy.

Yours sincerely,



Willy Bosmans

The Eurogas paper "The European Gas Market: Eurogas Views on the Way Forward" of October 2006, providing an analysis of gas market issues and setting out Eurogas views on key policies, is available at www.eurogas.org.

Cc: Members of COREPER