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**KEY NOTE SPEECH BY MR. DISPENZA, PRESIDENT OF EUROGAS
“PRIORITIES FOR THE EU ‘S GAS INDUSTRY DURING THE NEXT COMMISSION”**

INTRODUCTION

Ladies and gentlemen,

First of all, I would like to thank the organisers for inviting me in this conference. I believe that this is an exceptional forum to convey views and ideas from the whole range of the energy industry and the policymakers in Europe.

Searching a common ground among all stakeholders is nothing less than vital in this phase of so deep regulatory and market changes and while a brand new Commission is about to take office.

Mr Hilbrecht speech has just shown that sustainable development, the search for improvement in energy efficiency and an endeavour to provide future generations with a preserved environment are values deeply at the core of not just the EU policy but of our own idea of being Europeans.

Allow me to say that natural gas fully fits into this framework.

Its qualities continue to recommend it for an essential role in delivering a cleaner economy. Since it emits far less CO₂ per unit of energy produced than any other fossil fuel, an increase in its use for generation by gas-fired plants will significantly reduce emissions of greenhouse gases and air pollutants.

In addition to being a fuel of choice for direct power generation, natural gas will also increasingly need to be used as a back-up for electricity generation from renewable but intermittent energy sources, especially wind and solar .

Further penetration of natural gas in sectors like residential or in road transport will provide immediate benefits to air quality in our densely populated and car-crowded continent.

Furthermore, natural gas availability and flexibility allow it to be used in combination with renewables not just in the power grid but also in other advanced site-based applications which are already available to the market and which allow to deliver heat or other forms of energy very efficiently.

Technology is there for natural gas to empower the building up of a sustainable economy in line with the EU's climate change policy objectives. However, our industry - maybe out of some old-times, pre-marketing era grassroots attitude - seems to avoid reminding with sufficiently strong voice such qualities to the public. Therefore, forgive me for insisting on a very simple statement: “any pragmatic roadmap for a greener future goes through a larger role for gas”.

There is, however, no doubt that today the natural gas market is facing a series of unprecedented challenges.

The impact of a previously unconceivable event for our gas industry in Europe, a material, not weather related, drop in overall gas demand, unfold in almost every national market in 2009 as a result of the impact of the economic crisis. Some countries experienced more adverse consequences than others, depending on the combination of the specific gas role in their energy mix and on structural weakness of some sectors of their economies. Others fared better.

A slight upturn in demand is expected in 2010 of around 1 percent, but compare this with an overall reduction in European markets of around 7 percent in 2009 against 2008. This strongly suggests that as a whole we are witnessing in the next years a substantially altered supply/demand balance bearing potentially long term consequences.

Furthermore, changes in global markets will trigger further consequences for the European gas market. Let's look, for instance, to the almost total self-sufficiency in gas supplies attained by the North American market in the last three years due to the unconventional gas revolution.

In addition, the impact of the January 2009 gas crisis, mostly felt in Central and Eastern Europe, did significant damage to the image of gas in the eyes of policy makers and the public, and raised fears about the security of gas supply to Europe, negatively offsetting most of its qualities and an historical record of reliability rarely matched in other domains.

These fears are largely unfounded, but our sector must work harder to explain this.

In Eurogas' view, the events of 2009 have mainly short to medium-term business implications. However, it is possible that some of the demand reduction, especially that associated with energy-intensive manufacturing, may become permanent demand destruction. The objectives stated in the new current EU energy policy can lead to incremental market opportunities for gas and therefore it is important not to lose sight of longer term issues and considerations that will provide the right policy framework for gas to fulfill its full potential. These concerns are the following:

- 1. Securing supplies to Europe**
- 2. Achieving a Robust Internal Market**
- 3. Promoting Research and development**

1) Securing Supplies to Europe

Today, natural gas accounts for almost 25% of Europe's primary energy consumption. At a time of growing global competition for gas, the right policy and regulatory framework need to be in place to maintain Europe as an attractive market so to allow Europe's consumers to continue enjoying the benefits offered by this versatile fuel.

Natural gas reserves are abundant worldwide and are estimated to be able to meet global needs for at least another 60 years. Moreover, conventional natural gas resources could be significantly complemented by unconventional resources within Europe, as is already happening in the States. We should say anyhow that geographical and demographical peculiarities of Europe versus North America will make contribution of unconventional gas to the European supply balance still quite marginal in the medium term.

Principal elements of the approach to security of supply should include:

- The right functioning of the internal gas market, with improved trading liquidity, interoperability and interconnections to enhance the security of individual Member States as well as of Europe as a whole.
- Improvement of diversification potential, both of producers and supply routes to Europe,
- Concerning external relations, we have to recognize the importance of fostering long-term relationships with major suppliers, transit countries and key partners of the EU and within multilateral organizations and

frameworks. It is the companies' responsibility to conduct commercial relations with producing and transit countries. Institutional dialogue is also essential with the purpose of providing a framework for increased co-operation on a range of issues, and achieving necessary political assurances from the countries concerned.

The Proposed Regulation

On the regulatory side, the issue of security of supply is being addressed by the European institutions with a proposed regulation. Eurogas welcomes the renewed emphasis in EU policy on actions to improve energy security. While a dramatic event like the gas crisis in early 2009 should not be repeated, it reminded us of the importance to secure gas supply for Europe's citizens' wellbeing. Lessons have been learned from the crisis, with the objective of determining appropriate preventive and response measures. Principal among these is that in the event of supply problems, the market, underpinned by the required transparency, must provide the primary response. Only when the market is no longer sufficient, supplementary measures should be undertaken.

Therefore Eurogas shares the European Commission's objective of reinforcing the European framework relating to the security of gas supply, and shares the essential principles of the proposed legislation:

- the use of the market for as long as possible to meet secure supply needs;
- the definition of both preventive and emergency measures;
- the need for a clear decision-making process at the EU level, when market is no longer sufficient to deal with a declared emergency;
- the promotion of regional co-operation;
- the importance of information exchange in crisis situations.

Eurogas has worked with the Commission and the European Parliament to improve aspects of the proposal. In particular, we consider important that the emphasis of the approach is on quality risk assessments to be carried out by Member States, assessments that are comparable, and provide an accurate basis for determining follow-up.

The binding supply and infrastructure standards are partial indicators of a Member State's situation, but in particular the N-1 rule is very basic and it has to be further refined and placed in the context of a broader risk assessment process including other essential instruments like a thorough and well considered scenario development.

Investment-infrastructure package

Even more important, is the need to address the question: who should support investments to increase security of gas supplies?

This appears to be a big question mark that can maybe solved with the support to new supply corridors where sponsor companies are ready to invest and obtain for example exemptions from Third Party Access.

The European authorities have recognized with a good degree of pragmatism the need to somehow sustain investments in interconnectors, reverse flows, LNG and storage facilities.

In the field of security of energy supply, a number of other important activities and measures will fall within the next 18 months.

Eurogas welcomes the Commission's intention to integrate the existing TEN-E instrument in a new "EU Energy Security and Infrastructure" instrument according to the outcome of the consultation on the Green paper "Towards secure, sustainable and competitive European energy networks".

Indeed we deem that investments are needed in pipelines to Europe and within Europe, and also in LNG terminals/facilities. Increased investment in commercial storage is also essential, as this will not only enhance short-term market flexibility, but improve security of supply in the longer term.

Eurogas considers that, in principle, energy networks should be market-driven and self-financing. The regulatory regime has to provide financial returns conducive to incentivize investment.

Therefore a special attention must be placed at all times in improving market-testing procedures and in promoting a constant and open dialogue with the energy industry so affected by policy decisions, impacting on very long investment horizons.

We agree that financial support is sometimes necessary to promote new investment, for example in reverse-flow systems to be used very seldom and hence difficult to finance. However, economic viability for the investors remains a paramount consideration in most of cases and any market distortions or arbitrary ranking of “good” or “bad” projects should be avoided.

In such perspective, any mechanism conceived at the European level to provide development funds for projects should meet stringent requirements for transparency, accountability and equality.

The infrastructure package should be consistent with, and take into account, the ten year network development plan required from the new TSO Association under the Third Package, and should be coherent with other EU policy. Thus, it should place emphasis on developing the concept of a European single network, in particular to improve cross-border connections, and promote their fast realization.

Doing so, barriers to investment will be identified and possible solutions explored, including by means of streamlining of planning and consultation procedures, in particular for projects which improve interconnections.

The current EU monitoring system of investment in the energy sector at EU level should be up-dated to have an efficient methodology to develop investment trends with a view to matching the future demand and EU policy objectives, while at the same time trying to avoid any dirigistic or over-regulating temptation.

Clear and stable legislative and regulatory frameworks will be an incentive and a pre-condition to new energy investments. For some routes, especially the planned new pipelines to bring gas from non-EU suppliers, the investment will be made easier if there are good understandings between consuming, producing and transit countries.

Eurogas shares the Commission’s concerns at the delays that can be caused to major projects because of problems arising in the planning and permitting process.

Eurogas would support proposals to facilitate those processes. While recognizing that land planning is not within the competence of the EU, the Commission should promote good national planning procedures, improved co-operation where cross-border planning is needed, and ensure understanding about the European dimension of relevant projects.

The extension and expansion of the gas infrastructure will require companies to implement very costly and long-term investments. Business entities will not engage in investments, if return on the invested capital is not assured and planning procedures present too many difficulties. All this has its impact not only on costs but on the timeliness of investment implementation as well. Therefore education and communication campaigns must include local as well as national authorities to ensure they are informed of the need for investment by the energy industry.

Our key messages therefore for the infrastructure package are the following:

- Ensure the priority of the implementation of investments that are most important from the perspective of Europe's security of supply and internal energy market, by way of creating mechanisms giving the possibility of sorting out issues hindering the implementation of these investments.
- Facilitate on a case by case basis the process of obtaining TPA exemption for justified investments that are vital for securing supplies. This provides an additional incentive for companies to build such an infrastructure.
- Streamline as far as possible the process for obtaining all permits necessary for the implementation of the above mentioned investments.
- Create stable and predictable regulatory framework.
- Ensure a fair, transparent return on new investments having the nature of strategic investments for the energy security of EU Member States.
- Ensure that the access regime gives the correct investment signals.

2) Achieving a Robust Internal Market

Now that the Third Energy Package is in place, Eurogas wish to see its effective implementation, supported by efficient new institutional arrangements. In particular, from the perspective of system users, we welcome the establishment of ENTSOG and its intentions as well as those of ERGEG to act on a number of issues in anticipation of the Third Package coming into force.

Our perceived priorities are:

- better co-operation between National Regulators and System Operators;
- a focus on cross-border investment and interoperability;
- a seamless flow of gas across Europe, based on common services for system users;
- faster regional progress in line with the objectives of the EU market;
- sound investment planning, reflected in the 10 year network plans, which must reflect a European perspective. Such perspective must also be resilient to transitory events but sensitive to market's evolution.

Setting up ENTSOG and ACER will contribute to meeting these objectives; the development of EU-wide technical rules and codes is a main prerequisite of their achievement.

Eurogas supports the priorities identified in ERGEG's work programme, capacity allocation and congestion management, balancing and tariffs. Market-based solutions implemented in convergent approaches across Member States will bring real progress.

This progress will benefit all European consumers and it is right that European policy is also attentive to the need to empower consumers. Informed customers will be a driver for market's evolution, since competition remains the best safeguard of customers' interests, coupled with a correct implementation of Annex I of the Gas Directive, on Measures on Consumer Protection.

Stakeholder involvement in drawing up codes and rules for the wholesale market and in designing the retail market is essential. Eurogas is active in the Gas Regulatory Forum and the Citizens' Energy Forum that oversees these areas of work respectively, and we liaise on a regular basis with ERGEG and the Commission. We plan to have regular dialogue with ENTSOG.

Measures to improve efficiency of energy use will also benefit customers. Eurogas prioritizes the need to change energy users' behaviour, and looks forward to contributing to the new Energy Efficiency plan.

3) Promoting Research and Development

Finally, Eurogas calls for more support for gas and gas related technologies to be included in the framework research programmes. Major R&D orientations necessary to meet EU's climate and energy objectives should apply to the whole gas chain.

The European Gas Research Group (GERG) is very active in promoting, but thinks like us that more recognition should be given to gas alongside competing energies in the framework programmes. Main issues are:

- improved production technology and unconventional gas potential;
- improving the interoperability of gas networks, as well as their integrity, durability, and robustness;
- developing smart gas uses and improving energy demand management offered by micro-CHP and other improved technologies for gas space heating;
- assessing CO₂ capture for gas-fired applications;
- examining the feasibility and impact of large scale injection of biogas into gas networks and, in the longer term, hydrogen.

R&D efforts should also address the issue of how to improve the existing technologies that already allow gas to be used in combination with renewables not just to generate electricity but also to deliver heat or other forms of energy more efficiently.

Conclusion

In a post-Copenhagen world, where the relevance of alternative sources of energy risks to fall prey to macroeconomic confrontation on a global scale, to restrictions in available resources for subsidies and to taller hurdles in capital procurement, natural gas is the bedrock of sustainable development.

The years ahead will be challenging for the gas sector, but appropriate actions on growth re-launch, market functioning, security of supply and support in research and development will provide a framework conducive to a more sustainable economy, with gas being a major pillar of the EU energy mix and a driver for strong improvement to the European quality of life.

I want to thank again the organizers for providing us the chance to discuss our respective views on these issues, hoping a fruitful discussion can unfold today.

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