

**CLAEYS & CASTEELS CONFERENCE:
KEY NOTE SPEECH BY MR. DISPENZA, PRESIDENT OF EUROGAS**

Introduction

I would like to start today by making a reference to the conclusions of the 6th of June Council and the key aspects of agreements reached.

A Third option to Ownership Unbundling and ISO has been introduced: the so called Independent Transmission Operator.

This approach seems to be an answer to the concerns raised by several member states on the possible effects deriving from an implementation of the OU and ISO rules. We still need time to better evaluate the consequences of this new option. The Commission said it is important to fix criteria for the review of the Directive foreseen in the new proposal.

One of the criteria should be the impact on investments. Create the right climate for investments is a must. Eurogas believes that any investment procedure should be strictly market oriented.

Many concerns already raised by Eurogas do not seem to have been addressed. I make reference in particular to the area of application of the Comitology procedure that cannot be used when decision with large economic effects are taken. I make reference even to the revised text of article 22 that does not seem to create the right climate to favour the investments in the much needed new import lines to Europe.

We share the objective to achieve a right balance between NRA and the Agency and the necessity of harmonization of the European regulatory framework. Powers of the regulators should anyhow be commensurate to their tasks, leaving the markets to operate freely.

Eurogas hopes for a timely solution to outstanding issues, and appreciates the attention that the Council and Parliament are giving to find a balanced compromise.

In less than ten years (the first Gas Market Directive was adopted on 22nd June 1998), we have achieved considerable progress on the road towards a European Gas Market.

Full market opening, where every customer has the right to choose his supplier, third party access to infrastructure and unbundling between commercial and transportation activities stand out as major steps forward.

The next years will be characterized by a very complex scenario that will be influenced by the following elements :

- With 110 million customers and a share of 24% of total primary energy consumption, natural gas is the fuel of choice, because it is environmentally friendly, flexible and

highly efficient. We are facing an expected large growth in gas demand (gas will cover over 30% of total primary energy demand in the year 2030) and a growing import dependency, with around 80% of our gas needs covered by non-EU producers in 2030.

- Focusing on supply, we see that supply/demand scenarios clearly indicate that as demand expands, particularly from the power sector, indigenous reserves decline. We will have to deal with a structural gap between supply and demand. The decline in intra-European gas production makes the implementation of new supply projects and the conclusion of new import contracts an absolute necessity.
- Europe is no longer the only attractive market for gas producers. The way the European market is designed must ensure ultimately that Europe remains attractive in a competitive global market characterised by a tightening supply scenario; this requirement is set against a background of historically high energy and raw materials prices, skyrocketing upstream development costs and the credit crunch, affecting new projects both in production and in transportation.

Producers show a clear tendency towards downstream market integration. The EU should implement adequate policies in order to avoid that such a trend could harm the prospects of the Internal Market. On the other side, as a reaction, we have to notice that European operators are moving upstream.

As an industry, we share the objectives set by the EU institutions of harmonization and simplification of the energy regulatory framework. Some points should, however, be addressed.

Investments

The European natural gas industry will need to make investments in upstream and downstream infrastructures that can be measured in the hundreds of billions of euro. The regulatory process should be strictly market-oriented in order to provide incentives to investment in the necessary new capacity.

The capacity-planning process should be based on "open season" procedures, open to all interested parties, and on binding commitments by these parties to support the cost of investment, i.e. "ship or pay" contracts and/or exemption procedures ex art 22.

Unbundling.

The gas industry fully supports efficient and effectively independent TSOs, with clear responsibilities and functional and operational autonomy.

Effective separation of the integrated companies from the gas transmission companies, regulated tariffs and clearly codified access conditions ensures a complete transparency. Separation rules, tariff regulations and access codes are, however, quite different throughout Europe. To pursue and achieve a harmonization of the European regulatory framework is an absolute must.

Sales activities.

Price regulation still exists in Europe. It reduces the ability of suppliers to decide on pricing matters, thus limiting their commercial freedom and introducing risks of a reduction in supply capacity to the market. Eurogas has consistently called for the removal of artificially low regulated tariffs, in order to avoid distortion of competition and risks for security of supply. Regulated supply tariffs, in a liberalised market, can be in place only for vulnerable customers.

Development of hubs as trading and balancing points to increase market liquidity.

The gas industry welcomes all the initiatives aimed at the development of hubs, but it is necessary to favour a process of harmonization of the rules not only at regional level, but also in a fully European perspective.

We believe that two crucial matters should be addressed: firstly, physical bottlenecks should be eliminated and allocation and balancing rules should be harmonized.

In EUROGAS' view, in order to create effective liquidity, it is necessary to conceive hubs as trading and balancing points. Nowadays, different metering and balancing regimes in force in Europe do not always allow consistent data exchanges. Secondly, market liquidity requires a large availability of merchant storage capacity which, to be economically realized, should remunerate the investments in line with the levels required by the financial markets.

Harmonization of European regulatory framework

Europe is still characterised by differences in terms of degrees of actual liberalization and regulation. There is a general consensus about the necessity to harmonize the regulatory framework in Europe as a pre-requisite for creating a single European natural gas market.

In our opinion, the creation of a powerful Agency for the Co-ordination of Energy Regulators (ACER) is a fundamental step to reach this objective; ACER without effective power to ensure uniform regulation would result in a body unable to contribute to the development of a single European energy market.

We fully support harmonisation of clearly defined powers for accountable regulators.

However, it is necessary to avoid blurring the roles of independent NRA's, competition authorities and politically accountable authorities; a clear delineation is required.

We stress as very important the concept of regional cooperation and coordination between system operators for the allocation and management of capacity.

CONCLUSIONS

European policy makers need to strike a delicate and pragmatic balance between the implementation of the internal market and Europe's dependency from a limited number of external gas suppliers. The business challenges which these suppliers and their European customers are facing need to be taken into account and a stronger dialogue with gas producers is needed.

Europe's main concern should be to stimulate investments in new import capacity. I am confident that the European Gas Industry will be able to respond to European consumers and economic challenges, provided that a minimum set of conditions, creating the necessary confidence, are met.

The emerging legislative package is meeting these objectives but we still have some concerns and we do hope that there is room to take these into account in the path towards the Second Reading.

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