

Priorities for the EU Gas Industry

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Legal Affairs Committee***

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Who we are

Eurogas Members

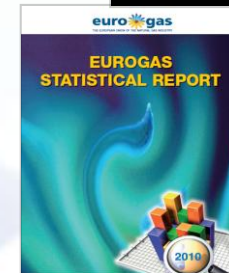
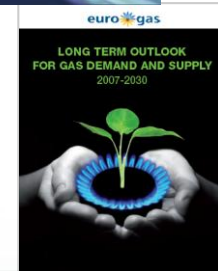
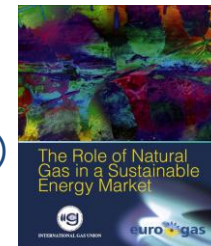
- 35 Companies
- 12 National Associations
- 2 International Associations



What we do

- Provide early stage input and advice to EU energy policy makers
 - Commission-led forums (Madrid, London, Bucharest, Berlin)
 - Provide expertise to EU institutions
- Industry voice and contacts on Gas Coordination Group
- Industry analysis and comment on detailed legislative drafts
- EU Social Dialogue for Natural Gas

eurogas



What natural gas represents in the EU

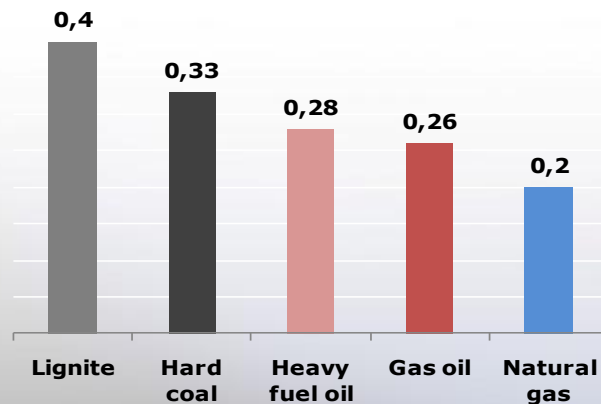
The EU 27 natural gas industry represents:



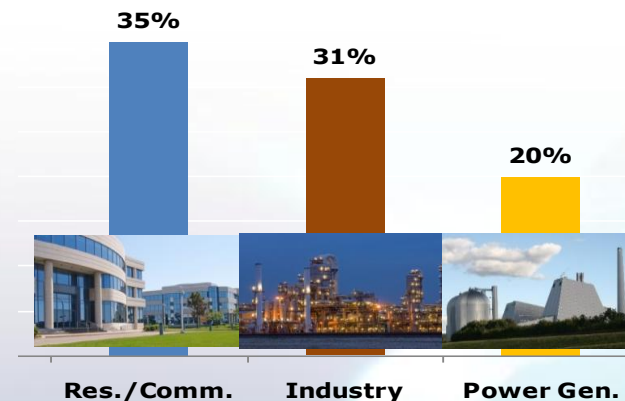
- 1/4 of Europe's primary energy consumption
- 114 million customers
- 265 000 employees
- Provisional estimate for 2010 gas consumption is about 440 Mtoe

CO₂ formed by the combustion of fossil fuels

(kg CO₂/kWh fuel input)



Contribution of Natural Gas to the EU 27 Energy Supply

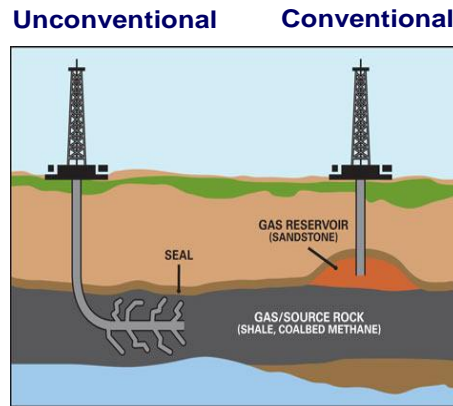


Current context



2009 and 2010 were challenging years for the gas industry

**ECONOMIC
CRISIS**



Drop in gas demand
-6% 2009 v/s 2008



Impact on reserves
Benefit for supply security

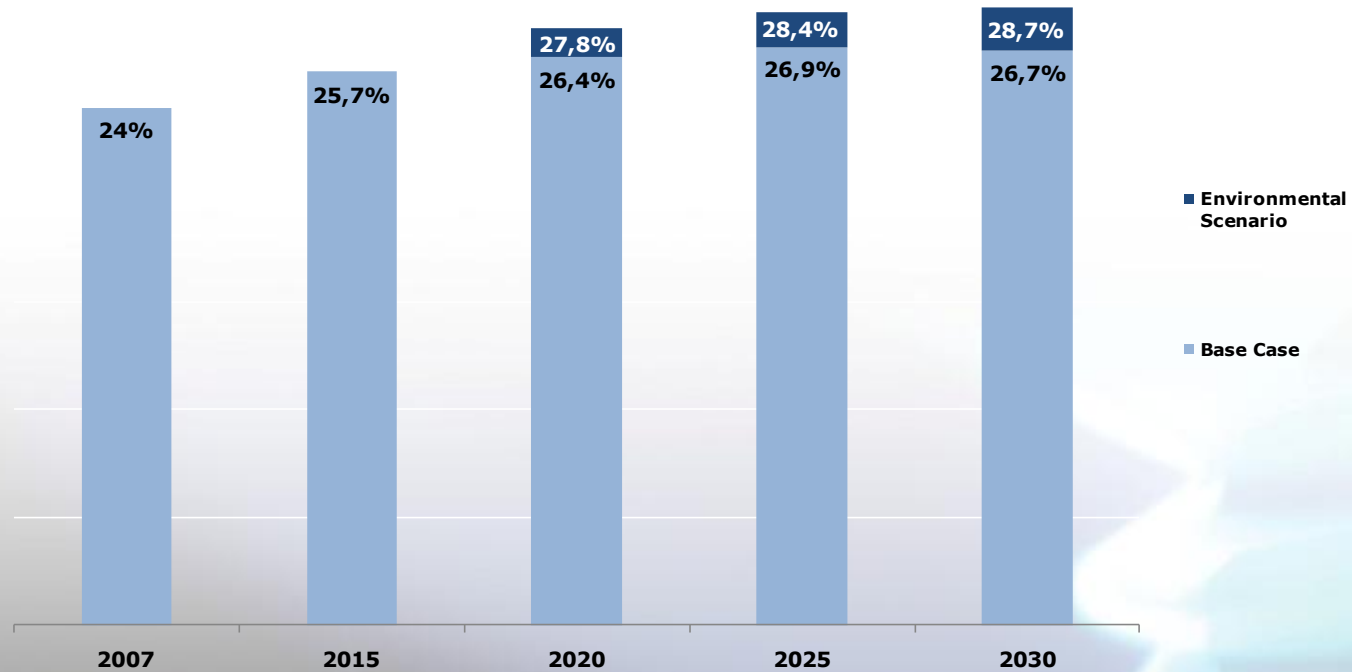


Globalisation of market
Diversity of supply

...market issues tend to dominate company thinking:
2009 decline and 2010 recovery of demand—but still a surplus supply of gas
Renegotiation of LT import contracts to reflect reality of Europe in the globalizing gas market



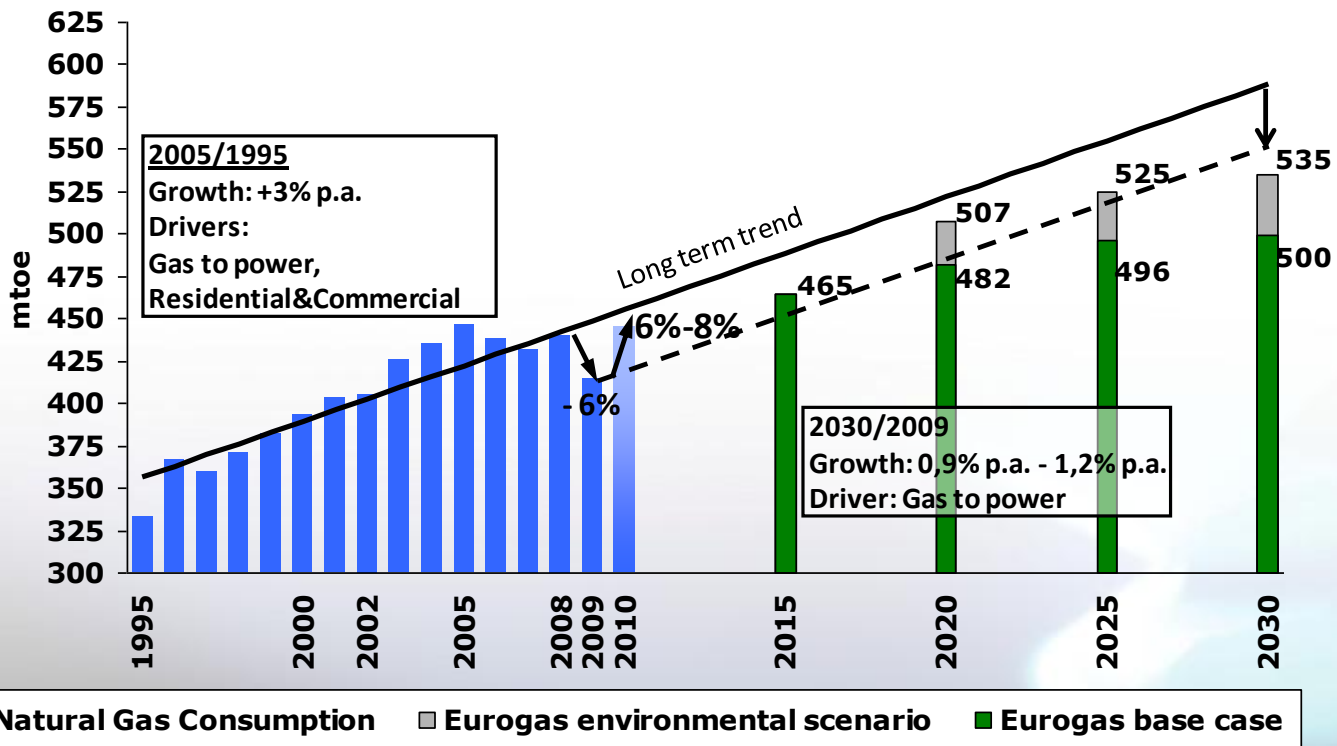
Rising share of Natural Gas in Primary Energy Consumption in EU 27



Source: Eurogas



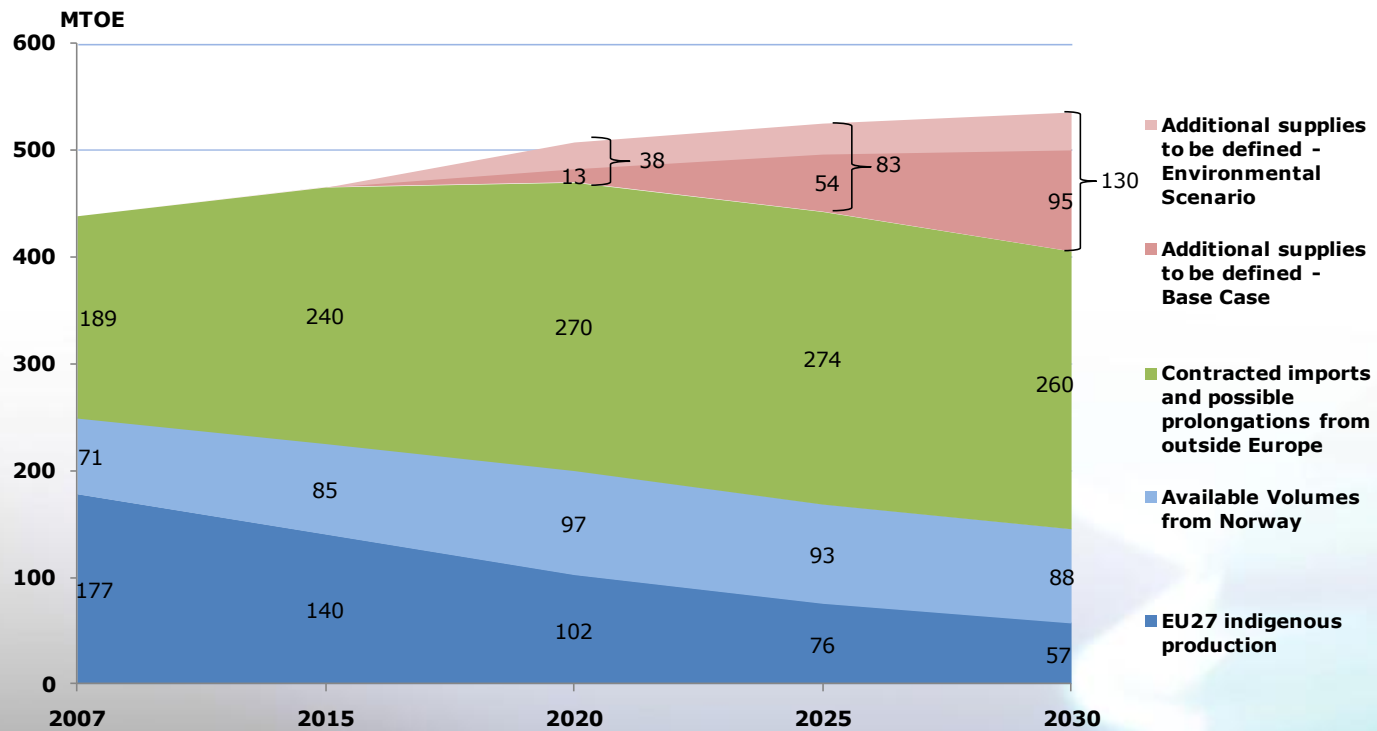
In the medium and long term natural gas has a key role to play





EU 27 Supply/Demand Outlook

The present oversupply situation will not continue in the long run. After 2015, additional supplies are needed.



Source: Eurogas



Natural Gas in the Energy Mix

- Importance of political and public recognition that there is a natural gas route to a low-carbon future
- In the short- and medium-term, natural gas is the fastest (perhaps only) route to achieve quick, scalable CO₂ reduction:
 - Substitute for coal in electricity generation
 - Substitute for oil in transport (Natural Gas Vehicles)
- Natural gas as a key complement for renewables in power generation (intermittency)
- If the wrong policy signals are given on the future role of natural gas, investments - with long lead-times - could be discouraged



Natural Gas in the Energy Mix

- In the long-term, there may be many routes to further CO₂ reductions
- Legitimate to be neutral on preferred route at this stage...
- ... but **MUST** make clear that the options exist
- That there is a key role for natural gas in a long-term low carbon future
- Eurogas believes European Council of 4 February should acknowledge this



Some Priority Issues for 2011

- Energy Markets and Financial Regulation
- Gas Market Target Model
- Internal Market: Framework Guidelines and Network Codes
- Infrastructure
- External Energy Policy



Energy markets and financial regulation

- Tailor-made regime for wholesale energy markets preferred (REMIT)
- New financial legislation (MiFID, EMIR, MAD, CAD) will have an impact on wholesale energy markets
- Need to ensure that market liquidity is maintained or enhanced—consistent with long running EU policy— not damaged
- Energy trading must stay out of the scope of new financial market regulation when energy trading does not create systemic risk
- Wholesale energy markets are different from financial markets (non speculative use of derivatives).



Gas Market Target Model

- Discussion around a 'target model' for the European gas market is supported by Eurogas
- Criteria for the Target Model:
 - To steer consistency of work on guidelines and codes required by Third Energy Package
 - Non-binding, flexible enough to evolve over time
 - Market-driven
 - In line with existing legislation
 - Consensus based
 - Stability/Predictability and respect for existing contractual arrangements
 - Proportionality



Framework Guidelines and Network Codes

- Much progress made in recent years—ENTSOG and ACER are key for development and functioning of an integrated EU market
- We support the development of EU wide rules and in particular progress on capacity allocation, congestion management and balancing is needed
- Rules that are designed to enhance liquidity and cross-border trading should do just that
- Some prescriptions that are currently under discussion (e.g. prohibition of flange trading) risk forcing open currently valid contracts
 - This may not be the intention ... are we sure it will not be a consequence?
- Council/Parliament have an important Comitology role to play



Infrastructure

- Eurogas welcomes the Commission's infrastructure Communication, including the focus on facilitating permitting procedures
- Good regulatory incentives and a stable and predictable legislative and regulatory framework are key to making investment in infrastructure happen - Projects should go forward *on the merits*
- The criteria which should apply for the selection of projects of European interest should include the economic viability of the project
- Facilitation of investment for all infrastructure projects, whether or not projects are considered European priority projects, is needed
- Important to avoid market distortions
- With its extensive expertise, Eurogas is ready to discuss further with the Commission, prior to the issuance of legislative proposals



External Energy Policy

- Eurogas is actively involved in industry dialogue with producing and transit countries as our membership shows
- Eurogas participates in public consultations on external energy policy as well as in the EU-Russia dialogue and is an observer in the CDC Steering Committee
- European energy policy should support the market dynamics that will help ensure the attractiveness of Europe in a competing global market
- Good relations between the EU and producing and transit countries are essential, recognizing the benefits of mutual interdependence for all those involved in the gas chain. Member states should increasingly speak with one voice
- EU energy policy should prioritize dialogue with producing and transit countries, to develop and maintain a legal and business environment in which companies can engage in commercial dealings with confidence



The gas industry calls for a more supportive European policy role

- European energy policies should facilitate and support the decisions and the financing of large future investments. **A stable, predictable and transparent legal and regulatory framework is needed to support the necessary investments .**
- European energy policy should support the market dynamics that will help ensure the **attractiveness of Europe in a global market where Europe competes for resources.**
- Policy should recognize that it is the **responsibility of companies to secure gas supplies** but it is essential that their commercial activity is supported by sound political relations, in bilateral and most importantly European dialogue with producing and transit countries.
- Policy should recognize the **significant potential of gas in protecting the climate by** favoring a framework which promotes competition between technologies and energy sources, and prioritizes a cost-effective route to climate protection and energy efficiency measures.
- **Research** framework programs should aim at enhancing the potential of gas/renewables hybrid schemes, gas-fired energy efficiency applications, and natural gas vehicles.