

Proposed third liberalisation package

The 2007 Autumn Gas Conference

Prague, 6th November 2007

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THE EUROPEAN UNION OF THE NATURAL GAS INDUSTRY



The European Natural Gas Grid 2005



Pipelines integrated in the European system

- existing
- under construction, projected or planned

Other pipelines

- existing
- under construction, projected or planned

natural gas fields

Liquefied natural gas (LNG) receiving terminal

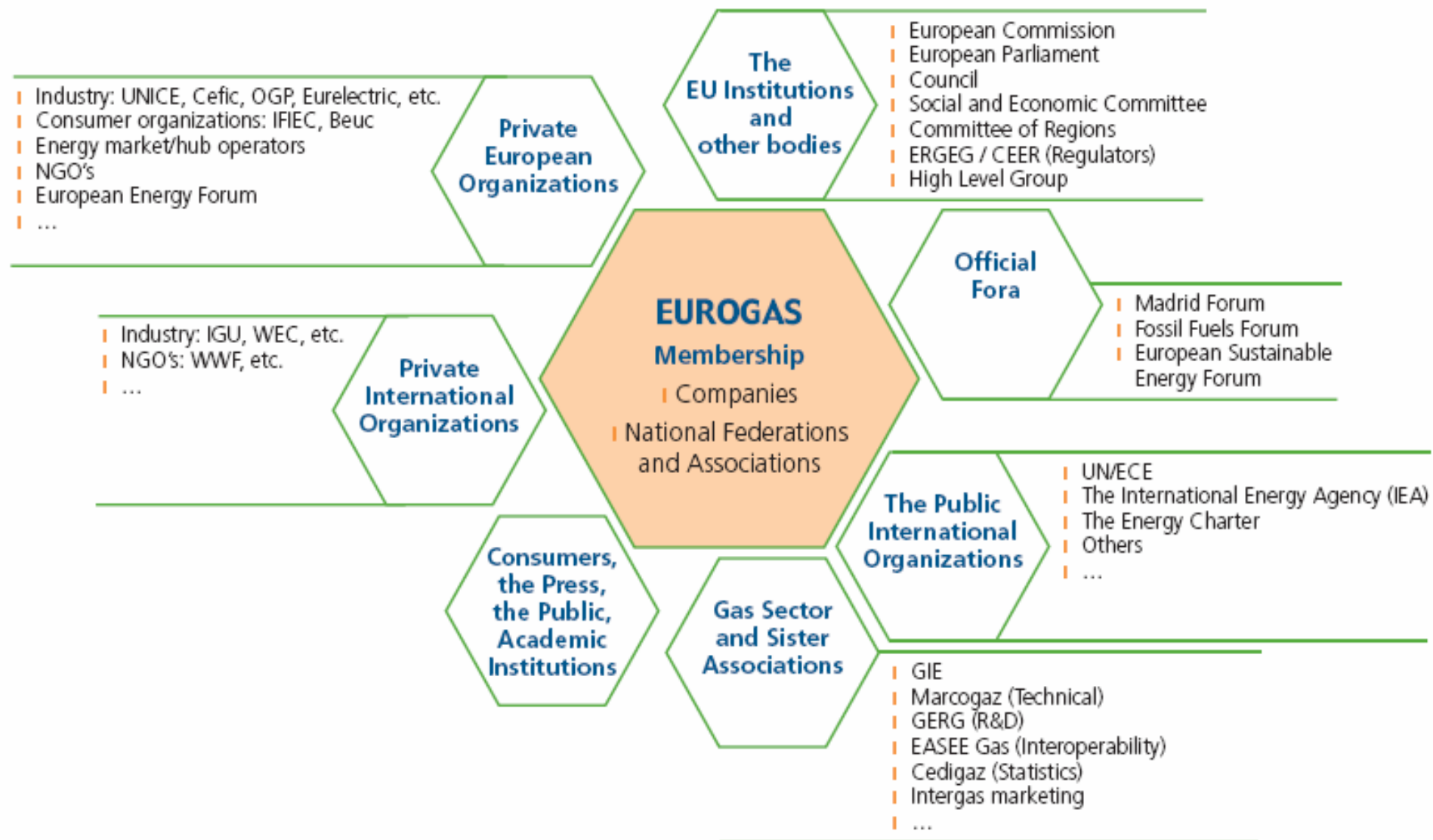
- in operation
- under construction or projected

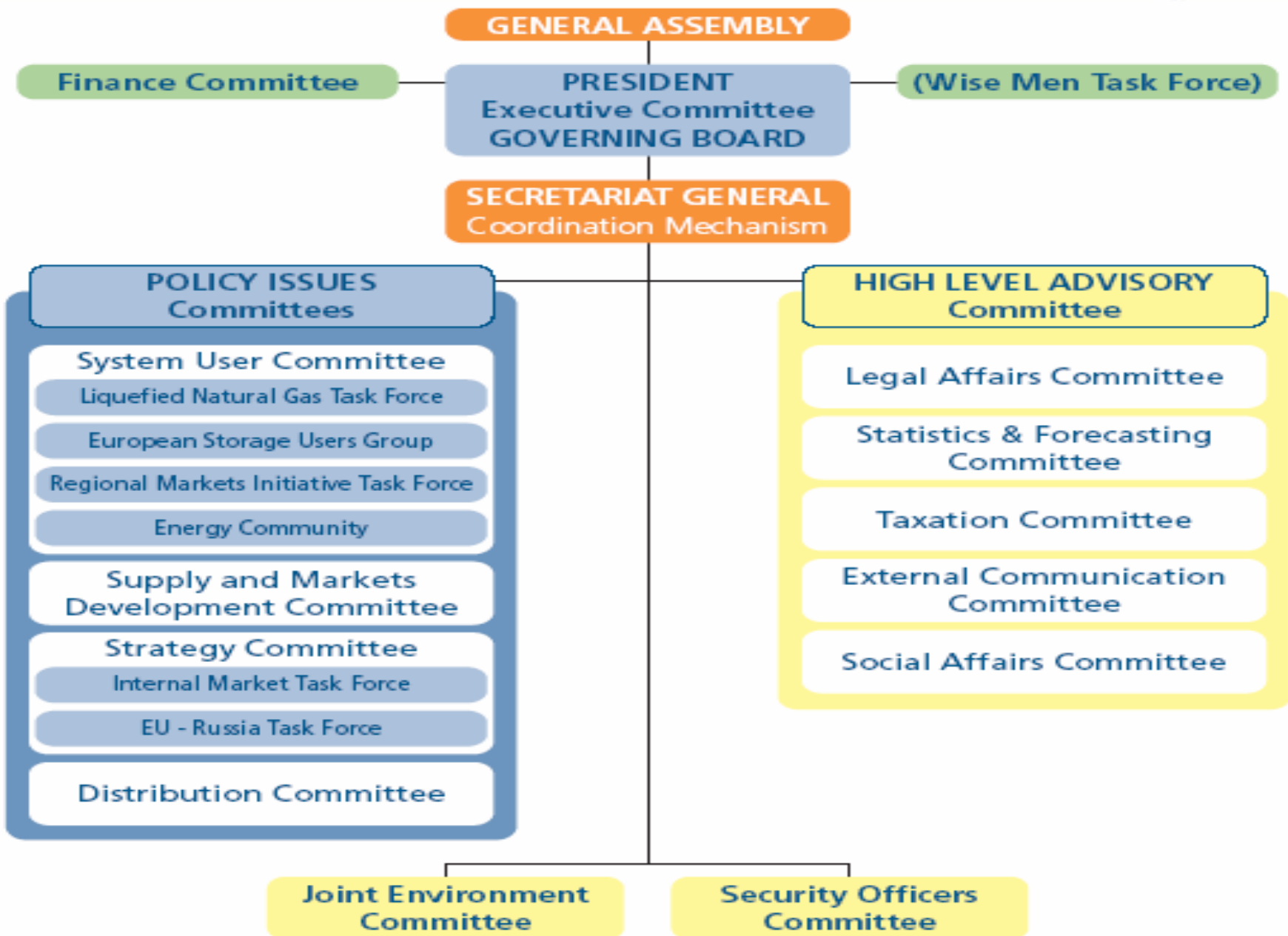
A Forum and an Ambassador of the European natural gas industry

Eurogas is a non profit association governed by the Belgian law
Offices are located in Brussels

Objectives:

- To promote the interests of its membership, companies, national federations and associations involved in the supply, trading and distribution of natural gas, and related activities such as storage and LNG.
- To promote the development of natural gas in Europe particularly in the legal, economic, technical and scientific areas to prepare studies and to promote cooperation within the gas industry.
- To promote the smooth functioning of the European internal gas market
To take stance on issues of interest to the European natural gas industry with respect to international and supra-national organizations including but not limited to the European Institutions and to public opinion.





Areas of interest for Eurogas

- Internal Market
- Security of Supply
- Competitiveness
- Energy Efficiency
- High Level Group
- Gas Coordination Group
- Regulatory Forum of Madrid
 - Fossil Fuels Forum
 - Sustainable Energy Forum
- South Eastern Energy Community Treaty
- Contribution to the EU Russia Dialogue
- EU Social Dialogue for natural gas

Competitive European internal market

Regulation reflecting operational realities
 Madrid Forum
 Implementing existing regulation



Security of supply

Growing share of natural gas
 Global dimension
 Regulatory framework conducive for new investments
 Security of demand

Sustainable energy system

Cleanest fossil fuel
 Growing use for power generation
 New appliances

The Main Challenges for a Competitive, Secure & Sustainable Market

- **A Competitive Internal Market**
- **Dialogue with extra EU suppliers and security of supply**
- **Sustainability: Energy Efficiency and the Kyoto Protocol**

Building the internal market The proposed 3rd liberalization package

- From 2006 « Green Paper »
=> Consultation process
- January 2007: Commission proposals
- March 2007: opinion Energy Council + Heads of States
- July 2007: EP opinion
- 19 September 2007: Legislative proposals

Eurogas advocacy

- Publication: «The European natural gas market – Eurogas views on the way forward » (October 2006, 44 p.)
- Number of position papers, for ex:
 - 07NO250 – April 2007 - Guidelines for good regulatory practice
 - 07PP279 – May 2007 – Position paper on proposals on the internal market – Improved market integration
 - 07PP282 – May 2007 – Position paper on sustainability and energy efficiency
 - 07PP383 – June 2007 – Position paper on proposals of the internal market – a strategy for a competitive, secure market

The legislative process

- Commission Proposal adopted on 19 September 2007
- Council –discussion on this item is tabled on 03.12.2007 (working groups/COREPER)
- European Parliament – first discussion took place on 02.10.2007

Political debate

- High Political reactions, perceptions and debates in Member States
- Complexity and simplification
- Geopolitical and strategic issues (e.g. Note of Commission on Non EU Investments in EU networks)

Main Content of the package relevant to natural gas

- Proposed Directive amending Directive 2003/55/EC concerning common rules for the internal market in natural gas
- Proposal for a Regulation amending Regulation No 1775/2005/EC on conditions for access to the natural gas transmission networks
- Proposed regulation on Agency for Cooperation of Energy Regulators
- Impact assessment
- Announced « Guidance » on (downstream) supply, long term contracts and compatibility with EC competition law
- Other aspects

Proposed Directive amending Directive 2003/55/EC concerning common rules for the internal market in natural gas: key points

- Unbundling of transmission systems and TSOs: an option between «OU» and «ISO»
=> new article 7.7(a), 7(b) (certification) and 9 (ISO) (Member states may grant derogations from 7.1)
- European Agency for the Cooperation of Energy Regulators
=> Art. 24(d)
- National Regulatory Authorities
=> art. 24 (a/b), (c)
=> designation, independence, powers
- Record keeping
=> art. 24(f) for transactions in gas supply contracts with wholesale customers and with TSO's, Storage and LNG operators
- Promotion of regional solidarity for situations likely to result in severe disruption of supply (Directive 2004/67/EC)
=> art 5 (a)

- Promotion of regional cooperation (cooperation of network operators and consistency of legal regulatory framework)
=> new art. 5 (b)
- Clause restricting foreign ownership and capital in EU energy sector (networks)
=> control of non-EU investments => 7(a), 7(b)
- Legal and operational unbundling of storage system operators
=> Art.9(a)(for facilities necessary for providing efficient access to the system for supply of customers).
The storage system operator shall have effective decision-making rights (...) to operate, maintain or develop facilities.
This does not preclude the existence of appropriate coordination mechanisms of the parent company.

- Confidentiality for TSO's of commercially sensitive information => art. 10 amended, i.e. information unbundling and no joint services apart purely administrative IT functions
 - => ex. no joint legal services
- Promotion of new gas infrastructures
 - => new article 22
 - Exemption for a limited period of time for major new infrastructures
 - interconnectors between Member States
 - LNG and storage facilities
 - Investments must enhance competition and security of supply.
 - Supervision by the Commission and exemptions on a case by case basis.

Proposal for a Regulation amending Regulation No 1775/2005 on conditions for access to the natural gas transmission networks

Key objectives

- A. To enlarge scope of regulation to LNG and storage
- B. GTE+ and to clarify its role
- C. To establish the role and responsibilities of Commission, GTE+ and ERGEG+ in establishing technical and market codes
- D. Requiring regional cooperation with GIE+
- E. Confirm that entry/exit systems are required
- F. Broad requirements for TPA to storage and LNG
- G. The preparation of binding Guidelines is signalled, amended GGPSSO and the guidelines already under preparation on LNG access, and an associated Comitology procedure for future amendments.

Cooperation between National Regulators and new Agency

- A. Framework for national regulators to co-operate in cross-border matters and promotion of regional co-operation
- B. Maintaining regulatory oversight of co-operation among TSOs.
- C. Decision-making powers on exemption requests under Article 22 and the power to settle disputes between NRAs
- D. A general advisory role to the Commission, including on the need for Guidelines to be introduced or strengthened

The impact assessment process

...is aiming at providing sound cost/benefit

Analysis of policy options

- TSO unbundling
- Strengthening of national energy regulators so that powers are harmonised
- Co-operation between EU energy regulators - TSO coordination
- Increasing transparency
- Pre-liberalisation long-term contracts for gas transmission
- Enhanced DSO unbundling
- Storage/strategic storage
- Framework for new investments in gas infrastructure
- Consumer protection and preventing energy poverty
- Control of third country investment in EU networks
- Analysis of macroeconomic impacts
- Analysis of social effects
- Analysis of environmental effects

EU Energy Observatory

- Creation of an energy observatory proposed in the communication « An Energy Policy for Europe »
- Endorsed by the European Council
- Unit « Market Observatory for Energy »
- Tasks
 - Monitoring EU energy demand and supply
 - Maintenance and development of EMOS database
 - Increased transparency
 - Assessment of investment needs
 - Benchmarking and exchange of best practices to help Member States to achieve energy targets

The institutional process

- Official presentation by the Commission of its legislative package on the Energy Internal Market
- Opening of the co-decision procedure
- Working groups of the Council – meet regularly from end September 2007 (twice a week)
- Directors of Energy meet in Lisbon (5-6 November 2007)
- Energy Council under Portuguese Presidency on 3 December 2007 (*Eurogas Board and GA on 4 & 5 December*)
- 2008 – first semester – Slovenian Presidency
- 2008 – second semester – French Presidency

Conclusions

- Some key questions for the natural gas industry
 - effective implementation and application of Directive 2003/55
 - effective unbundling: OU and ISO
 - regulators cooperation – Agency
 - TSO's regulation
 - Art. 22 – process – content
 - (Compulsory) guidelines power (e.g.) on « non essential aspects »
 - Records of commercial transaction
 - Others

- ⇒ In depth review by Eurogas
 - ⇒ discussion and selection of key issues/priorities
 - ⇒ advocacy