

***PLATTS – SECOND ANNUAL EUROPEAN
GAS STORAGE CONFERENCE
Growth Investment and Regulation***

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***Managing Market Mechanisms – Finding
the Balance between Market Dynamics
and Regulation***

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THE EUROPEAN UNION OF THE NATURAL GAS INDUSTRY

Section I – Explanations about Eurogas

Eurogas

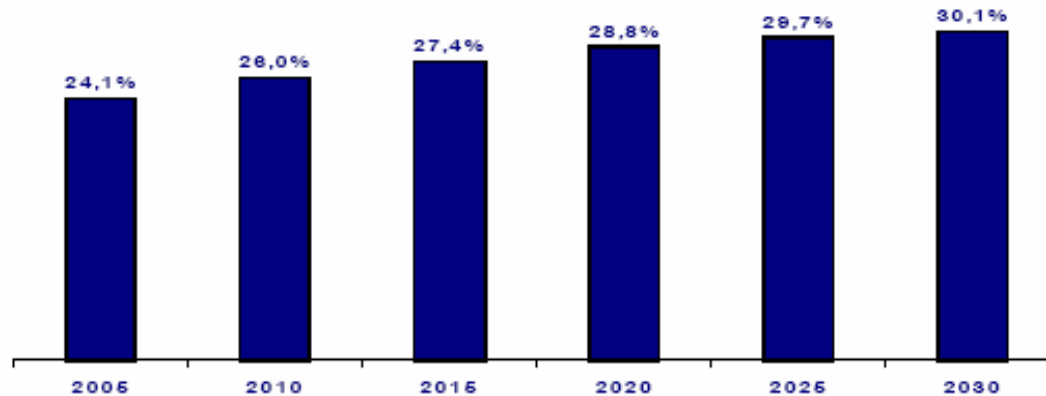
- representing the interests of wholesale and retail gas suppliers
- composed of 44 members from 24 countries amongst which 31 natural gas companies, and one international organization

Section II – Demand/Supply Trends and Storage Needs

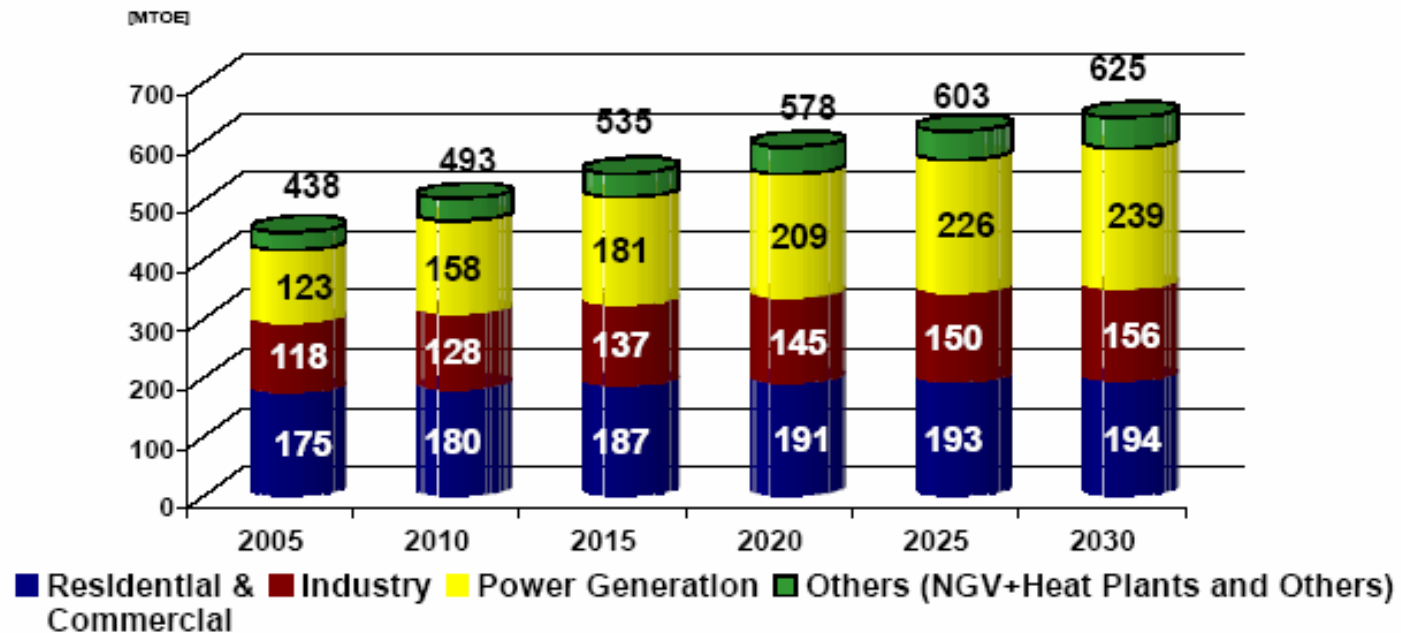
Eurogas Long Term Outlook to 2030

EU27: Increase in Gas Consumption

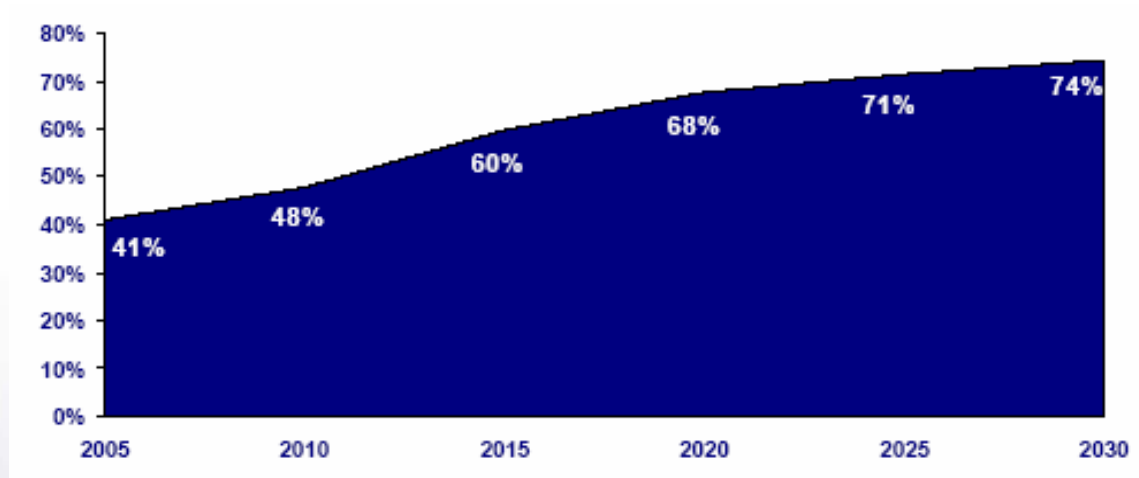
Natural gas consumption is expected to increase from 438 mtoe in 2005 to 625 mtoe in 2030 which is an increase of 43%.



EU27: Natural Gas Demand outlook by sector



EU27: Import Dependency from outside Europe



Supply

- Indigenous supply falling
 - Three quarters of EU25 indigenous production in concentrated in 2 countries: 43% in UK and 33% in the Netherlands
- Replacement gas less flexible
- Reliability of new supplies
 - Diverse supplies but fewer supply routes means impact of failure high
- Growing competition for supplies at global level

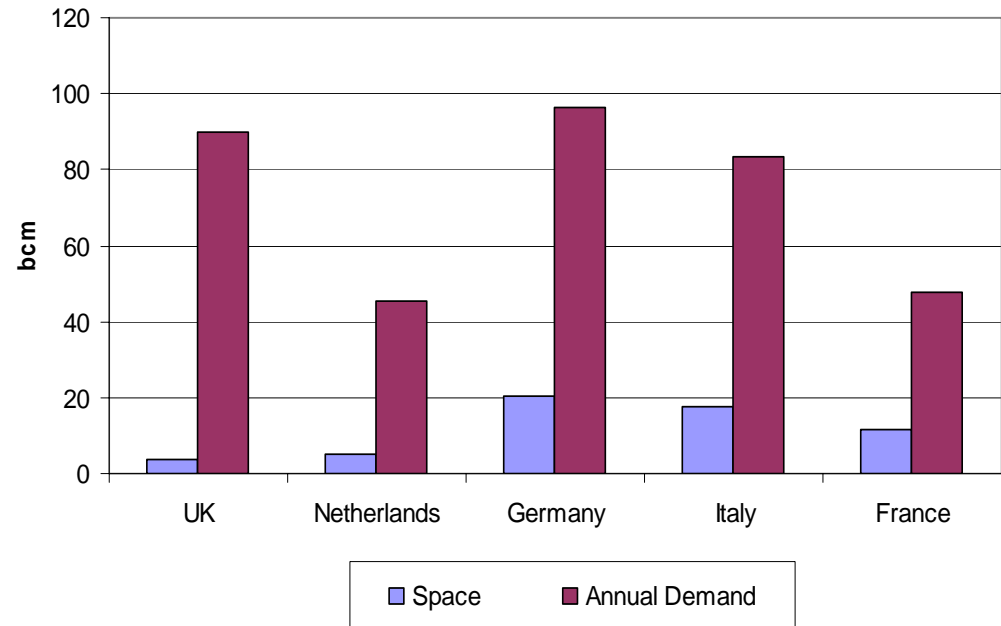
Demand

- Annual demand drivers
 - Gas fired power plants – main contributor to growth
 - Residential/commercial continued growth
- Variable demand drivers
 - Approximately 40% of EU gas sales to the residential & commercial sector. This demand is highly weather sensitive
 - Flexible supplies both intraday and seasonal is required to system balance
 - Access to flexibility is required for market development

European Space vs. Annual Demand Comparison

- Each European country's current storage position has been influenced by its indigenous gas production.
- The UK has been self-sufficient in gas due to reserves in the North Sea. Therefore, less gas storage has been required in the past.
- Germany, France and Italy have little or no domestic gas reserves and rely heavily on imports and storage. Historically, NW European countries have c. 20% of annual gas demand in storage space and are looking to build more.
- With its falling reserves and increasing reliance on imports, the UK will find itself in a similar position to France and Germany.

Space vs Annual Demand in Europe 2005



Source: *Underground Gas Storage in the World – June 2006*

Instruments to balance demand and supply

- Spot Markets
- Interruptible Sales
- Swaps
- Supply Contract Flexibility
- Storage – different storages serving different situations.

Suppliers have alternatives to storage – optimal use

There is nonetheless a pressing need for more storage

- Security of supply – as imported gas increases
- Market instrument – to create more efficient competition

Section III – Users' Needs in Storage and Other Services

Users' Expectations of Infrastructure

- non-discriminatory access
- optimal use of existing capacity
- unbiased system development

underpinned by adequate user-friendly, fit for purpose transparency, and accompanied by robust secondary market possibilities.

Issues surrounding access to storage

- Eurogas supported in 2005 the Guidelines of Good Practice for Access to Storage
- Eurogas agrees that now there is need for amendments to the Regulation turning the Guidelines into a binding instrument
- Eurogas welcomes that the proposed amendments continue to allow for the possibility of RTPA or NTPA – depending on the relevant market storages operate in competitive commercial, national or cross-border, markets, and
 - prices for flexibility will be determined by a combination of (changing) market factors and conditions and these will be reflected also in storage access
- Legal unbundling?
- Not looking for changes to Guidelines

Issues surrounding investment in storage

- Regulation has to be conducive to investment in commercial storage.
- Exemption under the current Article 22 has been granted for some storage projects. Article 22 can facilitate the needed investment but has to be applied on a case by case basis.
- In regulated systems, tariffs should allow a fair return to operators.

Strategic Storage?

It is unclear what the term “strategic storage” means. If it means storage to be built and kept only for supply security, then this would undermine the economics of the commercial market – especially if the conditions under which it would be accessed are unclear.

Obligations to build strategic storage as distinct from commercial storage, plus all the related infrastructure to support injection and withdrawal capacities

- (1) would be very expensive
- (2) would in all probability cause uncertainties for investors on the value of their storage

“Monitor” level approaches should be promoted and be transparent but need not be identical.

Member States should be allowed to develop proportionate responses to storage concerns and strategies, and share the information at EU level.

CONCLUDING REMARKS ON MARKET DYNAMICS AND REGULATION

- To achieve a better functioning market we need regulation – a key driver for market integration
- There also has to be trust in the market dynamics – over-detailed intervention could stifle these
- All stakeholders have a role to play in reinforcing trust in the European internal market objectives