

Security of gas supply

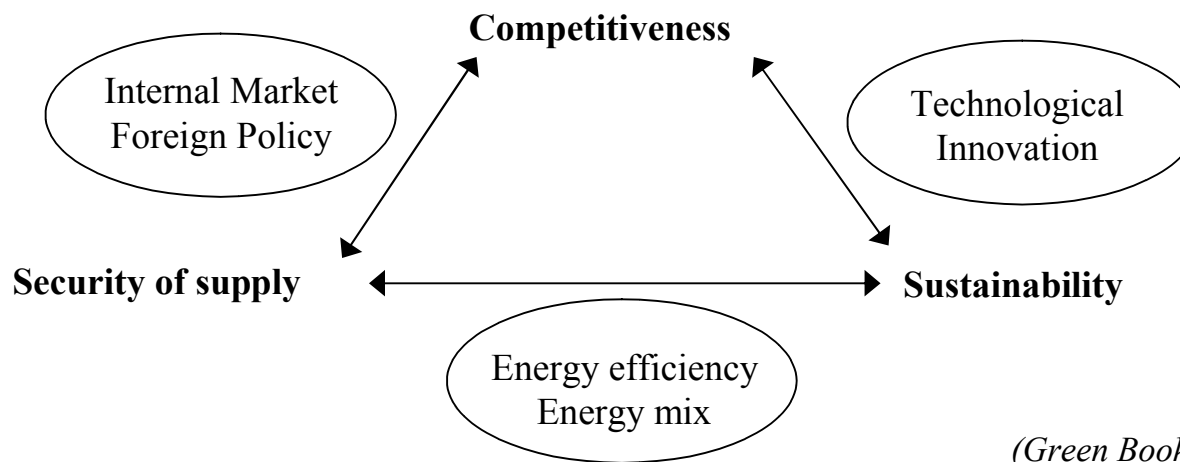
Ing. Philippe Boucly
Chairman of the Board of Directors of SPP, a.s.

14.11.2007

Slovak Foreign Policy Association conference:

The Common EU Energy Policy and the Energy Security of Slovakia

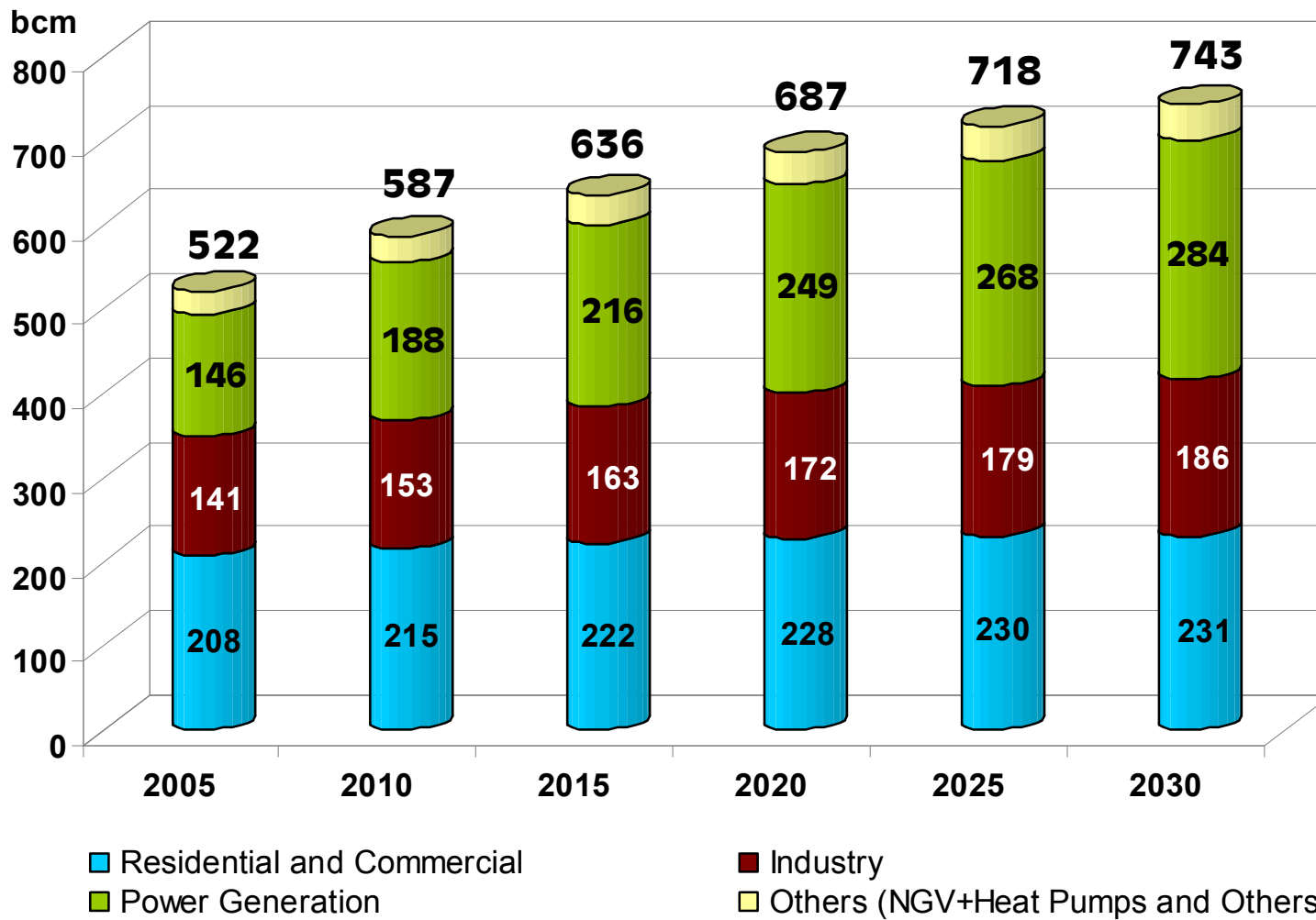
Our main challenges



(Green Book – March 2006)

- **Security of Supply**
 - Increased dependence on external gas flows / need for Dialogue with extra-EU suppliers
 - Need for New Investments
 - Remaining an attractive region for gas flows
- **Sustainability**
 - Natural gas as the important fuel of choice in the mix of environmentally friendly fuels to combat climate change
- **To attain a Competitive Internal Market**
 - Full and timely implementation of existing legislation
 - Effective unbundling
 - Harmonization of powers, independence & accountability of Energy Regulators

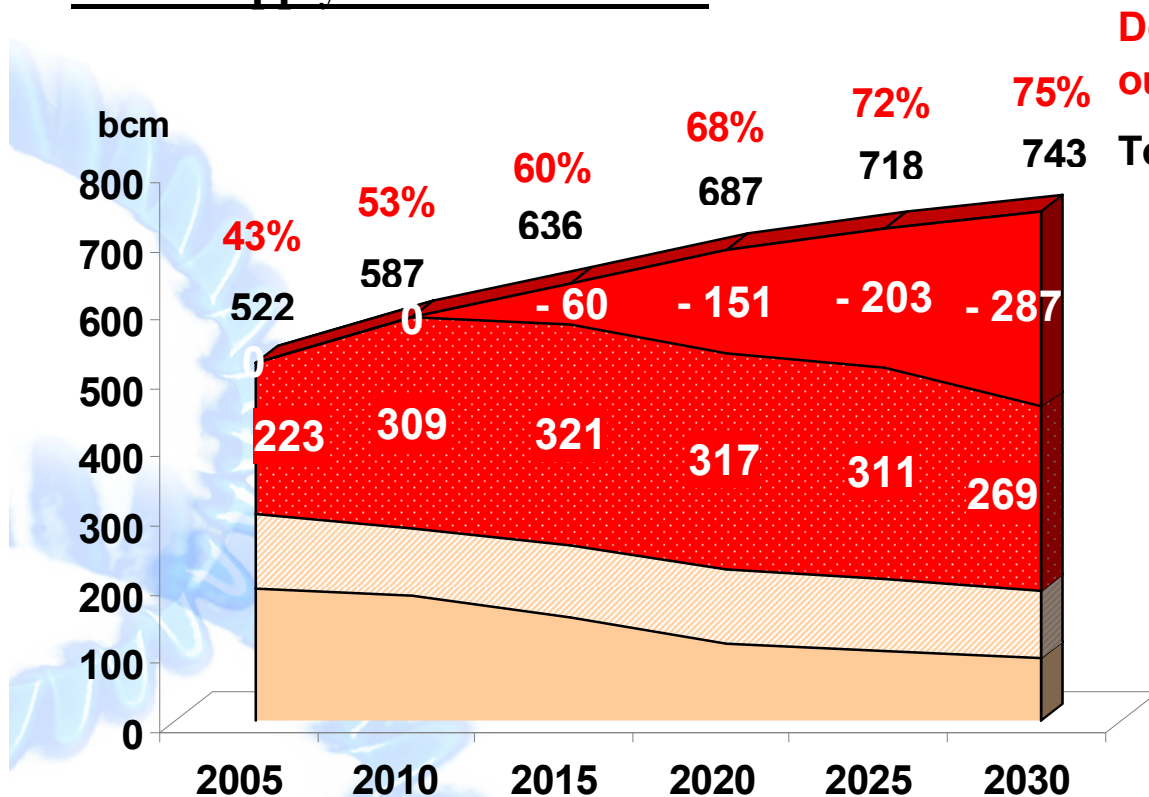
Increasing gas demand in European Union



(Eurogas 2007)

Increasing import dependence

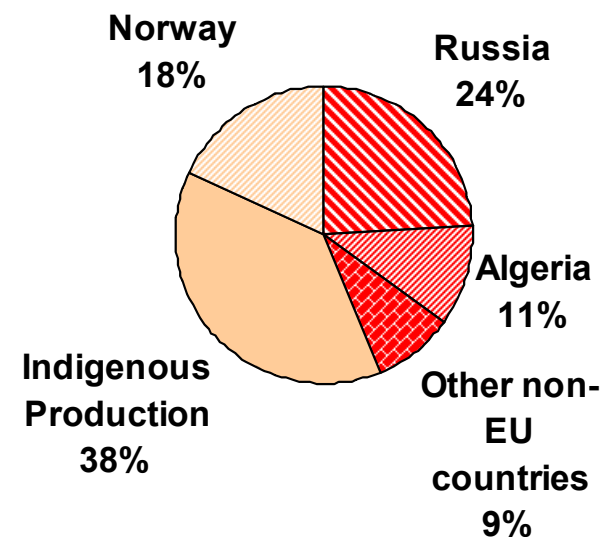
EU27 Supply/Demand Outlook



Dependence from
outside Europe

Total demand

EU27 Natural Gas Supplies in 2006



- Additional Supplies to be defined
- Contracted Imports and possible prolongations from outside Europe
- Potential Norwegian exports
- Indigenous Production (EU27)

(Eurogas 2007)

Security of gas supply may be endangered

- Competition with other regions (China, India)
- Increasing distance from Europe
- Limited number of mostly state-controlled suppliers

→ 19th September 2007 : Draft of the 3rd European directive

- **Ownership unbundling (OU)**
or
- **Independent System Operator (ISO):** transfer of all functions of a TSO to ISO, only the assets will remain in the ownership of the integrated gas company
- Creation of an Agency for coordination of national regulators
- Reinforcement of powers of national regulators regarding the market intervention and their independence
- Implementation of a control mechanism for foreign investments in order to prevent the acquisition of European networks by non-EU operators

Is it the right answer to the present challenges ?

- **2nd Directive is not fully implemented yet, the Commission proposes already the 3rd package**
 - more ideological than pragmatic approach
- **No comprehensive impact analysis**
 - European Parliament (July 2007)
 - no consultation with the TSOs and Member states, legal uncertainties on some propositions (expropriation?)
- **No difference in the treatment of gas and electricity**
 - Unlike electricity, gas is always in competition with other energies
 - Electricity is produced in Europe, while most of the gas is imported outside of Europe (in Slovakia exclusively Gazprom)
 - Supplies are in a limited number
- **OU endangers security of supply**
 - OU will weaken the negotiation position of European gas companies in relation with big non-European players

Is it the right answer to the present challenges ?

- **OU does not increase investment**
 - in France, GRTgaz under the current legislative framework doubled the investments since 2004,
 - in the contrary in the UK, since the ownership unbundling of British Gas in 1997, the investments dropped by 25 %
- **OU does not solve problems related to market functioning**
 - different rules and norms, insufficient cooperation between TSOs
- **ISO is not a real alternative**
 - has never been implemented in gas industry
 - leads to a loss of all competencies (technical, HR)
 - creates problems of repartition of responsibilities, industrials and financial risks
- **Example of market functioning under current legal framework**
 - In France, no complaint was made relating to network access (already 30 shippers contracted GRTgaz)
 - For big industrial consumers, new entrants now operate 43 % of French gas market

Internal Policy

- To develop energy savings programs and energy efficiency
- To promote renewable resources (wind) and to come back to nuclear energy
- To develop innovation and R&D
- To develop underground storages for strategic purpose
- To develop interconnections and interoperability between operators

External policy

- To diversify supply sources and secure the existing ones
- To diversify transport routes (Nabucco) and secure existing ones
- To cooperate between producing countries, transit countries and importers

Keystone :

strong and stable regulation framework in order to favour investment

To develop Interdependence and Cooperation between

- **Producers and EU: EU-Russia dialogue (not only in energy)**
 - Long term contract
 - Fair and balanced approach
- Energy charter
 - To protect investment
 - To protect transits
 - To solve problems between parties
- **EU and Ukraine: to secure transit**

Keystone:
to enhance mutual trust and confidence