

EUROPEAN REGULATORS GROUP FOR ELECTRICITY AND GAS

The Chairman

Brussels, 10 February 2009,

Mr Andris Piebalgs
Commissioner for Energy
European Commission
Rue de la Loi, 200
1049 Bruxelles

Dear Andis,

The recent gas supply crisis that followed from the dispute between Russia and Ukraine has revealed serious weaknesses and a high degree of risk exposure, especially of the eastern part of Europe's natural gas market. For historical reasons, the gas networks in Central and South-Eastern Europe are insufficiently integrated. They do not have adequate supply portfolio diversification, advantages which - in the Western part of the Union - have clearly benefitted energy markets. The effects of this crisis, including the uncertainties about its possible duration, were felt not only in the countries most directly affected but also across Europe. In particular, the crisis demonstrated the profound lack of transparency in gas flows and in emergency arrangements across the Union and beyond.

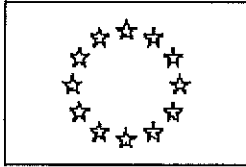
European energy regulators have highlighted a number of short and medium term measures targeted at several segments of the market in order to mitigate the risks of similar supply disruptions in the future. Specifically, these measures include:

1. improving coordination in national emergency planning;
2. regional coordination of network access;
3. improving interconnections between markets;
4. infrastructure planning procedures including emergency scenarios; and
5. careful monitoring of Security of Supply in order to increase transparency through monitoring and early warning, notably in crisis and pre-crisis situations. This aspect also includes a European winter outlook approach that could cover all key regions in Europe.

The crisis has demonstrated that the internal competitive gas market in Europe is of prime importance in generating the right investment signals and in providing fair and non-discriminatory network access to all parties. Market mechanisms should continue even under strained gas supply situations, with government intervention as a last resort.

1. Improving coordination in emergency planning

EU Member States have very different approaches to emergency planning and preparation for supply disruptions. The roles of the various players (including governments, energy regulators, TSOs and suppliers) vary widely throughout the Union. There is little coordination of the various national plans within the gas regions nor sufficient transparency of the



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arrangements in Member States (such as maintaining in storage certain levels of gas), which could have consequences in terms of gas flows to or from neighbouring countries. The exchange of information through the Gas Coordination Group is an important first step, but, clearly, not sufficient. You have already commented to me that ERGEG would be formally represented in this Group, and I welcome that proposal. The input of the European energy regulators could also be useful in helping to design a mechanism to ensure that Member States develop emergency plans.

It is also necessary that individual plans are coordinated with neighbouring countries to eliminate any contradictions and to ensure that there is full consistency thereby avoiding individual actions by one Member State that could have the effect of reducing gas in neighbouring countries. We suggest that Member States should be obliged to communicate these plans to the European Commission. We also suggest that Member States exchange information on such plans within the Gas Regional Initiatives. Peer review of such plans would significantly contribute towards improving our overall preparedness and also develop a more collective approach to future crises.

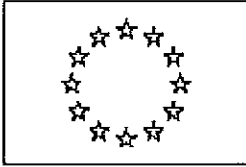
2. Regional coordination of network access

Where there are supply disruptions, there is an urgent and particular need to arrange transportation of gas across the pipeline systems of several TSOs. The current model for booking gas transport capacity is based on a succession of bilateral transport contracts between one shipper and a number of different TSOs – an approach that has been the traditional in arranging gas transportation throughout Europe. It is clear, however, that arrangements of this type would cause significant delays before urgent transportation of gas would be arranged, notably during an emergency situation. Appropriate coordination at regional and EU level needs to be assured.

TSOs could be invited to establish an independent regionally coordinated capacity management and dispatch. Some interesting proposals were suggested in a letter by EFET, Eurelectric, Geode, IFIEC, and other stakeholders at the last Madrid Forum. Regulators are ready to develop these ideas further, in close cooperation with TSOs and other stakeholders, and this should help to bring about a more speedy implementation of any new arrangements.

3. Improving interconnections between markets

We agree with the observation in the Commission's Second Strategic Energy Review that North-South interconnections in Eastern Europe are underdeveloped and need to be strengthened. The same is also true for other regions and parts of the Union's gas infrastructure. With a limited number of additional North/South pipelines, markets could be integrated. The traditional East-West pipeline system could also be developed into a meshed system, the typical structure in Western Europe. Such an expansion of the gas transport system would improve not only flexibility and enhance security of supply but would also be the basis of a wider, more integrated EU gas market. Connections between the Mediterranean area and Central and Eastern Europe would help mutualise gas flexibility and supply tools (LNG, storage), and in this way, improve diversification of gas supplies and security of supply. We have already established a Security of Supply Task Force in the South-South East Gas Regional Initiative together with relevant stakeholders in order to assess the necessary infrastructure investments. I also enclose the statement of the energy



regulators in South-South East region on the gas supply crisis who met in Sofia on 29th and 30th January 2009 with TSOs, traders, shippers and governments to discuss the impact of the gas supply crisis and the lessons learned.

Agreement on the proposed budgetary resources of €1.75bn in respect of new energy interconnections in the Commission's proposal under the European Economic Recovery Plan¹, is a matter for the Member States and the Commission. Energy regulators are primarily concerned with the functioning of competitive markets including the compliance with EU legislation. We therefore take note of the proposed allocation of additional resources in this area, which appears to be in line with the proposals in the second Strategic Energy Review.

4. Infrastructure planning procedures should include emergency scenarios

Effective regional planning of infrastructure needs, the modelling of "emergency" situations and their effects on the grid would contribute significantly in identifying high priority investment projects. However, as the recent gas crisis demonstrated, in many cases projects already exist, but the will to integrate markets is absent. It is also important that transit infrastructure is included in all national infrastructure planning procedures. TSOs should be asked to ensure that any infrastructure planning (notably in respect of the 10-year investment plan), also sets out a number of supply disruption scenarios and proposals for mitigating the effects of future disruptions.

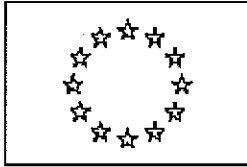
Security is dependent on having a flexible armoury of responses, in particular through the use of storage and LNG. Wherever possible, without inhibiting investment, additional storage capacities should be available to all market participants based on non-discriminatory and transparent allocation procedures. Congestion management mechanisms should be implemented for all new projects and ERGEG is preparing Guidelines for possible annexation to the Regulation. Making full use of existing networks, notably by facilitating reverse flows, would contribute to additional flexibility and supply tools, and thus enhance diversification and security of supply. Allowing reverse flows through existing transit pipelines should also broaden storage use on a regional level.

5. Increasing transparency through monitoring and early warning

The recent gas crisis has revealed the importance of optimal transparency and full information about the overall supply situation across the Union, notably when faced with an urgent and fast moving crisis. The situation is complex and neither incumbents nor governments can have access to all the information in each and every country and across Europe. To improve transparency, a harmonised minimum level of information must be made available to the market, especially in crisis situations. Clearly, decision-makers need this information as the basis for any emergency measure.

Currently, much of the key data is either not published, or published only on a weekly basis in highly aggregated form (e.g. data for several storage sites merged together). This makes it

¹ COM 2009 (35/2)



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difficult to assess gas flows. Data on available gas storage stocks for all sites in Europe is needed, notably: the maximum storage levels; daily updates on the rate of withdrawal and injection of gas; daily supply to all key entry and exit points; and the volume of gas available at affected locations.

You may also wish to consider whether energy regulators, with their deep knowledge of the markets and their independence, could be mandated by the Commission (currently through ERGEG and later the Agency), to propose such a harmonised reporting mechanism, which could include a European winter outlook report, to cover the situation in each of the three gas regions: North - West, South - South East and South. The report could be prepared annually by the TSOs, with appropriate regulatory oversight, and in close consultation with the market. Regulators could also monitor the Security of Supply situation and report to the Authority which sets emergency measures. The Commission has also announced its intention to revise the Security of Supply Directive which we support and we shall contribute to the Commission's analysis of the situation.

In this respect we would draw particular attention to the policy of the Regional Initiatives which provide a platform to facilitate information exchange, increased coordination within each regional market, and ensure appropriate convergence within the regions to ensure that the process moves towards a more integrated EU energy market.

In addition, the Commission could explore with Member States whether further duties might be assigned to national regulators. These could include the following:

- Preparing and coordinating (along with national Governments and TSOs where appropriate) emergency measures to be taken in case of crises, e.g. developing with all market participants a manual related to the prevention and handling of gas crises;
- Overseeing the collection of data for the preparation of energy emergency arrangements;
- Analysing and evaluating the data – monitoring of security of supply;

Finally, we should emphasise the importance of testing in advance emergency actions and practical measures to be implemented as a matter of urgency with the involvement of all competent authorities and market players.



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Against that background, we would also like to highlight the importance of current discussions in relation to the Energy Charter Treaty, with a view to improving transit.

I am also copying this letter to President Barroso and Commissioner Kroes.

Yours sincerely,

A handwritten signature in black ink, appearing to be the initials 'JR' or similar, written in a cursive style.