



GTE position

Proposals for a Directive concerning measures to safeguard security of natural gas supply

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1. Introduction

GTE welcomes the recognition by the EU and national authorities that security of supply is a key issue. There is an excellent track record in the European industry for ensuring security of natural gas supply. The objective is to maintain such a high level of security of natural gas supply within the liberalization process.

GTE issued a report in January 2003, which set out the issues relating to security of natural gas supply from a TSO (Transmission System Operator) perspective and contained associated recommendations. GTE issued a specific position paper in March 2003 with regard to the Commission's draft directive dated September 2002. In our view these reports should serve as an input for further discussions with the EU Commission, EU Parliament and other interested parties. The purpose of this paper is to highlight GTE's main concerns in the context of ongoing discussions over the text of the proposed directive between the Commission and the Council.

2. GTE report on Security of Supply

The GTE report dated 22 January 2003 addressed the main aspects concerning security of supply including the main roles and responsibilities of the TSO's and other market players in particular the network users. It highlighted the key requirements for ensuring that a high level of gas security of supply is maintained as:

- Clear allocation of roles and responsibilities amongst all concerned parties (gas industry, gas consumers, relevant national and EU authorities);
- Clear, stable and transparent framework at a national level that:
 - i. lead to a healthy investment climate by ensuring that TSO are adequately rewarded for investing in new and existing gas transportation infrastructure;
 - ii. ensure that the demand for normal and extreme conditions are revealed and contracted by the network users according to the requirements of their customers; and
 - iii. provide adequate incentives for transporters to maintain system integrity and for network users to balance their supply and demand portfolios.

3. GTE comments on the current discussion of a Directive on security of natural gas supply

Proposals for a directive on security of natural gas supply were issued by the Commission in September 2002. Amendments have been voted in the first reading by the EU Parliament in September 2003 and revised texts are presently under consideration between the Council and the Commission. In the context of these ongoing discussions, GTE believes that the main priorities are as follows:

- In principle GTE recognises the need for security output standards but GTE believes that it should be left to market forces to provide the means of delivering security standards. Market forces should



also be entirely responsible for the diversification of supplies, indigenous production and national / cross-border cooperation between the gas undertakings, including cooperation with the producers.

- With regard to potential major gas supply disruption, GTE is of the opinion that determination of disruption risks and appropriate measures to be taken should be made at national level through cooperation between relevant authorities and gas undertakings. Cooperation is preferable to any centralised crisis mechanisms, which would directly affect the sanctity of contracts and sovereignty of TSO's over their assets.
- GTE is willing to work on the definition of major supply disruptions that could not be managed by the gas transmission industry supported by an adequate cooperation mechanism. For example, an advisory body at the EU level involving all concerned parties (market players and relevant authorities) could also be considered in order to exchange views and facilitate the coordination of measures that could be taken.
- It should be recognised that security of supply is delivered at a price. GTE sees the need for stating that where new obligations are put on TSO's, they shall be able to recover the costs or to charge market-based prices for any new obligations. This is essential if distorting effects on competition (incl. inter-fuel competition) are to be prevented and a healthy investment climate is to be maintained. It should be clear that consequences of such obligations on TSO's will affect the whole gas chain down to the consumers.
- Any exemption for new entrants would lead to asymmetric regulation with distorting effect on competition.
- GTE welcomes the emphasis on the importance of long-term contracts, which have been a significant factor in the stability of investment in capital intensive gas infrastructure projects and which shall continue to play a key role in the future. In order to finance major transmission infrastructure projects (main pipelines, LNG terminal or storage) GTE sees the need for the definition of 'long-term' to be a duration of 10 years at an absolute minimum.

Annex 1 GTE report on security of natural gas supply, dd. 22 January 2003

Annex 2 GTE comments on the Commission's draft directive issued in September 2002, dd. 21 March 2003