

What European energy policy would give us sufficient confidence in security ?

Gaz de France and examples from deregulation of the French gas market

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DELEGATION A LA REGULATION ET A L'ECONOMIE

Why experience in France may provide some wider European lessons on managing security of supply in a deregulated market

- France has never had significant indigenous resources of gas and so has had to ensure supply security without the comfort of national gas resources
- Western Europe's gas production will continue to decline meaning that we will become progressively more dependent on imports from outside Western Europe
- Deregulation in the French market has taken into account dependency on imports from the outset

Gaz de France and deregulation of the gas market in France

● Overview of the French gas market

- Supply
- Organization
- Market opening

● Policy and regulation adopted and consequences for Gaz de France

- As a large integrated player Gaz de France has significant legal and regulatory obligations
- The regulator - CRE
- Infrastructure regulation

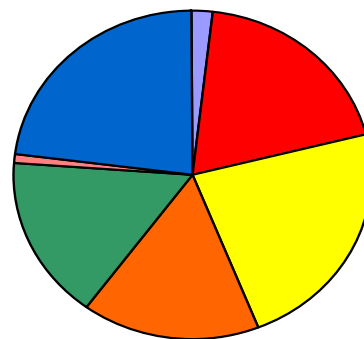
● Summary: Key-points to ensure development of the market and security of supply

Overview of the French gas market - supply

Very little gas production in France – the importance of a diversified supply portfolio

- concentration of suppliers (Norway + Algeria + Russia = 2/3 of the French imports).
- gas offer is extra-European and far-away, with high costs and long lead times for building gas production and gas transmission infrastructure (vs electricity with production units located near to the consumer sites)
- Gaz de France's long experience (40 years) of importing gas and securing customer supplies without domestic source

Supply of natural gas in France



■ Indigenous production	2%
■ Russia	19%
■ Norway	23%
■ The Netherlands	16%
■ Algeria	16%
■ Egypt	1%
■ Others	23%

Overview of the French gas market - organization

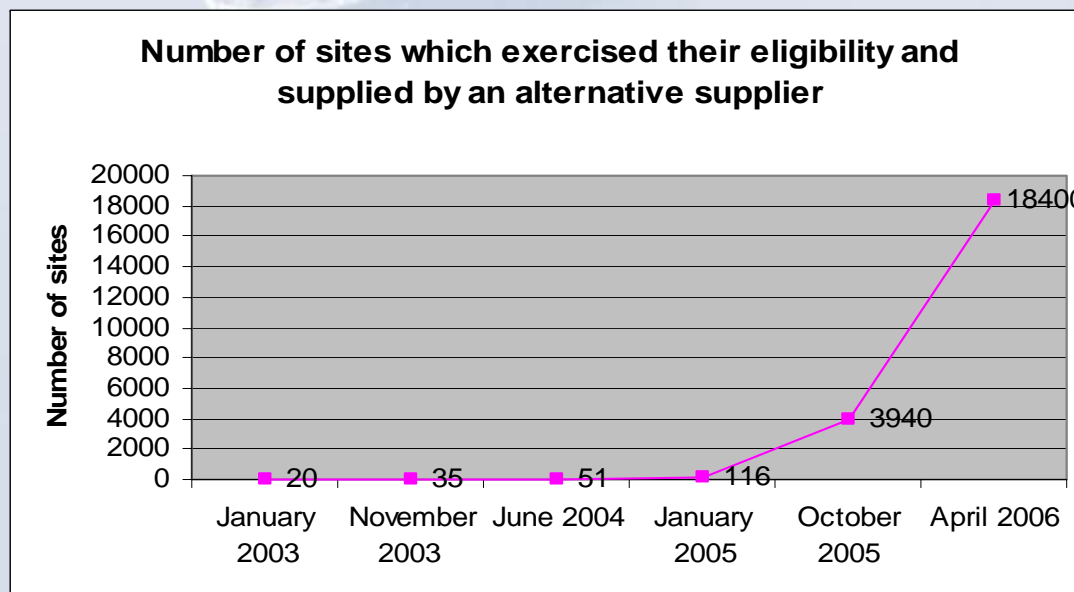
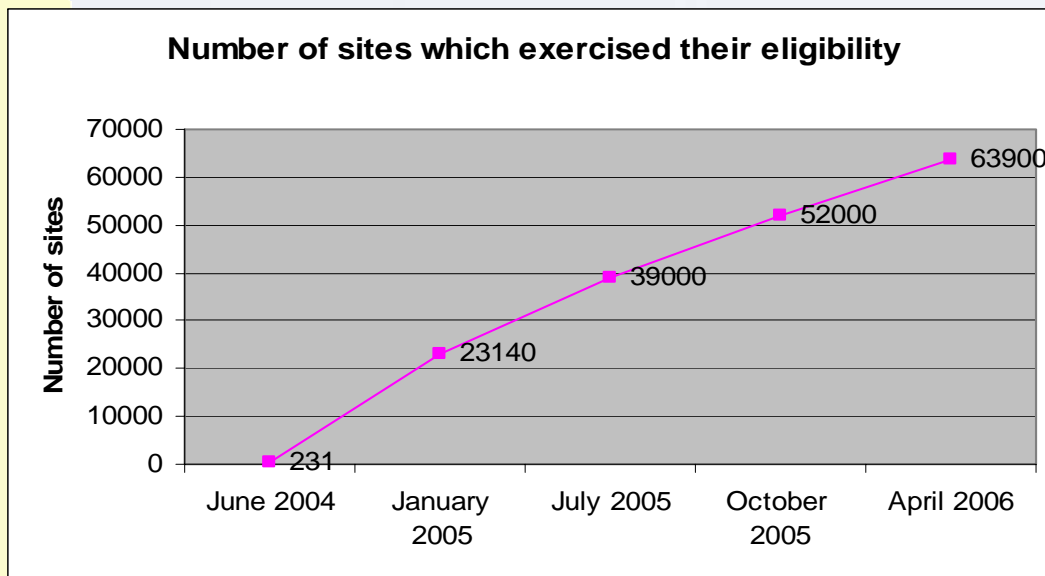
Before 10th August 2000 :

- 3 upstream operators (GSO, CFM and TSGF),
- 1 up/down-stream integrated operator (Gaz de France)
- 16 Independent Distribution Companies and some other new LDCs

Since 1st January 2005 - an increase in the number of players :

- Infrastructure operators : TPA, legal or managerial independence, compliance program
 - Transmission : 2 operators, GRTgaz (100 % Gaz de France) and Total (TIGF)
 - LNG terminals : Gaz de France – Direction Grandes Infrastructures (DGI)
 - Storage : 2 operators, DGI and TIGF
 - Distribution : Gaz de France Réseau Distribution and LDCs
- Suppliers : Authorisation to supply gas delivered by public authorities
 - Gas and oil producers (majors and other)
 - Traditional gas suppliers
 - Others (electricity suppliers, new retailers...)
- New players - traders :
 - « Gas Exchange Points » (PEG) like hubs

Overview of the French gas market - opening



Policy and regulation adopted and consequences for Gaz de France

- As a large integrated player Gaz de France has significant legal and regulatory obligations
- The regulator - CRE
- Infrastructure regulation

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As a large integrated player Gaz de France has significant legal and regulatory obligations

● In the context of gas market deregulation, Gaz de France has to meet commitments arising from :

- TPA to networks, LNG terminals and storage
- 7 unbundled accounts or affiliates' accounts for activities + eligible & non-eligible accounts
- Financial flows between the separate activities : protocols or contracts with the TPA conditions when these exist or business conditions
- Confidentiality of commercial information (separated locations and IT systems)
- Since January 2005, gas transmission system has been a subsidiary company of Gaz de France : GRTgaz
- The management of gas distribution system is independent of Gaz de France and on 1st July 2007, this system will become a subsidiary company of Gaz de France
- Compliance programs and annual CRE review

The CRE involves all key stakeholders in the preparation of important decisions – the example of the Gas Working Group to prepare eligibility of new customer groups - GTG

- Launched by the Regulator (CRE) in March 2003
- Main purpose : to prepare implementation of non-domestic eligibility on July 1st 2004 (GTG 2004) and now to prepare implementation of domestic eligibility on July 1st 2007
- All gas sector players have been involved in the working group : distribution and transmission system operators, suppliers, customer representatives ...
- In order to set up the operational rules and procedures of market organisation by common consent : how to switch suppliers, contracts, consumption profiles, information systems...
- The results of the different task forces of the working group are published : www.gtg2007.com
- The CRE monitors implementation : any problems ? survey (« Observatoire des marchés »), data...

Access to the transmission network which balances availability to new entrants and security of supply

- Transmission network tariff changes : Currently French territory is divided into 4 + 1 balancing areas for the transmission facility. There will be 2 +1 areas in the future.
- Rules for capacity allocation published at the end of 2004
- Working groups on balancing from GRTgaz proposals last spring
- A new TPA regime for the transmission network tariff will be implemented soon (preparation and discussions with the regulator are underway) - the last before the 2 zones tariff in 2009
- Investment program decided in 2004 to increase flexibility of the network : one of the main preoccupations is ensuring both security of supply and availability (incl. flexibility) for new entrants

Storage infrastructure regulation ensuring fair access to storage for new suppliers and security of supply

- Third-party access to storage is “negotiated”, but is in fact a transparent and non discriminatory tariff
- The first tariff was introduced in April 2004
- Provisional capacity allocation at the end of the year 2004
 - in anticipation of a decree regulating storage access
- Regulation is based on the “capacity follows the customer” principle and a secondary market exists
- One of the main preoccupations is to ensure customer requirements are met (seasonality and climatic risks)
 - Legal obligation on suppliers to provide security of supply
 - Extra capacities allocated by auctions from early 2006
- Storage data updated regularly on the website, including levels of gas in storage
- Purpose of the activity: to ensure security of supply while giving the same access conditions to all storage customers

Access to capacity in LNG terminals for third parties which generates increasing interest

- First TPA conditions published in January 2001
- First “CRE tariff” applied in mid-2004
- Allocation principles published in December 2004
- Second tariff in place from beginning 2006 with 3 services (continue, flat for one month, spot)
- Information regularly updated on the website
- More and more suppliers interested and at least 4 shippers expected over the next year for the Montoir terminal
- Third tariff in preparation with CRE, expectation of pluri-annual regulation (5 years) giving a longer term signal to LNG shippers (long term chains)
- New LNG terminal : Fos Cavaou (Commissioning expected end 2007) with a capacity of 8.25 bcm/y – ownership shared through an affiliate jointly-owned with Total (30%)

Summary : Key points to ensure development of the market and security of supply (1/2)

- Within the specific environment of the gas market value chain, an integrated and powerful actor, with separated activities and unbundled accounts, like Gaz de France, provides :
 - Transparency and independence for regulated activities,
 - The capacity to finance infrastructure investments, which all energy market players benefit from,
 - Security of supply to the European market through access to diversified sources with sufficient credibility.
- That implies :
 - A policy framework including a pluri-annual program (eg : “PIP” in the French Law) providing both transparency and visibility for all industrial players in the gas market, with a public support,
 - Clear, long term legal framework and regulation for infrastructure activities relative to their risks and life duration,
 - Efficient incentives, industrial and pragmatic approach from regulators... with specific treatment for transit

Summary : Key points to ensure development of the market and security of supply (2/2)

- Policies and regulation of access to infrastructure for third parties need to meet security of supply requirements from the outset
 - Transmission networks
 - Gas storage
 - LNG terminals
- A credible, pragmatic and independent regulator
- Involve all stakeholders in preparing key decisions

Back-up

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Separated activities and unbundled accounts 1/2

- Separate accounts for 7 activities : Transmission, LNG terminals, Storage, Distribution Network, Non gas Activities (LPG's public distributions), Electricity (since 2004) and Other Activities, as part of principles approved by the national regulator (CRE)
- Separated accounts are transmitted yearly to the regulator (CRE)
 - Balance sheet and income statement for each activity
- Unbundling grounded on general accounting
- Financial flows between the separate activities : protocols or contracts with the TPA conditions when these exist
- Separate supply accounts between « eligible consumers » and « non eligible consumers » since 2004 (recent CRE position)
- Sub rules approved by CRE and under its permanent control

Separated activities and unbundling accounts 2/2

Groupe Gaz de France

POLES



Energy Supply and Services

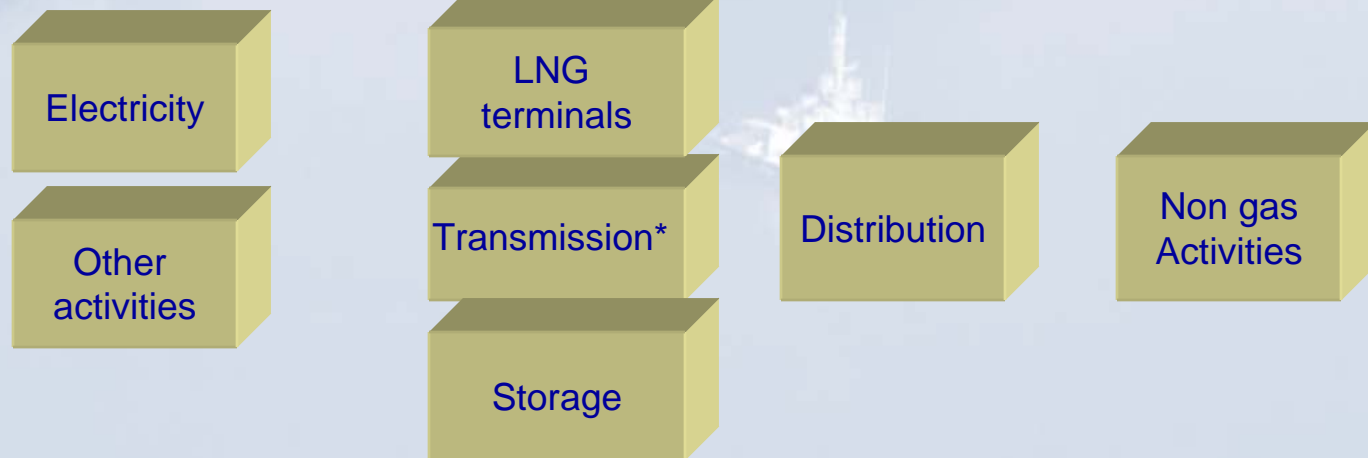
Infrastructures

Others

SEGMENTS



Gaz de France



* Transmission is a subsidiary company of Gaz de France since 1st January 2005 (GRTgaz)

Gaz de France relationships with the regulator and other national public bodies

Relationships between CRE (national energy regulator) and Gaz de France :

- **Infrastructure activities (GRTgaz, GRD & DGI) :**
 - Direct management with CRE for the network access tariff (NTA) and organization of network access
- **The Economy and Regulation Department of Gaz de France's Infrastructure Branch :**
 - Is informed of the topics (excluding CCI) discussed between entities of the Group and the CRE
 - Ensures consistency and coordination of the infrastructure activities positions (i.e. financial aspects and bilateral relations)
 - Informs and challenges these activities on regulation principles

Gaz de France maintains regular relationships with other authorities :

- **The Competition Commission : « Conseil de la Concurrence »**
- **The « Direction de la concurrence de la consommation et de la répression des fraudes » – DGCCRF – of the Ministry of Economy**
- **The Ministries in charge of Economy and Energy...**

Main items treated with CRE from 2000

- 7.2000 : GDF transmission access tariff
- 2000-01 : working group on transmission tariff structure (Bergougnoux' group)
- 10.2002 : Syrota's Report on gas market opening
- 3.2003 : principles for dissociated accounts
- 4.2003 : launching GTG works (GTG 2004 and next GTG 2007)
- 7.2003 : CRE proposals for transmission and LNG terminal access tariffs
- 10.2003 : CRE proposal for distribution access tariff
- 5.2004 : gas release program
- 3 to 7.2004 : GDF tariff for access to storage
- 10.2004 : CRE proposal for new entry/exit transmission tariff (reduction of number of zones),
- 12.2004 : new capacity allocation rules
- 10.2005 : CRE proposals for new distribution and LNG's terminal access tariffs
- currently : preparation of next transmission tariff (following on 1.1.2009 with