

Market Opening as Driving Force

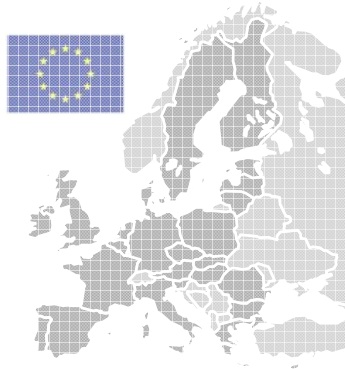
6th South East Europe Energy Dialogue
Thessaloniki, May 30-31st 2012

Klaus P. Luber
Head of Business Development Sales SEE,
E.ON Ruhrgas AG

The E.ON logo, consisting of the lowercase letters "e.on" in a white, sans-serif font, set against a solid red rectangular background.

The European gas market has changed substantially – market opening and oversupply created hub pricing

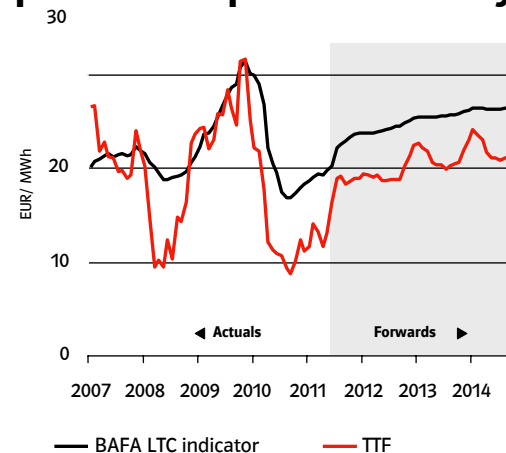
Liberalised market



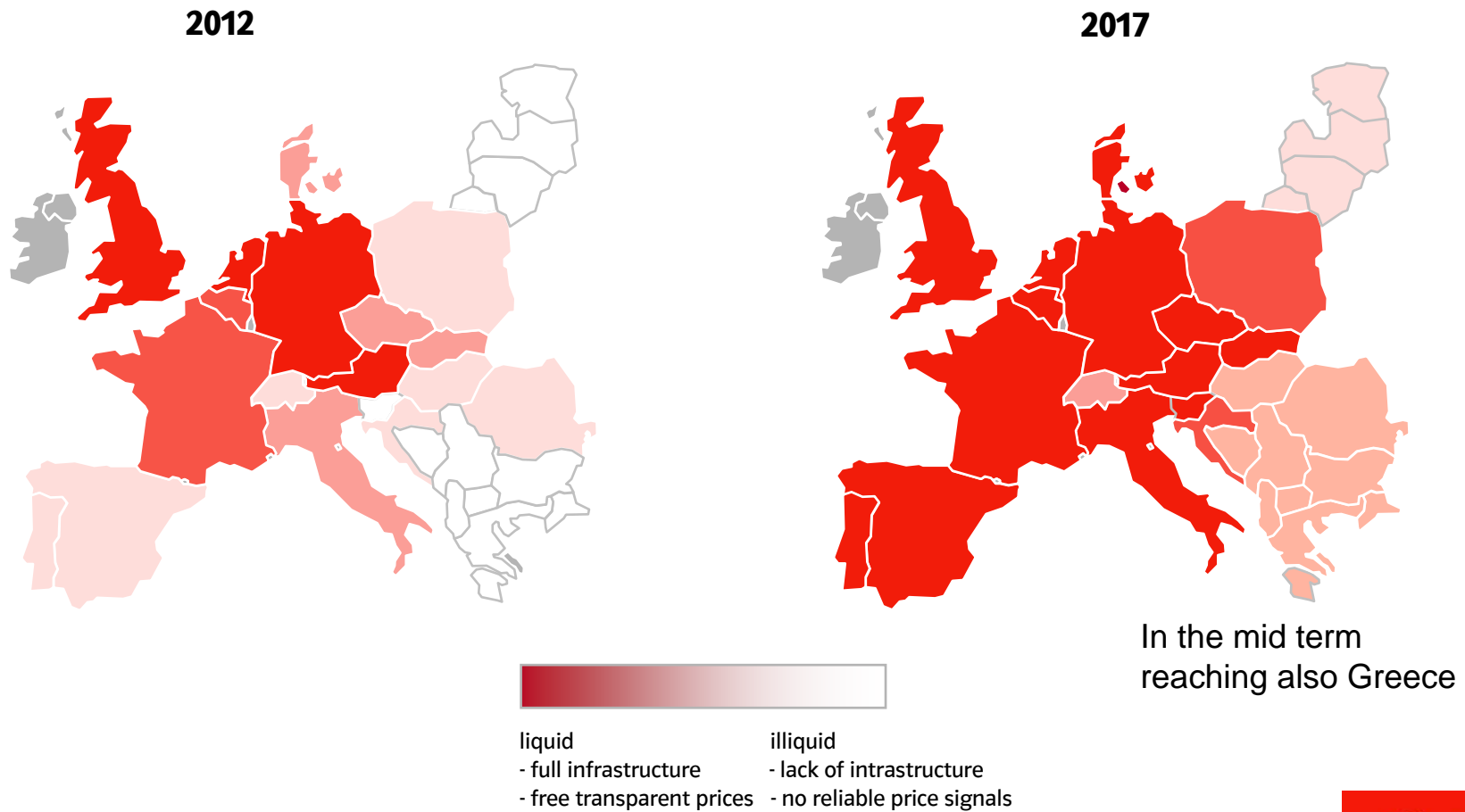
- EU and national legislation
- Unbundling, TPA
- Capacity allocation and congestion management rules

- Increased liquidity
- Sustainable decoupling of oil/gas prices
- Hubs sending price signals
- World wide effects through LNG or driven by extraordinary effects (Japan)

Gas price development Germany

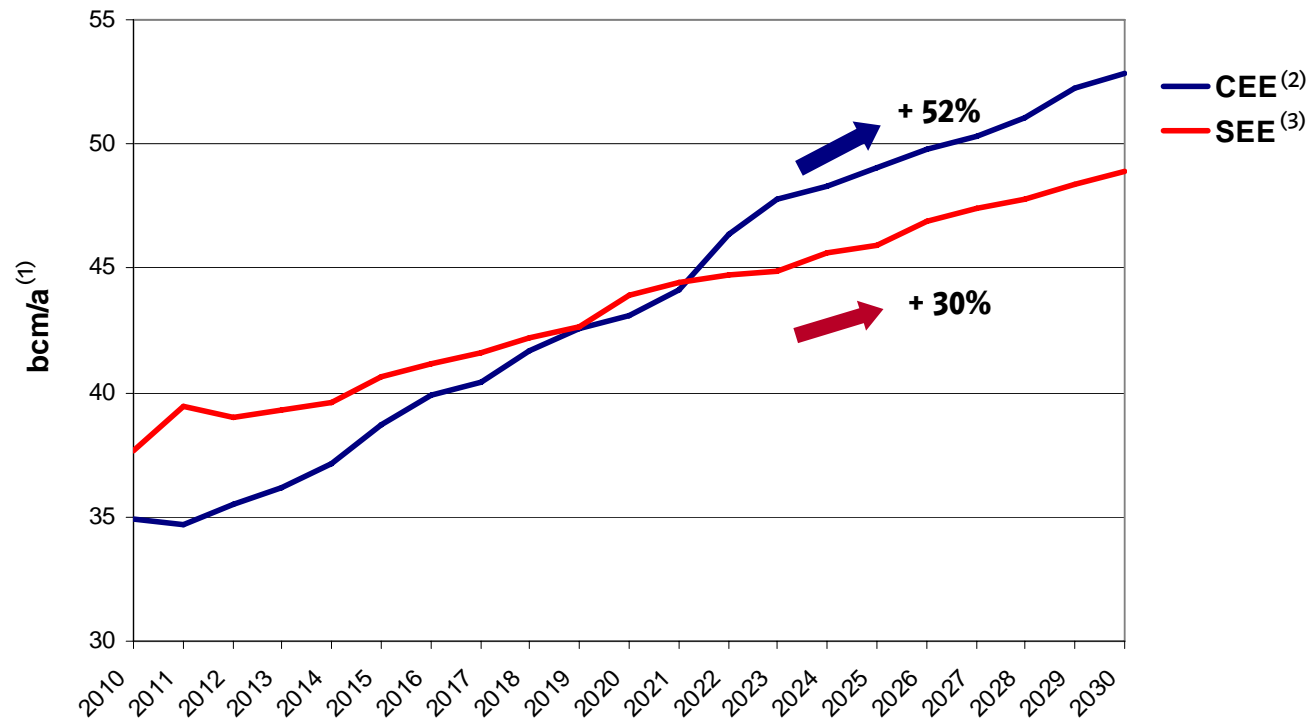


Integrated European gas market being developed ⁽¹⁾



(1) Source: E.ON Ruhrgas based on Heren

CEE and SEE are growing regions



Growth is based on economy, infrastructure investments and liberalized prices

(1) Source: CERA Long Term Prognosis from 10/2011

(2) Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia

(3) Slovenia, Serbia, Romania, Macedonia, Hungary, Greece, Croatia, Bulgaria, Bosnia and Herzegovina, Albania



SEE energy markets require significant investments



Investment challenges to realize market potential:⁽¹⁾

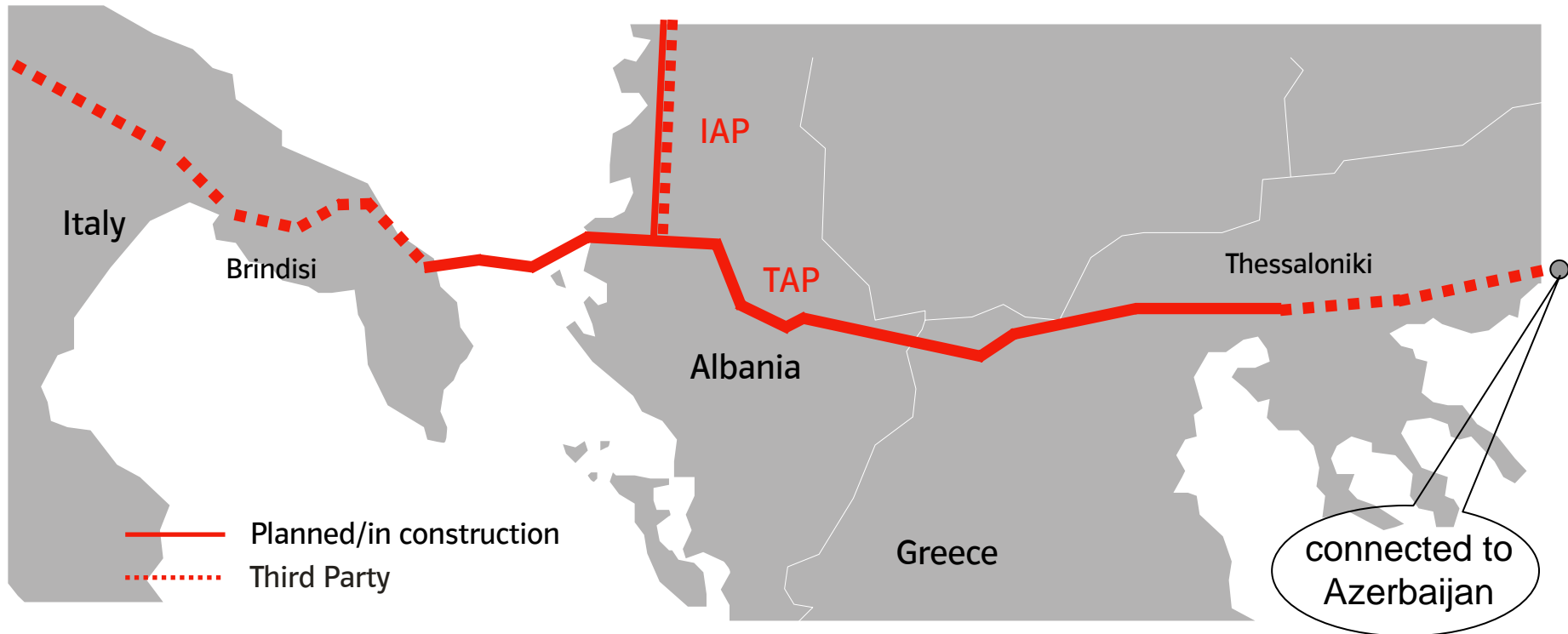
- Diversification routes as 90% of imports and 50% of total supply is Russian based
- Availability of adequate storage capacities
- Energy Community Gas Ring including gas fired power plants / significant investment
- Extensions of local / regional gas grids

Physical access through cross border capacities is key for market opening

(1) DG ENER, SEE REGIONAL GASIFICATION STUDY, 2007



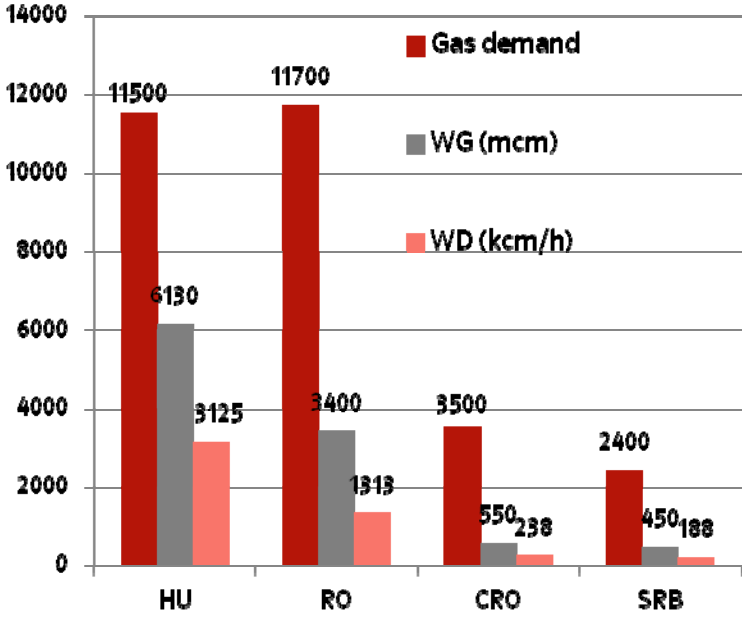
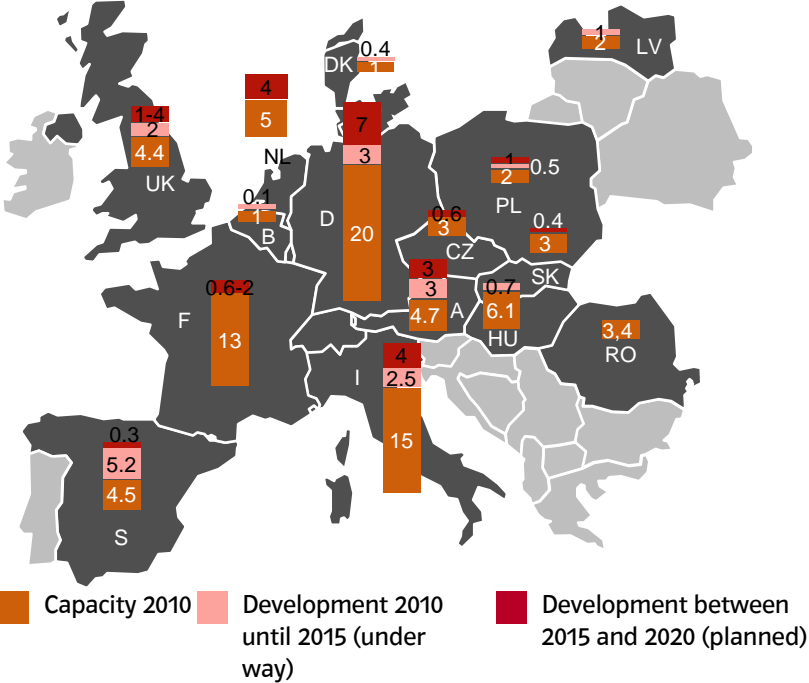
TAP is the preferred transport route to Italy for producers – offering diversification to Europe



- Supplying gas from Azerbaijan to Europe
- Total capacity around 10 bcm/a for SEE/Italy - expandable to 20 bcm/a
- FID possibly in 2013 - start of operation in 2018
- MoU's for IAP signed with Plinacro (HR), Plinovodi (SLO), BH-Gas (BiH), Albania and Montenegro



Significant differences between local gas demand and available storage capacities in Europe⁽¹⁾



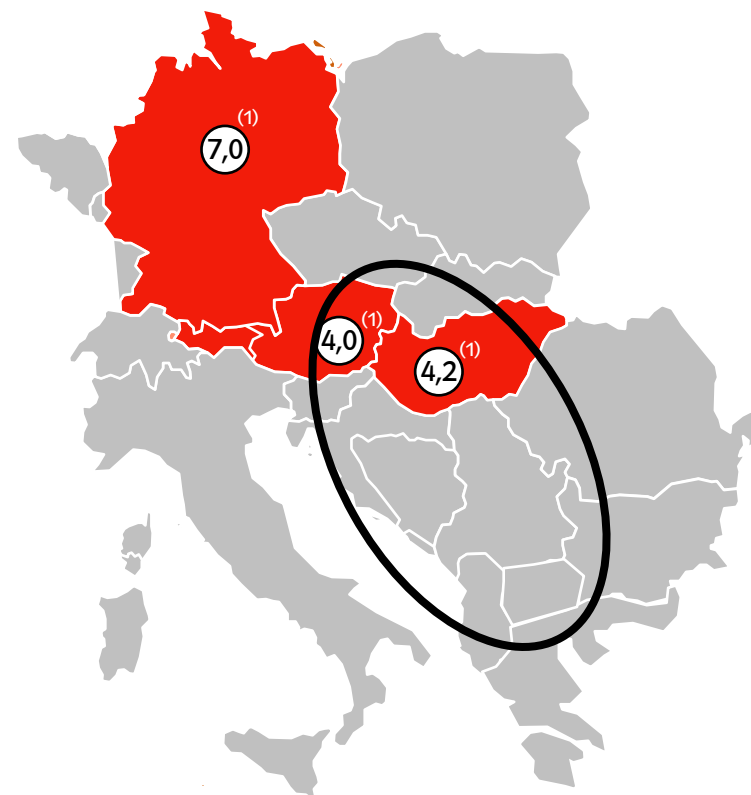
Limited storage capacities in SEE for seasonal balancing, price optimization and security of supply



(1) GSE-Publication 06/2010

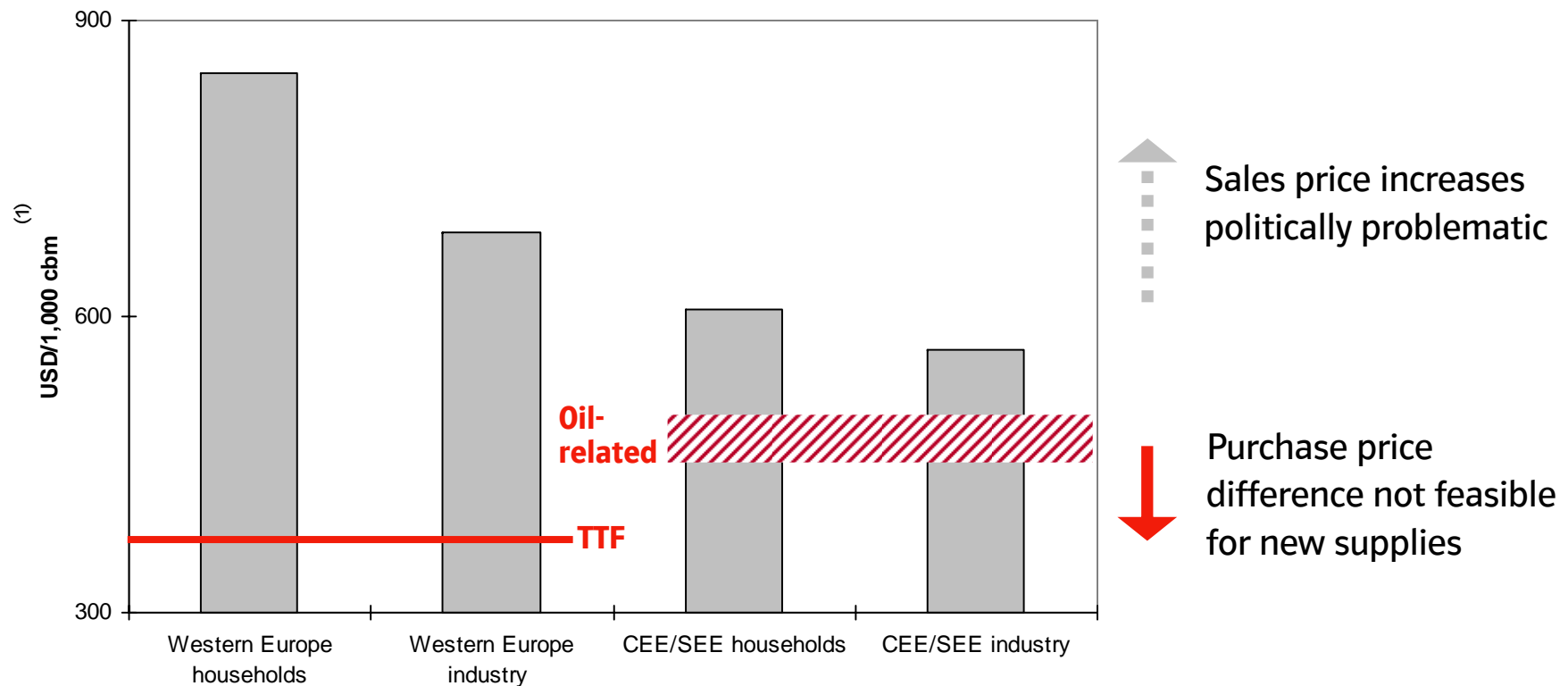
Huge existing storage capacities could be made available for SEE with limited new investments

- Build-up of new storage capacities very expensive
- Existing storage facilities in Austria, Hungary, Romania and Serbia provide total capacity of more than 150 mcm/d:
 - much more than 50 % of maximum daily demand in 2010 in the region
 - at least for Slovenia, Croatia, Rumania, Bosnia-Herzegovina and probably Greece usable without significant new investments



(1) E.ON Gas Storage Capacities in bcm

Supply and sales prices in SEE/CEE are different from western Europe

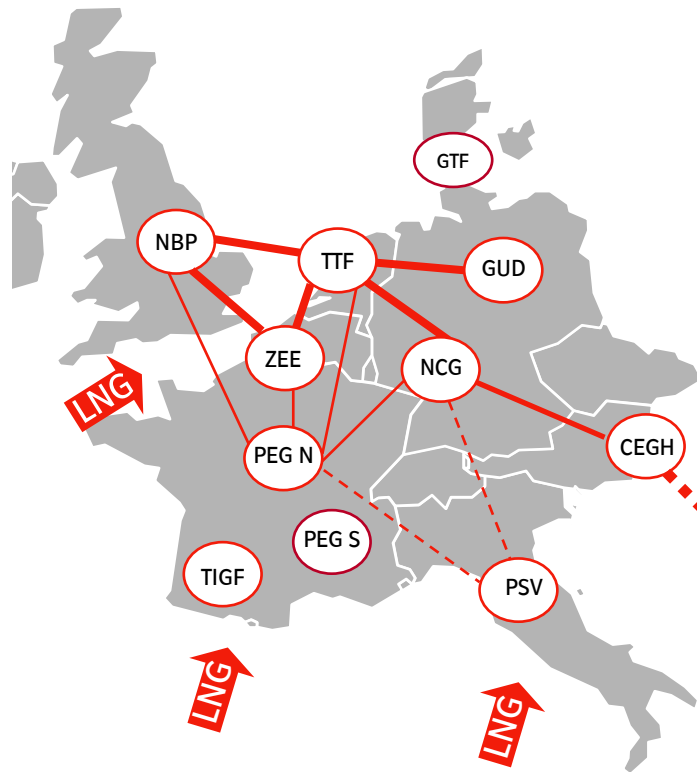


Current pricing in SEE limits competition and investments

(1) Based on prices published by Europe's Energy Portal/ICIS, converted with 11 kWh(GCV)/cbm w/o VAT



Supply prices in SEE would benefit from hub access



- NW-European hubs grow together to a single market
- High convergence between European hubs (correlation nearly 100%)
- 3rd legislative package brings additional impulse
- Transit capacities to CEE/SEE to be expanded

price influence on SEE markets

Summary

- Market opening drives competition and investments
- Market opening requires access and liberalized prices
- Strong need to protect certain customer segments in mid term
- Transition to market opening could be supported by:
 - Allowing competition/access from western hubs
 - Limiting price regulation and cross-subsidies
 - Making best use of existing regional infrastructure
- Customers & regulatory bodies should be prepared to use chances and reduce risks in open markets (analysis of demand, need of flexibility, transport regime etc.)





Thank you for your attention!

Contact

Klaus P. Luber

Head of Business Development Sales SEE / CEE

klaus.luber@eon-energie.com

