

Current Developments in the German Gas Industry*

Natural Gas Consumption

With 77.3 mtoe (86.6 billion m³), natural gas consumption in 2005 was again on the previous year's level. The share of natural gas in primary energy consumption rose slightly to 22.7 % (2004: 22.4 %), while primary energy consumption decreased on an overall level. With 9.06 °C, the average temperature was somewhat higher (by 0.05 °C) than in 2004. Adjusted for this minimum temperature effect, there would have been a slight increase of 0.3 % in natural gas consumption.

While consumption rose on a cumulated level over the first nine months, demand declined in the fourth quarter due to the weather.

As far as discernible so far, the trends in the main consumption sectors of natural gas differed:

- With a slightly higher temperature level, the natural gas consumption of private households as well as of commercial users and service providers (residential and commercial sector) is estimated to have decreased by 2 % to 3 % due to enhanced energy saving efforts and the increased use of supplementary heating.
- The use of natural gas in industrial applications rose by approx. 1.5 %. Demand was characterised by the continued strong industrial performance in important sectors of industry.
- Approx. 10 % more natural gas was used in power generation in connection with the commissioning of a number of CHP plants.

Natural Gas Supplies

Total natural gas supplies increased by 2 %. Domestic production declined by approx. 3 %, while supplies from abroad rose by approx. 3 %. Accordingly there were minor structural shifts: In 2005, 15 % of the natural gas was supplied from domestic sources (2004: 16 %) and 85 % (84 %) from imports. With a share in natural gas supplies of 34 % (2004: 35 %), Russia was again the most important supplier country. The share of Norway in German natural gas supplies rose to 25 % (24 %), while the Netherlands contributed a share of 20 % (19 %). The share of the other countries, UK/Denmark/Others, again amounted to 6 %. All in all, German natural gas supplies were again based on a broad supply portfolio in 2005.

* Updated version of the oral report given by Werner Nowak, Head of the Energy Industry Section, E.ON Ruhrgas AG, Essen

Regulation

A new legal framework came into force in Germany for the grid-based energy industry. The relevant law took effect on 13 July 2005 after being signed by the Federal President and published in the Federal Law Gazette. Ordinances on network access and charges have also come into force for gas and electricity.

The main conditions for the gas business were redefined when the revised Energy Industry Act took effect. Thus, a new network access regime was established. The main new provisions are:

- Mandatory legal and organisational unbundling of energy suppliers. But there are exemptions:
 - o Energy suppliers with fewer than 100,000 customers, unless they are controlled by a company not covered by this exemption, as defined in the EC Merger Control Regulation.
 - o However, those controlled companies do not have to carry out legal unbundling until 1 July 2007.
- Regulation of network connection and access:
 - o An entry/exit system has been introduced for network access.
 - o Network operators are obliged to engage in far-reaching cooperation.
- Charges must basically be cost-reflective. This is to be supplemented by incentive regulation which is to be introduced after a transitional period. Details are to be laid down in an ordinance drafted by the government and requiring the approval of the upper house of parliament.
- All network access charges have to be approved (transitional period for for gas: 6 months).
- For supraregional gas transmission networks, an exemption from cost-reflective charges is possible under certain circumstances. For these networks there is a notification procedure allowing market-based charges in conjunction with benchmarking. In the case of de facto competition, cost-reflective regulation may be waived for supraregional transmission pipelines.
- Establishment of a Federal regulator with ex-ante powers and supported by regulators on state-level:
 - o Network access and tariffs are now regulated by the Federal Network Agency .
 - o It is named: "**Bundesnetzagentur**" that means: Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (previously: Regulatory Authority for Telecommunications and Posts).