

Ms. Edith Übeleis
Ms. Rosita Carnevalini
ERGEG

Date:
4 September 2006

Re.: Action Plan for the South-South East Europe, Natural Gas Market

Dear Ms. Übeleis and Ms. Carnevalini,

I am writing on behalf of RWE Transgas, a.s., as a storage system operator, to comment on ERGEG's Action Plan for the South-South East Europe, Natural Gas Market.

Our comments are as follows:

Discussion Point 2:

RWE Transgas, a.s., as storage system operator, has implemented Guidelines for Good Practice for SSOs. In addition, RWE TG is active in supporting the development of an organized market for secondary storage capacity (Storex) and enables sale of gas in storage.

Discussion Point 3:

Market Opening

The Czech gas market opened for all non-household end-users from 1 January 2006, i.e., later than required by the 2nd Directive. The Czech gas market will fully open from 1 January 2007, i.e., earlier than the 2nd Directive.

Independence of the Regulatory Body

The statutory representative of the regulatory body (Chairman of ERU) is named and recalled by the Government. A higher degree of independence from the executive power would be achieved with some form of involvement by the Parliament or other bodies outside the Government.

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Zápis do obchodního rejstříku:
Městský soud v Praze,
oddíl B, vložka 7240,
dne 18. 6. 2001.

Bankovní spojení:
ČSOB, a.s., Praha 2
Číslo účtu: 516778083/0300

Discussion Point 5:

- In the Czech Republic, access to storage services is separately available.
- Storage services of SSOs operating in the Czech Republic are used by foreign parties. E.g., SPP Bohemia operates a storage connected and used exclusively for the needs of the Slovak market. Also, a German shipper recently inquired with RWE Transgas about use of Czech storages for the needs of the market outside the Czech Republic. Vice versa, German and Slovak storages were or are used for the needs of the Czech market.
- Storage is regulated except price at several levels. Firstly, the Czech regulatory body issues a license to operate storage subject to meeting various requirements. Secondly, the Czech regulatory body receives regular reports containing technical and financial (cost, depreciation and asset values) data. Thirdly, the Czech regulatory body formally does not approve storage code but RWE Transgas, a.s. consults the Czech regulatory authority on storage code. Fourthly, the Czech regulatory authority does not set storage price but it sets storage element in the price of supply (i.e., what storage costs a trader can pass on).
- Other providers of storage or flexibility services are available. Firstly, there are three storage system operators in the Czech Republic including RWE Transgas, MND, SPP Bohemia. Secondly, there are many storage system operators in countries neighboring with the Czech Republic; of these, German and Slovak operators provide or provided storage services for the needs of the Czech market. Thirdly, to a minor extend, other providers of flexibility include import contracts, production and interruptible end-users.
- No. Public service obligation is duty of traders.
- No hub formally operates in the Czech Republic. However, RWE Transgas, as storage system operator, enables title transfer of gas in storage, executes matching of nominations between storage and transmission systems, facilitates secondary market in storage capacity by operating a bulletin board, and offers unbundled and interruptible storage products.

Discussion Point 6:

Interoperability issues between storage and transmission systems in the Czech Republic do not hinder competition. There is an interconnection agreement between RWE Transgas as storage system operator and the transmission system operator which includes also OBA provisions.

Some Preliminary Conclusions, page 13:

The needs of the Czech market are met by a combination of storage operated by RWE Transgas, other storage operators in the Czech Republic and storages operated abroad. RWE Transgas as storage system operator offers third party access to storage and implemented Guidelines for Good Practice for Storage System Operators.

Rather than regulation of storage access or price, the issue to address is if needs of the Czech market should continue to be met by storages operated abroad or if more storage capacity is desired in the country.

From 2006, RWE Transgas increased its available storage capacity but registered limited interest from shippers. This could be partly due to the regulated end-user gas prices which provide little margin potential for suppliers. RWE Transgas also considers investments into building additional storage capacity but inappropriate storage price regulation may deter such investments in the Czech Republic.

Your reference to the increased “market price” in the Czech Republic should be read in the context of increasing commodity prices in the same period and should be separated from capacity price discussions.

Discussion Point 9:

Yes.

Discussion Point 11:

The existing Guidelines for Good Practice for Storage System Operators should be sufficient for transparency and information management. These guidelines have also been largely implemented by SSOs.

I look forward to our continued cooperation.

Best regards,

Lubor Veleba
Senior Manager, Storage Sales
Storage System Operator