

Briefing for Director-General Juul Jørgensen

Meeting with László Varró of SHELL

Contact Point: [REDACTED] (ENER.TF1, [REDACTED])

SCENE SETTER

| | |
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| Who | <p>You will meet László Varró, Shell's Vice President Global Business Environment. The meeting was requested by László [REDACTED] @shell.com), as he offered his assistance to deal with the current situation.</p> <p>[REDACTED]</p> |
| When | 29 November 2022 11.30-12.00 |
| Where | Your office |
| Objectives | <p>[REDACTED]</p> <p><i>Explain the development on the Energy platform, and the development of the Energy Platform Industry Advisory Group</i></p> <ul style="list-style-type: none"> • <i>László could provide his private views on what and how could work under demand aggregation / joint purchasing and also highlight risks. Equally for short term and long term role of the platform to support investments (both in LNG or H2)</i> |

KEY MESSAGES

[EU Energy Platform]

- The EU Energy Platform has been setup, with the agreement and support of all Member States, as a cornerstone of our strategy to diversify away from Russian fossil fuels and to improve security of supply ahead of next winter, but also beyond.
- The objectives of the platform are articulated around, first, the aggregation of gas demand for joint purchase, second, the optimisation of gas infrastructure in the EU and, finally, the coordinated outreach to international partners.
- Turning first to coordinated outreach, it is our strong belief that establishing long-term cooperation and partnership with our trade partners is essential to support the delivery of gas, and later hydrogen, to the EU.
- To this end, we have engaged significant efforts, namely in the context of the EU-US Energy Security Taskforce.
- We have also signed a tri-lateral Memorandum of Understanding between Israel, Egypt and the EU on cooperation related to trade, transport and export of natural gas to the EU. There was also an MoU signed by President von der Leyen and Commissioner Simson with Azerbaijan and we are working on more.
- We have also established a taskforce with Norway, our largest gas supplier, in order to jointly define measures that can contribute to the stabilisation of the gas markets.
- When it comes to the optimisation of the infrastructure and supply at regional level, Regional Groups are a promising forum to work together on defining and implementing measures in the immediate and short-term to support diversification and security of supply at regional level.

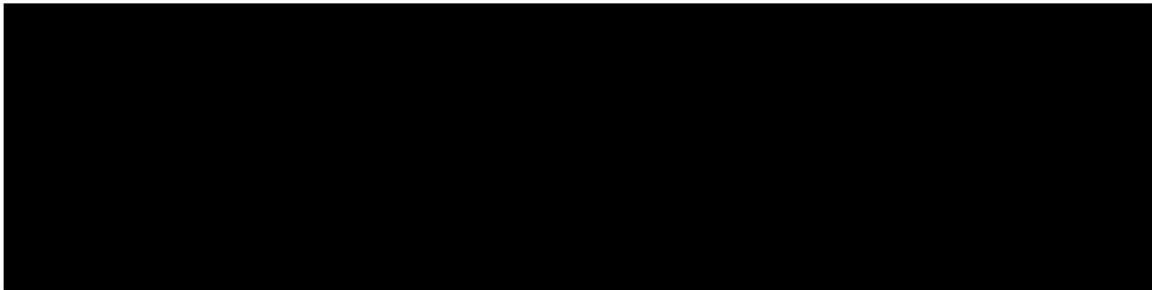
- We have established five Regional Groups in that respect: South East Europe as the first one triggered by Bulgaria, Central-Eastern Europe, South West and North East Europe, and Baltics with Finland.
- These Groups are responsible to implement short-term measures improving security of supply that are aggregated into very actionable action plans.

[Demand aggregation and joint purchase]

- Finally, progress has been achieved in relation to demand aggregation and joint purchase
- Our aim in that respect is to make optimal use of the collective political and market weight of the European Union and its Member States to dampen prices in negotiations.
- In addition, it shall help us to avoid a scenario where Member States are again outbidding each other on world markets and driving prices up for Europe.
- Joint purchasing will strengthen our access to new or additional gas sources across EU Member States.
- The EU, considered as a whole, is the first importer of natural gas globally. Our companies have demonstrated impeccable reliability and ability to pay (even high prices). This is why many producers want to conclude deals with our companies and we should leverage this collectively in order to attract the most competitive supply offers through joint purchasing. Small players and players in landlocked countries could benefit most.
- We have intensively worked on the means to operationalise demand aggregation and joint purchase of gas by companies. Various models have been presented and discussed with Member States.
- Options range from joint tendering by companies to a gas purchasing agent (we understand from companies that the joint

venture option is not much supported as realistic due to its complexity). The final selection and settings would be defined in cooperation with the companies willing to participate.

- The Industry Advisory Group, composed of companies willing to participate to joint purchasing, is expected to provide the Commission with the necessary industrial perspective in order to define the most relevant mechanisms that can be used by companies to jointly purchase gas. The first meeting took place 26 October, the second on 18 November 2022. Shell is an observer.



[Joint tendering as most rapid implementation option]

- Among the various mechanisms previously discussed, the Joint Tendering process will deliver tangible results in the short term.
- There is an indirect role of the mechanism in relation to supporting storage filling and management ahead of the next filling season.
- The legal proposal from the Commission that has been adopted on 18 October is laying the ground for the launch of joint tendering facilitated by the Commission.
- There is considerable time pressure for this tool to be ready no later than in early spring 2023, and in particular ahead of the next storage filling season.
- The process consists of two steps: first, demand aggregation of natural gas; second, possible joint purchasing under the Energy Platform:

- **Demand aggregation** - gas purchasing companies would voluntarily aggregate their demand using through a electronic portal. As part of the demand aggregation, Member States would have to require that volumes equivalent to at least 15% (around 13.5 bcm for the EU as a whole) of their storage filling requirements for next year. The rest is purely on voluntary basis.
- **Tendering and purchase** - companies that have participated in the demand aggregation process described above may decide to enter into contracts with the suppliers that have offered gas under this process. They could decide to form a gas purchasing consortium for that purpose. Respect of competition rules would have to be ensured.
- [In the context of the Industry Advisory Group where Shell is observer, we will work with companies to define most suited joint tendering process where companies will be allowed to submit gas demand they would like to jointly procure. The demand will be aggregated on a secure platform and tendered. Bidders will be able to submit their bid through the electronic platform. Contracting would follow.
- Provided that EU gas buyers are willing to participate and implement the mechanism, we see a major role for companies such as Shell to participate as bidders.]

DEFENSIVES

How will the Platform work? Will it actually buy gas?

The process starts with identifying the demand for gas to be bought jointly – this is a voluntary scheme. After that, the EU Energy Platform would facilitate the process of matching this demand with supply either via a dedicated electronic platform or through dedicated joint ventures. The direct advantage of it is avoiding intra-EU competition and avoiding increasing prices even more. Through allowing companies to cooperate – in strict respect of competition rules, we should also see a stronger negotiation position on the European side. It would also make it simpler for suppliers. All this process will be accompanied by intense diplomatic efforts that have already started.

The suppliers will only agree to long-term contracts, but this is not in line with the Green Deal. How will you reconcile that? Would that mean paying more expensive (spot) prices?

Indeed, some suppliers are interested in longer contracts. Some of such contracts would certainly not go against our Green Deal objectives as we are talking about substitution of volumes: gas from other sources would replace Russian gas, of which the EU imported over 150bcm in 2021. Also, in our analysis for the Fit for 55 package we foresee some fossil gas consumption in the EU even in the 2030s.

What is the added value of this platform if the Member States are making deals on their own?

Most importantly, the EU Energy Platform, while voluntary, allows to avoid intra-EU competition, which would only bring prices higher for everyone. Moreover, the scheme reflects the principle of solidarity, whereby smaller EU MS would benefit from coordinated efforts on a market that may be new to them. We will also be advocating for some of those recently contracted volumes to be made available to the Platform, so re-sold, if possible. Finally, through increased transparency and optimal access to infrastructure, we would allow for the most efficient use of the gas network of the continent.

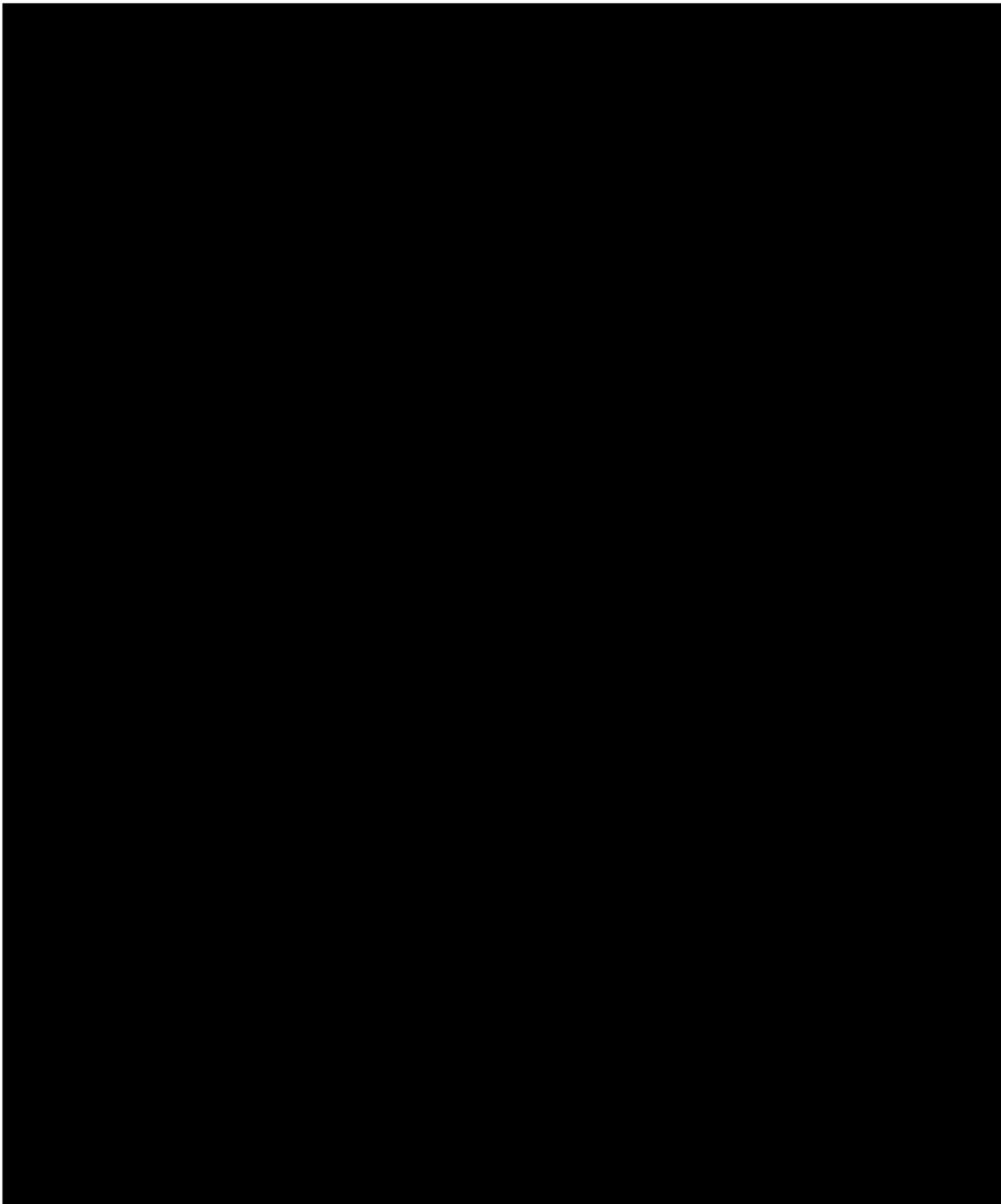
How many Member States are interested in participating in joint purchases?

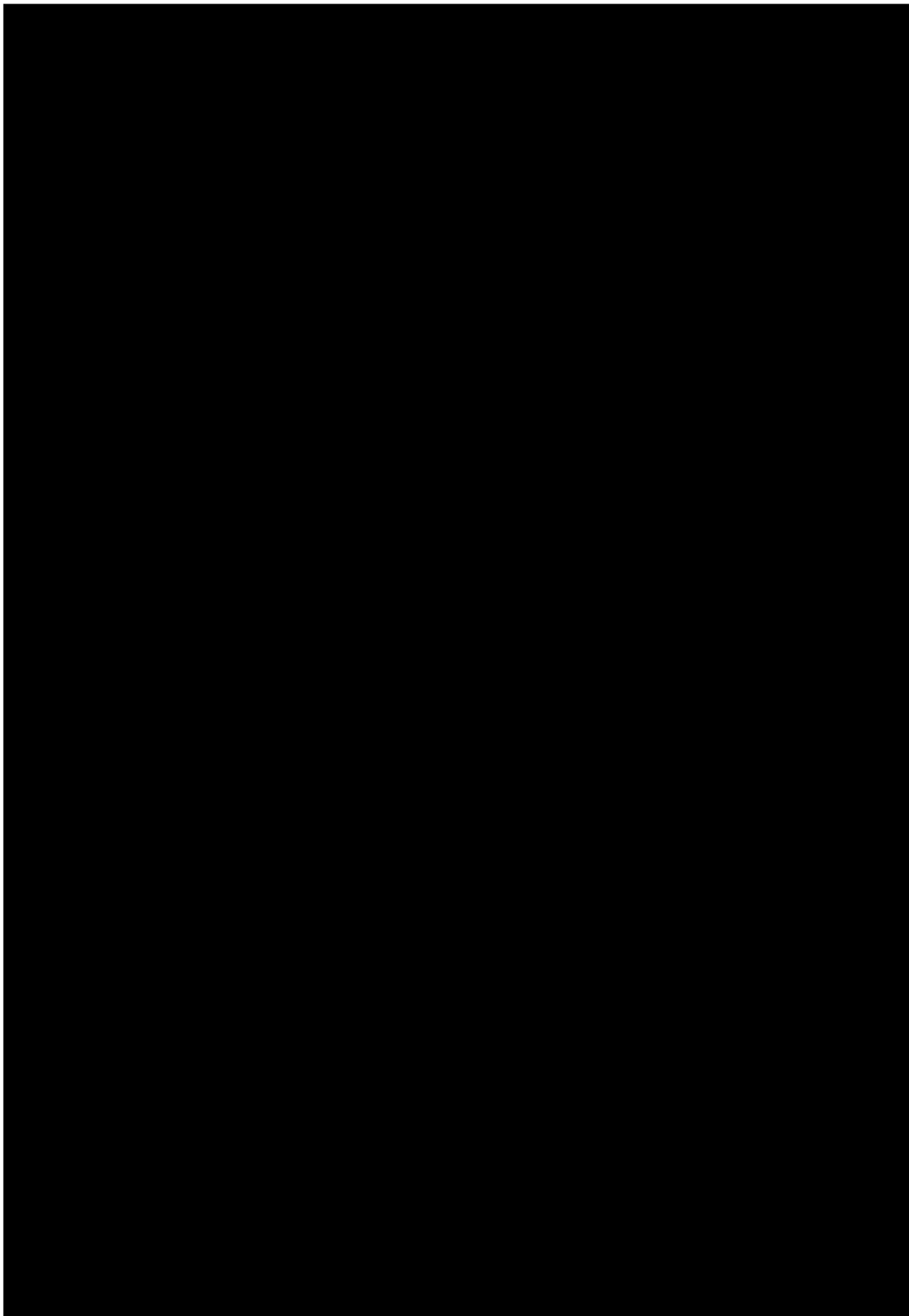
The scheme is open to all of them and we are waiting for expressions of interest. So far most – if not all, EU MS indicated initial interest. Once we discuss further details of the functioning of the Platform with them we should see clear stance from them.

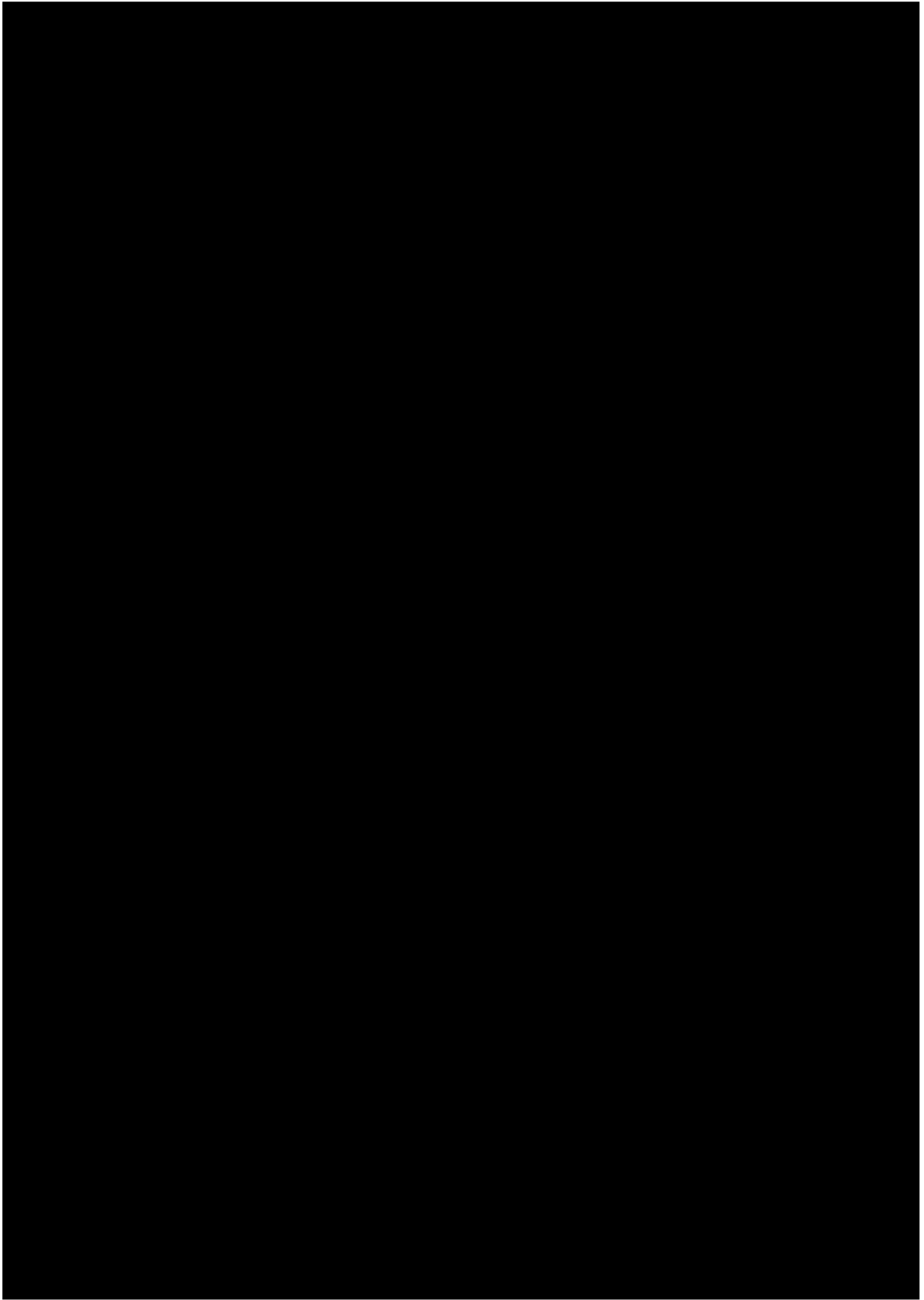
How much will you reduce the dependency by the end of this year? Why are you no longer talking about 2/3 reduction by the end of 2022?

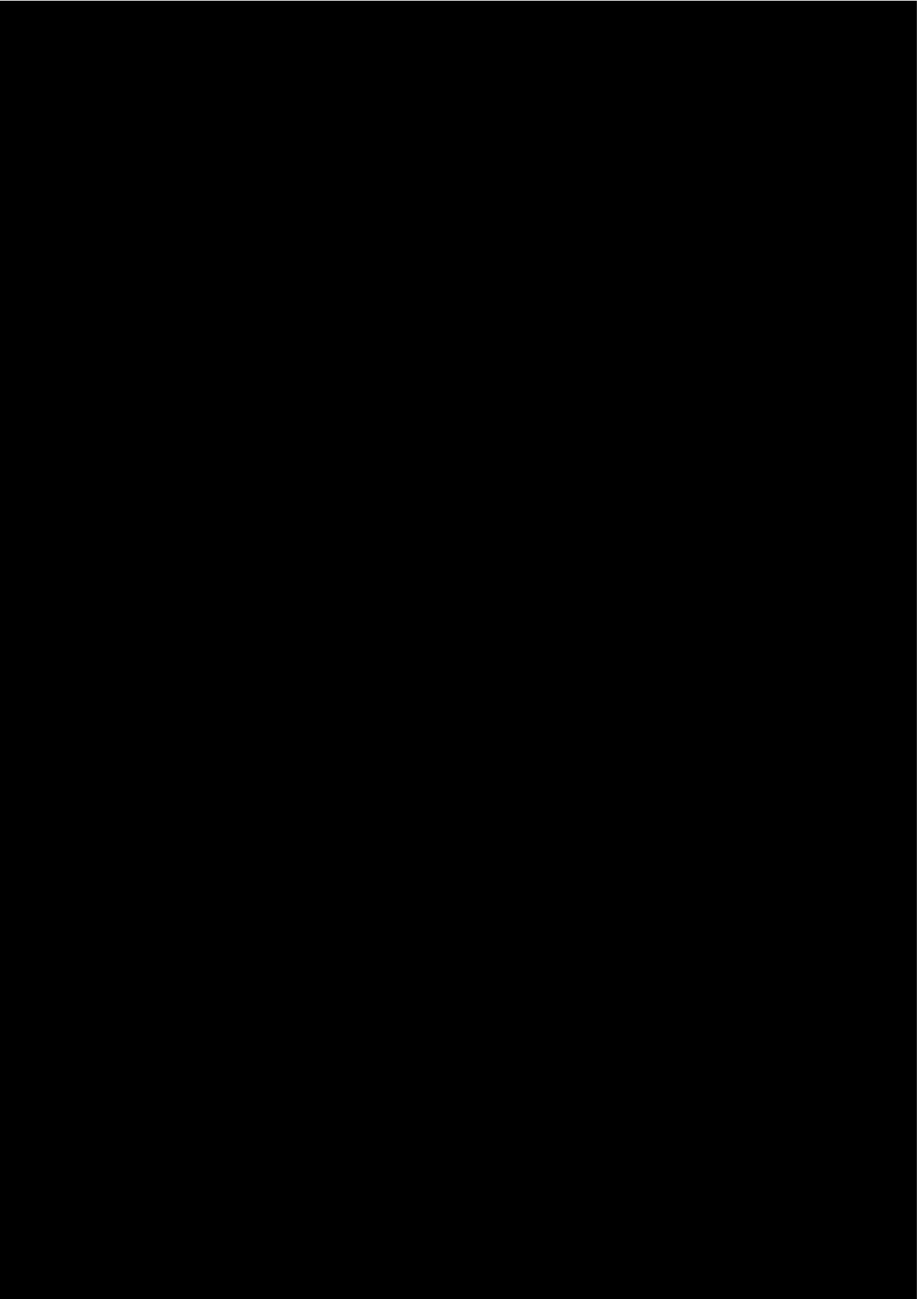
The total figure will be the result of an incremental steps: contracts' expiration, lower levels of offtake under contracts and possibly more only if strong political decisions are taken. Importantly, a reduction of demand, due to energy efficiency, behavioural changes, renewable deployment, etc. will drive this process.

BACKGROUND











Joint Purchasing Options

Following the request of the European Council¹ the Commission is assessing the opportunity to develop a 'joint purchasing mechanism' (JPM). The aim of the JPM is to provide a framework for participating members to negotiate and contract the aggregated gas demand. The expectation is that through pulling their demand, the participants would be able to achieve better conditions with gas suppliers. In addition,

by replacing Russian gas supplies, JPM should support wider diversification efforts. Participation in JPM should be voluntary. It should be open to participants from the Union, Western Balkans and the three associated Eastern Partners. It should be financially viable and limit any potential negative impact on competition. In the longer term, beyond natural gas it should also cover hydrogen.

It should be noted that JPM is one pillar of a wider initiative, the EU Energy Platform, which the Commission and Member States have set up earlier this year². Next to facilitating the organisation of joint purchasing, the EU Energy Platform is also helping the EU's gas infrastructure to better absorb increased Liquefied Natural Gas imports and is coordinating international outreach to new gas markets and partners. The EU Energy Platform is also used to better coordinate Member States' and Union action to address security of supply related concerns following the recent reduction of Russian gas flows to the EU.

1. JOINT PURCHASING TOOLS

Our approach is to enable joint purchasing options to cater for different situations, both in the short term, as well as for longer-term needs. We have identified three possible options to organize joint purchasing. None of them are necessarily mutually exclusive.

Option A: Joint Gas Tendering

Under this model, a platform would be created to aggregate the demand which will then be tendered out with a view to matching it with bids from gas suppliers. The operation of this platform could be entrusted to an entity which would be selected in an open process. It will have an EU or regional scope and will be capable of administering the operation with the necessary technical expertise.

Prospective gas purchasing companies will have the possibility to indicate to the platform the gas volumes they are willing to purchase through joint tendering. They will be asked to specify elements such as the volumes (level and variations), the location/delivery point and the timing/duration. The platform will aggregate the demand from all interested gas purchasing companies. Auctions will then be organised through the platform allowing gas suppliers to submit bids for the aggregated gas volumes indicated by the importers. At the end of the allocation process, the importers will individually enter into supply agreements with the winning tenderer.

Under this option the Commission will act as a facilitator and arranger. It will identify the interested companies / Member States, help setting up a tool to aggregate the volumes, organize expertise for putting together tender documentations, etc. The Commission or the EU will not become party to the transactions resulting from the joint tendering mechanism.

Option B: Gas Purchase Joint Venture (JV)

The gas purchasing mechanism could also be organized more formally as a Joint Venture. Under this option the European Commission will facilitate setting up of a JV as a separate legal entity, in which EU gas companies, who would like to purchase gas

jointly, will hold shares. It will be responsible for joint gas purchase and re-distribution of these volumes to final purchasers, which could be their own gas supply subsidiaries or third companies. The JV will be a “fully-functioning” company with its own balance sheet, which will have to be capitalised through its shareholders. It might well need to be able to take on substantial financial obligations, namely in the context of the take-or-pay obligations under the new Gas Supply and Purchase Agreements (GSPAs). The JV will, in principle, be open to entry of new participants.

There are several ways this could work. For instance, the JV could enter in negotiations and sign GSPAs with gas suppliers in order to match the volume, demand profile and timing of the aggregated gas demand from the final purchasers (own gas supply subsidiaries or third companies or countries). Under this option, the shareholder rights to purchase gas from the JV will be assigned on a pro-rata of each company's level of equity interest in the JV. To manage this, the JV will then enter in downstream gas supply contracts with its shareholders³.

Tool C: Gas Purchasing Agents

Some downstream gas suppliers may not have sufficient demand or financial strength to either buy enough gas on their own or even to be part of a purchasing joint venture. In this case, the Commission would take steps to enable other entities to act on their behalf as entrusted entities (Gas Purchasing Agents) which would purchase gas on behalf of its customers.

Such an entity could be one of the large gas suppliers. The advantage for this type of entities to act as Gas Purchasing Agents would be to increase their own purchasing volumes, while the smaller companies could benefit from the negotiation power of the Gas Purchasing Agent.

The Gas Purchasing Agent would enter in negotiations and sign GSPAs with upstream gas suppliers in order to match the volume, profile and timing of the aggregated gas demand of their customers. As a further variant, a Gas Purchasing Agent could participate in a Joint Venture on behalf of smaller companies or participate in a joint tender.

Joint tendering under the legal proposal

This proposal addresses these urgent issues by developing a temporary joint purchasing tool, in line with the request from Member States¹. There is considerable time pressure for this tool to be ready no later than in early spring 2023, and in particular ahead of the next storage filling season. Bearing this in mind, it is proposed to move quickly to establish the central tenets of joint purchasing under Article 122 as soon as possible, and therefore a number of these elements should apply on a provisional basis.

¹ As foreseen by the European Council [ref conclusions], participation in the Energy Platform should also be open to Energy Community Contracting Parties.

The proposal for joint purchasing establishes a process consisting of two steps: first, demand aggregation of natural gas; second, possible joint purchasing under the Energy Platform.

(i) First step: Demand aggregation

In the first step, gas purchasing companies would aggregate their demand using a service provider organising this process, contracted through a public procurement procedure by the Commission for this purpose. Companies can submit their demand for gas (in terms of volume, delivery time, duration and place) to the service provider via an IT tool to collect this data. The service provider would publish these data, with appropriate protection of confidential information, on its website, seeking offers through a public tender process for volumes of natural gas that meet the aggregated demand. This step would be voluntary except that – given the importance of storage filling – Member States would have to require that volumes equivalent to at least 15% (around 13.5 bcm for the EU as a whole) of their storage filling requirements for next year were included by their companies in the demand aggregation process.² The companies which participated in demand aggregation under a mandatory obligation could still decide whether to actually purchase the gas or not after the aggregation process. Further, the gas purchased does not necessarily need to be used for storage filling.

Given the importance of storage filling in the coming year in particular, this mechanism to jointly purchase gas would benefit from market leverage from joint purchasing and help ease the uncertainties and abnormally high prices seen in the last filling season this year.

Given the need for urgency, the service provider should be an existing company with detailed knowledge of energy markets and appropriate IT tools and expertise to perform these tasks. The joint purchasing is open to participation of companies from Energy Community Contracting Parties (Western Balkan, Ukraine, Moldova and Georgia).

(ii) Second step: Coordinated gas purchasing

In a second step, companies that have participated in the demand aggregation process described above may decide to form a gas purchasing consortium in order to enter into contracts with the suppliers that have offered gas under this process. They could thereby decide to purchase the gas on a joint basis, and coordinate elements of their positions such as volumes, prices, delivery points and time of delivery. A single gas purchasing consortium with strong buying power increases the likelihood of achieving better prices, but more than one gas purchasing consortium could emerge, given the very different demand pattern of undertakings across the EU. Respect of competition rules would have to be ensured (see “Consistency with other EU policies” below).

(iii) Ad hoc governance arrangements

² The storage filling target is 90% for countries with underground storage facilities; for other Member States an equivalent obligation is applied for the winter 2023/24.

The aforementioned measures should be accompanied by an adequate governance structure to ensure effective coordination to meet the objectives. Therefore, a Steering Board should be established on an ad hoc basis, composed of representatives of the Commission and Member States, to oversee both the process of (a) demand aggregation and (b) coordinated gas purchasing. The Steering Board can ensure transparency in the process and provide guidance so as to ensure that joint purchasing effectively respects security of supply and the principle of energy solidarity.

The proposal is carefully balanced and respects the principle of proportionality. There are certain necessary mandatory elements – for example on pooling of demand for the filling-in of gas storages – but these in no way constrain the freedom of undertakings to decide on whether to buy or not depending on the conditions that are offered through the demand aggregation process. The objective of joint purchasing is to support EU undertakings in their efforts to obtain additional gas and help to ensure more equal access to new or additional gas sources in the face of the current acute threat to the security of supplies. In addition, the proposal addresses the strong interest in a number of Member States to be able to operate in gas purchasing consortiums, subject to the relevant competition considerations.

In particular, as described, the tendering of aggregated demand for gas by the Service Provider could play a pivotal role in helping Member States to fill gas storages for the winter 2023/2024. Indeed, it could also therefore strengthen EU solidarity by helping ensure the fairer distribution of gas. Aggregation of demand and joint purchasing could also reduce the risk for individual gas undertakings in some Member States of overpaying for gas contracted on tight short term markets. It could also help smaller EU undertakings, including in landlocked countries that do not have the necessary experience in contracting LNG, to be able to pool their demand to contract LNG cargoes (which may be too large for individual undertakings to handle all at once), and also help them to structure LNG supply according to their particular needs. Joint purchasing could support particularly those undertakings that were previously purchasing gas only or mainly from Russian suppliers. Joint purchasing could grant a preferential treatment or support to supply of renewable gases such as biomethane and hydrogen, and to gas which would otherwise be vented or flared. Undertakings concluding contracts pursuant to this Regulation should be encouraged to use the UN Oil and Gas Methane Partnership 2.0 Standard to measure, report and verify methane emissions along the supply chain to the European Union. Finally, joint purchasing in the future could strengthen the potential for renewable energy supplies in helping to ensure access to future imports of hydrogen from non-EU sources.

(end)

ANNEX - CV - László Varró

Vice President Global Business Environment, Shell



László Varró recently joined Shell as Vice President Global Business Environment. He worked for the IEA for the last decade. He became the Agency's Chief Economist at the start of 2016, succeeding Fatih Birol, who took over as IEA Executive Director. As Chief Economist he supported all Directors and teams at the IEA in ensuring consistent energy economics and analytical rigour for the Agency's work. Before assuming the position of Chief Economist, Mr Varró served as IEA Head of Gas, Coal and Power Markets.

Before joining IEA he has worked for Hungarian oil and gas major MOL Group as Chief Economist and from 2008 as Director for Strategy Development. From 2000 to 2005, Mr Varró was the Head of Price Regulation at the Hungarian Energy Office where his main projects were unbundling and network tariff setting, the introduction of the first feed-in tariffs for renewables in Hungary as well as restructuring power purchase agreements during market liberalisation.