

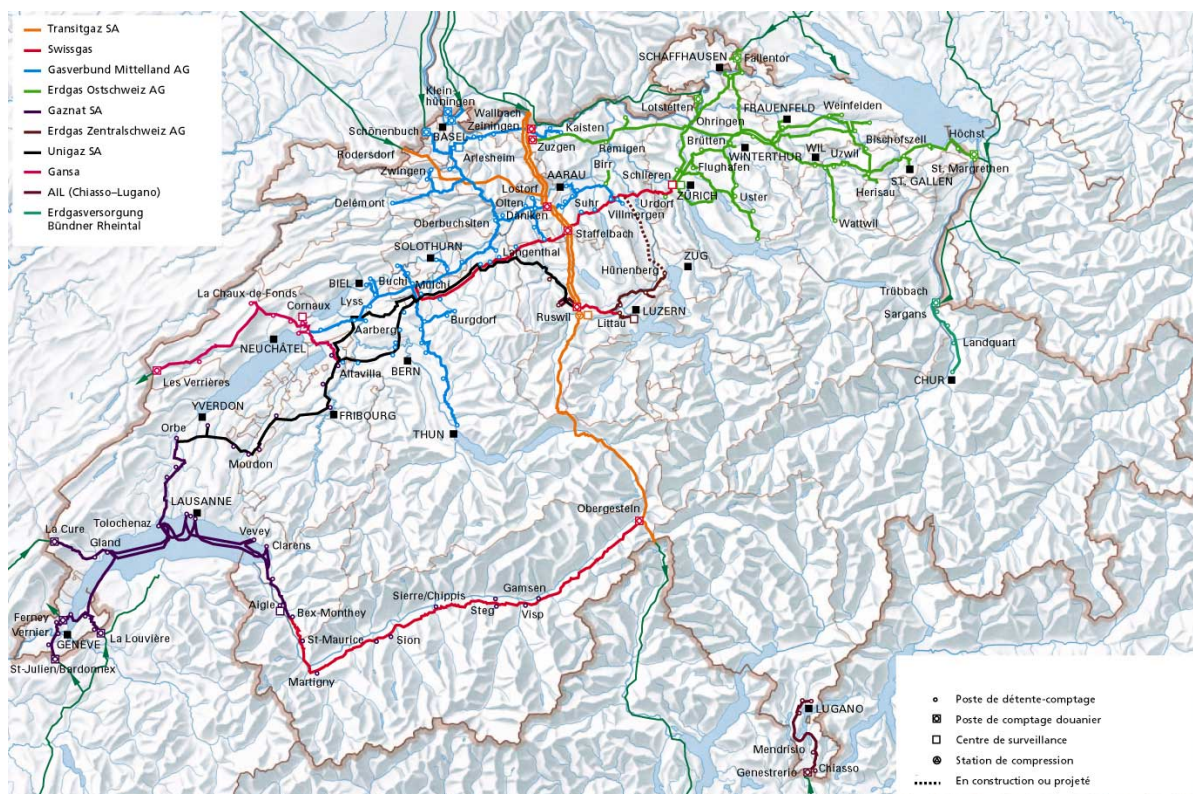


July 29, 2005

Market structure in Switzerland

Natural gas is not at present produced in Switzerland, but is obtained from abroad via underground pipelines. The largest importer is Swissgas AG, which has a market share of around 75%. The remaining 25% is imported through the regional associations Gasverbund Mittelland AG, Erdgas Ostschweiz AG and Gaznat SA. Almost all the natural gas supplied by Swissgas AG is sold to these three regional associations and the regional association Ergas Zentralschweiz AG, which then supply the local gas utilities.

In Switzerland there are at present about 100 gas utilities of greatly varying size. The seven largest gas utilities cover 50%, the 42 smallest 10%, of all natural gas sold in Switzerland.



Contrary to the situation in many other countries, the Swiss natural gas industry is characterised by pluralistic and decentralised structures. These grew up over many decades and is well adapted to the country's political and economic circumstances. Developments began with the advent of the municipal gasworks in the second half of the last century, which initially produced town gas from coal. The use of coal as raw material was gradually substituted by petroleum derivatives, and finally, town gas was



replaced by natural gas. Imports of natural gas commenced in the mid 1970s. The gasworks have always been an integral part of the decentralised, community-based, infrastructure.

The majority of Swiss gas utilities are in public ownership. Construction of the expensive natural gas infrastructure - a long-term undertaking - was carried through mainly by the municipalities, and these shouldered the entrepreneurial risks. To exploit synergies and provide a more competitive service, numerous mixed-mode undertakings supplying natural gas, water, electricity and district heating were established. There also exist a number of utilities supplying gas alone.

The amalgamation of local utilities to form regional associations is a special feature of the Swiss natural gas industry. In this, the partners are at once shareholders and owners. The regional associations purchase natural gas from the suppliers to satisfy the needs of their partners. The objective is to secure a long-term and reliable supply of natural gas at reasonable prices. The regional associations are non profit-making organisations. Stable relations between regional associations and their partners are essential to ensure reliable, long-term, supplies of natural gas.

In the view of the gas industry, the utilities are not able to exercise full commercial freedom, since they have an overriding duty to contribute to the diversification of the energy supply and must fulfil various public service functions. These include the obligation to provide customers with an uninterrupted supply of gas - unless of course agreed otherwise between the parties, for example in the case of 'interruptible' gas supplies. Where the obligation to provide an uninterrupted supply does exist, it is always associated with higher costs. In this connection, the tariff solidarity shown towards all customer groups and the evening-out of distribution and transport costs in a particular area all go to show that in the gas industry, the solidarity principle takes priority over pure cost considerations. A common feature of these principles is that they limit the scope for liberalisation - or, where markets have already been liberalised - must be enforced by special legislation.