

## EPH on the verge of taking control of the Slovak gas operator

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On 19 September the Slovak economy minister presented a draft agreement between shareholders of the country's gas operator - Slovensky plynarensky priemysel (SPP). The agreement is to enter into force after changes in the ownership in the company. The draft agreement specifies relations between the state (which holds 51% of shares in SPP) and the future co-owner of SPP – the Czech-Slovak company Energeticky a prumyslový holding (EPH). EPH is planning to buy Slovak Gas Holding from E.ON Ruhrgas and GDF Suez, Slovak Gas Holding holds 49% of shares in SPP and has managerial control over the company. SPP's key asset is the company Eustream which manages the Slovak section of the Bratrstvo gas pipeline, which supplies the bulk of Russian gas to the EU market. Two weeks ago Eustream purchased 15% of shares in the Central European Gas Hub in Baumgarten. Furthermore, the company is participating in the project of the construction of the North-South gas corridor, where a Polish-Slovak connector is also planned. The media also announced that talks between Slovakia and Ukraine are underway concerning the possibility of reverse flow on Bratrstvo gas pipeline which would allow to transport gas from Slovakia to Ukraine.

### Commentary

- Although the agreement negotiated by the Slovak Economy Ministry and EPH has not yet been approved by the government, it is quite unlikely that its final version will be much changed. Prime Minister Robert Fico positively assessed the agreement. He ordered an analysis of the process of the state taking over the entirety of shares in SPP only for formal reasons. As he pointed out, there are no funds in the state budget for this transaction. The agreement, when concluded, will provide the state with the possibility to block increases in gas prices for households and will specify the regulations concerning the payment of dividends while taking into account the necessity to consolidate the Slovak budget.
- The chances of SPP being developed can be linked to EPH's plans of expansion into the region's energy market. EPH has committed itself to expand its business activities in the area of transmission, storage and gas supplies in the territory of the Visegrad Group states and in Ukraine by means of SPP. This, however, does not apply to EPH's possible takeover of the Czech gas transmission company Net4Gas from Germany's RWE.

Nevertheless, EPH has declared that in case it buys Net4Gas it will make it possible for SPP to purchase 30-40% of the shares of the Czech operator on preferential terms. This commitment will probably encourage the Slovak government to lobby for EPH to buy Net4Gas.

- The fact that EPH is to take control of SPP will improve the Czech-Slovak holding's credibility on the Central European energy market. EPH, whose main shareholder is the richest Czech businessman Petr Kellner, will look for further opportunities to develop on the energy market, above all in Poland (at present EPH is the owner of PG Silesia), Germany (the company is the co-owner of the MIBRAG mine), the Czech Republic (EPH is the largest producer of heating there) and Slovakia.
- The changes in the ownership of SPP will probably put an end to disputes among SPP shareholders concerning the regulations on retail gas prices. It may be expected that good relations between the ruling party Smer-SD and Slovak business people from the J&T capital group (the co-owner of EPH) will enable the government to slow down the increase of gas prices in exchange for concessions made to EPH shareholders by the state in other areas.