

CEER

**Council of European
Energy Regulators**



**LNG & storage public consultation
as part of the SoS discussion
on EU level**

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Co-Chair WS2 GAC
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SoS papers

- Consultations of the EU Commission

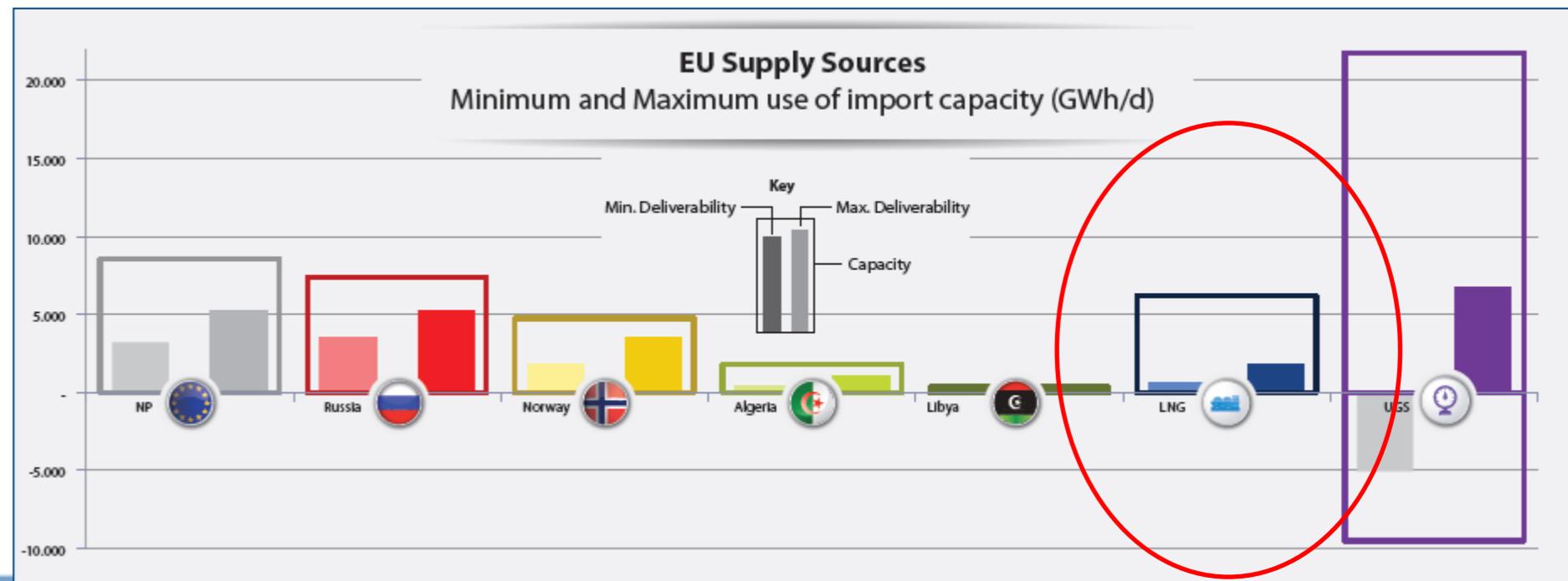
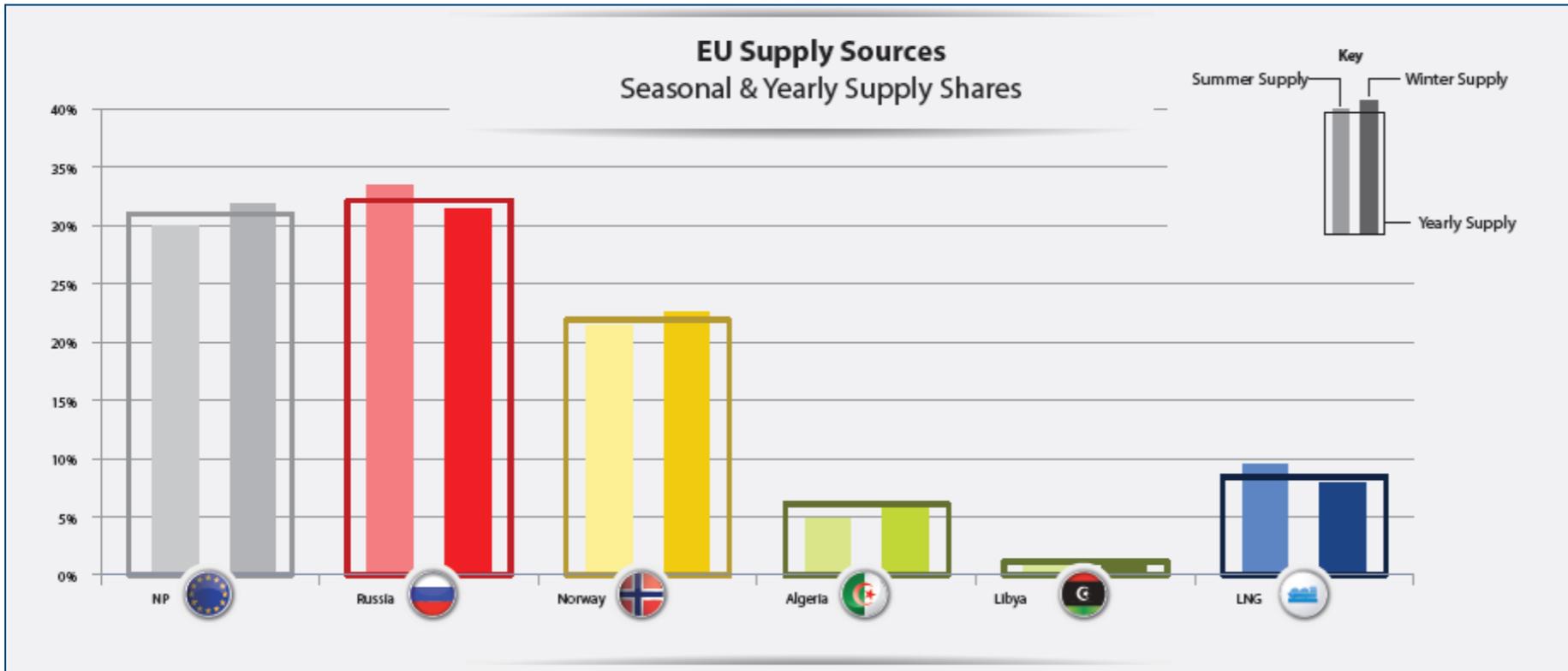
- ▶ Consultation on the Revision of Regulation (EU) No 994/2010 concerning measures to safeguard security of gas supply
 - Ended on 8 April 2015
 - Results are published:
<https://ec.europa.eu/energy/en/consultations/consultation-revision-regulation-eu-no-9942010-concerning-measures-safeguard-security>
 - Based on the responses and on further reflections and engagement with Member States and stakeholders EU Commission will consider which additional measures are needed including in the form of legislative amendments
- ▶ Consultation on an EU strategy for liquefied natural gas and gas storage
 - 8 July 2015 to 30 September 2015
 - <https://ec.europa.eu/energy/en/consultations/consultation-eu-strategy-liquefied-natural-gas-and-gas-storage>

- CEER Papers

- ▶ Response to Consultation on the Revision of Regulation (EU) No 994/2010 concerning measures to safeguard security of gas supply
 - http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Gas/2015/C15-GWG-118-03_EC_SoS_consultation_CEER_final_150407.pdf
- ▶ SoS Concept Paper
 - Will be published soon



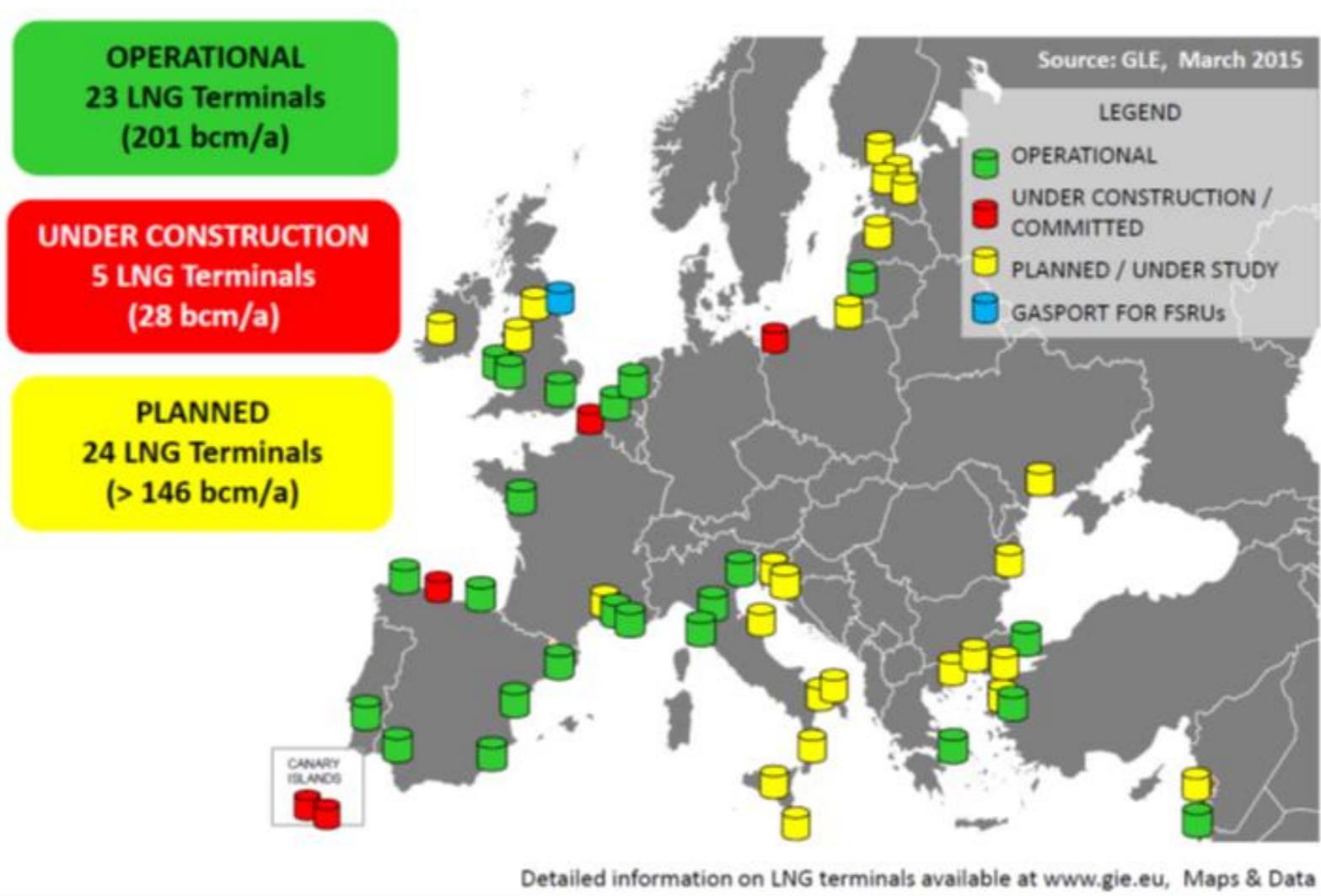
Potential of LNG supplies to Europe



Source: Entso-g, System development
Map 2015

LNG in the EU today

- LNG import capacity 201 bcm/a
 - ▶ Most of the existing LNG import capacity located in Spain, Portugal, France and UK
 - ▶ Projects mostly located in Southern Europe and Baltic States
- In 2013 utilisation rate of 24%



Key topics for the public consultation on LNG and storage (1)

- How to use effectively and efficiently the potential of the LNG market for SoS in the EU?
 - ▶ Need for access for all Member States to LNG either directly or through other member states?
 - ▶ Important role of infrastructure
 - project of common interest should address the connection of LNG facilities into the European network
 - Bottleneck between Spain and France hinders use of LNG facilities in Spain
 - Supporting new LNG terminals and interconnections in the Central East South Gas Connectivity initiative (CESEC)
 - BEMIP initiative
 - ▶ Identification of the most critical regulatory and commercial barriers to the optimal use of and access to LNG
 - Lack of transparency on the booking and use of existing LNG sites
 - Regulatory provision which cut the use of LNG like strict storage obligations for importers
 - Administrative burdens (licensing conditions)
 - ▶ Functioning of the international LNG market
 - Making the EU market more attractive for LNG trader





Key topics for the public consultation on LNG and storage (2)

- How can the storage market support the role of LNG in SoS?
 - ▶ Need of further storage capacity to optimise the network's operation with increasing interconnection and increasing LNG supplies
 - ▶ How can market based instruments ensure adequate minimum reserves?
 - Role of the balancing regimes
 - ▶ Or do we need a emergency gas stock to deal with supply disruptions and unforeseen events?
 - ▶ Identification of the most critical regulatory and commercial barriers to the optimal use of and access to a regional storage usage
 - ▶ Challenges of different supply projections (increasing use of LNG, new routes for pipeline gas) for the gas storage business
 - Risk of stranded assets?



CEER's view on SoS





Concept paper CEER on SoS

- Regarding LNG, the prevention phase covers two main aspects:
 - ▶ the EU's ability to attract LNG when needed (third party access to infrastructure, contracts, levels and types of infrastructure, market dynamics),
 - ▶ the possibility to transport it to adjacent gas markets or remote areas. There is currently a potential mismatch between the location of potential LNG demand in times of crisis and the location of EU regasification capacities.
- To ensure security of supply, whether in normal operation or a crisis, it is necessary to have effective price signals. Well-functioning markets (with a high level of liquidity) with effective balancing arrangements can ensure that wholesale market prices reflect security of supply. This incentivises market participants to choose the most efficient means of delivering security of supply. In the case of LNG, market participants may take actions such as:
 - ▶ Agreeing contracts that provide for deliveries in times of supply disruption or extreme events;
 - ▶ Procuring additional LNG cargoes on spot markets where needed;
 - ▶ Using temporary storage at LNG terminals to provide flexibility; or
 - ▶ Procuring flexible delivery technology (such as floating storage and regasification units) and developing connection infrastructure for these.



Main Barriers for LNG

- LNG has a great potential in CEER's view and Europe has the necessary infrastructure to receive significant LNG volumes. But there are still many obstacles which block the expansion in Eastern Europe, South East Europe, Sweden, Finland and the Baltics. The main obstacles
 - ▶ Insufficient infrastructure in the regions that are most vulnerable to supply disruptions
 - ▶ Less flexibility in the more distant regions
 - ▶ Price of LNG obtained in the market in a crisis situation
 - ▶ Increasing dependency on single suppliers (e.g. Qatar)
 - ▶ Public opposition to new LNG projects
- It is admitted that many LNG suppliers will remain concentrated up to 2020 with Qatar supplies ensuring a large part of LNG contracts. However, as from 2020, newcomers such as Australia, the US, even Eastern African countries will enter the LNG market.



CEER's policy recommendation concerning SoS (1)

- Full implementation of the 3rd Package
- Rapid implementation of the Network Code on Gas Balancing of Transmission Networks
- Promote demand side measures for large industrial customers, e.g. voluntary demand reduction interruptible contracts or fuel switching.
- Establish a transparent and well-articulated borderline between prevention (market-based SoS) and mitigation (state intervention via emergency plans) in order to ensure the required level of security of supply at lowest cost.
- CEER supports mandatory regional plans
 - ▶ Introduction of SoS-mediators: Where a region cannot reach consensus on the content of a regional plan, the European Commission could help by appointing an SoS-mediator.
- Explicit role for NRAs in security of supply provisions, in case the NRA is not the competent authority.
- Potential reverse flow interconnections, as well as existing exemptions, shall be regularly examined through a rigorous and transparent market test followed by economic evaluation and stakeholder inputs along the affected corridor have to be taken into account.
- Intergovernmental solidarity principles should be ready to use in all Member States. They should be clear, agreed upfront and transparent to the market.



CEER's policy recommendation concerning SoS (2)

- Supply Standards: Clear preference for “obligation of results” over “obligation of efforts” when it comes to fulfilling the standards. In certain circumstances “obligation of efforts” may ensure that market players have the means to procure flows as long as possible.
- Protected customers should be defined in a clear and transparent way at EU level, since this definition is part of solidarity between Member States. The definition should comprise those customers who are not in the position to negotiate their level of SoS themselves (usually households).
- Shut-off plans should be coordinated regionally. The national shut-off plan must explicitly consider the treatment of cross-border exit flows compared to flows to national consumers. If the situation requires the curtailment of firm contracts, a protected customer in one Member State should be treated equally by the other Member State in case of an emergency.
- Keep current types of crisis levels: early warning, alert and emergency level. CEER considers that the current definitions already provide some guiding principles when a particular level is to be declared.
 - ▶ Introduce clear triggers for the different crisis levels:
 - Trigger for the early warning level: number of physical balancing actions undertaken by TSO is much higher than normal; buying gas is proving to be more difficult.
 - Trigger for the alert level: TSO is no longer able to keep system in balance.
 - Trigger for emergency level: the TSO is no longer able to keep the system within the technical ranges.
 - Monitoring and forecasting of the supply situation: Mandatory data submission rules could be added to the SoS regulation to ensure that the supply situation can be assessed regularly and in emergency cases.



Thanks for your attention!

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