



European Commission
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'International Relations & Enlargement'
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Response of AB Amber Grid to EC Consultation on an EU strategy for liquefied natural gas and gas storage

AB Amber Grid is the operator of Lithuania's natural gas transmission system and is in charge of transmission of natural gas via high pressure pipeline network to system users and operation, maintenance, and development of the natural gas transmission system. The transmission system operated by AB Amber Grid is connected to the transmission systems of Latvia, Belarus and Russian Federation and to the Lithuanian LNG terminal situated in the port of Klaipėda.

AB Amber Grid is a strong supporter of natural gas market based on open market principles. We believe that the implementation of EU market rules – first of all, 3rd energy package and Network Codes – would provide the foundation for well-functioning gas market. Nevertheless, we understand that other measures and infrastructure may be necessary, depending on case by case assessment, to achieve this goal.

Natural gas markets in the Member States of the East Baltic region are relatively small and have been declining for the last few years. Hence, we believe that deeper integration of the national markets and development of regional market zones will guarantee more efficient usage of infrastructure, in particular interconnectors, LNG terminals and storages, as well as provide other economy of scale benefits to the market players.

Finally, we would like to point out that Klaipėda LNG terminal is operational since the December of 2014. It operates under non-discriminatory Third Party Access rules and is capable of supplying

close to 90% of the Baltic States' annual gas demand. This LNG terminal provides the benefits of supply diversification and security of supply for the all Baltic States and, depending on interconnections, could provide to Finland, i.e. the whole East Baltic region. For around five years ahead until Gas Interconnection Poland-Lithuania (GIPL) is commissioned the terminal will be the sole alternative source of gas supply for several Member States, even only for a few. We find such a status unique in the context of European Union and we deem that it is worth recognising the importance of the Lithuanian LNG infrastructure to the whole East Baltic region in the EU strategy for liquefied natural gas and gas storage.

Hereby we provide our answers to the questions raised in the European Commission's Consultation on an EU strategy for liquefied natural gas and gas storage.

Question 1

Do you agree with the assessment for the above regions in terms of infrastructure development challenges and needs to allow potential access for all Member States, in particular the most vulnerable ones, to LNG supplies either directly or through neighbouring countries? Do you have any analysis or view on what an optimal level/share of LNG in a region or Member State would be from a diversification / security of supply perspective? Please answer by Member state/region.

Answer:

- The targeted level/share of LNG should be regarded separately in each region, depending on its interconnectivity with other Member States, storage availability, diversification level, etc.
- What concerns the East Baltic region, Klaipėda LNG terminal allows to cover close to 90% of annual demand in the Baltic States. We think the current capacities are sufficient and no further development of LNG import capacities is needed.

Question 2

Do you have any analysis (cost/benefit) that helps identify the most cost-efficient options for demand reduction or infrastructure development and use, either through better interconnections to existing LNG terminals and/or new LNG infrastructure for the most vulnerable Member States? What, in your view, are reasons, circumstances to (dis)favour new LNG investments in new locations as opposed to pipeline investments to connect existing LNG terminals to those new markets?

Answer:

- In our view ENTSOG cost-benefit analysis methodology should be developed in a way to address the need to compare the costs and benefits of different infrastructure solutions for the markets.
- In general case, pipelines offer more flexibility (bi-directional flows, etc.) and opportunities in comparison with LNG terminals. Connecting an existing LNG terminal through a pipeline to other markets provides more benefit for the same value. Also higher possible usage of LNG terminal could have positive effect for its pricing policy.
- Sufficient existing LNG infrastructure is also a deciding factor that disfavours new LNG investments. Instead it encourages construction of new pipeline connections or a higher utilisation rate of the existing ones. In the East Baltic region Klaipėda LNG terminal operates under non-discriminatory Third Party Access rules and with an annual capacity covering close to 90% of the annual gas demand of the Baltic States. The terminal could be used by market players in the whole region and just the sufficient pipeline capacity should be maintained in order to avoid the bottlenecks within transmission system of the Baltic States. The maintenance costs are relatively moderate in comparison with possible investment to another LNG infrastructure of such scale.

Question 3

Do you think, in addition to the already existing TEN-E Regulation, any further EU action is needed in this regard? Do you think the use of LNG gas and existing LNG infrastructure could be improved e.g. by better storage possibilities, better network cooperation of TSOs or other measures? Please give examples

Answer:

- The use of LNG infrastructure could be improved mostly by better interconnectivity between the Member States, market integration, and development of regional markets (merging of national Market Zones encompassing the ones with entry point from LNG terminals). For example, the construction of the Balticconnector and GIPL would enhance the gas supply routes in the region and effectively the size of the market.

Question 4

What in your view explains the low use rates in some regions? Given uncertainties over future gas demand, how would you assess the risk of stranded assets and lock-in effects (and the risk of diverting investments from low carbon technologies such as renewables and delaying a true change in energy systems) and weigh those against risks to gas security and resilience? What options exist in your view to reduce and/or address the risk of stranded assets?

Answer:

- Low use rates of LNG infrastructure can be explained by uncompetitive prices of LNG vs. other sources of gas, and lack of market integration. Unintegrated local national markets may be too small to utilise the potential of LNG infrastructure. Integration and growth of market may provide positive impacts on LNG infrastructure utilisation.

- The investments into infrastructure should be adequate to long-term policy goals. The policy making and regulatory framework should steer the investments based on the long-term strategy. As gas will cover substantial part of energy needs in the upcoming decades, there should be necessary major gas infrastructure which provides the basis to meet adequate level of security of supply and system resilience.

Question 5

The Energy Union commits the EU to meeting ambitious targets on greenhouse gas emissions, renewable energy and energy efficiency, and also to reducing its dependency on imported fossil fuels and hence exposure to price spikes. Moderating energy demand and fuel-switching to low carbon sources such as renewables, particularly in the heating and cooling sector, can be highly cost-effective solutions to such challenges, and ones that Member States will wish to consider carefully alongside decisions on LNG infrastructure. In this context, do you have any evidence on the most cost-efficient balance between these different options in different areas, including over the long term (i.e. up to 2050)?

Answer:

- NA

Question 6

What in your view are the most critical regulatory barriers by Member State to the optimal use of and access to LNG, and what policy options do you see to overcome those barriers? Have you encountered or are you aware of any problems in accessing existing LNG terminal infrastructure, either because of regulatory provisions or as a result of company behaviour? Please describe in detail.

Answer:

- The barriers would be much reduced if the EU market rules – 3rd Energy package and Network codes – were fully implemented. Early adoption of the relevant legislation (and dropping of derogations, if any) might be useful to consider and be promoted. This would facilitate easier and quicker harmonisation or alignment of the market rules across the Member States. That would allow deeper integration of the national markets and improve the use and access of various natural gas sources, including LNG. It is important to safeguard that from the regulatory side (NRAs, ACER) the necessary actions for the market integration are taken and the regulatory framework does not hinder the process of regional market development.

Question 7

What do you think are the most critical commercial, including territorial restrictions and financial barriers at national and regional level to the optimal use and access to LNG?

Answer:

- NA

Question 8

More specifically, do you consider that ongoing EU policy initiatives and/or existing legislation can adequately tackle the outstanding issues, or there is more the EU should do?

Answer:

- There should be proper implementation of current EU legislation in Member States to provide basis for market functioning. An initiative which would foster the cooperation between NRAs on the matters related to major regional infrastructure and regional market development would be welcomed.

Question 9

How do you see worldwide LNG markets evolving over the next decade and what effects do you expect this to have on EU gas markets? Do you expect a shift away from oil-indexed LNG contracts, and if so under what conditions?

Answer:

- NA

Question 10

What problems if any do you see with the functioning of the international LNG market, particularly at times of stress? Are there specific actions the EU should take, in dialogue with our international partners, including in trade negotiations, to improve its functioning and/or to make the EU market more attractive as a destination for LNG? Could voluntary demand aggregation be helpful in some way?

Answer:

- NA

Question 11

What technological developments do you anticipate over the medium term in the field of LNG and how do you see the market for LNG in transport developing? Is there a need for additional EU action in this area to reduce barriers to uptake, for example on technology or standards, including for quality and safety?

Answer:

- NA

Question 12

Do you think there are any sustainability issues specific to LNG that should be explored as part of this strategy? What would be the environmental costs and benefits of alternative solutions to LNG? Please provide evidence in support your views.

Answer:

- NA

Question 13

What opportunities or challenges do the supply projections for different sources, in particular LNG and pipeline gas and low carbon indigenous sources, present for the use of gas storage / for gas storage operators?

Answer:

- Various sources of gas and changing structure/access to various sources of gas might have different impacts on the use of storages. With increasing number of sources and interconnectivity the value and demand for traditional seasonal use of storages is decreasing. Therefore, storages may prove useful if they offer services meeting various goals, e.g. security of supply, flexibility. In order to survive storages will need to provide flexible, innovative products and be price competitive.

Question 14

Are, in your view, current market and regulatory conditions adequate to ensure that storages can fully play their role in addressing supply disruptions or other unforeseen events (e.g. extreme cold spells)?

Answer:

- NA

Question 15

As an alternative to mandatory reserves, how could market based instruments ensure adequate minimum reserves?

Answer:

- NA

Question 16

Do you have any analysis or view on what an optimal level/share of storage in a Member State or region would be? What kind of initiatives, if any, do you consider necessary in terms of infrastructure development in relation to storage?

Answer:

- The storage level for the needs of security of supply should be dependent on the specific situation in each of the Member States (level of interconnectivity with other Member States, number of alternative gas sources, demand/supply patterns, etc.) as the storage is just the one of type of infrastructures/tool for achieving certain goals.
- Currently, we do not see need for new EU initiatives.

Question 17

Do you think, in addition to the existing TEN-E Regulation, any further EU action is needed in this regard?

Answer:

- NA

Question 18

Given uncertainties over future gas demand, how would you assess the risk of stranded assets (and hence unnecessary costs), lock-in effects, the risk of diverting investments from low carbon technologies such as renewables, delaying a transition in energy systems and how would you weigh those against risks to gas security and resilience? What options exist in your view to reduce the risk of stranded assets?

Answer:

- NA

Question 19

What do you think are the most critical regulatory barriers to the optimal use of storage in a regional setting?

Answer:

- A situation when an NRA approves transmission tariff to/from storage and/or storage tariffs which do not reflect market situation and do not take into account the factor of acceptability of tariffs for the potential users of certain infrastructure could be one example of regulatory barrier for the use of certain storage services.

Question 20

Do you think ongoing initiatives and existing legislation can tackle the remaining outstanding issues or is there more the EU could do? Do initiatives need to include additional issues further to the ones described here?

Answer:

- Tariff related legislation should allow the flexibility to take into account specific market situation related to the use of the storages in a certain market and the value of the storages there.

Question 21

Do you consider EU-level rules necessary to define specific tariff regimes for storage only or should such assessment be made rather on a national level in view of available measures able to meet the objective of secure gas supply?

Answer:

- The key principles and guidance are purposeful to define on the EU level. However, flexibility to deal with the final adjustments of tariffs should be left for NRAs on national / regional level as the specific circumstances and the role and use of storage in a specific market zone could be different from another.

Question 22

Have you ever encountered, or are you aware of, difficulties in accessing storage facilities? Has this concerned off-site or on-site storage facilities? Please describe the nature of the difficulties in detail.

Answer:

- NA

Question 23

Have you ever encountered, or are you aware of, difficulties related to feeding LNG gas from the storage site back into the gas network? If so please describe the nature of these difficulties (regulatory provisions, company behaviour, technical problems) in detail.

Answer:

- NA

General Manager

A handwritten signature in blue ink, consisting of a series of loops and a final horizontal stroke.

Saulius Bilys