

Views of the Energy Community Secretariat (hereafter referred to as ‘the Secretariat’) on the Consultation Paper on an EU strategy for liquefied natural gas and gas storage

The Secretariat welcomes the Consultation paper and the opportunity to submit its view. This view does not represent the views of the Contracting Parties to the Energy Community or any other Energy Community institution.

Liquefied Natural Gas

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*

Yes, the Energy Community Secretariat agrees with the assessment for the regions (in particular with points 2.4, 2.5 and 2.7).

As a global fuel, LNG could play a strategic role for Europe. However, it is important to acknowledge that certain regions, or countries, will remain predominantly pipeline-oriented, as well as the others will be LNG oriented. The Energy Community Contracting Parties represent a region without any LNG source. Geography plays a main role in this context. Thus, the Energy Community Contracting Parties’ (in)direct access to LNG would be most probably achieved via Member States, formally the supplies would be delivered by pipelines. LNG could be an important corrective of the prices of pipeline based supplies too.

We do not see any need to split shares or levels of LNG in particular in a country’s gas fuel mix. The differentiation from sources/directions/counterparts should be enough.

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?*

The Energy Community Secretariat has not undertaken so far any analysis or studies in regards to LNG cost-benefits (as we said, most of the Contracting Parties to the Energy Community are landlocked). However, usage of LNG terminal at regional level is conditioned by ample interconnection capacities and it has to be considered within overall cost-benefit analysis. The associated costs need to be taken account as the utilisation rate of LNG is low. Rather than establishing overambitious plans for LNG terminals in almost each country, creating a truly integrated gas market would opt out such a need as excessive and costly. This is without prejudice to any individual project, but they should be based exclusively on market’s demand. It is realistic to suppose that in marginal seas with difficult access for large cargos, such as the Black sea, constructing LNG terminals will be particularly challenged.

Penetration of LNG in new markets (i.e in the pipeline oriented regions) are difficult due to insufficient knowledge or trust in the global gas (LNG) market, and involvement of many players along entire LNG supply chain, much more than in traditional pipeline investments.

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

The legal framework is settled in a sufficient way, we see no need for new regulations. Streamlined cooperation, proposed for example within the CESEC framework, should be result oriented and triggered at early investment stages– in LNG, evacuating pipelines - and also afterwards, when some obstacles (TPA to interconnectors, for example) have to be removed.

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?*

The uncertainty over future gas demand comes from unclear and inconsistent energy policy messages. Revolution in wholesale and retail – especially – markets which require enormous costs to implement the RES agenda will have to be coupled with existing (gas related) systems. the existing LNG terminals might be used at higher utilisation rate whereas perhaps no need for more than a few new terminals will exist.

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)?*

Strictly speaking, gas is at the moment predominantly produced in Europe, unlike oil. The role of gas in heating will remain crucial and stable as is most efficient and cheapest given the abundant heating capacities built decades ago. Thus, LNG, i.e. natural gas, has its role in the future energy mix, together with renewables. Natural gas also might have crucial role as storage of electricity (produced from renewable sources). LNG with its flexible way of transport can also take a lead in the maritime sector. Besides, natural gas could play a particularly important role in inland transport sector, significantly reducing GHG emissions (as a transitory or permanent fuel).

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.*

Relationships between an LNG operator and a main supplier on a certain market can have an impact on access to terminal – on either input or output side. Proper unbundling has, thus, to be ensured and monitored.

Access to LNG terminals, on output side, cannot be achieved without sufficient capacity in transmission network, thus access to transmission capacity is a key for access to LNG terminals.

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?*

LNG, although perceived as more flexible and spot-price oriented, in fact requires both long term planning and long term commercial relationships among all players involved in a LNG business chain. European clients, competing on a truly global, world LNG market, might be viewed as less attractive for LNG producers than other areas with regulatory frameworks perceived as less demanding.

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?*

The gas acquis requirements on unbundling, free TPA (including exemptions), transparency rules, etc, are adequate to enable proper functioning of the gas market(s), once they are fully implemented – which enforcement is under the EC scrutiny. Perhaps, it would be worth reconsidering access to LNG and align it in a way similar to storages, allowing for options of both regulated and negotiated access under regulator's monitoring.

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?*

Oil-indexation in contracts for natural gas, including LNG, might be derelict, due to recent tremendous drop of oil prices. Shift from oil indexation can be driven by producers in future, not only required by customers as it was the case before.

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?*

LNG deliveries are resistant to stress conditions, due to its global character. It is unlikely that stress conditions would occur at the same time in all LNG supplying countries or along all LNG shipping routes. But, to have benefits of LNG supply, as additional source, transmission capacity should be accessible and adequate, especially at interconnectors in the countries during the gas crisis. Having that in mind, a voluntary LNG demand aggregator would not bring much added value. National markets in the EU are too diverse in regards to demand, price, infrastructure, energy mix, to allow effective unique dialogue with LNG suppliers.

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?*

Technological developments might be expected. LNG ships and terminals could go smaller, enabling flexibility – transfer via rivers and serving smaller markets. On the usage side, developments might be expected especially in inland transport and maritime sector. More work has to be done in the field of harmonisation and standardisation of both LNG quality and equipment.

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.*

Instead of acting as allies, CNG and LNG act as competitors for the same market. This competition is also reflected in non-coordinated actions by all stakeholders -policy makers, fuel suppliers or car/equipment producers. LNG strategy should take into account developments and projections of transport sector and renewables, as well as technological developments.

Storage

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?*

According to the recent market trends, a role of storage reduces with increased flexibility of the market. As short term services will be more and more required, storages should be technically able to response for such requirements, thus additional investments might be needed and some storages will be out of the market which is a challenge for SSO. However, increased demands for security of supply in some countries tend to favour strategic stock reserves which presents an opportunity for storages, although not based on market principles. Storages can play a role in a low carbon world, if carbon capture will be mandatory, or, at least, widely accepted solution.

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)?*

Markets among the EU are very diverse, thus there is no general assessment of market conditions as such.

Question 15: *As an alternative to mandatory reserves, how could market based instruments ensure adequate minimum reserves?*

Even in less developed markets, market based storage instruments should be implemented. We do not object to having mandatory storage reserves as a principle rule at the moment (different from strategic reserves, which are the least efficient instrument), but in parallel the SOS storage related measures can be exploited in the CEE/SEE regions using practice from NWE markets (storage filling requirements for example etc).

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?*

Optimal level of storage capacity is around 22-25% of yearly demand (if households count for 25% in a total national consumption). This level can vary a lot, depends on gas consumption structure and share of households.

Access to storage and possibility of its usage are strongly linked, as for LNG facilities, to sufficient transmission capacity, especially of interconnectors (to be able to use storage in another country). Thus, development of storage related infrastructure should be considered together with overall gas infrastructure development at regional level.

Question 17: *Do you think, in addition to the existing TEN-E Regulation, any further EU action is needed in this regard?*

The TEN-E Regulation, coupled with adequate funds and the full implementation of the Third Package should be sufficient.

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 and weigh*

those against risks to gas security and resilience? What options exist in your view to reduce the risk of stranded assets?

Same factors influence future risks and costs related to both – LNG and storages. The uncertainty over future gas demand comes from unclear and inconsistent energy policy messages. Revolution in wholesale and retail – especially – markets which require enormous costs to implement the low carbon agenda will have to be coupled with existing (gas related) systems. The existing storages might be used at higher utilisation rate whereas perhaps no need for more than a few new storage facilities will exist.

Question 19: *What do you think are the most critical regulatory barriers to the optimal use of storage in a regional setting?*

Optimal use of storages in a regional setting is strongly interlinked with available and accessible capacity of interconnectors. Thus, full implementation of the Third Package and its close monitoring are preconditions for use of storages in a certain region. Additionally, uniform approach to tariff related issues would exploit most benefits of a regional cooperation.

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?*

Clear criteria for introduction of non-market measures in a crisis situation would help to resolve the remaining issues, and they can be introduced in the revised Regulation 994/2010. Defined mechanisms for monitoring application of such criteria must be in place.

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?*

Having in mind very uneven situation among EU MSs, in terms of storage capacity, market development, consumption structure, specific tariff regimes should be defined at national levels, or if agreed, on regional levels (see answer under 19).

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.*

n/a

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.*

n/a