



DG Energy - ENER.B.4  
'Internal Energy Market: Security of Supply'

DG Energy - ENER.A.3  
'International Relations & Enlargement'

European Commission  
Rue De Mot 24-26  
B-1049 Bruxelles  
Belgium

*Sent by email: ENER-LNG-STORAGE@ec.europa.eu*

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Company: UAB LITGAS  
Contact person: Vytautas Čekanavičius  
Position: Head of Business development  
department  
Email: Vytautas.Cekanavicius@litgas.lt  
Address: Žvejų St. 14, Vilnius  
Company web-site: <http://litgas.lt/>

Phone: +370 5 278 2010  
Fax: +370 5 278 2013

Country: Republic of Lithuania

## **REGARDING PUBLIC CONSULTATIONS ON AN EU STRATEGY FOR LIQUEFIED NATURAL GAS AND GAS STORAGE**

UAB LITGAS has analyzed consultation document on an EU strategy for liquefied natural gas and gas storage, which was submitted for public consultations on 8 July 2015 by the European Commission and provides its comments.

Sincerely,

Vytautas Čekanavičius

The Head of Business development department

Annexes:

1. Reply to the European Commission consultation document - 6 pages

## ***Annex 1. Reply to the European Commission consultation document***

*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 neighboring 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*

Lithuania supports the idea of LNG infrastructure costs sharing between neighboring countries. Costs sharing could be allocated proportionally to gas consumption in different countries or shared according other principles after creation of single gas market in the region. Cost sharing would allow to use the synergies between the countries and not to over-invest in the infrastructure. All costs should be shared: from costs of infrastructure itself to its operating costs, including LNG supply that is needed to keep the terminal operational and ready to receive additional cargoes if needed.

Lithuania has already built an LNG terminal in Klaipeda. The regasification capacity of the FSRU is approx. 4bcm/a, which could cover almost 90% of natural gas demand of Estonia, Latvia and Lithuania together. Combined with Incukalna underground storage the "Independence" could ensure safe and reliable natural gas supply for all three countries.

After Lithuania and Poland will be connected (planned for the year 2018-2019), Klaipeda LNG terminal could facilitate ensuring the security of supply not only for the Baltic States, but also Eastern Poland.

Having in mind the above changes in Baltic markets, we see that there is sufficient infrastructure already in place and we see such model as more efficient than building few LNG regasification terminals in the region.

Creation of one market zone for all Baltic States (because there are no significant bottlenecks in transmission capacities between three Baltic states) would also help to ensure that gas is sold where it is needed most and to increase the competition, ensuring that all suppliers are competing under the same conditions. Currently supplier from Lithuania pays grid fees in Lithuania and Latvia when sells gas to Estonia and vice versa.

*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?*

As it was mentioned before, we see that Klaipeda LNG terminal has sufficient capacity to cover LNG need for all Baltic States. Creation of one market zone would allow the traders in different states to compete under the same conditions and to make all the possible sources of natural gas competitive. This, combined with strengthening interconnections of natural gas grids, would be much more efficient and cost effective compared to building new LNG comparable large scale infrastructure in the Baltic States.

*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*

Third party access and market opening should be regulated more strictly. After Klaipeda LNG terminal was launched, Baltic States gained access to the alternative gas supply source other than Russia. However, exemption from the third energy package was not lifted in Latvia and the usage of Incukalna underground storage is hardly possible as well as supply for natural gas consumers in Latvia is still prohibited for foreign

companies and based on Incukalns usage regulations existing users of the storage facility have preferential treatment over new users in the facility.

Storage capacities could facilitate supplement the usage of LNG terminal in case of emergency, if for example, NG supplies are interrupted from Russia. In this case more LNG could be stored in order to be prepared for cold season. However, we do not see this factor having a meaningful impact for regular LNG supplies, as today there is available capacity in all Europe and this does not seem to be fostering LNG supplies.

Cooperation of TSOs in creation of single market zone covering few states would help to create more competition and this would result in better functioning 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?*

Low use rates of LNG depends on market situation in local EU gas market and also in global LNG market. Both markets are interacting and not much could be done in that respect. However we would suggest that LNG cargo diversion rights would be obligatory for LNG contracts in the EU – this would encourage the market to act by lowering the contract risk.

However, we do feel that EU has no clear policy for natural gas. Today it is either coal (lowest cost) or renewables (green). Having in mind that natural gas is the cleanest fossil fuel, providing very good balancing capabilities, we would see that Europe should go for gas + renewables mix. However, today we see a support for renewables, and lack of support for natural gas as a supplement to green energy.

*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)?*

As it was agreed in 2007, the aim is to reduce emissions of greenhouse gases by 20%, to increase energy efficiency to save 20% of EU energy consumption and to reach 20% of renewable energy in the total energy consumption in the EU by 2020 taking 1990 as a reference. Being cleaner than coal or oil products, LNG helps to reduce greenhouse gases emissions (including transport sector). It guarantees stable and clean back-up supply of energy in case RES sources are not sufficient. LNG can be brought to region from different suppliers and it is reducing dependence on pipeline gas supplies in some parts of EU dominated by a single supplier. Diversification of supply and infrastructure that connects Baltic States guarantees better position in negotiations on gas prices, plus ensures security of supply facilitating RES development in the region. LNG supply infrastructure (including SSLNG), NG interconnectors between Baltic States, NG power producing facilities and etc. should be developed with regard to the RES share development pace in the primary energy sources balance.

*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.*

As there are no large market zones, the competitiveness of LNG is limited to the country where LNG facility is located.

When Klaipeda LNG terminal was launched, there were published terminal regulations that were coordinated with National Regulatory Authority (this was a public procedure), then published in the terminal website. After final version of terminal rules was agreed, open season procedure for terminal capacities was announced. This was led by public announcements in local and international media. Additionally, personal invitations were sent for companies with highest potential to become terminal users.

There are some terminals that are already in construction in Finland which nevertheless has publicly announced about financial support from the state. However nothing was announced publicly with regard working principles of planned terminals – if they would be a subject to a non-discriminatory third party access regulations, what would be capacity allocation mechanisms and pricing structure, etc. and without such clarity it is impossible to get insights about the market around those 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?*

Companies have to pay transmission tariffs in each country when exports LNG or natural gas and that leads to the isolation of the national markets.

Sharing costs of LNG infrastructure should also be in place – that would limit the number of stranded investments, because infrastructure existing and planned could be used more widely and more intensive.

*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?*

EU is considering to establish a single electricity and gas market for a while. Single market is not only related to the infrastructure, and it could be sometimes easily achieved through adaptation of regulation (Nord Pool spot trading system in Scandinavia could be a great example) and we assume that single trading zone for gas in Baltic states could be implemented.

*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?*

We expect LNG market to grow and to become more resistant to market fluctuations (what was seen after Fukushima tragedy when LNG prices went sky-high).

We see that LNG contracts are already shifting from oil indexed contracts to hub related contracts. Though recent drop in oil prices could temporarily slow down the process. Variety of contracts and different products-linked prices should remain, but hub related contracts are more transparent and gives positive push to the LNG and NG markets in general. LNG import infrastructure capacities usage in the EU countries differs, but there are some terminals have 0% or unacceptably low usage during the course of a year. Development of connecting infrastructure and coordinated new import capacities planning on EU level would result in higher efficient and usage rates in future. Governments on a national level sometimes find it difficult to coordinate actions with neighboring countries not having a mandate to negotiate on conditions that are beneficial to the region and particular countries in it, when national government puts priority on measures important only to local state level.

*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?*

All transactions are now concluded on bilateral basis, which creates arbitrage opportunities and might not be leading to an effective market. Obligatory and centralized trading on the exchange when buying LNG or selling reloaded cargoes to/from Europe could be one of the solutions, which could provide the market with a real reference price, make deals simpler and ensure that all deals are conducted on the best market conditions for EU countries.

EU could also consider acting as an aggregate buyer in case of supply disruptions of natural gas in case no LNG exchange is launched.

*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?*

We see that LNG for transport is a great solution that is clean and cost effective compared to other alternatives. However the market is at its initial stage of development and lacks sufficient infrastructure. Therefore, we see a need for EU financial support for LNG infrastructure development as well as clear and consistent incentivizing regulations at EU level.

Common standards or recommendations would also be very useful. For example now, construction of LNG infrastructure is not regulated at all or regulated differently in each member state. Common standards based on the best practice would help to enter new markets and to learn from more experienced countries so avoiding unjustified fears for such infrastructure.

*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.*

Part of LNG used in EU market could be produced from biogas. This would encourage local small-scale liquefaction facilities development all over the Europe, using local source that is beneficial to environment and local economies.

LNG attractiveness depends on LNG and alternative fuel prices, therefore, common EU strategy is needed that would ensure support and LNG market development in the long-term. Leaving development aside and allowing market to develop naturally would result in periods of market decline when prices of LNG are relatively high and boosts when it is relatively low. This kind of fluctuations has negative impact on LNG as an energy source from the customer/ end user point of view and so effects environment.

EU could support LNG supply infrastructure development which would lead to increased LNG volumes used in the EU market, making development more sustainable and stable than it would be otherwise.

*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? 10*

In Lithuania, many former gas users switched to biomass. This was caused by high natural gas prices in the local market, and huge supply potential and low price of biomass. Consequently the need for natural gas storage services has decreased considerably.

*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)?*

Baltic States have physical access to Inčukalns underground storage. However, third party access to this underground storage is not implemented, therefore, it is not clear if anyone willing would be able to use this facility in efficient manner.

Only a combination of supply alternative and underground storage could provide a real security of supply of natural gas to the market, because storage facility is limited in space and regasification unit or natural gas pipelines are limited in the capacity across different regions of the country.

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

There has to be an adequate preparation for emergency cases from legal framework point of view. There has to be a procedure in place, regulating what should be treated as emergency situation, who should take actions and how that would be regulated. The simplest solutions would be to tender a local/regional market player, which is already acting in the market and has ability to source natural gas or LNG to the region from various sources; to define procedures when such company shall start taking actions and how it would be compensated for emergency natural gas it delivered.

*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?*

Storage is always limited in its capacity; therefore optimal level of storage shall be calculated after evaluating alternative supply capacity and a level of risk or the likelihood of events when storage services would be required. Hence the optimal level of storage depends on the gas consumption, potential disruptions for gas supply and supply alternatives.

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

TEN-E helps to identify and define PCIs, however even after the list of such projects is established, there are delays in executing these projects during the time-frame planned initially. Recent political development in Eastern Europe have clearly shown that diversification of energy supply is crucial to every EU state. Therefore, there should be attention and effort should be put to meet deadlines and schedules planned. It could be done either by extra legislation on EU level or changes in model of implementation. One of the examples could be Lithuanian-Polish natural gas interconnector.

*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?*

The cost and benefits of infrastructure shall be shared by countries that are using the infrastructure or potential users of the infrastructure. Hence costs and benefits would be split and risk of stranded assets would be minimized.

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

There are no clear rules in force for the usage of Incukalns underground storage in Latvia. At the moment new regulation is discussed, however, there is a clear preference for incumbent suppliers to use the storage facility in place. Such regulation strengthens monopolistic position of incumbent natural gas supplier in Latvia and does not contribute nor to the regional security of supply nor to the market liberalization and competition.

*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?*

*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?*

The principles of setting tariffs could be regulated, however setting the tariffs is already functioning at the local level. EU level rules would be useful to set cost-benefit sharing between member states benefiting from accessible infrastructure. For example, Lithuania could pay part of Incukalns costs, Latvia – part of FSRU costs and Estonia would contribute to both.

*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.*

In Latvia there are no clear rules in force for usage of Incukalns underground storage. At the moment new regulation is discussed, however there is a clear preference for incumbent suppliers to use the storage facility in place.

*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 behavior, technical problems) in detail.*

No.