

DG ENERGY Consultation: EU Strategy for Liquefied Natural Gas and Gas Storage

Consultation Response

Energy UK is the trade association for the energy industry. We represent over 80 members comprising generators and gas and electricity suppliers of all kinds and sizes as well as other businesses operating in the energy industry. Together our members generate more than 90 per cent of the UK's total electricity output, supplying more than 26 million homes and investing more than £13 billion in the British economy in 2013

Energy UK welcomes the opportunity to provide comments to this consultation, please see below.

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

Energy UK agrees that the assessment seems factually correct. We also agree that LNG supplies, either directly or via pipelines from existing import facilities, can help to provide diversification of supplies.

Energy UK does not support a one size fits all prescribed level for LNG in a region or Member State basis. We consider that the market is best placed to determine this in the context of other supply, flexibility and storage options. However this can only be achieved where there are fully functioning wholesale markets, with no barriers to cross border trade and appropriate balancing incentives. Therefore the focus should be on ensuring full and timely implementation of the existing third package legislation, including network codes.

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?

Energy UK do not have any analysis of this type. We would expect any analysis of the cost benefit between options for demand reduction or infrastructure investment to be quite challenging even with enhanced collaboration between TSOs due to the national determination of tariffs, system operation and infrastructure planning.

Any such analysis will need to be considered on a case by case basis

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

Energy UK is not convinced that further EU action is needed, rather existing legislation needs to be fully implemented to ensure optimal use of existing infrastructure, there needs to be a level playing field between all sources of supply / flexibility.

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 low utilisation rates are a feature of global gas dynamics, in recent years falling demand in Europe and strong demand in Asia has led to LNG being diverted to where it is valued most. However most recently demand in Asia has eased and as new LNG supply comes on stream gas prices have fallen and LNG flows, particularly into Great Britain have recovered. In any event it is a feature of the LNG market that re-gas capacity far exceeds liquefaction capacity globally.

To reduce the risk of stranded assets new projects should be subject to a comprehensive cost benefit analysis with comparisons against alternative supply / flexibility sources. However where projects are progressed by commercial parties, they would ultimately bear the risk of stranded assets rather than customers. In addition operational and tariff arrangements should not create barriers to optimum and flexible use of the facility.

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)?

Energy UK does not have evidence of the most cost effective balance between, sustainability, security of supply and affordability. This is a question that has been challenging Member States for many years, such policy issues would seem to be beyond the scope of this paper.

Energy UK is rather concerned about the linkage between import dependency and price spikes. Price spikes are a normal feature of a functioning market, a response to supply / demand tightness not necessarily linked to imports. We do not consider that reducing imports should be a goal in itself, particularly as the gas market is becoming increasingly global and able to provide affordable gas / energy and support security of supply for Europe. Indeed such a goal may deter commercial investment across Europe to deliver such supplies.

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.

We are not aware of obvious regulatory barriers.

The CEER Status review on monitoring access to LNG terminals published in October 2014 showed generally there was no contractual congestion and that there a properly functioning congestion management procedures. Furthermore new services are being developed.

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?

See response to Question 6

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 EU should ensure that existing legislation is fully 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?

Energy UK does not have a view on the evolution of LNG markets but the analysis provided is consistent with market commentary that we are aware of. Increased global trade and price convergence should see Europe well placed to benefit from competitive pressure in the LNG market.

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?

Energy UK does not see specific problems with the functioning of international LNG markets. EU dialogue with international partners should ensure good diplomatic relations are retained and barriers to global trade reduced through free trade agreements. Discussions should ensure the EU is an attractive market for gas deliveries.

At times of stress, wholesale market prices should rise to reflect this. In turn this places financial incentives on market participants to balance their supply / demand portfolios in a cost effective manner using all sources available, LNG has a role here, including withdrawal from tanks and attracting additional cargoes but under this should be within the normal market framework.

Voluntary demand aggregation has not been well defined but we consider governments should not have a role in such arrangements, rather commercial companies could seek arrangements of this kind under their own initiative if appropriate and consistent with competition law.

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?

Energy UK is aware of technical developments such as; floating regasification terminals, reloading and the use of LNG as a fuel in marine and road transport. We do not have a view on barriers to uptake or how to address them

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.

Energy UK has no evidence but would expect environmental costs and benefits of all options to form part of a cost benefit assessment

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?

Decline in swing production from local domestic fields, which is replaced by flat production or supply from LNG or pipelines over long distances should present an opportunity for storage facilities close to demand both in meeting seasonal demand and shorter term fluctuations in demand arising from gas-fired generation operating flexibly to compliment intermittent renewable generation. The latter is particularly relevant for fast-cycle facilities.

Reducing summer / winter price spreads is a particular challenge for seasonal facilities, but is reflective of market conditions.

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)?

Energy UK considers the arrangements are broadly adequate to allow storage to play a role in the market addressing supply / demand tightness. We are aware that changes are likely to be proposed to the Security of supply Regulation and have commented on that previously

Recognising the benefits that physical gas storage brings to the system is important and ensuring charges are cost reflective to the extent possible, whilst not adversely affecting storage sites. Alongside this it is also important that there is a level playing field, with storage being one amongst other sources of supply flexibility to allow market participants to manage storage bookings and inventory in a manner consistent with its risk profile and market arrangements.

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

A well-functioning market consistent with implementation of the third package will provide incentives on market participants to balance their positions subject to their assessment of supply / demand risks. Well-designed cash-out arrangements that reflect security of supply risks and costs (as in GB?) will mean that storage capacity and inventory may form part of Shipper's portfolio to manage these risks, alongside other sources of supply flexibility. However if markets are insufficiently developed or if there is a risk of market failure, we accept intervention may be necessary but this should be subject to rigorous assessment, well defined and time limited to minimise distortions to the market and delay to market response.

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?

Energy UK does not have any analysis, and there could be some considerable debate over what 'optimal' means but we do not consider that prescribing a level of storage is the right approach. There are wide variations in the level of storage as a percentage of demand and as a percentage of peak

demand across the EU, this has arisen due to market characteristics, historical reasons and the availability of suitable sites for storage e.g. aquifers.

It maybe that there is sufficient storage across the EU as a whole such that with adequate infrastructure within a Member State and between Member States markets will support flows to meet demand across borders.

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

See response to Question 3

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?

See response to Question 4

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

Storage in one Member State can be used to meet demand and provide security of supply in another Member State hence freedom for gas to flow between Member States as efficiently as possible is essential. This was a key aim of the Third package and will be best achieved by implementation of the Third package and supporting network codes alongside promoting liquidity in wholesale markets. Transparency of storage, network and flow data will support confidence in these arrangements but as yet the publication of near to real-time gas flow information is limited. We believe improved transparency would help support market development.

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?

Energy UK considers this should be sufficient, but we are yet to see the proposed revisions to the Security of Supply Regulation

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?

Energy UK does not consider EU level rules to be necessary at this stage. Rather allowing NRAs, when approving methodologies, to consider the benefits to the transmission system that storage provide should be sufficient.

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.

As a trade association we have not been made aware of specific difficulties

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.

As a trade association we have not been made aware of specific difficulties

Energy UK would be happy to discuss these points further, in the first instance please contact Julie Cox, details below.

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