Response to the consultation on an EU strategy for liquefied natural gas and gas storage

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About Gasunie

Gasunie is a European gas infrastructure company. We provide the transport of natural gas and green gas in the Netherlands and the Northern part of Germany.

All our activities are geared to facilitating the market, both the industrial and the domestic gas markets. In the Netherlands, Germany and further afield. This varies from providing gas transport to constructing new infrastructure and from participating in new projects to developing new services. In all our activities we follow trends and requirements in the market closely, as our aim is to be able to offer our customers the best standard of service possible.

Gasunie has two subsidiaries that manage the gas transmission grid: Gasunie Deutschland in Germany and Gasunie Transport Services (GTS) in the Netherlands. We also provide the market with gas storage facilities (EnergyStock B.V.), the pipeline to the United Kingdom (BBL) and the LNG terminal GATE at Maasvlakte. In addition, we facilitate and stimulate the green gas market through our subsidiary Vertogas. Producers and traders in green gas can use Vertogas for certification their green gas.

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General remark

A well-interconnected gas infrastructure system with a multitude of supply sources, including LNG, is the best guarantee for a resilient system. Therefore access to the global LNG market is of vital importance for Europe.

Efforts from infrastructure operators in recent years have contributed to increasing the level of Europe's security of supply. The main driver for future investments in the LNG sector should be the market. Any state intervention targeted at additional LNG infrastructures should acknowledge the differences in Europe and be targeted to address specific problems in Member States. The current conditions for the storage market in North-western Europe are adequate. Any intervention in the storage market should be carefully assessed to minimize impact on well-functioning markets.

Gas is well-placed to continue playing an important role in the European energy mix. LNG has clear benefits for reducing emissions in the transport sector and gas storages are an important provider of system flexibility and can thereby enable an increasing share of renewables in the energy mix.

PART I
LNG

2. LNG in the EU today

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.

Gasunie agrees that access to the global LNG market is of vital importance for Europe. Member States can have access to LNG terminals either directly or indirectly. For example the customers of the GATE terminal in Rotterdam are European energy companies, using GATE as an entry point to supply their customers in other parts of Europe, for example Austria.

Europe's infrastructure is becoming increasingly well-interconnected. This gives the best guarantee for a robust system that can mitigate supply disruptions. In an interconnected system, gas can be delivered from a multitude of suppliers and sources and flow freely between Member States. Swift implementation of PCIs can address some of the bottlenecks which still exist and hamper the free flow of gas in certain parts of the internal market, as demonstrated by the European Stress Test of autumn 2014.

There is no optimum level/share of LNG for a region, a Member State, or for Europe. This is a matter of market dynamics. When LNG prices are competitive with European spot gas prices, more LNG will come to Europe and result in increased utilisation of LNG import terminals. This trend is clearly visible since the beginning of 2015, with lower LNG prices resulting in increased utilization of the European import terminals.

The LNG delivery pattern may change in the long term, with declining domestic gas production but stable demand, e.g. in North-western Europe, resulting in more base-load supply through LNG. A key challenge in this respect is that LNG operators are enabled to develop innovative solutions to the market in order to accommodate additional LNG flows.

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?

Efforts such as Energy Efficiency measures might reduce gas demand partially, but forecasts for 2030 predict a stable gas demand at least until 2030. In emergencies, demand reduction may in certain circumstances be a solution for a limited period of time, but it's questionable if it can provide a structural solution.

The primary driver for LNG investments should be the market. Before any non-market based projects are considered, the maximization of the utilization of existing LNG facilities and enhancing cooperation between TSOs should be first considered. Furthermore, better interconnections serve multiple goals, e.g. it increases gas-to-gas competition.

For more isolated markets, small scale solutions whereby smaller cargoes loaded from bigger import terminals elsewhere in Europe supply the market could be considered instead of constructing new pipelines, especially in the case when this is more cost efficient.

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 Northwest-European gas market is functioning very well. In this market, some LNG activities are regulated while others are exempted. In Northwest-Europe, the utilization risk of LNG gas is with the investors and not socialized towards end-consumers. This demonstrates that market participants are willing to invest in LNG-terminals and storages if the regulatory framework is adequate.

For specific markets or projects related to the development of small scale LNG, financing levers may be initially considered to minimize risks for private investments. In principle, however, new LNG infrastructure should be market driven. Subsidies need to be carefully assessed to ensure they do not deteriorate the competitive position of existing LNG terminals or undermine the business case of market driven projects.

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?

Utilization of LNG terminals is mainly determined by the world LNG prices. In the past years, prices at the North-western European gas hubs like TTF were not inducing shippers to bring LNG to that part of Europe. By contrast, markets with higher gas prices or where long-term LNG contracts have been concluded saw more LNG activities. Since the beginning of this year LNG prices have come down substantially, especially on the Asian market, which resulted in a considerable increase of the utilization rate of LNG terminals in Europe (see answer to question 9).

Furthermore, capacity contracts in LNG terminals can be part of an overall supply portfolio of shippers to enable optimal trading possibilities. Therefore, the value of capacity contracts might not be linked to constant full use of LNG terminals.

For terminals such as GATE, booked capacities mitigate investment risks. For non-market based investments, there may be a risk of stranded assets. On potential lock-in effects, LNG terminals also meet other EU objectives such as diversification of sources and suppliers as well as the potential role LNG can play in reducing greenhouse gases in various markets and applications.

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)?

If a market based approach is followed, the involvement of Member States in taking an investment decision for building a new LNG terminal is limited. It's typically a business risk to be determined by market parties based on a full-scale business case. In such a business case the competitive position of gas vis-á-vis other energy sources on a longer period of time is evaluated, especially taking into account the EU's energy and climate goals. At the same time LNG can substantially contribute to meet EU energy and climate goals, not only in sectors where gas is currently used, but also in new sectors such as transport, leading to increased demand.

3. Potential entry barriers for LNG

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.

Regulatory arrangements for open access LNG terminals should be based on negotiated third party access in order to let the market function optimally. Provisions of the third energy package should in general not apply to small scale LNG activities, ensuring a level playing with its relevant market, i.e. the bunkering market.

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 producers should be able to bring their gas to the European market. The EU policy to stimulate short-term markets can create uncertainties for long-term investments in upstream activities and infrastructure. Therefore, a balance between long-term and short-term market arrangements is necessary.

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

There is no need for additional regulation addressing the services delivered by LNG terminals. Plans within the framework of the Energy Union to enhance relations with suppliers and supplying regions should be further developed. The market benefits from a stable and predictable business environment.

4. International LNG markets

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?

There is an expectation that LNG supply will grow very fast in the coming years, as a lot of LNG will be exported from the US and new production coming into operation in Australia. Combined with the fact that the LNG demand in Asia is expected to weaken, as nuclear power plants in Japan are coming back online and with weak economic forecasts in China, the expectation is that a lot of LNG will come to Europe and the price of LNG will further decrease.

It is difficult to assess whether a shift away from oil indexation is going to take place. However, LNG supply contracts may increasingly be linked to TTF.

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 connects Europe to the world gas market, giving access to a very diversified production portfolio. LNG terminals can furthermore play an active role during emergencies in the European gas market due to their high send-out capabilities on short notice. In case of an emergency situation the price of natural gas in Europe will rise. If this price is higher than the price on the world market for LNG, traders will acquire extra cargoes e.g. diverting cargoes within their portfolio to Europe. The market will therefore play a key-role by sending price signals, attracting additional volumes to Europe in case of a supply disruption.

Any non-market based measures, like voluntary demand aggregation, should only be considered in a crisis situation. If applied it should follow well-defined criteria, in line with the principles of the internal energy market. Moreover in a well-functioning market, gas prices will rise in areas with reduced supplies. This will trigger gas to flow (by pipeline or ship) from regions with lower prices to regions where prices are higher. To enable this, sufficient infrastructure needs to be in place.

5. LNG technology issues including LNG use in transport

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?

LNG as a transport fuel for ships and trucks can meet the stringent pollutant emissions limits set by the EU. The transport sector is highly international and thus, standardization and harmonization of technical and safety standards may be sensible. LNG operators have to be enabled to meet the demands of the transport and shipping sector in a timely manner.

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.

We believe that LNG could play a central role in reducing CO2 and other emissions, particularly in the transport sector, e.g. by heavy duty vehicles and ships. The alternatives for LNG are diesel oil, gasoil and heavy fuel oil. This is a rapidly evolving market for LNG, due to its better environmental performance vis-á-vis other options. However, the current oil price developments disincentivize logistics and freight haulers to switch from diesel and gasoil to LNG. In addition, a lack of LNG refuelling infrastructure for trucks and ships continues to be a bottleneck. Strict enforcement of the directive on the deployment of alternative fuels infrastructure can address this issue.

Part II
Storage

Internal market constraints and challenges for storage

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?

Due to the declining indigenous production of natural gas in western Europe and the need for additional imports from sources outside Europe (LNG and pipeline gas), we expect that gas storage will be used by market participants to optimize their supply portfolio.

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)?

Given the existing overall storage capacity in Europe, there should in principle be no major problems in the case of supply disruptions or cold spells. The conditions in Member States vary however greatly. Current market and regulatory conditions might be sufficient in certain markets whereas elsewhere in Europe issues might arise. In finding possible solutions for markets where problems persist, due account should be given of these measures on currently well-functioning markets.

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

Gasunie believes that markets, using different types of storage (i.e. fast-cycle for intra-day purposes and seasonal storage), will meet customer demand. In case of supply disruptions or other unforeseen events, cooperation of Member States on a regional level would be the most adequate way to cope with such circumstances.

Current market and regulatory conditions in North-western Europe are adequate, reflected by a functioning regional storage market. If regulatory intervention is needed, it should always be tailored to national and regional specifics while minimizing market distortions. With an increasingly interconnected EU gas market, national storage requirements can constitute a barrier for the market to supply the needs in other countries. Regional cooperation on regulatory conditions can address these risks, guaranteeing a level playing field at regional level.

As an alternative to mandatory storage obligations the system in the Netherlands could be considered to address the supply to protected customers during extreme climatic conditions. That system provides that the Dutch transmission system operator GTS is legally responsible to annually contract (transparent, non-discriminatory and marked based) both the capacity and the volumes that are necessary in order to be able to supply the additional amount of gas that is needed when average daily effective temperatures are between -9ºC and -17ºC to ensure the peak supply to protected customers.

The Dutch Regulator ACM monitors this process.

Storage Infrastructure

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?

Gas storages are just one of the forms of flexibility that are present in the gas market. Others include supply flexibility, demand management, international trading, buying and selling on the spot market and the purchase of LNG cargos, which are different for every country and region.

An 'optimal' level/share of storage capacity in a Member State depends on the specifics regarding indigenous production and dependency on imports, interconnection, cooperation in a region and climatic conditions. As the gas market is international and any calculations based on single Member States could lead to incorrect conclusions for Europe as a whole. In liquid markets, the tightness of the storage market is highlighted in the summer/winter spread. In non-liquid markets, some form of planning by the TSO might be needed. For Europe as a whole, ENTSOG could perform this task. In a well-functioning market, gas during cold spells will be provided due to rising prices, as the market always looks at commercial opportunities.

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

As mentioned under question 15, additional measures should be assessed on a national/regional level. The European Commission could issue guidelines how it will assess possible measures at national level. Any EU action needs to focus on those regions were regulatory intervention due to concerns over security of supply is needed.

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?

Investors in new LNG and storage capacity have a commercial risk in relation to stranded assets. However, the scenarios of the European Commission itself also point to a stable gas market, at least until 2030. Furthermore, the increase in renewables might reduce the absolute volume of gas demand, but infrastructure capacity needs might remain equal to meet peak demand, especially fast cycle storages such as EnergyStock. With the increasing share of intermittent renewables in the energy mix highly flexible storages can provide the necessary back-up.

It will however be crucial that the uncertainty about future demand does not jeopardize the reliability of the system in the short-term.

Regulatory framework and potential barriers for storage

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

A level playing field with regards to transmission tariffs to storage sites in a regional setting should be considered.

20. Do you think on-going 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?

There is no need for additional regulation regarding the services delivered by storages.

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?

Additional regulation regarding setting tariffs for storage services should not be developed on EU-level.

Enhanced coordination at regional level of the implementation of Network Codes under Regulation (EC) No 715/2009 / full implementation of the 3rd Energy Internal Market package should be promoted, especially in regions which are well supplied with competing storages and with correlating prices at the different hubs. For the gas market on an EU level it's important that different kinds of flexibility providers can compete, based on a level playing field with regards to transmissions tariffs.

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.

Gasunie is not aware of difficulties in accessing storage facilities.

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.

Gasunie is not aware of this kind of difficulties.