

# Consultation on an EU strategy for liquefied natural gas and gas storage

## 1. LNG

### 1.1 LNG in the EU today

**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**

- In NW Europe, we agree with the conclusion that there is an abundant regasification capacity which is sufficiently capable to address Security of Supply (SoS) and emergency situations in the region. Accordingly, we believe that if investments are needed, it will be more cost efficient to invest in extension of existing infrastructure rather than to build new LNG terminals;
- The optimal level/share of LNG in a region or Member State will depend on location-specific factors like the availability of pipeline gas thanks to neighboring production fields, the proximity of seas/ocean, etc. Depending on the case, LNG may be the most efficient way to diversify supply sources in a specific region or Member State;

**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 most effective answer to single supplier dependence/isolation of a Member State is that the EU internal gas market is duly interconnected and/or integrated. A proper diversification of supply sources will however always remain a crucial element in lowering supplier dependence;
- Both types of investment are essential components for an effective SoS and need to be balanced - i.e. (i) 'LNG infrastructure' to increase diversity and (ii) 'Pipelines' to bring a.o. the regasified LNG to the required destination. In order to maintain an affordable gas system, policy making should favor an efficient use of the existing infrastructure;
- Referring to question 1, this does not exclude the need for improving interconnection capacity. As an example, the existing LNG capacity in NW Europe (a.o. Zeebrugge terminal in extension and new Dunkerque terminal) can play an important role for the upcoming challenges faced by Germany for L/H conversion and declining indigenous production provided there is also sufficient interconnection capacity. Hence, new market-based investments in interconnection capacity will be required in the future to address the expected increase of LNG imports as well as to improve access to LNG for those countries not having direct access to LNG (for instance due to their geographical location).

**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 available LNG terminals in NW Europe have already proven their effective contribution to unforeseen events and emergency situations (like in the recent Ukraine crisis) in a functioning NW European gas market. Therefore, we believe that further regulation is not needed and would potentially harm the well-functioning of the market rather than to bring added value;
- In particular for the most vulnerable areas (including the isolated countries), it is important to avoid unequal competition or market distortions: subsidizing new gas infrastructure in these areas may lead to increased risks of stranded assets in neighboring regions;
- In order to attract more LNG shippers, it would be beneficial for the market to revisit some of the existing gas transmission EU rules rather than imposing new regulation. For example, the standard capacity products defined in the CAM NC are not compatible with the typical needs for regasification of

an LNG cargo since the capacity booking for unloading one LNG cargo would typically require the booking of several daily capacity products towards a neighboring country. Increased flexibility in the type of capacity products offered and in the way the capacity is allocated would be beneficial to attract new LNG in Europe;

**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?**

- For the majority of the existing gas infrastructure assets, investment decisions were made based on long-term (LT) contractual commitments. European regulation should not endanger the sanctity of those LT contracts neither should allow terminal users to step out of their LT contractual commitments;
- The uncertainty of future gas demand represents not only a risk for stranded assets but it also takes away the incentive to invest. In order to maintain a proper investment climate, a clear role for natural gas is thus required in the future energy mix;
- For LNG terminals, low use rates in some regions are primarily price-driven (i.e. LNG ships have been diverted towards Asia/Japan in the past years), making physical delivery of LNG towards Europe sensitive to price dynamics resulting from global events. This having said, it should be noticed that low utilization rates in LNG as such do not necessarily imply that an asset is stranded;

**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)?**

- Regarding energy, Europe has some important upcoming challenges to address which should be balanced with both the environmental goals and affordability targets. In the future European energy mix, natural gas is a perfect affordable solution to support the development of intermittent renewable energy sources while minimizing the environmental impact (in contrast to the recent shift towards coal in some countries);

## 1.2 Potential entry barriers for LNG

**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.**

- Any discrepancies in the regulatory framework and regime between LNG terminals (both in terms of transparency and tariff setting) should be removed in order to avoid unfair competition;
- Referring to question 3 last bullet, we need a lean regulatory framework that is furthermore supportive and flexible enough for the development of new LNG services according to the market needs;

**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?**

- [USER'S POINT OF VIEW]
- In some regions road taxes are based on CO<sub>2</sub> emissions which not always reflects correctly the environmental advantages of using LNG as a fuel (i.e. as reductions in nitrogen and particles pollution are not duly considered then);
- Uncertainty on the future evolution of excise duties on natural gas as a fuel for road transport damps the enthusiasm of potential early adopters. More clarity on the medium to long-term is needed to secure business cases;

**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?**

- We believe that any additional regulation is not needed for LNG terminals and would potentially harm the well-functioning of the market rather than to bring added value;
- European policy initiatives should provide the necessary stability in order to provide the long-term endorsement for gas required to attract investors;

### 1.3 International LNG markets

**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?**

- Latest forecasts are envisaging a return of LNG to Europe, with an increase of LNG volumes entering the EU market up to 410 million tons by 2025 and 530 million tons by 2035 (i.e. compared to 240 million tons of LNG in 2014);

**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?**

- EU should remove all possible barriers, if any, located between the LNG producing countries and the EU gas market;

### 1.4 LNG technology issues including LNG use in transport

**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?**

- An important technological development in the field of LNG relates to the use of LNG as a fuel. Despite the clear environmental benefits of LNG as a fuel (i.e. both reduction in carbon emissions and environmental impact) and the technological advances that allow for a large-scale implementation of LNG for both ships and heavy duty trucks, there is a lack of harmonized technical standards;
- Moreover, market development for heavy duty trucks has been slowing down due to lack of EURO VI-compliant natural gas engines for which development is not foreseen before 2017.
- The critical success factor for LNG as a fuel, for both ships and heavy duty trucks, is the availability of sufficient fueling infrastructure (i.e. either stations or tanks). The development of the fueling station / tank infrastructure is therefore considered key for the development of these markets;
- Increasing the emission limitations on heavy duty transport will positively contribute to the rapid adoption of LNG as a fuel for ships and heavy duty trucks. We therefore welcome EU's support for the use of LNG in transport and other initiatives such as Sustainable Transport Forum and Europe Sustainable Shipping Forum;

### 1.5 LNG sustainability issues

**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.**

- Environmental benefits of LNG are clear (reduction in carbon emissions and environmental impact). A quick win on the level of the greenhouse gas emissions can be achieved by substituting more polluting energy sources like coal and oil with LNG (including in remote areas not connected to gas infrastructure);

- *We welcome the efforts already done (such as the recent EU directive for the deployment of alternative fuel infrastructure) to promote LNG as a fuel both for maritime and road transport purposes. Support for the proper incentives will remain required in order to facilitate the change process (both mentally to change habits as well as physically on the level the available fueling infrastructure). In this respect, it is also important that LNG in maritime and road transport is not disfavored compared to other environmental friendly alternatives (such as electricity);*

## 2. Storage

### 2.1 Internal market constraints and challenges for 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?**

- *The increasing dependence on gas imports in Europe (including supply of LNG) will increase the need for and role of storage since flexibility is easier to provide closer to consumption markets. In addition, gas-fired power generation as back-up for intermittent renewable energy sources requires flexible supply;*
- *Also, the need to cover peak demand will always exist even with reduced seasonal demand. Storages are also the perfect partner of intermittent renewable energy sources because they can step in both to back-up the missing output on a short notice and to cope with the surplus electricity generated by renewable energy sources (including R&D initiatives such as ‘power-to-gas’);*
- *The current market conditions (low summer/winter spreads) are not favorable for storages resulting in a low appetite to cover the supply risks with storage despite the fact that storage is a flexibility tool assuring the readily physical availability of natural gas;*

**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)?**

- *Even in NW Europe where the market is mature in terms of SoS, the unfavorable market conditions are causing more and more storage operators to install non-market based measures (such as storage obligations, etc...), a tendency which is heavily distorting the market as it is not applied uniformly amongst Europe;*
- *Hence, for storages to play an effective role within the framework of SoS, adequate filling levels are required (i.e. implying for storage users to sufficiently subscribe storage as well as to timely fill the storage);*
- *In addition, storages have increasingly to compete with other flexibility sources which are not or to a lesser extent bound by regulatory arrangements. It is thus important for storage to be able to maintain a level playing field with these other flexibility sources;*
- *Finally, as the market is increasingly demanding for “flexibility” (both on product as on tariff level), the storage operators have to be able to respond swiftly to those demands by means of a supportive regulatory framework;*

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

- *A more regional approach should be considered. On a rolling annual basis, the required filling levels for a specific region could be determined based on simulations of disruptive events and cold spells. Storage in and near the region with sufficient transport capacity to and from the storage should be able to cover such events;*

## 2.2 Storage Infrastructure

**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?**

- A certain level of storage should not be an objective per se for a Member State or region. Moreover storage needs vary widely from Member State to Member State;
- From an economic perspective, the availability of storages largely depends on the adequate geological conditions in a Member State and therefore is often historically driven (e.g. re-usability of salt caverns, etc...);
- The storage infrastructure should be part of the SoS plans (e.g. risk assessment, etc.) which should be coordinated at regional level (thereby ensuring an optimal use of all storage infrastructure) based on similar criteria and assumptions (e.g. protected customers,...);
- Finally, cross-border regulatory restrictions should be minimized in order to increase accessibility to storage in adjacent countries to maximize the impact of each storage facility to SoS for the region;

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

- Recent emergency situations (like the recent Ukraine crisis) have been addressed by gas system operators working in close collaboration;
- Market distortions amongst storages through both subsidy mechanisms and non-market based measures unilaterally installed by countries (in particular for “mature” market regions) should be avoided;

**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?**

- Current market conditions in which storage capacity is being sold at a price close or lower than marginal cost is from an economical point of view not viable and will both jeopardize new investments and trigger possible mothballing of existing capacity if persisting over the long term. One should be duly aware that those effects will be long lasting and might even be irreversible (depending on the geological structure);
- The role of natural gas in the future European energy mix and SoS should be clearly defined. Natural gas should be awarded a role as being an affordable solution to support the development of intermittent renewable energy sources while minimizing the environmental impact;
- Storages are the perfect partner for intermittent renewable energy sources because they can step in both to back-up the missing output on a short notice and cope with the surplus electricity generated by wind or solar (including R&D initiatives such as ‘power-to-gas’);

## 2.3 Regulatory framework and potential barriers for storage

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

- The existing regulatory framework is focusing and built on the assumption that storage capacity was highly demanded and hence that all available capacities would always be booked. This is no longer correct. Moreover, shippers today can choose between a variety of flexibility tools.
- Accordingly, it will be important to create and maintain a level playing field between storage and other flexibility tools. Commercial disadvantages of regulated storage compared to non-regulated storages and other flexibility tools should be avoided and minimized when applicable;
- The regulatory framework should also be flexible enough to support changes in commercial offering to swiftly cope with the changing market dynamics;
- On the level of SoS in particular, the discrepancy of SoS measures and criteria (such as protected

customers) between Member States should be minimized. The ability to monitor the compliance of the Supply Standard should further be improved;

**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?**

- Legislative initiatives should aim to avoid market distortions;
- A clear and stable regulatory framework is also required to provide the market the necessary time to organize;

**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 rules for the tariff access regime to storage should not be discriminatory compared to other market players. The actual benefits and value a respective storage facility brings to the overall gas system should be considered which is different for each individual storage (a.o. depending on its geographical location, etc.);
- Moreover, the transmission fee at the interconnection points with storages is already covered by the current draft network code on tariff structures foreseeing already an assessment of a national level. There is accordingly no need to define a specific tariff regime for storage;

**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.**

- No comment (user's point of view)

**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.**

- No comment (user's point of view)