

EC consultation on an EU strategy for liquefied natural gas and gas storage

ENTSOG answer

General observations

ENTSOG is convinced that the gas industry will remain a part of the energy system in the next decades, in which gas infrastructures as a whole will have a key role to play. Within the overall EU gas system, liquefied natural gas, gas storage, as well as the transmission network, as a whole, contribute to security of supply, market integration and competition. Wide recognition of this role is needed for the necessary infrastructures to be developed and the existing ones to be maintained.

Full implementation and development of the Third Package (especially network codes) and other existing regulations are still ongoing. Therefore the evaluation of their effectiveness has not yet been observed. Yet, this evaluation would need to be factored by the European Commission when considering any potential further action.

Furthermore, ENTSOG considers that a strategy document should focus on targets (e.g. level of flexibility or diversification) as there may be several different ways and tools to solve potential issues. Any strategy should also limit market distortion. Finally, as liquefied natural gas and gas storage play very different roles they should be addressed specifically.

In its answer, ENTSOG will focus on the EU perspective, without entering in any regional specific situation.

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.

Answer 1:

ENTSOG TYNDP 2015-2035 provides an analysis of the access to different supply sources including LNG by each Member State. Security of supply should be enhanced through competition and diversification of supply sources. There may be different ways to reach these targets therefore ENTSOG considers that definition of a level/share of LNG should not be seen as an objective per se. The ENTSOG methodology for Cost-Benefit Analysis is a useful assessment tool in this respect.

Without entering any regional specific situation, ENTSOG's opinion is that adequate interconnections are a primary remedy for single supply source dependence of a 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?

Answer 2:

ENTSOG has developed a methodology for Cost-Benefit Analysis which allows the comparison of the impact of projects independently from their category (transmission, LNG terminals and UGS) against specific criteria (market integration, security of supply, competition and sustainability). Therefore this methodology may be used to compare pipeline enhancement to connect to an existing terminal with new LNG terminal. The answer may depend on the observed case.

Cost-Benefit Analyses are an opportunity to assess projects under different supply price assumptions captured through a multi-scenario approach.

Pipelines have a high positive outcome in terms of diversification and market integration, since they could potentially flow gas from different sources (other imports, storages, indigenous productions etc.) Assuming equal amount of expenditures in interconnecting existing and new LNG terminals to the market, investment in interconnection pipelines are expected to be at lower costs than building new LNG terminals while delivering at least the same gas system integration. Anyway, a case by case analysis is needed.

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

Answer 3:

ENTSOG is convinced that the gas industry and gas infrastructures will remain a key part of the energy system in the next decades. Any further EU action would need to factor this.

Well-functioning markets sending appropriate price signals are a prerequisite for an improved use of LNG terminal. This calls for the full implementation of European regulations regarding market integration. Regarding more specifically the TEN-E Regulation, its efficiency will be observed once selected projects will have been implemented.

Further EU action, especially regarding financial subsidies, should be implemented very carefully in order to minimize market distortion and ensure efficient infrastructure use.

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?

Answer 4:

Regarding the rate of use of LNG terminals, it is intrinsically related to the relative prices of the competing supply sources.

ENTSOG is convinced that the gas industry will remain a part of the energy system in the next decades, in which gas infrastructures as a whole (LNG terminals, underground storages and transmission network) will have a key role to play. Wide recognition of this role is needed for the infrastructures to play their role.

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)?

Answer 5: No answer

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.

Answer 6: No answer

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?

Answer 7: No answer

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?

Answer 8:

As long as existing regulation is not fully implemented across Europe it is difficult to assess if there is any need for new initiatives. The TEN-E regulation will certainly support the delivery of key infrastructures even if associated benefits will only materialize after their commissioning.

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?

Answer 9: No answer

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?

Answer 10: No answer

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?

Answer 11: No answer

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.

Answer 12: No answer

Gas 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?

Answer 13: No answer

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)?

Answer 14:

Current market conditions are not adequately valorising gas storages resources. The range of functions storages play to the benefit of the whole gas system is not fully appreciated, especially in terms of:

- Flexibility provided for operating and balancing the gas network. In this connection, especially the local aspect of UGS within the network has to be taken into consideration.
- Security of Supply, as insurance against unexpected events which market players are not covering as rational economic agents (preventing a potential and vitally dangerous reputation loss of gas as energy source).

A clear and stable regulatory framework defining clear responsibilities should be designed to address these challenges.

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

Answer 15:

In principle, ENTSOG considers that market based instruments are preferable to non-market based tools, by letting gas prices reflect supply disruption or cold spell events. This requires, inter alia, the full implementation of European legislation. In cases where market based solutions might not be sufficient and there would be an insurance need for reserves to be used only in emergency conditions, the most cost-efficient way to cover it should be identified.

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?

Answer 16:

As for Question 1 a certain level/share of storage should not be an objective per se. What matters is to ensure a targeted level of security of supply and market should be primarily incentivised to deliver it.

As stated in Answer to Question 2, regarding potential infrastructures development the ENTSOG methodology for Cost-Benefit Analysis is able to provide meaningful insights.

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

Answer 17:

As stated in Answer to Question 3, ENTSOG considers that any further EU action would need to factor the fact that the gas industry and gas infrastructures will remain a key part of the energy system in the next decades. Additionally, the need for further EU action, if any, can be effectively assessed only after the full implementation of the existing European legislation.

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?

Answer 18: No answer

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

Answer 19: No answer

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?

Answer 20:

The Third Energy Package, Security of Supply Regulation and TEN-E regulation offer a wide panel of solutions able to tackle both business rules and infrastructure challenges. For this reason, full implementation of existing European legislation is necessary before assessing any need for additional initiatives aimed at addressing already defined objectives.

In addition recognition of the long term role of gas and an implementation focusing less on the short term are necessary to get full benefit from existing legislation.

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?

Answer 21:

The transmission fee at the interconnection with storages is already covered by the current draft on the network code on tariff.

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.

Answer 22: No answer

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.

Answer 23: No answer