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

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 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

From our point of view, it is important to analyse the current natural gas market organisation within the various Member States as well as the direction towards where it is evolving (or needs to evolve) taking into account the Gas Target Model. Concretely:

- Hub to hub model is developing as a step to achieve the internal energy market;
- A regional perspective is reinforced and necessary;
- There is a clear objective of maximizing the offer and use of the interconnection capacity between Member States with the aim to encourage gas flows between them;
- Regulatory harmonization and interaction between Member States are increasing

Taking into account the above mentioned, any assessment on new facilities (LNG, Storage or Transmission grids) should be contextualized in a regional and European view with the aim to maximize the efficiency of the operation of systems, the efficacy of the current and new investments and the avoidance of an uncontrolled excess of new facilities or capacity redundancy that increases costs for final consumers. This is still more important if public funds are envolved.

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?

We do not have any cost/benefit analysis to identify options for demand reduction or infrastructure development and use. However, we believe that before doing any infrastructure investment it is necessary to optimise current LNG infrastructures with the aim to avoid non-justified investments in LNG.

For Example, focus should be put on the elimination of the bottlenecks that currently still exist between the south-west and central Europe (i.e. between Grt Gaz sud and Grt Gaz nord) with the aim to encourage the flows between the south region and the European hubs, and vice

versa. This will ensure a real improvement of the security of supply, taking into account the Iberian two interconnections with Algeria, the 8 LNG plants and the high diversification level of LNG sources.

In this sense, Portugal and Spain should work together and they should be considered in the same security of supply region, reinforcing West-Europe LNG route and South (Algeria)-Europe gas route.

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

As we have said before, it is important to optimise the use of existing infrastructures to ensure that gas flows according to market demand. Moreover to what is above mentioned, NRAs should do their best efforts in optimising the use of current infrastructures by offering new products to users.

Investment efficiency should be ensured in a regional and European level, avoiding an uncontrolled facility/capacity redundancy. This is particularly sensitive whenever European funds are involved.

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?

Taking into account the global dimension of the LNG market, it is very relevant to analyse the evolution of the different fundamentals, namely demand and price by region. On the other hand, it would be also interesting to undertake an analysis on parameters such as the offered products, its characteristics, the allocation rules or the pricing methodology.

<u>POTENTIAL ENTRY BARRIES FOR LNG</u>

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.

In some Member States the optimal use of and access to LNG is underachieved due to the lack of products flexibility. If more flexibility is offered, shippers would be able to optimise their LNG contracts to their demand so use of terminals would improve. In this sense, we believe NRAs should study the possibility of offering products with more flexibility, especially when LNG capacities and terminals are underused.

On the other hand, the ongoing EU discussions on range of gas quality parameters could impact on the access to certain gas sources commercially available. In particular, a too narrow range of the Wobbe index could be problematic for some LNG deliveries (e.g existing supplies from certain North African countries as well as US future supplies). Therefore, the development of an European standard for gas quality should avoid imposing technical and commercial barriers at national and regional level to the access to LNG into Europe

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?

From our point of view, one of the most critical commercial barriers to the optimal use and access to LNG is the transport capacity to allow access from LNG terminals to other European markets.

LNG infrastructures should not only be used for supplying country demand or neighbourhoods demand, but also for accessing to other markets which are not bordering. This is coherent with the hub to hub view considered in the Gas Target Model and with the increasing interaction between Member States. In this way, if hub to hub gas flows are maximised and optimized, eliminating all possible transmission bottlenecks, Europe could use existing LNG facilities and transporting capacities from third countries.

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?

Taking into account that European gas systems are evolving towards a new context where they have well-functioning wholesale markets and well interconnected hubs, in our view regional/European view should be enhanced.
We consider a regional approach would be adequate to the current internal market organisation within Europe because:

- There is an increasing interrelation between systems through a hub to hub market structure;
- Investment efficiency should be ensured at a regional and European level, avoiding facility/capacity redundancy.

Regarding the definition of regions, a good approach would be to use the regions defined under the Regional Initiative Process.

INTERNATIONAL LNG MARKETS

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?

At an international level, it could be interesting to maintain a continuous dialogue with international partners with the aim to reinforce diplomatic relations and avoid any restraints on global market trading.

On the other side, we consider that UE has to work with the aim to increase the attractiveness of the region for the LNG flows, among others promoting well-functionning and integrated markets.

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?

Yes, as a general comment, we agree with CEER´s observation that storage competes within a wider flexibility market. However, the grade or level of actual competition between sources depends on the type of storage. Because, in our point of view the opportunities or challenges for the use of gas storage/for gas storage operators depends also on the type of storage. In this way, fast-cycling or seasonal storages have different value.

Furthermore, in our view, the development of liquid and well-functioning markets together is going to increase this competition, storage market should be adjusted if it wants to be an actual alternative. Obviously, in those cases where the storage, taking into accounts its physical characteristics, is able to offer short term flexibility.

Taking into account all the above mentioned, with the aim to know the potential value in each system, it would be interesting to make an analysis on the type of storage considering its technical characteristics, the allocation rules, current storage/strategic obligations, the product currently offered to the market, the pricing methodology as relevant input of this document.

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)?

We consider that in a well-functioning market, the value of the storage is reflected in its price, so booking behaviour will depend on the market circumstances. Also, the market conditions at a particular time and the regulatory framework will be key for determining the way storage is used, but in any case this should be part of the commercial strategies.

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

Considering the mandatory reserves in a security of supply context, EDP considers that where possible, the value of security of supply should be established in the market without the need for further intervention. So, any intervention must be at a national/regional level and designed to minimize the impact on market functioning.

However, with the aim to achieve the above mentioned situation, many Member States must consider new “steps”, in order to:

- Develop a liquid and well-functioning market,

- Create an adequate regulatory context what encourages the design and development of new storage products. This point would be limited by the technical characteristics of the existing storages.
- Adjust storage/strategic obligations. In this way, it is very important to keep the coherence between obligations and rights/tools availability during the interim period as we mentioned in the answer to the question 6. .

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?

Some of the most critical regulatory barriers to the optimal use of storage are related with the lack of flexibility in the use of storage. In some member states storage is a single product that does not permit contracting different injection/withdrawal capacities, fast-cycling products. Obviously, the offered products portfolio also depend on the type of UGSs that a system has because it is very important to consider if they are Fast-cycling UGSs o seasonal UGSs.

Together with above mentioned, there are another issues which could act as a barrier such as the pricing of products or the possible information lack.

Question 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 there?

EU level could specify some guidelines , however we consider specific initiatives should be done on a national level taking into account the specific characteristics of storages, their interaction with transmission system, the competence with another flexibility sources, etc.

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?

See answer to question 20.