

*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*

The context used in paragraph 2.2 is purpose-built interpretation of the situation. We disagree with the inclusion of the Czech Republic (hereinafter "CZ") among the most vulnerable countries for the following reasons:

- a) CZ supports the diversification as mentioned, nevertheless CZ has sufficient capacity of gas infrastructure through which is able to transport gas from other countries which have access to the LNG
- b) CZ has not been invited to join and currently is not a part of the CESEC initiative which is focused on identifying the minimal infrastructure, including LNG terminals, and which is necessary to ensure the diversification of resources and elimination of the dependence on a single supplier in Central and Southeastern Europe, while the unofficial reason is that CZ does not belong among the countries threatened by dependence on one gas supplier

The LNG terminal in Swinoujscie referred to in point 2.6 should also be included as part of the North-South interconnections in Central and Southeastern Europe under point 2.4. This terminal is an integral part of this gas corridor. Not only the construction of the LNG terminal itself, but also related infrastructure allowing access to this terminal are important for the region and for CZ.

Generally, we believe that the emphasis should be on removing barriers, ie. non-existent interconnection within the North-South Corridor. Furthermore, there should be taken measures to eliminate physical lack of capacity at interconnection points.

*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 Energy Regulatory Office (hereinafter the "ERO" or "Office") does not have any specific analysis on the issue. However, the situation is continuously being evaluated on the basis of publicly available information.

As the main obstacles to development we perceive the following factors:

- the price of gas obtained through LNG will always compete with the price of gas supplied in "classical" way over pipelines,
- negative analysis of the costs and benefits (hereinafter the "CBA") of individual projects;

- the need for long-term contracts.

Generally, we believe that the LNG terminals should be treated in the same non-discriminatory way as the other gas infrastructure projects, ie. should be constructed to be capable to cover their costs by pursuing its activities. In case of too many terminals without adequate demand for LNG on the other hand, there may be the situation similar to the situation with gas storage facilities; there will be no sufficient interest in its services, therefore the revenues will not be sufficient to cover even the construction and operation costs, which will lead to wasted resources and time.

*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 main mean of supporting the use of LNG infrastructure is the price at which you can buy LNG and subsequently transport to the area of consumption. The price for the use of LNG infrastructure should not contain any costs not relevant to its activity.

*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?*

As for the customers there may play a role the uncertainty related to the shift away from fossil fuels, as it is not clear what will be the price development for individual eco-friendly fuels.

The solution is to provide investment subsidies and incentives in the regions where investment risks associated with these projects are minimized, and does not transfer the load on system users, while the benefits are society-wide. However, there is a need for a high degree of caution as any subsidies or incentive may lead to market distortions and redistribution of funds unnecessarily spent between system users.

*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)?*

No.

*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 case of potential use of LNG CZ would approach the issue in the same non-discriminatory way as other energy sources. Based on experiences and the ERO's approach we can state that there may be barriers of various kinds. These barriers has definitely no regulatory nature as the ERO has done and will do its best to build the infrastructure with direct access to LNG terminals.

Non-existent methodologies at EU level that would secure the monetization of benefits not only of LNG projects can be considered as a form of regulatory barriers, eg. the aspect of security of gas supply, reduction of final price for customers in the region due to increased competition among traders on the gas market.

*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?*

The basic barrier is the negative outcome of the CBA analysis, on the basis of which no investor decides to implement the project. Investor wants to have the risks associated with low use of infrastructure fully covered and still wants to achieve a high rate of return. In this context, we consider full allocation of costs into regulated prices unacceptable as the increase in regulated tariffs would ultimately lead to customers shifting away from gas.

Furthermore, we believe that any additional costs included in the price for LNG would mean that it would become uncompetitive.

*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 are of the opinion that the existing legislation and policy measures are not sufficient, however, excessive exposure can eventually lead to further distortion of the gas market and the advantages of LNG over other sources of gas that, in our opinion, is in direct conflict with the ideas of creating an internal energy market where efficiently incurred costs should be compensated by the benefits to the customers.

*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?*

We expect a boom in the development of LNG, followed by saturation of the market and of LNG suppliers to these markets. However, we cannot ignore the main supplier of gas to Europe, Gazprom, which will always be able to offer gas price lower than the price of imported LNG. The result of this interaction will lead to even greater market saturation. Ultimately, this could significantly contribute to the recovery of the EU gas market.

In this context, we consider it important to mention that on the one hand there are LNG terminals, but on the other hand it is essential to provide for subsequent supply of LNG to these terminals. LNG producers tend to supply areas with higher selling price, while other stakeholders involved will put pressure on minimizing the price.

*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?*

As mentioned above, the basic problem is the cost of LNG purchased, which is at the current price level of traded gas uncompetitive in the wider region of Central Europe, including the Czech Republic.

*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?*

The ERO is of the opinion that there is no need for additional EU action.

*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.*

In our view the key problem of LNG is its higher price compared to the "classical" gas. Therefore, it should be subject of other analyses whether there is a corresponding added value for the market to compensate this higher price. We believe that based on this added value (if any) the market would be willing to accept a higher price of LNG compared to other sources.

**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 ERO's approach is that the above mentioned sources represent some form of flexibility in gas supply. Currently gas storage facilities operators primarily compete with these alternative forms of flexibility in the developing internal energy market. Each of them, however, brings a different level of flexibility, which is inter alia different in terms of price, the nature and availability. Sufficient reasons for use of these sources depend on the market structure itself in a given Member State and for that reason it is not possible to specify the advantages and disadvantages exactly.

In this context it should be noted that gas storage facilities offer especially the advantage of direct physical accessibility, i. e. they are located in a such place where gas is urgently and currently required. Nevertheless, we see the future role of gas storage facilities as a connecting element between different energy sources to create flexible and wider energy market.

**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)?*

The ERO believes that well-designed and well-functioning undistorted markets are best placed to evaluate and ensure effective level of security of supplies. Healthy competition between different sources of flexibility offers an economical and effective solution. However, we respect a possible necessary intervention by the responsible authority to prevent or correct market failures if the market situation so requires.

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

The ERO believes that it is difficult to define "the appropriate level of security of supplies," or the number of gas storage facilities which are demanded by the market. Therefore, it is not clear to the ERO what is meant by "reasonable reserves". Different markets have different characteristics and therefore an approach to monitoring and ensuring the security of supplies should be evaluated on case-by-case basis.

The Commission should focus on measures to promote a corresponding level of security and monitoring of gas markets functioning in the individual Member States rather than to seek "adequacy".

We consider Balancing Network Code an essential tool of "adequacy". This Code provides a legal framework for evaluating security of supplies.

**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?*

In our opinion definition of an optimal level of storage capacity in a Member State or region is very difficult, if not impossible, and does not make any sense in principal, because it is necessary to consider and evaluate a large number of variables (e. g. current and future characteristics of networks and interconnections, many parameters of supply and demand, scenarios and so on).

„An optimal level" considered will be determined first of all by market participants (suppliers) according to realization of their concluded contracts. In this area, we prefer a purely market principle, i.e. the demand for storage capacities providing flexibility leads to their construction and development. In this connection responsible authorities should only monitor and evaluate the availability of storage capacities and networks.

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

The ERO together with CEER believe that there is no need for other legislative action, however, the process of PCI projects selection should be more effective and efficient in this context.

The ERO also believes that the Commission should avoid a modification of the current legislation towards the advantages of one type over the other projects. In our view this approach would lead to other deformations and barriers in the gas market.

*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 and weigh those against risks to gas security and resilience? What options exist in your view to reduce the risk of stranded assets?*

The ERO believes that during the preparation of any project (that implies gas storage projects) the promoter should respect the market signals of the liquid market for as long as possible. However, in less-developed markets, particularly where the market liquidity is not sufficient, it is necessary to carefully examine the project together with the assumption of incentives or benefits. Responsible authorities i.e. the regulator and the promoter of the project should then examine an acceptable level of risk coupled with an acceptable level of shared costs related decisions of the FID.

However we believe in this context that the closure or mothballing of gas storage is typically a sign of a healthy and well-functioning market. EU member states should avoid further incentives/subsidies to sustain financially unprofitable storage facilities in operation where there is an evident excess. Undistorted market is the most efficient approach to ensure an efficient level of infrastructure.

Member State may intervene and thus affect the signals to the market only when the appropriate CBA (taking into account market participants and wider social benefits) evaluates the state intervention as the best solution.

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

In principle the basic regulatory barriers may be the storage obligation or the creation of strategic reserves to fulfill the gas supply security standards. On the other hand the same regulatory obstacle may constitute the copying a market design of a Member States in other States without respecting national or regional specifics.

We believe that the creation of strategic reserves or storage obligation may be beneficial for customers and Member States provided they are properly balanced with the needs of the market while contributing in meeting safety standards in a positive CBA analysis of this step.

In connection with answer to question No. 18 it is necessary to recall that the strategic reservoirs and storage obligation are sole elements of certainty in the context of unclear development of the future gas market provided they are transparent in respect of the domestic market and minimizing potential adverse effects on the surrounding markets.

Equally important barrier in our view is the lack of innovations in the gas storage operators products caused by regulatory obstacles.

*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?*

In this context we see the full implementation of the 3rd Energy Package and the related network codes as crucial. We believe that their correct implementation would solve many of the remaining outstanding issues and would bring about well-functioning spot and forward markets which offer the very best for the customers.

Therefore we believe that the proper implementation of the 3rd Energy Package together with the implementation of the related network codes should remain the priority for the European Commission.

Finally, proper regulatory measures are also important because their wrong setting could constitute a critical obstacle to the development of gas storage facilities. As already mentioned in the previous answer when the gas storage operators are too tied with regulations major regulatory barriers in the storage capacity market may arise. We believe that permanent innovation of the storage services and respect to the needs of the market are key factors for their successful development.

*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?*

We believe that the setting of any specific tariff regimes should be a responsibility of the national regulators (in case it corresponds with their national competences) because the national regulators can assess their impact on achieving gas supply security best. In contrast to the harmonization of procedures all national decisions should be transparent as much as possible and should respect the interests and needs of the region.

Uniform tariff regimes do not often respect national and regional characteristics of the market and could thus become a major barrier to the further development of the gas storage facilities. We believe that the European Commission and ACER should play only a supervisory authority role.

*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.*

The ERO is not aware of any problems in accessing storage facilities. In this context the ERO together with CEER believe that Third Party Access (TPA) and transparency are the two basic elements of non-discriminatory access to the storage facilities.

*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.