

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

DESFA's answer

2/10/2015

In principle DESFA agrees with the opinion of GIE and ENTSOG on the subject. Furthermore we would like to add the following points:

1. It is important to implement the existing EU legislation before adding any EU further regulation. For instance, the implementation of the Networks Codes produced by ENTSOG is expected to lead to more integration of the European networks, therefore benefiting also the utilization rate of the existing LNG terminals and underground gas storages. In particular, Interconnection Agreements between adjacent TSOs must be implemented as soon as possible.
2. The construction of new interconnections between adjacent gas networks open to third party access, is a second important policy measure for the increase of the utilization rate of existing or new LNG terminals and underground gas storages. This will contribute also to the optimal allocation of resources in a regional and pan-european level – obviously it is not economical to have one under-utilized LNG terminal for each small and relatively isolated network. Considering that LNG is by nature a diversified supply, the policy of implementing the “missing links” in the transmission networks will promote also the competition in the European gas market. Coordination of the projects in a regional level (like in the CESEC initiative) is a step to the right direction.
3. New LNG terminals are major investments; therefore their economic feasibility should be carefully examined on an ad hoc basis, of course on a long term basis. Considerations like security and diversification of supply for the respective region should be accounted for as well. Upgrades of existing LNG terminals are usually more cost-effective. The CBA methodology

developed by ENTSOG, although not tested adequately yet, is a good starting point for organising such economic decisions on a European level.

4. LNG trade is expected to grow in the future as a result of increased supplies. Although any prediction on the future prices of LNG is very pre-mature and risky, it is very possible that they will not differ substantially from those of pipeline gas- actually an increased competition is expected. Europe should be ready to exploit this opportunity.

5. Underground Gas Storages (UGSs) are always an important and necessary facility for any gas network. They serve a lot of purposes- mainly security of supply, balancing of the network and exploitation of the seasonal price spreads. UGSs are also major investments; therefore their economic feasibility should be carefully examined on an ad hoc basis- see point 3 above.

6. UGSs show very good synergy with LNG terminals since they permit greater utilization of the terminals. Although, for strategic reserves, well connected UGSs may be used even if they are at another M-S, optimization of the use of LNG terminals requires the existence of at least one UGS at a reasonable distance, typically within the M-S. UGSs also show very good synergy with gas hubs and are usually necessary for a satisfactory liquidity of the hub.

7. All gas infrastructure, including LNG terminals and UGSs, are long-term capital-intensive investments in an environment of decreasing, or at least uncertain, future gas demand. Therefore, their implementation requires stable regulatory environment and encouragement of long-term commitments that can underpin the investments (e.g. by rewarding the risk of long-term capacity reservations through the respective tariffs). Sometimes, financial assistance by E.U. funds is necessary too.