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

Estonia's contribution

LNG in the EU today

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

Estonia agrees that allowing Member States access to LNG supplies is important in terms of diversification of supplies and increasing competition in the European gas market. It is especially important in case of regions which depend mainly on a single gas supplier. The gas infrastructure must allow all the market participants to utilize the terminals to an extent that is financially feasible. The most critical issue is the fact that Member States' gas systems have a low (or in some cases none) cross-border capacity. The share of LNG in the energy mix should develop according to the market needs.

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? 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

Considering the low utilization factor of LNG terminals (2013 - 24%), the EU market in over-all terms seems to have sufficient LNG capacity. LNG has still a disadvantage compared to pipe-gas in terms of price, resulting in low usage. The second disadvantage is the missing cross-border gas infrastructure and other technical bottlenecks that create obstacles to effective utilization of existing terminals and free and market based flow of LNG between Member States. The Baltic region is already working towards this goal – PCI GIPL is under development. In the future GIPL should provide the Baltic countries access to Polish LNG and to the rest of the European gas market. Another important project is the PCI BalticConnector that will expand the regional gas market even further.

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?

Different regions use different type of LNG. Regions used to use pipe-gas with a certain quality find it difficult to use LNG that has a different Wobbe index. Secondly, the price of LNG compared to pipe-gas has its disadvantages.
The issue of possible stranded costs is something that the terminals have to address in their risk assessments.

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)?

LNG and pipe-gas have the lowest CO_2 emissions among the fossil fuels. This means that countries using fuels with higher CO_2 footprint are more motivated to use LNG as a substitute fuel to meet the CO_2 targets. At the same time, the share of LNG in energy balance depends mostly on market conditions and on the price of other fuels.

Potential entry barriers for LNG

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? 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?

The third energy market package, especially the Directive 2009/73/EC and Regulation 715/2009/EC set the main access principles to the natural gas market in Member States. According to the regulations the operators of terminals must ensure non-discriminatory access to infrastructure and contribute to the creation of a competitive gas market. The regulation sets specific third party access rules for LNG facilities. In addition the implementation of several network codes to promote integration of gas markets and develop common gas market rules is under way. The Baltic TSO-s are co-operating also under the BEMIP framework to create a common gas market in the Baltic region that could eventually also involve the Finnish gas market. Therefore the most important action at the moment is the full implementation of the existing EU legislation concerning the third party access and non-discriminatory behaviour of terminal and other infrastructure operators. It is also important to promote close reginal co-operation of gas TSO-s in order to harmonise gas market regulations of Member States.

International LNG markets

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?

The future development of the international LNG markets depends to a great extent on the developments of the LNG market in US. Shale gas developments and export possibilities are the major issues that will influence the international gas market.

Storage and storage infrastructure

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

According to the Regulation 994/2010, Member States have the obligation to secure a 30 day gas supply to vulnerable customers. Therefore a gas storage has a strategic role of guaranteeing a security of supply at affordable prices in a region. The existing EU Regulation on Security of Gas Supply should be strengthened in terms of regional co-operation. More emphasis should be placed on developing regional gas market analyses and compiling joint preventive action plans and joint emergency plans to increase the solidarity between Member States. The actions must ensure that gas stocks can be accessed by all Members States during crisis.

Regulatory frame and potential barriers for storage

What do you think are the most critical regulatory barriers to the optimal use of storage in a regional setting? 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. Do you think ongoing initiatives and existing legislation can tackle the remaining outstanding issues or is there more the EU could do?

Estonian suppliers have had problems getting access to Latvian Inčukalns UGS due to the fact that the storage is fully booked for a long period. Since the Directive 2009/73/EC requests clear third party access to storage facilities, long period agreements that hinder other market players to use the storage should not be allowed. The question is related to the necessity to secure the full implementation of the current EU legislation. Member States and the European Commission should also work towards abandoning the use of derogations under the Third Energy Market Package that hinder progress towards increased competition and interconnected internal market.

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?

EU-level rules would be justified in case the storage facility has a monopolistic position in the region.