premier TRANSMISSION

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

Response from Premier Transmission Limited

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?

Response: The major challenge ahead for gas storage is that sufficient flexibility will be available through other sources (LNG and pipeline) and for commercial storage operations this affects the ability to provide adequate returns which can impede investment in infrastructure and undermine the role of gas storage in providing network efficiencies and security of supply.

However, a growing dependence on long distance gas imports, in conjunction with a decline in indigenous production, will see an increase in the seasonal demand for gas storage, as a source of local flexibility. Gas storage can smooth the market operation and supply risks associated with the length of supply chain from gas production to centres of demand.

In the longer term, shifts in the energy mix to include a higher share of renewables will result in increased demand for gas as a flexible and low carbon means to compensate the intermittent nature of renewable energy production. Gas storage has the fast-acting ability to provide the physical gas flexibility required to support electricity security of supply.

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)?

Response: In the current market the full value of gas storage in providing security of supply is not fully recognised. Market integration, diversity of supply and sufficient sources of flexibility as well as the absence of noticeable summer to winter spread, are inhibiting the ability of gas storage to access the market and this risks provision of adequate levels of storage capacity to meet potential supply disruption or unforeseen events.

The current inter-jurisdictional arrangements that exist between GB, Northern Ireland (NI) and Republic of Ireland (ROI) in respect of cross border exit / entry rules and tariffs do not facilitate a 'level playing field' for the Islandmagee (IMSL) gas storage project to access the market.

It is vital to provide for a transparent cross-border regulatory environment which allows gas storage to operate commercially in the market, facilitating competition and incentivising the investment necessary to ensure appropriate levels of gas storage for future security of supply.

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

Response: It is PTL's view that well-functioning, liberalised markets should be able to deliver security of supply and market based measures which allow gas storage to compete on the market will ensure enough gas is in storage to meet short-term supply variability or disruption.

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?***

Response: The optimal level of gas storage in each Member State is dependent upon consumption, energy mix, sources of supply, length of supply chain and the reliance on interconnection with adjacent networks.

Any analysis of optimum storage levels needs to consider exposure to supply disruption, for example the ratio of imports to demand and the ratio of working gas capacity to short-range peak demand.

In terms of infrastructure development it is important to consider optimal storage on an EU/regional basis due to the geological and natural features required to develop gas storage.

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

Response: PTL's view is that the existing TEN-E regulation support for PCIs is vital for the development of the EU internal energy market which will provide security of supply.

However, although the TEN-E regulation can streamline the permitting process, current uncertainty surrounding inter-jurisdictional transmission tariffs can inhibit the ability to operate commercially and generate the returns necessary to encourage investment in infrastructure development.

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?

Response: Despite a projected decline in EU demand for gas, short-term and seasonal demand peaks are likely to continue and with less indigenous production to meet demand swings, gas storage can provide local flexibility. This can minimise investment in transportation infrastructure to meet peak demand, thus mitigating the risk of stranded or under-utilised (pipeline) assets.

In order to mitigate the risk of stranded gas storage assets, policy makers need to consider the significant benefits of gas storage in the economic and efficient operation of the gas network, as well as physical security of supply. Promotion of conditions which allow gas storage to compete in the market will mitigate the risk of stranded assets and provide security of supply in the longer term.

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

Response: Inter jurisdictional arrangements and regulatory conditions associated with tariff structures for entry/exit of gas networks can make access to and use of gas storage in a regional setting economically inviable.

In the GB/NI/ROI context, current inter-jurisdictional gas transportation tariffs are preventing access to market by the IMSL gas storage project. Regulatory conditions create a scenario where gas storage located inside a jurisdiction has a major advantage over gas storage located on the edge, but just outside, of that jurisdiction.

Clarity around cross-border rules is urgently required to promote use of gas storage in a regional setting.

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?

Response: From a regulatory perspective, a co-ordinated effort by policy makers is required in relation to tariff structures to ensure that:

(i) gas in storage is treated as equivalent to line-pack recognising that entry and exit tariffs have already been incurred for import and end consumption; and

(ii) where geology dictates that the most efficient location for storage is beyond a certain jurisdiction, regulatory conditions should not impose restrictions on access.

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?

Response: EU level rules are vital to ensure that market rules and tariff structures are fit for purpose and recognise the role of gas storage within a pan European energy market context and the need for greater levels of inter jurisdictional cooperation.

EU level support is fundamental to providing the correct regulatory environment for the IMSL gas storage project through the development of harmonised, transparent, inter-jurisdictional regulation for gas storage.

At national level, an assessment of the benefits of gas storage in efficient and economic network operation is required to ensure regulatory conditions reflect this and enable development of gas storage infrastructure.

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.

Response: There are situations where transmission costs and cross-border tariffs associated with accessing gas storage across jurisdictions (as in the case of IMSL gas storage project) will create economic impediments to access.

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