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Response to a consultation on an EU strategy for liquefied natural gas and gas storage

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

Answer: When developing new gas infrastructure in the Baltic Sea Region, the national characteristics of each market must be taken into consideration. In the BEMIP Region, the challenges related to the infrastructure development are currently related to the declining gas markets in the Baltics and Finland. At the moment there is plenty of transmission capacity to the region and building any of the proposed new infrastructure investments will not bring any new gas consumption and thus, are not justified investments to the companies. In addition, imported LNG to the region seems to be more expensive than the currently available pipeline gas and therefore the utilization rate of the regional LNG terminals would be very low.

Since the start of Connecting Europe Facility program, the LNG-market in the Baltic Sea region has changed remarkably. Before it was only possible to source LNG directly from the producers at large cargoes while there was no reloading possibilities in the existing LNG-terminals and only large scale ships were in the market. Currently reloading possibilities exists and smaller LNG ships exist also creating the possibility to have some smaller LNG import terminals in the region instead of few larger ones.
Currently there is no clear perspective of LNG's share in the Finnish gas market. It must be noted, that in Finland the LNG market is currently developing in the off-grid area. This market development including small-scale LNG terminals should not be regulated in a similar manner as a market based on large-scale import LNG terminals.

In order to guarantee the success of gas infrastructure projects in the region, we must ensure their economic viability and prevent additional costs for the existing gas users. It is of crucial importance that the scale and timetable of the projects are based on the actual market demand.

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?

Answer: In Finland, LNG investments are currently feasible options in locations where gas pipeline system does not exist, which is the case in most of Finland. The transmission grid covers only southeastern part and distribution networks are practically non-existing. The investment cost of a pipeline infrastructure in a sparse populated area is too high in order to make economic sense.
Instead of building the infrastructure (pipeline) to connect the markets, it seems that more cost- efficient option is to reload LNG from existing LNG terminals and transport it to smaller scale terminals. The basic question is still the price of LNG compared to the price of pipeline gas as LNG cannot currently compete against pipeline supplied gas.

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

Answer: In order to guarantee the success of any new gas infrastructure projects in the BEMIP region, we must first and foremost ensure their economic viability and secondly prevent any additional costs for the

existing gas users. It is of crucial importance that the scale and timetable of any new projects are based on the actual market demand. Hence, the regulation is not the answer, market demand is.

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?

Answer: The uncertainties related to stranded assets and lock-in effects are high. Moreover, this question reflects the ongoing contradictions in EU's energy policies, envisaging the need for more gas infrastructure investment while at the same time reflecting reluctance to acknowledge the vital role of gas in the overall European energy mix. Acknowledging this vital role will give positive signals to investment, make Europe a more attractive market for suppliers, reducing the risk of stranded assets.

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 costeffective 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 costefficient balance between these different options in different areas, including over the long term (i.e. up to 2050)?

Answer: In Finland, the currently developing small-scale LNG infrastructure (2016 in Pori, 2017 in Tornio) in the off grid area already offers industrial users and transport (road, sea) a cost-efficient way to replace oil-based fuels with less polluting LNG. Moreover, gas companies in Finland have already liquefied 100% renewable Finnish biogas (i.e. bio-LNG). Hence, the LNG infrastructure and end-users can in the future use renewable energy. The key is to utilize and maintain the infrastructure so that it can offer maximum biogas-based benefits in the low carbon future.

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.

Answer: As LNG infrastructure and market is only developing in Finland, there is no experience of regulatory barriers in the meaning of the question above. However, regulation might cause a barrier for the investment in an LNG terminal. This is the case when an LNG terminal is built into a new market area not having a connection to the grid and a third party access is immediately required for the terminal after completion without any exemption period. In this case the investor develops the market, takes the risk and makes the investment but has to give the first mover advantage to its competitors via open access to the terminal. In addition, the national characteristics of each market has to be taken into consideration and there should be no regulatory "one size fits all" approach.

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?

Answer: In Finland, the market is currently only developing and too much unnecessary regulation in the emerging market prevents the optimal market-based development. In addition, the uncertain policy of the EU towards gas (both pipeline and LNG) is a source of concern to European gas companies, and risks making Europe look unattractive as a market. In general, there should be trust that the markets will define the optimal ways to use the infrastructure.

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?

Answer: In general, EU regulation leaves some room for national interpretation but it is often the national authorities' and other regional actors' interpretations that prevent or harm the market development.

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*?*

Answer: No opinion at this point.

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?

Answer: No opinion at this point.

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?

Answer: Demand for gas in transport has significant potential. Its case is supported by environmental, economic, and technological drivers. The advantage of Europe as the technological leader globally in use of gas for transport should be strengthened. LNG offers real and significant advantages for long-distance travel (trucks), in urban areas (busses) and in maritime transport. The EU could provide regulatory support for the further development of alternative fuel market in the transport sector i.e. a certain number of public transport should utilize biomethane produced according to the principles of circular economy.

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.

Answer: In Finland, the currently developing small scale LNG infrastructure (2016 in Pori, 2017 in Tornio) in the off-grid region already offers industrial users and transport (road, maritime) a cost-efficient way to replace oil-based fuels with less polluting LNG. Moreover, gas companies in Finland have already liquefied 100% renewable Finnish biomethane (i.e. bio-LNG). Hence, the LNG infrastructure and end-users can in the future use renewable energy. Developing the LNG market with small scale terminals and market-based transport refueling infrastructure can be utilized with biomethane in the future and hence, they must also be looked as investments suitable for the carbon neutral future.

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?

Answer: Finland has no gas storages. Alternative fuel solutions have traditionally been used as SoS reserves, while domestic biogas production and off-grid LNG have been developed recently to present a potential future solution.

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)?

Answer: No opinion at this point.

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

Answer: No opinion at this point.

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****?*

Answer: No opinion at this point.

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

Answer: No further EU action is required, only a firm resolve to follow-up on the policy of promoting well-functioning regional markets.

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?

Answer: In Finland, the currently developing small scale LNG infrastructure (2016 in Pori, 2017 in Tornio) in the off grid region already offers industrial users and transport (road, sea) a cost-efficient way to replace oil-based fuels with less polluting LNG. Moreover, gas companies in Finland have already liquefied 100% renewable Finnish biomethane (i.e. bio-LNG). Hence, the LNG infrastructure and end-users can in the future use renewable energy. Developing the LNG market with small scale terminals and market-based transport refueling and industrial infrastructure can be utilized with biomethane in the future and hence, they should also be looked as investments suitable for the carbon neutral future. It is of crucial importance to assure that the existing and currently developing gas infrastructure is being utilized and maintained while the low carbon market is developing so that the infrastructure can offer the maximum support in the low carbon future.

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

Answer: No opinion at this point.

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?

Answer: No opinion at this point.

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?

Answer: When developing gas infrastructure, the national characteristics of each market has to be taken into consideration. Hence, national measures together with regional cooperation should be prioritized.

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.

Answer: No opinion at this point.

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.

Answer: No opinion at this point.