EDISON

EUROPEAN COMMISSION – CONSULTATION ON AN EU STRATEGY FOR LNG AND GAS STORAGE

STORAGE QUESTIONNAIRE

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?**

A robust, liquid and integrated EU gas market remains a fundamental pre-requisite to ensure optimal use and development of gas storages, to allow the recognition by the market to the maximum extent of their economic value and, more in general, to enhance competition and security of supply. On the other hand, gas storages are an essential element for the well-functioning of an integrated gas market, particularly in mitigating price spikes.

Demand scenarios in Europe remain crucial in supporting the business case for infrastructure use and development, in a market driven environment. The declining domestic production in EU, leading to high dependency rates under all scenarios (including the ones with full implementation of climate policies), and the fact that several long-term contracts for gas supplies to Europe will approach their expiry date are contextual elements supporting a strong case for the present and future role of gas storages.

Gas storages remain particularly important in covering peak demand, and in granting both security of supply and a flexible and secure operation of the gas and electricity systems. Here we share the view, already expressed by CEER, that gas storage maintains three types of value: system value to meet the needs of seasonal demand, insurance value for security of supply, as compared to other sources that can offer the same flexibility service, and price variation / arbitrage value (winter-summer spread).

The main challenge today is to reflect in an adequate economic value the contribution that gas storages bring to the energy system, in terms of security and even more in terms of flexibility, at times when this is becoming a more and more indispensable feature for the functioning of our energy markets.

Current market conditions (low summer-winter spread) and price volatility negatively affect the economic value of storages, possibly with operational consequences, including mothballing, which may lead to severe consequences for the overall security of the energy systems. Not taking into account the strategic value of storages and their contribution to the overall security of the system carries the risk of downplaying their economic value / profitability, and the financial viability of new investments.

Market and regulatory conditions can both affect the value of storage. A stable and supportive regulatory framework, consistent with investment cycles, is therefore key.

Storages infrastructures and their contribution to the energy security should be assessed to the extent possible at regional level, in a systemic way with other relevant infrastructures (LNG, transport network, interconnections). This would also allow to fully exploit gas storages as a source of flexibility for the overall system, for storage operators to develop new products to the benefit of storage users and market participants.

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)?

Market and regulatory conditions can both affect the value of storage. A stable and supportive regulatory framework, consistent with investment cycles, is therefore key. Consequently, it is very important in our view that present and future regulatory conditions assure competitiveness to storages as compared to other sources of flexibility (pipeline contracts, LNG import, demand response and interruptible contracts), nor the flexibility that allows users to use gas storage.

For storages to fully contribute to ensure energy security in case of disruption or unforeseen events, supportive market and regulatory conditions remain a pre-requisite, and we believe that even during emergency situation, and as long as possible, market-based measures should be the main reference also to ensure security of supply. Liquid, well-functioning and transparent wholesale market also remain crucial to this aim. Non-market based measures shall be designed in such a way that the competitiveness of gas storages is not undermined during normal market conditions, and should only be activated during an emergency, they should be limited in time and should be evaluated at national level, duly reflecting national circumstances for well-defined security of supply purposes.

Furthermore, in order to allow storage play a significant role especially in critical periods, the issue of **commercial vs. technical available storage capacity** needs to be addressed. Indeed - having in mind the current situation we have in Italy - artificial restrictions to the use that storage users can make of their booked capacity might result in a situation where storage is not allowed to fully contribute – as a balancing tool - to the market. For this reason we believe that - when it occurs - the mismatch between commercial and physical capacity – deriving from administrative constraints - should be removed.

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

We think that, especially in terms of security of supply, the key point is to ensure an adequate allocation of storage space as well as the offer of flexible products (even if this shouldn't be necessary considered as an "alternative" to mandatory reserves). To this respect:

- It is very important to provide market players with the right signals of scarcity, so we consider auctions the more appropriate way to allocate gas storage capacity. Regarding the price rule, the reserve price should be designed as to allow extracting the full value of storage in the auction avoiding market distortions.

- Storage capacity should be associated to flexible withdrawal and injection services, in order to make the products of interests for a wider range of users. For example, the availability of other products than seasonal ones may increase the interest of market players that supply power plants, in order to better respond to their balancing needs.

We also believe that storages infrastructures and their contribution to the energy security should be assessed in a systemic way with other relevant infrastructures (LNG, transport network, interconnections), and to the possible extent at regional level. Cross-border access to storages should be allowed in Europe across member States, to the extent possible, also during emergency situations and unforeseen events. This would increase the possibility to cope with emergencies by relying on market based measures, and would increase the optimization and contribution of storages in terms of security and flexibility.

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?***

Peak demand in a given national system can help in identifying the optimal level of storage in a Member State, and national preventive and emergency plans can indeed contribute to this end as per Regulation 994/2010/EU. In general we believe that peak demand should be addressed at national level.

We believe that new investments risk, if shouldered by storage users only, and with the current market conditions, risk to be very high, therefore some investment costs, in a regional approach and having in mind the contribution of storages to the overall security of the system, could be socialized in a more efficient way.
In this regard, within the context of a public policy such as the Connecting Europe facility Program, and having in mind the common interest of energy security, financial support for gas storages can be very important, although we note that the a more specific Cost-Benefit Analysis for storages should be envisaged, to tackle specific contributions of storages to the energy security at regional level in case of cross-border access.

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

As stated in the previous question, when a common interest (i.e. energy security) is identified, or within the context of a public policy (i.e. programs such as Connecting Europe Facility) programs to support infrastructure development and financing instruments (grants) become crucial for storages especially in the current market conditions (aforementioned problems), to strengthen the economics of new infrastructures.

Regional CBAs tailored for storage infrastructure, will help to better allocate the costs having in mind the intrinsic contribution of storages for the system security and flexibility.

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?

Demand scenarios in Europe remain crucial in supporting the business case for infrastructure use and development, in a market driven environment. The declining domestic production in EU, leading to high dependency rates under all scenarios (including the ones with full implementation of climate policies), and the fact that several long-term contracts for gas supplies to Europe will approach their expiry date are contextual elements that contribute to maintain a strong case for the present and future role of storages in Europe.

LNG, storages and gas infrastructures positively contribute to the generation mix, since they can complement the transition towards a low carbon energy system, ensuring at the same time flexibility and security to the energy system. A strong EU ETS with stable, robust and long-term CO2 price signals is a necessary element for this transition to happen.

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

As stated before, the regulatory framework is crucial in ensuring viable investment cycles and in promoting the optimal access to energy infrastructures, both during normal market conditions and at times of distress, having in mind the specific national circumstances.

Having in mind a regional setting for gas infrastructures we believe the barriers hampering cross-border access to gas storage capacity across member States may be relevant, and their mitigation would contribute, to the extent possible, to optimize the capacity and increase the range of products and services that storage operators could offer to users and market participants.

We wish to stress the importance of tariff methodologies capable of reflecting the storage system value, taking into account the three types of value recognized also by CEER: system value to meet the needs of seasonal demand, insurance value for security of supply, as compared to other sources that can offer the same flexibility service, and price variation / arbitrage value (winter-summer spread).

In addition, regulation shall implement fair conditions to not penalize the storages' customers, in particular with reference to the transmission tariffs applicable to entry/exit points of connection to storage facilities, that often are at a level that adversely affect the use of the storages.

Finally, and on a separate note, the way gas storage infrastructures are classified across Europe (i.e. productive vs. non-productive activities) can lead to substantial changes in the fiscal regimes they are subject to, resulting sometimes in heavily penalizing situations for their economic value and

competitiveness. A common understanding of the way gas infrastructure are categorized across Europe, as per the type of activity, would help in easing these elements, potentially leading to market distortions.

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?

Full implementation of the Third Energy Package will hopefully contribute to have a more harmonized regulatory framework across Europe. For example, concerning transmission tariff from and exit points to storage facilities, they should be set in different countries taking into consideration the same common principles (like, the net benefits that the storage facilities may provide to the transmission system;, the need to promote efficient investment in the transmission system etc.). This in order to be in line with the future Tariff Network Code.

We also think that the Balancing Network Code (BNC) might have a great impact on the role of storage, but this will largely depend on the way the balancing reform will be carried out in each Member State. For example, in Italy the system currently under study will imply the possibility for storage users to re-nominate their storage capacity during the day. More in details, we are facing a transition from a system where storage was basically managed by the TSO to a more market based system where the physical flows from and to storage will be determined by shippers' nominations during the day. It is important that, especially in this transitional phases towards the new market based balancing system, storage rules are set in way to provide users with the maximum available flexibility, in line with the requirements of the BNC.

It also important to remark that the flexibility required by the BNC and the Cam Code at the interconnections points, allowing shippers to buy daily/intraday capacity products and to re-nominate the gas flows during the day can have a positive effect on the cross border usage of storages. Indeed one could also take advantage of the flexibility provided during the day from a storage placed in another MS.
To this respect, it is important that also Switzerland - that is not obliged to implement the IIIP – stipulate voluntary agreements in order to implement to a large extent the provisions of the IIIP. Indeed, there are several interconnection points with EU MS (like the one with Italy, Passo Gries) that are not touched by the EU laws and that, for example, are not obliged to provide capacity products on an intra-day basis.

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 think that a national approach should be kept, when talking about storage tariff, also considering the different regulatory regime that a MS can have chosen (negotiated or regulated)
On top of this, we think that a distinction should be made between the price that market players pay for storage services and the regulated tariff that should be guarantee to storage operators.

Concerning the price , we have already expressed our vision in Q15.

Concerning storage tariff, it is crucial that they are set in a way that guarantees an adequate remuneration to storage operators and a stable regulatory framework for gas storage throughout the investment duration/cycle. Of course, a compensation system is required (considering that today the auction price is very low) and the one we have for example in Italy recovers the difference to be guarantee to storage operators via transmission system.

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.

No, Edison has not experienced particular difficulties in accessing storage facilities
However, we think that, at least in Italy, the main barrier that limit the usage of storage is the lack of flexibility offered to market players
In particular, we consider the limits to the daily withdrawal capacity defined at ministerial level very restrictive; we think that greater flexibility could be obtained removing the daily constraint to take advantage of the possibility to modulate between weekdays and weekends, while respecting the constraint on a monthly basis. More in general we think that new products with flexible injection and withdrawal profiles should be set, in order to promote the usage of storage.

Technical barriers mostly depend on the type of storage and its characteristics. This should also be reflected in the way costs and remunerations are assessed and determined.
A regional approach would allow an optimization of gas storage in Europe.

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.