



## Answers to the Commission Consultation on an EU strategy for liquefied natural gas and gas storage

### 1. Responses to consultation – LNG section

#### 1.1. LNG in the EU today

*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.*

No comment.

*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?*

No comment.

*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*

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Czech Chamber of Commerce (subscribed to the European Commission's Register of Interest Representatives as requested by the European Transparency Initiative, ID number 7829357255-35) is a self-governing organisation of entrepreneurs representing approximately 13 500 members that consistently defends their interests in the Czech Republic and the EU. Czech Chamber of Commerce network consists of 14 regional chambers of commerce, more than 60 local chambers actively operating across the entire Czech Republic and more than 80 trade and crafts associations and unions.

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*infrastructure could be improved e.g. by better storage possibilities, better network cooperation of TSOs or other measures? Please give examples.*

No comment.

*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?*

No comment.

*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 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)?*

No comment.

## **1.2. Potential entry barriers for LNG**

*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.*

No comment.

*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?*

No comment.

*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?*

No comment.

### **1.3. International LNG markets**

*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?*

No comment.

*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?*

No comment.

#### **1.4. LNG technology issues including LNG in transport**

*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?*

No comment.

#### **1.5. LNG sustainability issues**

*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.*

No comment.

## **2. Responses to consultation – Storage**

### **2.1. Internal market constraints and challenges for storage**

*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?*

As regards LNG and pipeline gas, we see the role of storage facilities as complementary rather than competitive. Gas piped from distant production fields in non-EU countries needs to be stored close to centres of consumption given the seasonal nature of gas demand and in order to ensure security of supply; while LNG offers the possibility of storage, the limited volumes and high costs make this option more suitable for peak shaving and short-term balancing.

Increase the security of gas supply through an increase in storage capacity of natural gas is certainly the right way, but it must also be taken such measures to prevent the distortion of market environment with gas in the Czech Republic.

*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)?*

The current conditions on the flexibility market are harming the gas storage business and this could have negative consequences in the long run. Summer-winter spreads, the main indicator used by storage users to value storage capacity, have not recovered from their fall which started around 2010/2011 and remain at between EUR 1 and 2 per MWh. Gas price volatility, another variable that can stimulate storage bookings by storage users who would like to make use of shorter-than-seasonal fluctuations in gas prices, has also decreased significantly from around the same time with only occasional spikes, further denting demand for storage and the prices that storage users are willing to pay for it. There are no signals that fundamentals will change in the medium term, with suppliers making use of the increased liquidity on the spot markets as their preferred source of flexibility and producers offering more swing in their supply contracts. Coupled with this is the trend in many Member States for storage users to inject less gas into storage before winter than was the case in the past.

There are various aspects of the market and regulatory conditions that could be improved to allow gas storage facilities to fully play their role in addressing supply disruptions and other unforeseen events as well as providing seasonal and short-term balancing, helping commercial arbitrage.

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

By definition, market-based instruments cannot guarantee a minimum storage filling level because it is up to market players whether and how much storage capacity they book and

how much gas they actually inject into storage prior to winter. Their decisions are based purely on market developments including spot prices and forward prices.

However, there are many market-based tools that can incentivize the use of storage, including very high penalties that network users pay for system imbalances during emergencies like in the UK; enabling the TSO to pay for a certain volume of gas to be bought and stored by suppliers to be used in emergencies like in Denmark; or setting transmission tariffs to/from storage facilities low so that suppliers and traders find their use easier and commercially more attractive.

## **2.2.Storage infrastructure**

*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?*

We believe that doesn't exist one-size-fits-all model. The optimal share of storage is dependent on conditions and decisions of individual member states. Resolving way increase the capacity of underground gas storage facilities must be only part of a complex of measures taken. The increase may also be disposed of natural competition in the sale of gas.

Overall, we believe that the EU has adequate storage capacity with the exception of a few Member States such as those located in SEE.

In general, there are many factors that need to be taken into account when considering an optimal level of storage in a Member State, including:

- Import and single-source dependency,
- Demand ratio between summer and winter,
- Ability to cover seasonal modulation needs and peak demand using other sources of flexibility,
- Structure of gas demand,
- Capacity of connections to other countries,

- SoS concerns, and, last but not least,
- Geological conditions (if these are not right, no storage can be built).

As regards initiatives aimed at boosting storage infrastructure development, a simple measure would be to ensure that sufficient firm transmission capacity to/from storage facilities is available to storage users. As regards financial support from the EU for those Member States with no or limited storage capacity, both TEN-E and CEF should be modified to be better suited for storage projects than their current incarnation, which is heavily skewed towards transmission projects.

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

See reply to Question 16 above.

*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 weigh those against risks to gas security and resilience? What options exist in your view to reduce the risk of stranded assets?*

First and foremost, the EU must make it absolutely clear that natural gas will be a part of the European energy mix going into the future to assuage any doubts that investors and infrastructure operators may have with respect to the future of their business and the return on their investments into new infrastructure as well as into maintenance and operation of existing infrastructure.

Second, the EU ETS system needs an overhaul so that cleaner technologies such as natural gas can compete against less clean technologies such as coal on an equal footing, with external costs being taken into account.

Third, subsidies for mature renewable technologies should be quickly phased out as they distort the internal energy market.

### **2.3. Regulatory framework and potential barriers for storage**

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

Assuming that using storage in “a regional setting” refers to utilizing storage capacity across Member State borders, we believe that cross-border flows must be ensured even in emergency situations and that Regulation (EU) No. 994/2010 should be more explicit in saying that. Also, there are real barriers to cross-border flows that should not be overlooked in the form of insufficient firm transmission capacity and/or and lacking reverse flow capabilities at many interconnection points between Member States.

*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?*

It is crucial to ensure the proper implementation of and compliance with existing legislation before launching new initiatives. It is common knowledge that some Member States are yet to fully implement the 3rd Energy Package or Regulation (EU) 994/2010. Often, already available measures are sufficient to tackle new problems and should be used as opposed to constantly changing the regulatory framework which makes compliance ever more costly and difficult.

Having said that, we recognize that some legislation such as the mentioned Regulation, needs updating to reflect practical experience gained in the past few years as well as the opinions of various stakeholders voiced in public consultations organized by the Commission.

*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?*

A specific transmission tariff regime for gas storage facilities is a very good idea if it reflects the unique nature of storage facilities, taking into account that gas storage is not





a net source of supply or demand and that users have already paid or will have paid entry/exit tariffs at import/production and at end consumption. As with all transmission tariffs, any specific tariffs applicable to storage facilities must be cost-reflective and TSOs should be required by NRAs to substantiate them in a transparent manner.

*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 comment.

*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.*

As stated in our reply to Question 16, storage users are often limited in using storage facilities by the fact that transmission capacity to/from storage is offered only on an interruptible basis or in volumes that are below the maximum technical injection/withdrawal capacity of the given storage facility.

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