

Commission Consultation on an EU strategy for liquefied natural gas and gas storage Responses to consultation from Islandmagee Gas Storage Limited

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?

Europe will remain the balancing market for LNG over the next decade which may depress gas prices at times of expected oversupply. However the global nature of the LNG market means Europe will remain vulnerable to global events affecting the price of LNG and the possibility of delays or cancellation of LNG liquefaction projects

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?

The supply projections which indicate that Europe is adequately supplied with gas have suppressed the volatility within liquid markets in Europe, which is traditionally necessary for the commerciality of gas storage facilities. However the increasing length of the global gas supply chain and increasing penetration of renewable underpins the need for further development of medium to fast acting gas storage facilities both for security of supply (to be able to react quickly to unexpected events or in times of undersupply to provide gas to the market without the time lag associated with LNG sourced supply) and to provide the flexibility needed for the efficient operation of the gas networks which will become increasingly difficult to manage with higher levels of renewables and a longer supply chain.

Increasing reliance on LNG could have a negative impact for the development of storage by depressing volatility and spreads whilst simultaneously increasing the need for physical storage capacity to manage security of supply and minimise price risk associated with LNG

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)?

Current market and regulatory conditions means that the value gas storage provides in terms of addressing supply disruption and unforeseen events is not recognised and has dis-incentivised the operation and build out of gas storage facilities in the UK and Ireland.

Cross border entry/exit rules and tariffs inhibit investments in gas storage, for example the cross border entry/exit rules and tariffs arrangements across GB, Northern Ireland (NI) and the Republic of Ireland (ROI) disadvantage investment in gas storage on the island of Ireland as they do not facilitate a level playing field for a gas storage projects to access the market.

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

In some cases regulatory incentives may be required for gas storage to ensure that adequate levels of storage are available across Europe to provide security of supply and the necessary flexibility tools that will become increasingly necessary going forwards.

Some form of market-based instruments is required in the UK and Ireland to incentivise investment in gas storage facilities to ensure adequate minimum reserves. This could be done through a number of market based instruments including providing a revenue floor for storage operators or TSOs auctioning for flexibility services in the market.

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?

Optimal levels of storage will vary by each member state dependent on their access to other sources of gas supply and flexibility, in particular indigenous sources of gas. However in determining the level of storage required particular attention should be focused on a member state's ability to meet peak demand over a short term period and the level of responsiveness of other flexibility sources, for example the time lag in receiving LNG cargoes in response to market signals/events.

Additionally regional issues within member states should also be considered in determining the optimal level of storage, for example Northern Ireland as a region of the UK is wholly dependent on 100% imported gas supply through an interconnection point located onshore in Scotland. Any outage at this interconnection point (or a supply disruption in GB) would have a catastrophic impact on Northern Ireland which could be offset by the presence of physical gas in storage.

In terms of infrastructure development we see the main issue in relation to storage in the UK and Ireland as specifically being related to regulatory mechanisms. The removal of cross border regulatory barriers is essential if gas storage in one Member State is to be accessible and deliver benefits to other neighbouring Member States. The tariff structures for entry/exit of gas networks at interconnection points between jurisdictions make access and use of gas storage in another member state economically unviable.

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

EU wide initiatives are required to eliminate cross borders tariffs to access gas storage, which make it economically prohibitive to use storage in a neighbouring member state

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?

Gas will be increasingly important fuel to bridge the transition to a low carbon energy market. Overall gas demand is forecast to decline however daily peak day demand is forecast to remain static or increase and fast acting gas storage will be required to provide the flexibility tools necessary for the efficient operation of gas networks across Europe to support this transition. In this scenario gas storage acts to avoid stranding extra pipeline capacity that has been built out.

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?

Transmission tariffs are a significant barrier to the optimal use of storage. The layering of transmission tariffs (incurring entry/exit tariffs at interconnection points etc.) makes it economically prohibitive for gas shippers in one member state to store their gas in another member state.

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?

A co-ordinated approach in the work the Commission, ACER and EntsoG are undertaking on the EU network codes to ensure that jurisdictional transmission tariffs (entry/exit tariffs) do not prohibit one member state accessing gas storage in another member state. As gas storage locations are driven by the availability of the right geology the only appropriate location for a gas storage facility for a member state may be in another jurisdiction however the current regulatory barriers would make this approach economically unjustifiable

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?

Yes EU level rules should be applied on transmission tariffs for storage to ensure that neighbouring member states are not prevented from accessing storage facilities which could considerably enhance the security of their gas supply. In determining these rules it should be recognised that gas storage is not a net source of supply or demand and that users will have paid/will pay entry and exit tariffs at import /production and at end consumption.

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.

The costs for a GB or a Republic of Ireland (ROI) customer to access a planned gas storage facility in Northern Ireland (geographically closer to ROI) are significantly higher than a GB or an ROI customer accessing gas storage in GB due to the entry/exit tariffs being levied at interconnection points between jurisdictions

However, as previously noted, in some cases transmission charging arrangements can render storage capacity uncompetitive relative to other sources of supply, it is important for such impediments to be addressed.

