

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 1:

In general, we agree with the initiative of the diversification of gas sources and utilizing to the maximum extent the existing and developing the respective necessary new interconnecting infrastructure within Member States in terms of availability of LNG gas supply. From the current perspective this may be an interesting alternative mainly for countries with direct access to onshore LNG terminals and only limited alternative for landlocked (neighboring) countries.

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 2:

-

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 3:

-

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 4:

-

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 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)?

Answer 5:

-

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 6:

-

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 7:

-

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 8:

-

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 9:

-

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 10:

-

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 11:

-

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 12:

-

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 13:

Challenges:

1. Lowering the overall gas consumption, including the “peak” gas consumption e.g. in power generation, which is being replaced by coal and RSE. This trend results in lowering the flexibility value of storage offered by storage users to SSOs.
2. Abundance of “flexibility” on the gas market stemming from (i) increased availability of LNG supplies in Europe, (ii) rapid development of the short term bilateral and organized gas market where gas can be sourced flexibly and for competitive price, (iii) growing number of market participants, (iv) pipeline supply contracts flexibility.

Overall result from point No. 1 and point No. 2 is low storage price environment for SSOs.

Opportunities:

1. Potential maximization of existing storage infrastructure while new or modified transportation routes are planned/realized as storage is always needed on the route from the area of gas production to the area of gas consumption.

3/6

2. Enlarging the storage products portfolio of SSOs under influence of increased dynamics of gas market demanding innovative storage products.
3. Potential role of storages as back up for providing the power production from gas as replacement for RSE in cases that “wind does not blow and sun does not shine”.

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 14:

In order to reflect the market conditions we point the attention to the challenges and opportunities described in answer to Question No. 13. In order to stimulate the market participants including SSOs to play the adequate role in addressing supply disruptions or other unforeseen events the regulatory conditions should respect the regional differences between particular European gas markets. While designing the regulatory conditions to answer security of supply question, particular mix between domestic gas production, consumption vs. storage capacity ratio, level of transportation routes diversification, market maturity and regional specificities including regional energy mix should be considered.

In regard to SSOs, adequate level of storage asset utilization flexibility and innovative product development dynamics should be allowed. As relevant we also consider creation of stable environment for long-term investments into network infrastructure in order to maintain the strategic position of tool for security of supply

Last but not least, we would like to stress, that the primary responsibility for security of supply lies on the shoulders of market participants directly providing the gas supply, whereas the storages are the best measure to achieve that security.

Question 15:

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

Answer 15:

Fully functioning liberalized interconnected market with sufficient amount of market participants that can freely trade the commodity and services related to the commodity delivery can be market based alternative to mandatory reserves. Reducing and/or removal of potential infrastructure bottlenecks and diversification of transportation routes in order to provide the gas sourcing alternatives and arbitrage opportunities between the markets could contribute to optimal usage of storages with sufficient level of stocks physically available close to the consumption area in given time. Innovative and market demanded storage product development from the side of SSOs can support the optimal balance between utilization of currently available flexibility tools. Considering current status of regional infrastructure development, supply/demand balance and market maturity, suitable mix between market based and regulatory measures for providing the security of gas supplies seem to be an answer.

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 16:

The gas storage plays crucial role in providing the security of gas supplies but optimal level/share of storage in a Member State or region depends on (i) the level of involvement of supplementary physical security of gas supplies measures e.g. gas production possibilities in the region, level of interconnection of gas infrastructure with neighboring markets, alternative gas sourcing (LNG, etc.), regional gas market maturity enabling effective gas trading and also on (ii) regional specificities especially energy mix. Prior to any infrastructure development initiative, a cost/benefit analysis respecting regional specificities should be conducted, including assessment of optimal usage of existing storage infrastructure.

Question 17:

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

Answer 17:

-

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 18:

When discussing the question of stranded assets and lock-in effects, it is important to consider the (i) physical and geological characteristics of depleted field storages, which cannot be very effectively mothballed and (ii) the security value of gas storage providing the security of gas supply in unforeseen times of high gas demand. In terms of future projections of gas demand related also with higher level of RSE introduction, besides the conventional role of gas storage, we see role of gas storage rather as opportunity than challenge with possible functioning as back-up source for providing the gas powered electricity production. As for SSO, in order to remain fully functioning and highly utilized to avoid stranded asset, lock-in effects and remain competitive flexibility source in current circumstances, it is important that SSOs are enabled to offer the storage products which are highly attractive to the market.

Question 19:

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

Answer 19:

Regulated prices for access to storage from/to transmission network domestically or cross-border set at unreasonable high level may cause a barrier to the optimal usage of storage infrastructure.

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 20:

In general regulatory framework should enable the SSO to create and offer the storage services to gas market participants, which are currently demanded in dynamic environment of gas sector in order to stay competitive to other flexibility tools available on the market.

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 21:

Determination of the tariff regimes should be done exclusively on the national level in order to reflect regional specifications. However, current regime of negotiated access to storages applied in Slovakia proved sufficient for fair price discovery.

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 22:

POZAGAS offers access to storage based on transparent and non-discrimination basis. Storage capacity is typically bundled in the way that all market players regardless the size of the needed storage volume may be awarded with storage contract if access conditions are met. Market participants also have possibility to customize standard storage products and therefore increase the chance of allocation of products of their needs.

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 behavior, technical problems) in detail.

Answer 23:

-