



Stakeholder workshop on the
Follow-up study to the EU's LNG & storage strategy

GIE / GSE presentation

27 September 2017, Brussels

Agenda

The full value of gas storage. Is security of supply at risk?

- The merchant gas price is not reflecting the value of gas storage
- Gas storage market failures need to be recognised as SoS is at risk
- It seems timely to highlight the social benefit of the gas storage

Storage related SoS measures

The merchant gas price is not reflecting the full value of gas storage

	The full value of gas storage	The market gas price of gas storage
The intrinsic value (Summer–Winter spread of gas prices)	✓	✓
The extrinsic value (The volatility of day to day prices)	✓	✓
The insurance value	✓	✗
The system value	✓	✗

The merchant storage gas price

- is not reflecting the full value of gas storage
- is not covering some SSO's costs

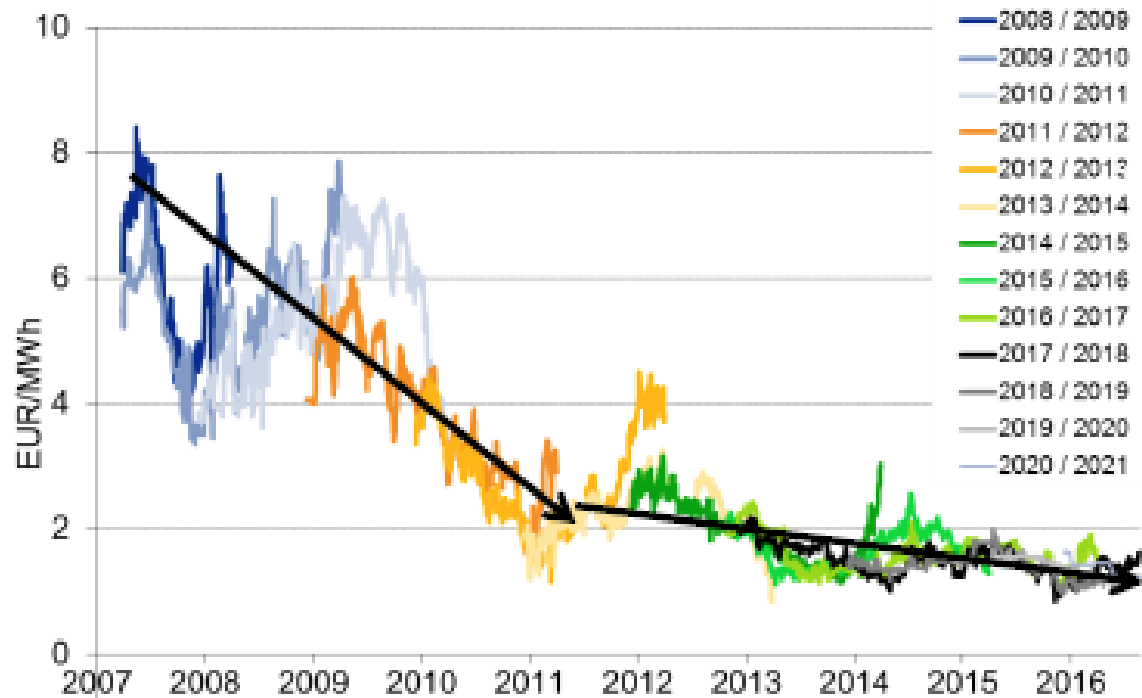
⇒ Missing positive externalities ✗
⇒ Reduction in the physical availability of gas





Declining spreads leads to storage closing that could harm the European SoS

TTF summer-winter price spreads (2007-2006)



Source: ICIS Heren data

In the last ten years, as increasing levels of flexibility have come to the market, these price spreads have fallen to a level where the costs of some SSOs are not even covered

Reduction in the physical availability of gas

- Need to be used in crisis scenarios

⇒ This capacity reduction could harm the European SoS

- In the long term, the time would be too long to cope with the event of an emergency crisis
 - ✓ Gas storage facilities can quickly reach a point of “no return”
 - ✓ Gas storage facilities need long lead times to be rebuilt

x

Gas storage market failures need to be recognized as security of supply is at risk

The drivers of gas storage value

Arbitrage value

- Intrinsic value
- Extrinsic value

System value

- Reducing the need for extra-large networks
- Aiding pressure and congestion management

Insurance value

- Avoiding risks to SoS and extreme prices

Market Failures

Market Failures

Market failures in two important areas: system & insurance value

⇒ **Missing positive externalities**

- means too many gas storages will close
or may close in the wrong location

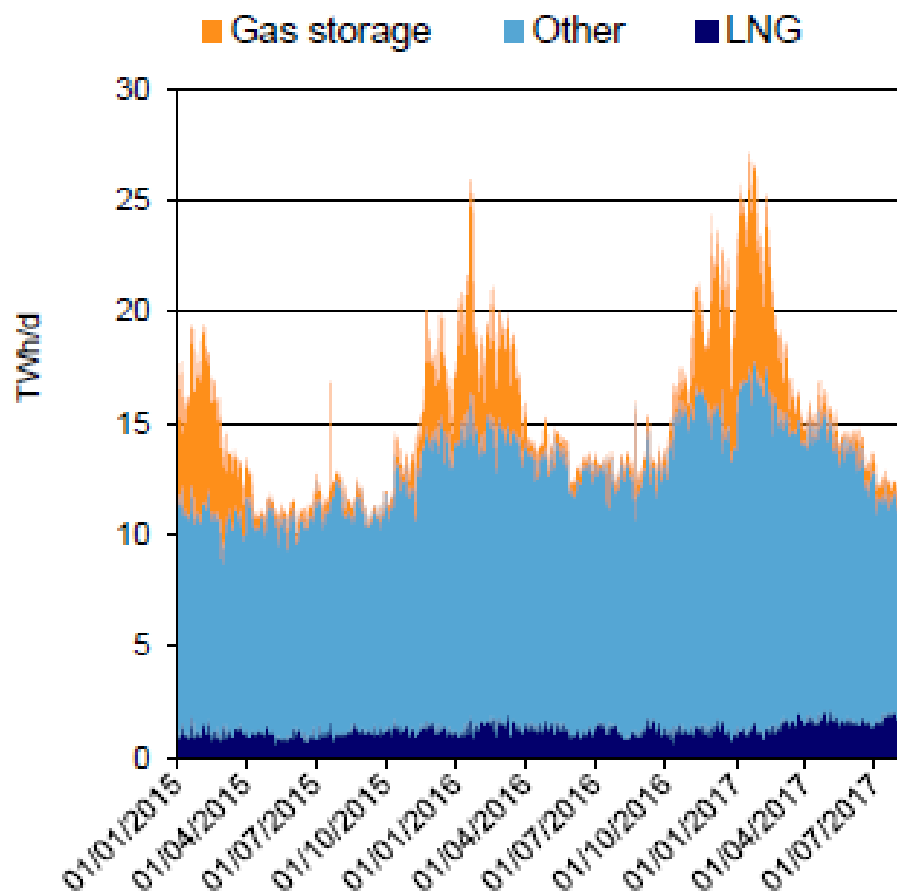
While storage closures could lead to a recovery in market spreads, under current arrangements the market price will continue to exclude part of the value of storage

Long term consequence

- ✓ Reduction in EU welfare

It seems timely to stress the social benefit of the gas storage

European gas flows (2015-2017)



Source: ENTSOG Transparency Data, National Grid

In a coherent way across the single market of the European Union

- To increase the system value of storage (not addressed in current EU legislation)
- To increase the Insurance value storage (level playing field on EU level)

Some analogy can be made with CRM in the European power sector

That matter needs to be addressed in the Quo Vadis Study

- Evolving market conditions ⇒ Increasing variability of gas flows
 - ✓ The demand volatility will increase with the intermittency of renewables in the electricity sector
 - ✓ The range of import options will broaden at its boundaries

Storage related security of supply measures

Different approaches could be combined over the best way to intervene as long as they ensure both

- the level of gas storage that could safeguard the European security of supply by setting minimum storage levels preferably in a market-oriented approach
- in a more consistent way in market pricing and a fair cost sharing when it comes to under-utilized and stranded assets

Market-based mechanisms should be prioritized

Regulation options need to be available as a backstop, should other solutions not be sufficiently effective



Thank you for your attention and interest