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BUSINESSEUROPE position on security of gas supply

KEY MESSAGES

- The European Union (EU) is the world's most energy efficient economy. The energy produced and imported by the EU creates jobs and growth in Europe. Security of supply is a vital dimension of the EU energy system and therefore it must be addressed adequately;
- Gas plays a key role for Europe, including the complementary role between gas and renewables in a balanced energy mix, which helps EU to meet its climate targets. A lot of progress has been made in terms of security of supply over the last ten years¹. Yet, there is still room for improvement;
- The revision of EU Regulation 994/2010 on security of gas supply, together with the development of an EU Strategy for Liquid Natural Gas (LNG) and Storage, are both essential elements to guarantee secure gas supplies to the EU market. Concrete measures should be adopted to improve the overall EU's security of gas supply, in particular:
 - Improve the existing regional approach in the security of supply regulation while aiming at a long-term common European approach;
 - Create a level playing field by encouraging all Member States to fully implement the provisions of the Third Energy Package;
 - Aim to increase supply diversification and supply competition by allowing a free flow of gas across the EU;
 - Consider the capability to trade higher volumes of gas through already existing infrastructures of LNG reception and storage;
 - Support market-oriented mechanisms that could be implemented to cope with supply failures due to specific conditions;
 - Ensure that Member States engage in agreeing upon bilateral or multilateral crisis measures, through mutual commitments which are monitored by the EU authorities;
 - Maintain and improve the attractiveness of the European gas market for external suppliers.

¹ Source EC – Member State's Energy Dependence – An Indicator-Based Assessment (2013):
http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp145_en.pdf



BACKGROUND

The EU imports more than half of all the energy it consumes and 66% of its natural gas². Due to security of supply challenges, such as declining EU domestic production, EU gas imports will increase to reach about 340-350 bcm/yr by 2025-2030³. On top of that, the recent political developments involving major risks of gas supply crisis suggest ensuring the importance of a sufficient diversification of sources of supply to enhance EU energy security.

Gas business was traditionally linked to long-term contracts which have been the main driver behind infrastructure development. This led to a high interdependence between buyers and sellers. The current trend is however more oriented towards short-term contracts and the set-up of gas hub prices as a consequence of higher gas-to-gas competition.

In this context, access to secure energy sources is in Europe's strategic interest, especially given the rising energy demand globally and the competition for resources with other large energy consuming regions of the world. The revision of EU Regulation 994/2010 on security of gas supply, together with the development of an EU Strategy for LNG and Storage, are both essential elements to guarantee secure gas supplies to the EU market.

REVISION OF EU REGULATION 994/2010 ON SECURITY OF GAS SUPPLY

Some EU countries are heavily reliant on a single supplier. This dependence leaves them vulnerable to potential supply disruptions.

In response to these concerns, the European Commission released its Energy Security Strategy in May 2014 where it is proposed a number of measures. The long-term measures included actions to reduce greenhouse gases, increase energy efficiency, increase energy production and diversify sources and routes, complete the internal market, speak with one voice in external energy policy, and strengthening the emergency and solidarity mechanisms while protecting critical infrastructure.

Moreover, Energy Security Stress tests simulating two disruption scenarios (a halt in Russian gas imports to the EU and a disruption of Russian gas imports along the Ukrainian transit route) were carried out by Member States with the support of ENTSOG upon the initiative of the Commission in October 2014. The tests showed that a prolonged supply disruption would have a substantial impact on eastern European and Energy Community countries.

Nevertheless, a main conclusion from these stress tests is that, if all EU countries take adequate measures and cooperate efficiently with each other, protected consumers would remain supplied even in the event of a long gas disruption.

² Source EC: <https://ec.europa.eu/energy/en/topics/energy-strategy/energy-security-strategy>

³ Source EC: Communication from the Commission to the European Parliament and the Council: "European Energy Security Strategy" (28/05/2014)



Thus, following the Energy Security Strategy, along with the results of the Stress tests, concrete measures should be adopted to improve the overall EU's security of gas supply (SoS Regulation). This goal should be sought through a revision of Regulation 994/2010. The suggestions are:

- Improve the existing regional approach in the security of supply regulation while aiming at a long-term common European approach
 - In order to better identify the mutual exposure and potential requirements of coordination in case of disruptions, Member States that share a common high dependency on the same source should carry out joint risk assessments and coordinated plans as well as optimize the usage of current infrastructures and the planning of new investments. More coordinated actions such as regional agreements of mutual assistance, cooperation on strategic reserves development, etc., would represent a step forward in achieving an effective integrated gas market, but without distorting the market functioning.
 - Promote a better coordination between Member States (MSs) in the development of their Preventive Action Plans and Emergency Plans to ensure their consistency by (i) defining a set of scenarios to be studied at the national level, (ii) developing a common template which can be used by each MS (ii) supervising the alignment of these assessments and plans with those of the neighbouring MSs and (iii) promoting the sharing of national plans at the Gas Regional Initiative before their submission. More practically, all these Plans should be translated into English.
- Create a level playing field by encouraging all Member States to fully implement the provisions of the Third Energy Package, completing the currently pending network codes and encouraging their implementation. The Commission should take initiatives with respect to Member States regulatory initiatives that could create gold plating and/or any market barriers.
- Aim to increase supply diversification and supply competition by allowing a free flow of gas across the Union without bottlenecks towards those areas where it is most valued. A liquid and well-functioning gas market is the best guarantee for security of supply. Identification and removal of infrastructure bottlenecks would allow to achieve this target which would eventually lead to a price convergence, more competitive prices, and higher security of supply overall.
- Considering the capability to trade higher volumes of gas through already existing infrastructures of LNG reception and storage. Opening the West/East route to promote alternative gas routes leading to higher diversification of supply sources and suppliers, in order to make well-balanced gas supplies accessible for the EU gas market.
- Support market-oriented mechanisms that could be implemented to cope with supply failures due to specific conditions. As a general rule, ex-ante market-based prevention measures should come first when ensuring security of supply in order to avoid creating market distortions. If these measures are not enough, then ex-post non-market based measures where Member States act according to emergency plans would be carried out. These measures need to be well designed to minimize its impact in the market and it must be proven that they are cost-effective.



- Support the development of networks and infrastructures modelling where needed (LNG, storage, etc.) by ENTSOG, in order to better simulate crisis situations and provide objectives elements to Member States to react to them.
- Support the work of ENTSOG on promoting the cooperation of gas TSOs through various initiatives (e.g. Early Warning Mechanism) in the case of an energy crisis.
- Ensure that Member States engage in agreeing upon bilateral or multilateral crisis measures, through mutual commitments which are monitored by the EU authorities, and promote a better cooperation between all parties. Given the disparities of the situations in Europe, emergency procedures might differ, and the EU should strive for strictly better coordination, rather than alignment.
- Better take into account interactions of gas and power markets, i.e., spill-over effects from gas to power sector (through gas-fired power plants), and from the power to the gas sector (through the electric compression in gas transport/storage).
- Maintain and improve the attractiveness of the European gas market for external suppliers, by avoiding negative messages about the role of gas and avoiding excess regulation excess and/or unstable regulatory frameworks.

A COMPREHENSIVE STRATEGY FOR LNG AND STORAGE

LNG and storage are among the main tools to provide the flexibility needed to enable the appropriate functioning of gas market, enabling variable renewables, allowing trading of gas, and providing alternative sources of gas which can be physically guaranteed in case of emergency.

From a general perspective, it should be noted that LNG is highly flexible in terms of transportation:

- LNG is transported by ship. This enables LNG to be directly delivered to where gas is more valued;
- LNG can also be easily reloaded from almost any EU LNG terminal and sent by ship to any other EU terminal, to where gas is more valued.

An optimal use of LNG supply infrastructure requires a European-wide approach according to which every Member State should have access to LNG either directly or indirectly through another Member State.

The challenge for the EU does not consist only in building new capacity/facilities, but also in better interconnecting existing infrastructures of Member States where needed. This includes the development of reverse flows, to allow for an efficient use of existing capacities. For instance, in case of regions/countries with no sea access (i.e. landlocked), the development of gas corridors and/or sufficient cross-border interconnection capacity between Member States, would allow them to take advantage of European LNG infrastructures located in other countries. This would support the EU's objective of eliminating energy islands and lead to increase the competitiveness of the whole gas market.



A rather similar approach can be followed for storage facilities. Not all the EU Member States have the same geology conditions to develop underground storage facilities. The completion of the internal market, together with the right level of interconnections between countries would allow cross-border use of underground gas storage (UGS) facilities located in neighbouring countries, resulting in an optimum level of security of supply and asset utilisation. An increasingly integrated gas market creates opportunities for market parties as they can more easily access different sources of flexibility, including storage. Easier access to gas from storage facilities both inside the Member States and across borders helps ensure reliable supplies to end-customers.

In any case, for each new LNG and/or storage project, it would be needed to launch a cost-benefit analysis (CBA), assessing whether enhancing existing pipelines interconnections and using existing infrastructure on a neighbouring Member States can be a better option or not.

Other measures to be implemented would be:

- Encourage cross-border trade by avoiding excessive transportation tariffs when gas crosses different transport systems/zones.
- Based on costs/benefits analysis, incentivise market participants to book capacities in LNG tanks and underground gas storages, especially in winter, which might be quickly used in case of emergency, and as long as the normal operation of the existing installations is not affected.
- Avoid any restriction on re-exports from European terminals, as this will decrease the attractiveness of the EU for LNG in the mid- and long-term.
- Allow LNG terminals and storages to quickly move beyond services prescribed by national regulation, and offer more innovative/flexible capacity products and services which meet the infrastructure users' needs. This would attract more LNG/natural gas into Europe.

OTHER SECURITY OF GAS SUPPLY INITIATIVES

PCI Projects: The EU should be selective and first put emphasis, including the provision of EU funds, on a few key projects for which the TYNDP demonstrates that they give the highest social and economic welfare for Europe. Every new PCI to be built should always have a positive Cost-Benefit Analysis. To ensure this, the CBA methodology could be used to provide a relevant estimation of costs and benefits, and ensure the comparability of projects.

Domestic EU production: The EU intends to diversify supply sources in order to limit the dependency on a single supplier. The overall strategy to diversify the EU's energy supplies should be also based on the exploitation of all indigenous resources, which can make a difference while complementing each other. These would include conventional and unconventional gas, energy efficiency measures, carbon neutral solutions such as variable renewables (including biomass), etc.



Dialogue with Third countries: The EU should continue intensifying its dialogue, and exchange of information with current and future gas producing/supplying countries in order to seize opportunities coming from new suppliers entering the global energy market. A fruitful cooperation for all parties can be achieved. Moreover, companies' engagement in commercial activities with key suppliers should be respected.

Promotion of investments: An adequate regulatory framework at national level indispensable for the realisation of key projects, such as PCIs. The EU regulation should make possible that the Commission should have a role to monitor investments within each Member States in order to ensure that national regulatory frameworks remain sound, stable and predictable.

Demand-Side Response: Under the appropriate framework, demand-side response should be also rewarded as a valuable option for ensuring Member States' security of supply.

Development of new technologies: The deployment of technologies such as biogas/biomethane, Power-To-Gas, etc., can offer a contribution to enhance the security of supply level in the EU. However, the development of new technologies needs to be technology-neutral and cost-effective.

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