CEER

Council of European Energy Regulators

Follow-up study to the EU's LNG and storage strategy

Ed Freeman, CEER GST TF co-Chair
Rocío Prieto, CEER LNG TF co-Chair

Madrid Forum, 19th October 2017

Fostering energy markets, empowering **consumers**.

Storage and security of supply

Flexibility market competition

- Storage is part of the flexibility market
- Regulatory framework should enable storage to compete on a level playing field with other sources (product development, access to storage, transmission tariffs)

Capturing the full value of storage

- Market signals that capture the full value of storage should drive efficient infrastructure use and investment
- Non-discriminatory access in emergency situations and across borders enhances the value of storage

The outlook for storage and security of supply

- Security of supply depends on physical availability of all flexible gas supply; cannot consider storage in isolation
- The closure of some facilities may be an appropriate correction to situation of oversupply and could improve the business case for other facilities
- Markets across Europe are different; political dimension to security

Storage interventions and follow-up study proposal

The case for interventions

- Where liquid wholesale markets (and appropriate price signals) do not yet exist, there may be a need for interventions to ensure security of supply (e.g. storage obligations, strategic storage)

Market distortion

- Interventions distort the market and reduce the value of commercial storage
- They should only be considered where there is clear evidence of market failure
- The impact on the market should be understood and minimised; interventions should be reviewed regularly and not foreclose the growth of wholesale markets

Report proposal: VOLL-based firm and obligatory financial compensation scheme

- Aligns with CEER focus on incentives rather than specific levels of gas in store
- Incorporating the cost of an emergency into market prices can create appropriate incentives on market participants to deliver supply security
- Some important considerations: calculating VOLL; supplier liability; not EU-wide but market specific; incorporating into balancing/neutrality arrangements.

CEER LNG vision

LNG vs trading markets:

- LNG is not a developed energy market. But it is moving in the right direction: shorter term contracts, cargoes reselling and autonomous pricing. However, lack of flexibility (ACQ, take or pay contracts, oil indexation, etc.) remains

Barriers to a higher liquidity LNG market:

- Long term contracts with rigid contractual terms
- Limited number of LNG sellers (increasing: US, Australia)
- Limited number of LNG buyers (increasing: Africa, Middle-East, India, etc.).
- Absence of LNG transparent prices
- Lack of standardised trading contracts
- Non-existence LNG financial trading

New positive factors for LNG market development.

- New players upstream and downstream
- New LNG technologies: FSRU, small liquefaction, bunkering, vehicles (flexibility)
- Availability of LNG infrastructures + new projects
- Potential LNG hubs

CEER LNG vision

CEER position about LNG regulation in Europe:

- Liquid markets are very important to attract LNG
- The regulation should promote market based solutions. Not overregulate LNG
- To keep increasing LNG terminals transparency: service definition + tariff
- To improve flexibility for users of LNG terminals, traders, suppliers, etc.
- To push ahead with the implementation of current market regulation: GTM, network codes in order to streamline access to every European region
- To make the European market attractive and understandable

Quo vadis study: no barriers / no borders

Europe as a single market (in discussion)

Thank you for your attention!

CEER

Council of European Energy Regulators