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## CEER response to the European Commission's strategy for liquefied natural gas and gas storage

CEER Gas Storage Task Force and CEER LNG Task Force

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### 1 Background

On 16 February, the European Commission published a package of proposals focusing on gas security of supply<sup>1</sup>. This package included a Communication on an EU strategy for liquefied natural gas (LNG) and gas storage. This document welcomes the Commission's work in this important area, summarises the Council of European Energy Regulators' (CEER) initial examination of the strategy and highlights areas where CEER aims to contribute to the implementation of the strategy.

### 2 The strategy

The Commission's strategy aims to exploit the potential of LNG and storage to make the EU gas system more diverse and flexible, thus contributing to the key Energy Union objective of a secure, resilient and competitive gas supply. In order to achieve this goal, it focuses on three main themes: completing missing infrastructure, completing the internal gas market, and the EU as a player on international gas markets.

The strategy proposes that:

- Building the necessary infrastructure will allow all members to access international LNG markets, either directly or via other Member States.
- Completing the internal gas market will ensure appropriate price signals leading to efficient use of different flexibility tools and facilitating necessary infrastructure investments.
- Working with international partners will promote free, liquid and transparent global LNG markets.

The strategy makes a number of specific proposals for storage and LNG. We deal with these proposals in more detail below. The underlying principle guiding the strategy is that well-functioning markets should deliver this diverse and flexible gas system. This aligns with the principles set out in the CEER response to the Commission's consultation on the strategy<sup>2</sup> and other recent CEER documents, such as the Storage Vision<sup>3</sup> and the CEER analysis of the role LNG to improve security of supply<sup>4</sup>. CEER therefore welcomes the Commission's focus on ensuring access to liquid markets as the main driver to ensure European gas flexibility markets work in the interests of consumers.

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<sup>1</sup><https://ec.europa.eu/energy/en/news/commission-proposes-new-rules-gas-and-heating-and-cooling-strategy>

<sup>2</sup>[http://www.ceer.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_PAPERS/Gas/2015/C15-GWG-123-03\\_CEER%20Response%20to%20EC%20Consultation%20on%20LNG%20and%20Storage\\_20150929.pdf](http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Gas/2015/C15-GWG-123-03_CEER%20Response%20to%20EC%20Consultation%20on%20LNG%20and%20Storage_20150929.pdf)

<sup>3</sup>[http://www.ceer.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_PAPERS/Gas/2015/C15-GWG-119-03\\_CEER%20\\_Vision%20gas%20storage%20market\\_25\\_May\\_2015.pdf](http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Gas/2015/C15-GWG-119-03_CEER%20_Vision%20gas%20storage%20market_25_May_2015.pdf)

<sup>4</sup>[http://www.ceer.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_PAPERS/Gas/2016/C15-LNG-25-03\\_LNG-SoS%20Analysis\\_3-Feb-2016.pdf](http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Gas/2016/C15-LNG-25-03_LNG-SoS%20Analysis_3-Feb-2016.pdf)

### 3 Storage

The strategy promotes ways to make the use of storage across Europe more efficient. It focuses on the competitiveness of storage against other flexibility tools and the cross-border use of storage. In this section, we highlight the key storage related points in the strategy and present our initial views and work to support implementation of the strategy.

#### *3.1. Storage product innovation: a clear understanding of any barriers is needed*

The strategy states that to allow storage to reach its full potential as a flexible instrument and to ensure efficient use of infrastructure, regulators should allow and encourage SSOs (Storage System Operators) to develop and provide new services. These services should be freely tradable on secondary markets and across borders, and should not discriminate between users. It also states that a strict enforcement of competition rules will ensure that competition between operators delivers the most cost-efficient negotiation of contractual terms with users.

CEER strongly agrees with these points. Stakeholder engagement and the findings of our 2015 Gas Storage Vision and Gas Storage Guidelines of Good Practice and GSE Transparency Template Monitoring Report<sup>5</sup> have emphasised the importance of SSOs being able to innovate and develop new products to meet the requirements of market participants. The Vision also highlighted the importance of regulatory and policy frameworks that facilitate innovation, where appropriate, not stifle it. However, we do not have a strong evidence base showing where specific problems exist in relation to innovation and product development.

To fill this evidence gap and provide constructive guidance to regulators and policymakers implementing the Commission's strategy in this area, we are currently preparing a report on the regulatory barriers for storage product innovation. The analysis in this report will be based on responses to a CEER questionnaire sent to SSOs in December 2015, in addition to further stakeholder engagement. This may include a public workshop this year, if deemed beneficial. CEER look forward to close engagement with the Commission on this important piece of work which we hope will contribute significantly to the debate in this area.

#### *3.2. Cooperation to reach a solution on transmission tariffs*

The strategy notes that transmission tariffs to and from storage facilities vary considerably across the EU, which influences the attractiveness and competitiveness of storage. As we set out in the storage Vision and our response to the strategy consultation, transportation tariffs should consider the benefits and costs that storage facilities provide to the overall system. Tariffs should also ensure a level playing field between competing flexibility instruments. We agree with the Commission's strategy that the question of transmission tariffs for storage is best dealt with in work to develop the EU-wide network code on gas transmission (TAR NC). The CEER storage task force will work with stakeholders on these storage focused discussions in the TAR NC process.

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<sup>5</sup>[http://www.ceer.eu/portal/page/portal/EER\\_HOME/EER\\_PUBLICATIONS/CEER\\_PAPERS/Gas/2015/C15-GWG-121-03\\_monitoring%20GGPSSO%20and%20TT\\_21072015.pdf](http://www.ceer.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Gas/2015/C15-GWG-121-03_monitoring%20GGPSSO%20and%20TT_21072015.pdf)

### *3.3. Facilitating the cross-border use of storage*

The strategy argues that greater interconnectivity and regional cooperation could result in a better and more efficient use of storage. It encourages Member States to work closely with neighbouring countries to optimise the regional use of storage. From a regulatory perspective, the CEER storage task force brings together NRAs from across Europe who collaborate to promote effective regulation that enhances the efficient use of storage in Europe. CEER will continue to promote cooperation with a particular focus on the cross-border use of storage, where appropriate.

The strategy also notes that the allocation of storage capacity and transmission capacity at interconnection points is not always satisfactorily harmonised, which may create congestion problems. It argues that processes should allow for the simultaneous booking of storage and interconnection capacity, at an adequate time in advance of their needs. We made this point in our response to the strategy consultation and will continue to explore regulatory barriers in this area. In particular, our 2016 report on barriers to product innovation will examine barriers to the cross-border use of storage and enable us to develop our thinking in this area where little investigation has been done to date. As a starting principle, however, we believe that market mechanisms should determine the use of storage as much as possible, including across borders. Rather than the mandatory provision of simultaneous storage and interconnection capacity, we would expect the removal of any undue barriers to SSOs providing cross border services, where there is market demand for such services, to be a preferable solution. We will directly engage with the Commission on our progress in this area.

### *3.4. Understanding adequate physical access to storage*

The strategy states that Member States should ensure adequate physical access to storage, including in terms of capacity in the transmission network. Our response to the strategy consultation noted that defining an optimal level of storage capacity in a given Member State or region could prove very difficult, if not impossible. In that response we presented our nuanced views on the balance between market forces and a possible need for intervention, and the risks associated with this. In order to consider how best to progress with the strategy, CEER invites the Commission to provide more clarity on the meaning of adequate physical access to storage.

### *3.5. Future technological developments*

The strategy also acknowledges that technological aspects of storage need to be addressed to ensure that new storage facilities and gas infrastructure can in future accommodate different types of gas, including bio-methane and other renewable gases. With regards to the future use of storage and gas more broadly, CEER remains alert to the changing dynamics of European and global energy markets, in particular in light of efforts to combat climate change. We will continue to frame our work in the context of regulation which provides both stability and an appropriate level of regulatory certainty to the gas industry, as well as flexibility for a transitioning energy system.

## 4 LNG

The strategy seeks to exploit the full potential of European access to the growing international LNG market. It highlights that enhanced access to LNG can deliver benefits in terms of competitiveness, security and resilience. In this section, we review some of the Commission's specific points in the strategy and note activities that CEER will complete in support of the effective implementation of the strategy.

### *4.1. Regulatory barriers for access to LNG terminals in the EU have not been identified*

Over the past years, European energy regulators have dedicated significant resources to implementing a regulatory framework which promotes competition. We have also supervised LNG terminal access and utilization. We have done this through:

- Guidelines for good third party access (harmonization of capacity allocation and congestion management procedures)
- A review of access conditions to LNG terminals (to assess if small players can access facilities)
- Transparency Templates (to facilitate access to information provided by LSOs (LNG System Operator))

As underlined in the CEER status review monitoring access to EU LNG terminals in 2009-2013, CEER would like to reiterate that the current regulatory framework in the EU guarantees a fair, transparent access to LNG infrastructure. This framework includes effective congestion management procedures and functioning secondary capacity markets. These characteristics are implemented at most LNG terminals and no specific barriers for access to LNG terminals in the EU have been identified. NRAs will continue to monitor the implementation and effectiveness of the current regulatory framework.

In the EU, LNG terminals are regulated and subject to open access. Although TPA (third-party access) exemptions have been granted to promote investment, they have not been a barrier to competition and security of supply. Indeed, exempted terminals, like the regulated terminals, are subject to the application of congestion management procedures and transparency obligations. They also have capacity allocation mechanisms in place.

In its LNG and storage strategy, the Commission notes that in some parts of Europe, gas markets are not sufficiently developed or connected, which may limit their ability to access the potential benefits of LNG. CEER recognizes that liquid gas markets, should enhance efficiency and security of supply. For this reason NRAs should keep working at ensuring gas markets are working properly, delivering effective price signals. An important step in this process is the implementation of the Gas Target Model.

CEER and European regulators will also continue working to ensure a level playing field for existing and new terminals (regulated or exempt), assuring that European LNG terminal services can adapt to market needs. In addition, the assessment of what needs to be done to make EU LNG terminals more attractive will be part of CEER LNG TF 2016 work plan, with the organization of a workshop involving Eastern countries in the summer.

#### *4.2 The development of key infrastructures*

In the LNG and storage strategy, the Commission calls for the construction of priority infrastructure projects to give all Member States access to LNG, either directly via terminals or indirectly via interconnectors or access to liquid hubs. CEER would like the Commission to clearly differentiate whether new infrastructure is needed under normal circumstances to supply European gas demand, or only in case of supply disruptions, so for Security of Supply purposes.

In CEER's opinion, under normal circumstances, current infrastructure is sufficient to satisfy demand in most regions, as demonstrated by the low level of congestion across Europe. Investment in interconnection and regasification capacity (terminals have low utilization rates across Europe currently) in recent years has facilitated gas circulation across the EU.

CEER encourages the EC to identify precisely where bottlenecks appear when replacing missing gas sources (security of supply crisis), and to what extent they could be addressed by a better access to the LNG market. The investments potentially needed to alleviate possible congestion in times of supply crisis should be decided taking into consideration their cost efficiency regarding the disrupted demand.

CEER underlines that any new LNG project willing to receive a PCI (Projects of Common Interest) label and for which there is no market demand<sup>6</sup> should be subject to a cost-benefit analysis, to weigh the additional security of supply benefits (compared to the existing situation) brought by the investment against its costs.

In order to avoid stranded costs, CEER recommends ensuring an efficient use of current infrastructure as much as possible, especially in a context of decreasing gas demand in Europe. On the other hand, when contractual congestions appear, CMP guidelines can guarantee an efficient use of the cross-border capacity.

#### *4.3 In times of crisis, the availability of LNG should be taken into account (commodity approach)*

The EU strategy for LNG mainly focuses on a capacity approach, looking at how it is possible to ensure that countries that do not have access to LNG can take advantage of it.

CEER would like to highlight some characteristics of the LNG chain, where gas logistics remain rather rigid upstream on a short-term basis (e.g. it can take days or even weeks to get a spot cargo, contractual clauses may slow down the redirection of LNG volumes to high demand markets), although terminals also offer flexible services based on LNG storages or trucks.

CEER believes that a commodity-based approach is also essential: having available space in a terminal does not necessarily mean the market can deliver gas in the short term. Even if the Commission encourages discussions with major LNG suppliers and consumers, the availability of LNG, which is linked with commercial aspects of the LNG chain, is not precisely foreseen in the Commission's analysis.

Some aspects that the Commission should take into consideration to be prepared in case of a supply disruption are:

- In relation with LNG, who are the ones that need to be prepared in Europe to deliver the gas and what should be their role: regions, countries, shippers
- How European policy regarding LNG could help to be prepared for a supply crisis
- How LNG, already stored in European terminals could be used to help in times of a supply crisis

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<sup>6</sup> In such a case, the investment is not market driven and there is a risk that stranded costs could occur.

## Annex 1 List of abbreviations

Term	Definition
CEER	Council of European Energy Regulators
Commission	European Commission
EU	European Union
GSE	Gas Storage Europe
NRA	National Regulatory Authority
LNG	Liquefied Natural Gas
LSO	LNG System Operator
PCI	Projects of Common Interest
SSO	Storage System Operator
TAR NC	Tariffs Network Code
TEN-E	Trans European Energy Networks
TPA	Third-Party Access

## About CEER

The Council of European Energy Regulators (CEER) is the voice of Europe's national regulators of electricity and gas at EU and international level. CEER's members and observers (from 33 European countries) are the statutory bodies responsible for energy regulation at national level.

One of CEER's key objectives is to facilitate the creation of a single, competitive, efficient and sustainable EU internal energy market that works in the public interest. CEER actively promotes an investment-friendly and harmonised regulatory environment, and consistent application of existing EU legislation. Moreover, CEER champions consumer issues in our belief that a competitive and secure EU single energy market is not a goal in itself, but should deliver benefits for energy consumers.

CEER, based in Brussels, deals with a broad range of energy issues including retail markets and consumers; distribution networks; smart grids; flexibility; sustainability; and international cooperation. European energy regulators are committed to a holistic approach to energy regulation in Europe. Through CEER, NRAs cooperate and develop common position papers, advice and forward-thinking recommendations to improve the electricity and gas markets for the benefit of consumers and businesses.

The work of CEER is structured according to a number of working groups and task forces, composed of staff members of the national energy regulatory authorities, and supported by the CEER Secretariat. This report was prepared by the Gas Storage Task Force and the LNG Task Force of CEER's Gas Working Group.

More information at [www.ceer.eu](http://www.ceer.eu).