

CEER

**Council of European
Energy Regulators**



Removing barriers to LNG and to gas storage product innovation

Rocío Prieto, LNG TF co-Chair
Ed Freeman, GST TF co-Chair
Madrid Forum, 6 October 2016

Removing barriers to LNG in European gas markets

Objective

- ▶ Access to the European LNG plants
- ▶ Focus on issues such as **access to terminals**, access to **pipelines** and consumers, capacity allocation and congestion management mechanisms, **services** in place, as well as any other regulation (gas quality)

Process

- ▶ Questionnaire open to all stakeholders launched in July - August 2016
- ▶ Workshop on 12th September 2016 in Athens
- ▶ Deliverable: CEER Report on *Removing barriers to LNG in European gas markets*

The presentation reflects the ideas gathered both in the Questionnaires and in the Workshop



Removing barriers to LNG on gas markets

European gas market

Workshop Conclusions

► Facts and trends:

- a) **Demand** side: **stable** or slightly increasing until 2040. Main **drivers**:
ST/MT: **CO₂ prices** (coal vs. gas competition for electricity generation) and new uses of gas, e.g. transport
LT: Energy and **climate policy** following COP21 commitments
- b) **Supply** side:
Indigenous production decreasing/imports slightly increasing
LNG importation increased in 2015 (Europe as last resource destination)
- c) **Prices**:
Price convergence Asia- EU: weak Asian demand, increase sources, low oil prices
With current EU gas prices: US gas not competitive enough to be flowing to Europe

► Completion of Internal Market

- a) Deep and liquid gas **hubs** : no need for specific hubs for LNG
- b) Implementation of Network Codes and **Gas Target Model**
- c) **Fair level of regulation** to support competition and technical developments

Removing barriers to LNG on gas markets

Workshop Conclusions

Case studies:

- **Lithuania.** New LNG terminal has provided diversification and prices decreased (cap to Russian pipeline gas)
- **Greece.** Lack of interconnection capacity prevents it from enjoying the benefits of the LNG terminal that is able to meet 50% of the Balkan natural gas needs. Progress in the IC with Bulgaria shows the benefits of commercial flows and future physical flows. Access rules and tariffs must be still tackled
- **Croatia.** Core geographical location of the LNG terminal explains its European/regional importance. LNG terminal has benefited from strong political support. Nevertheless, weak demand brings up the issue how to recover investment: vicious circle: weak demand-increase in tariffs
- **Poland.** LNG terminal is part of an ambitious plan to diversify sources: LNG terminal + pipeline to Poland from North Sea + increase in interconnection capacity neighbouring countries. Rate of utilization low

Removing barriers to LNG on gas markets

Questionnaire Conclusions

▶ Bringing LNG volumes to the EU

- Main drivers:
 - Liquidity** of EU gas hubs
 - IEM integration**, evolution of contracts from LT with ToP to ST, diversification, capacity availability and EU climate policy
- Despite the changes in the international markets dynamics (oversupply) it is not clear that EU is more than a last resort destination. Drop of **LNG prices below EU hub** prices could become a main driver to attract LNG.

▶ Access to LNG in the EU. Reported barriers:

- **Demand uncertainty** due to CO₂ prices
- **High** regasification and transmission **tariffs**
- Lack of **transparency** of rules to access, ie: key terminals document not available in **English**
- Lack of the **flexibility of LNG products** offered by LSOs



Removing barriers to LNG on gas markets

Workshop Conclusions

► Regasification terminals **facts and concerns:**

- a) A lot of **spare capacity** although mainly located in Western Europe. New investments in **Eastern Europe** mainly **driven by diversification and competition reasons**
- b) **Investment decisions** (new terminals) not purely market-driven (political support, PCI lists and NRAs)
- c) **Concerns** about:
 - **Lack of flexibility** to adapt **services** to market needs (unbundled services)
 - Impact of the **end of LT contracts**

► **Issues raised regarding tariffs:**

- a) Justifying **decision of building new terminals** with uncertain demand
- b) How to **recover investment** of plants built for SoS reasons (utilization not ensured on normal basis)
- c) **Cross subsidies** regasification/transmission
- d) Level of **LSO/TSO tariffs** for developing cross-border flows
- e) Choice between regulated/exempted regime



Removing barriers to LNG on gas markets

Questionnaire Conclusions

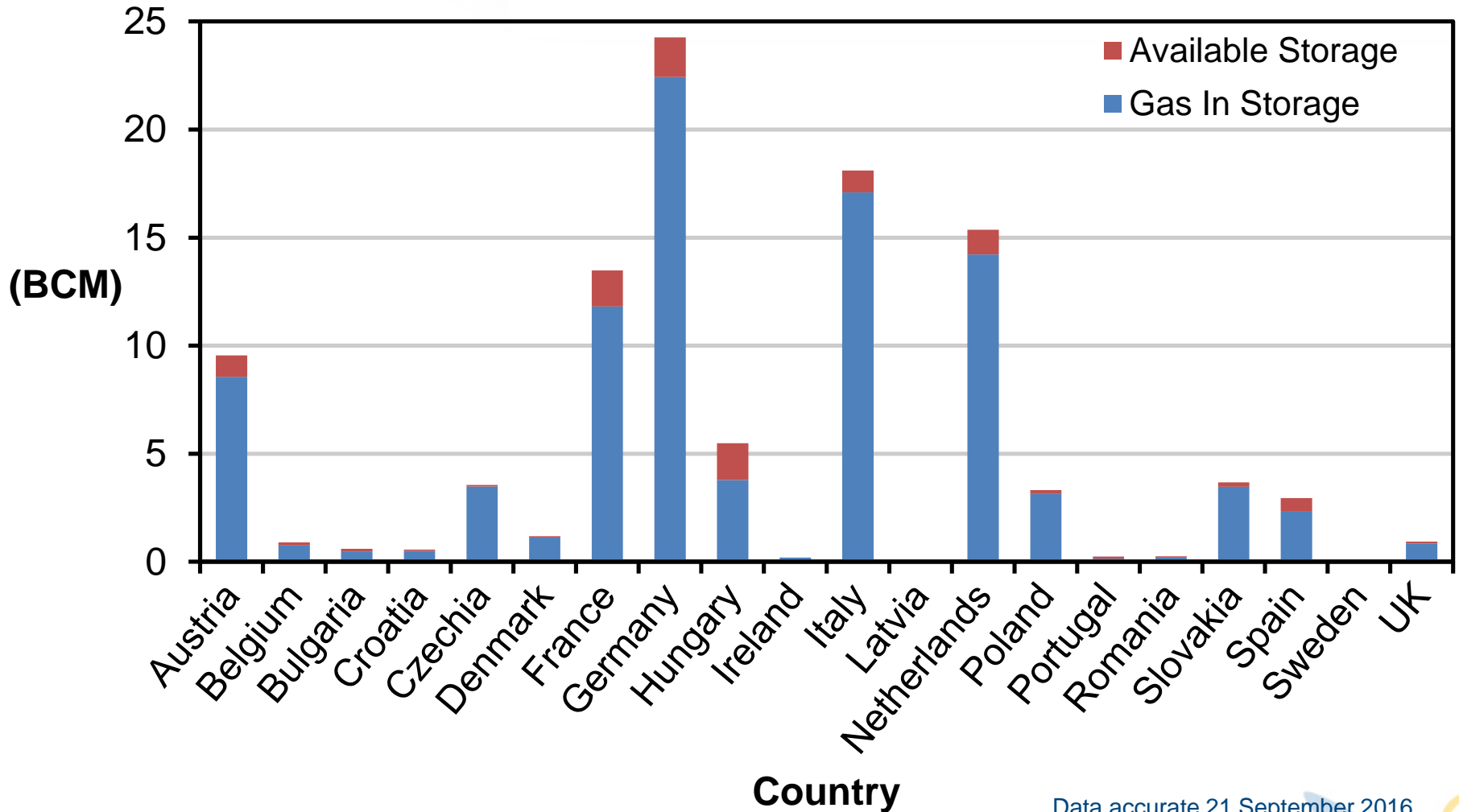
- ▶ **Access to LNG in the EU. Proposals** on how to remove barriers (brought forward by stakeholders in questionnaire):
 - Improvements in public policies
 - Regulatory improvements:
 - **Third Package implementation**
 - Discount on **entry tariffs of LNG** into the network?
 - Key documents of LNG terminals in **English**
 - **CEN standards** should **not be mandatory**
 - **Regulation** should be **flexible** to adapt LNG services to market needs
 - Diverse opinion regarding the need of promoting further harmonisation across EU. Any additional harmonisation subject to thorough analysis

- ▶ **Spread of LNG in the EU**
 - Difficulties encountered to spread LNG once regasified:
 - **Lack of interconnections** and liquid **gas hubs** in some areas
 - Need of more **reverse flow** capacities
 - **Tariff pancaking** reduce attractiveness of LNG
 - **No need of further investment** in infrastructures (plenty of underutilized capacities): risk of stranded costs
 - **CBA** to determine whether the investment is necessary or not
 - Broad consensus on there is no **need of specific hubs for LNG**





Current storage fill levels in Europe



Data accurate 21 September 2016

Source: <http://transparency.gie.eu/>



Recent focus on storage product development

Recent studies on role of storage highlight the importance of flexibility and innovation in SSO product development

- ▶ CEER Gas Storage Vision
- ▶ EC Storage and LNG Strategy

Removing any unwarranted barriers is an important step to ensure that storage can compete on a level playing field with other sources of flexibility

- ▶ However, we do not have a strong evidence base showing where specific problems exist

CEER objectives:

- ▶ Review the different types of **products available** in different European storage markets
- ▶ Analyse potential **barriers to the development of different products**, including regulatory barriers, issues related to market development, and the role of SSOs



Varied product availability

Changing market demand

- ▶ Evidence that **market participants increasingly demand more flexible, customised and short-term products**

Some SSOs have already responded with innovative products

- ▶ With help of GSE, questionnaire sent to SSOs in January 2016
- ▶ Responses from 22 SSOs, covering 58% of total EU storage capacity
- ▶ Products include:
 - short term products
 - storage products delivered at the hub
 - back-up services
 - virtual storage
 - pooled storage
 - cross-border products
 - alternative/customised products

But, availability of different products varies widely across Europe

- ▶ Depending on market maturity, regulatory framework, role of storage in the market



Main areas that affect product availability

Transmission tariffs and access

- ▶ Some SSOs cite high transmission tariffs and restricted access to the transmission network as barriers to product development and the attractiveness of storage products, including to the cross-border use of storage
- ▶ ***Transmission tariffs for storage are being considered in the TAR NC process. SSOs should not be unduly restricted from accessing the transmission network for the provision of new products***

Restrictions on trading activities

- ▶ Some SSOs noted that not being allowed to buy or sell gas for the purposes of providing storage products is a barrier to innovation, in particular for delivery at the hub and virtual products
- ▶ ***Consider the connection between SSOs trading activities and the “efficient operation of the storage facility”, which may include the provision of different storage products***

Regulation and the process for developing new products

- ▶ Some SSOs stated that the process for developing new products (e.g. consultation, NRA approval) and prescriptive regulatory requirements restrict their ability to respond to market demand
- ▶ ***TPA requirements on storage in place for good reason and to deliver positive outcomes. Important that implementation is proportionate and strikes an appropriate balance between SSO flexibility and transparent, non-discriminatory and fair access arrangements***



Barriers to storage product development: initial results and next steps

Market specific barriers

- ▶ Based on the results of the survey of SSOs and wider engagement with relevant market participants, CEER has **not identified any pan-European barriers** to storage product development
- ▶ Where barriers do exist, these primarily relate to **specific market conditions and national implementation** of European storage regulation

Next steps

- ▶ More information needed on **concrete examples** of barriers to SSOs developing products to meet market demand
- ▶ CEER plan to conduct **further stakeholder engagement**, including a Workshop to present findings and get feedback from market participants on initial results
- ▶ Report finalisation and publication



**Thank you for your
attention!**

