



CEER Workshop

## Removing LNG Barriers on EU Gas Market

### Session 3: New markets for LNG -

- How to make LNG accessible to all European users

## Case of the Croatian LNG project - regulatory context

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Athens, 12-September-2016



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## New LNG infrastructure in EU

- **COM drive towards completing the „missing” LNG-related infrastructure in EU**
- **SoS-related concerns have supplanted pure market-based reasoning**
- **The drive is happening in the context of a general decline in gas demand**
  - EU gas demand has indeed bottomed-out in 2015
  - not fully clear if this is a permanent rebound or will the challenge remain how to manage an energy source in decline
- **(Changing) role of regulators ?**

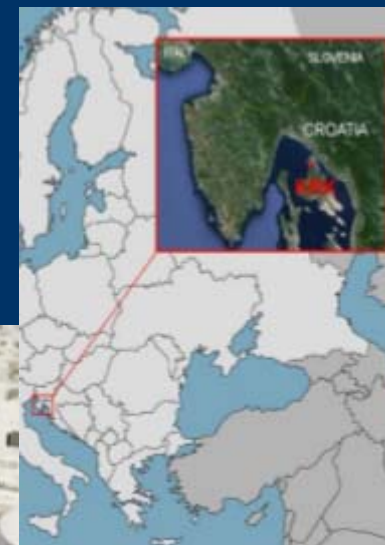


## A brief on the Croatian LNG terminal project

- **Third life of the (geographically) exceptionally well positioned project for development of a LNG receiving terminal on the Croatian island of Krk (> project promotor „LNG Croatia Ltd.”)**
- **Demand security a challenge for the final choice of size/technology and FID**
- **Strong general (political) support – yet challenging economics in the environment of stagnating gas demand**
- **Project has received PCI and CESEC status**
- **Regulators invited/expected to provide regulatory support (or „clear regulatory obstacles”)**



## Project leaning towards a multi-phased one – with a scalable FSRU as the 1st phase





## LNG Croatia - wider (national) context

- Croatian energy legislation has defined LNG terminal activity as a fully regulated activity
- Project promoters chose not to go for an exemption option – targeting EU financial support mechanisms
- With domestic demand in decline, terminal economics has looked to third countries/regional market for demand security
- National TSO has a robust asset base and – consequently – a high transmission tariff
- Regulatory warning: a combination (low demand – high tariffs) on the verge of a self-driving spiral effect
- **Imperative: provide for demand security**



# Croatian Energy Regulatory Agency (HERA)

- **Est'd in 2001/2 by Croatian Parliament**
  - element of the National Energy Sector Reform (EU horizon)
- **Reg. Council ⇒ Reg. Agency : major development stages**
  - evolving organisational form
  - sequence of regulatory priorities (licensing → tariffs → markets)
  - relevance roughly in parallel with EU energy packages
  - growing scope and responsibilities
- **Q4 2012 – New Act on Energy Activities (“HERA law”)**
  - part of the EU accession process
  - **frame for independent energy regulation**
  - context of liberalisation/market opening
- **1 July 2013 – EU regulatory body**
  - expanding horizon (EC, CEER, ACER)
  - managing transition



## LNG Croatia - What have the regulators done

- **Legislators and regulators have simplified and accelerated the licencing procedure**
- **Additional regulatory mechanisms providing tariff security**
  - regulatory account
  - reviewed elements in tariff calculation
  - indicative tariff(s)
- **New tariff methodology for terminal services**
- **Analyzed the cost/tariff effects of LNG evacuation**
- **Regulators have however stopped short of considering „additional support” measures**





## CESEC context

- **COM initiative on Central and South-Eastern European Gas Connectivity (CESEC) – involving EU and Energy Community countries in CS-E Europe**
- **One of 3 regional connectivity initiatives on the background of the 2014 stress test**
- **Providing political support for targets related to**
  - missing infrastructure (pipeline and LNG)
  - implementation of critical elements of R994
- **Dubrovnik July-2015 (gas) – Budapest Sep-2016 (gas++)**
- **Role of regulators – new (2016) Action Plan on regulatory issues**  
*„... to smooth out the operation of existing and planned infrastructure and to improve market functioning”*



## EU Regulations' environment for new LNG

- Background in the main body of the 3rd Package (Dir 73 and Reg 715)

BUT FOREMOSTLY:

- Regulation **347/2013** (TEN-E) **AND (or VS?)**
- Regulation **994/2010** (SoS)
  
- EU regulators (CEER) tend to advocate market-based measures and mechanisms, but
- Could the on-going considerations on new market model and security of supply move the other way on gas infrastructure?



# Drivers of development of gas infrastructure

## A shifting paradigm?

- **Technical concerns + territorial coverage**  
( > regulated (socialized) tariffs associated with traditional supply concept – public benefit )

*evolved to*

- **Market concerns: „Satisfying reasonable demand”**

**Regional dimension (driven by SoS concerns) –  
rethinking the established logic?**



## One size does (not) fit all

**or: Not all LNG terminals are created equal.**

- EU LNG terminals have been (and are being) developed in different infrastructural/supply contexts – with different business models
- Case-by-case approach more promising
- Full 3rd package implementation (with implemented NCs) could/should lead to market mechanisms as clearer demand identifiers

**Current thinking seems to be evolving towards the size of the „control surface of benefits” as the main driver for LNG investments.**



## Open ends ?

- Does the EU pro-market (in the LNG context) mean more or less regulation?
- What about traditional regulatory roles/responsibilities – if the overall gas demand does not robustly recover?
- Given the political support for LNG and the expected role of regulators, how can the two not „remarry”?
- Should the trend of regulators (and regulations) becoming major drivers of infrastructure development be upheld ...  
than: Quis custodiet ipsos custodes?  
(Ποιος θα φυλάξει τους φύλακες)



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*Athens 2016*

**THANK YOU  
FOR YOUR ATTENTION !**

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