



Congestion management procedures and anti-hoarding mechanisms in the European LNG terminals

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ERGEG study, rationale and objectives

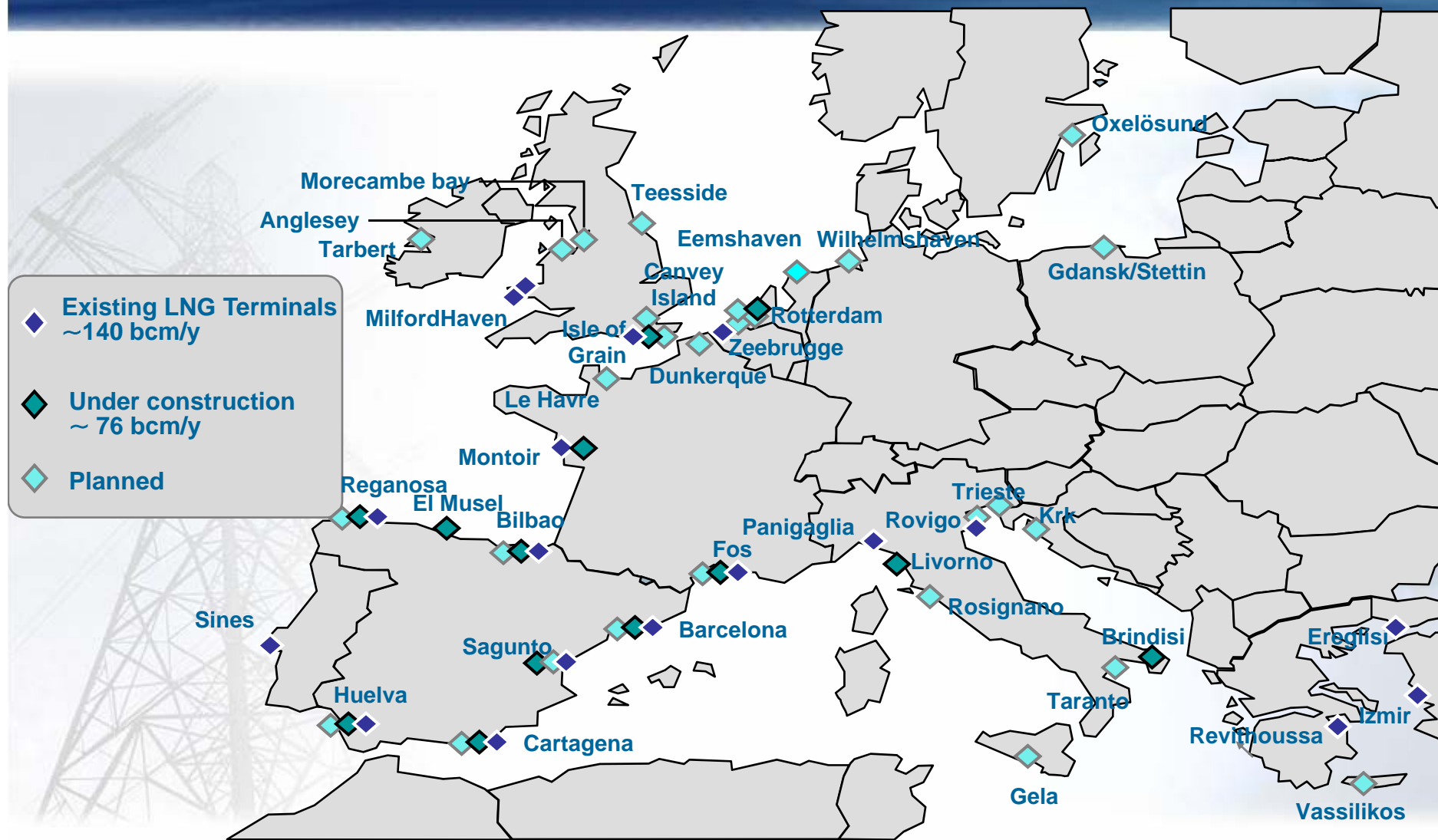
- History
 - **XV Madrid Forum:** the Commission requested to study the need for harmonisation of anti-hoarding rules in EU LNG terminals
 - **ERGEG monitoring of GGPLNG** evidenced the need to better understand CMPs
 - Following GLE workshop (April 09) and a meeting with the Commission, GLE, EFET and Eurogas (July 09), ERGEG committed to do a **specific study on CMP and anti-hoarding**
- 2 steps
 - Improve the understanding of CMPs in the EU: analysis of existing regulation
 - Guidelines leading to a higher availability of capacity for spot/short notice cargoes
- Today presentation aims at showing the preliminary results of the study on CMPs (1st step)

1. Facts and figures
2. Access to LNG terminals: main issues
3. Country analysis
4. Conclusions
5. Way Forward

Facts and Figures

- **The growing importance of LNG**
 - **Change** in world **supply-demand balance**: new production and liquefaction capacities, self-sufficiency in US (unconventional gas) and lower demand due to economic crisis promoted LNG substitution to pipeline gas
 - The forecasted **LNG role** in the European market has **already arrived** (*Imports increasing 13% in 2009 over 2008*)
 - The regasification **capacity**, together with the number of terminals, is **growing** substantially
 - Potential of LNG as a **security of supply tool** has been validated (*Cargo downloaded in Revithoussa in January to supply neighbouring countries*)
 - LNG as a **market competition driver** in certain countries (*Spain, Italy*)
- **New business models**
 - **New market arrangements** and LNG codes are developing within Europe (*UK terminals secondary capacity market*)
 - **Spot trade** and number of agents **increasing**: new possibilities (*cargo loaded in Zeebrugge, unloaded in Sagunto*)

LNG terminals in Europe



Source: Cedigaz / CNE

LNG imports in Europe

January to October 2009: 41.263 Tm (x1000)
Growth compared with 2008: 13%

Volume (Tm x 1000)
(% of all LNG
imported to UE)

5.337
(12,9%)

4.266
(10,3%)

7.966
(19,3%)

1.905
(4,6%)

16.641
(40,3%)

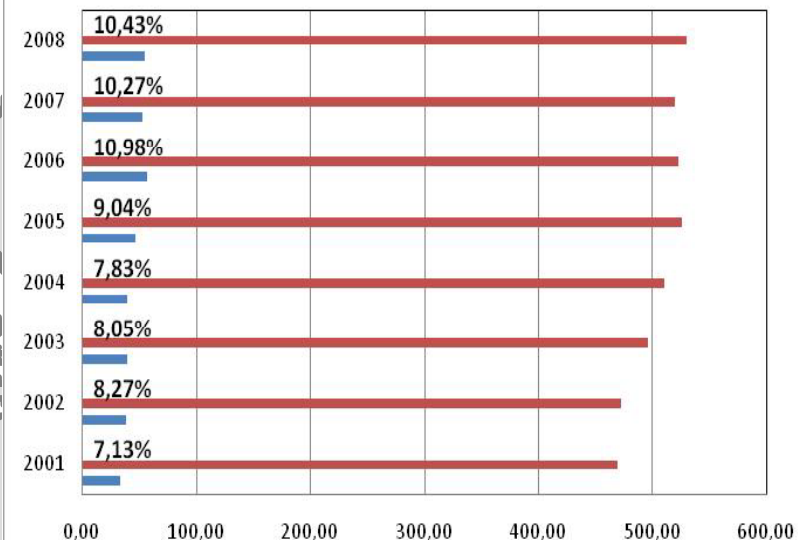
1.154
(2,8%)

538
(1,3%)

3.456
(8,4%)

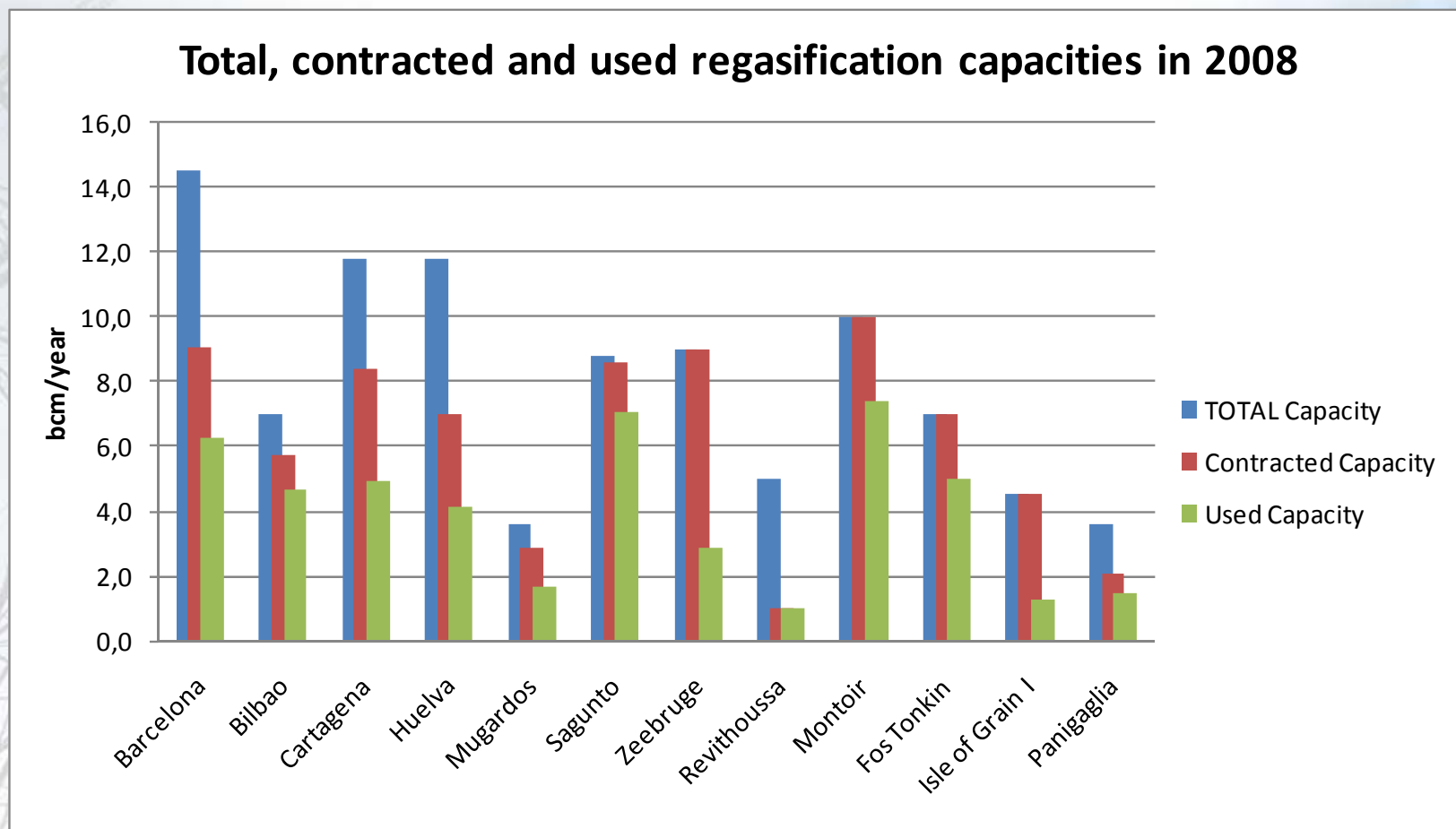
LNG ratios over European gas consumption

■ % LNG over total consumption ■ Total gas consumption ■ LNG imports



Source: Waterborne /CNE

LNG terminals utilization



Source: Regulators



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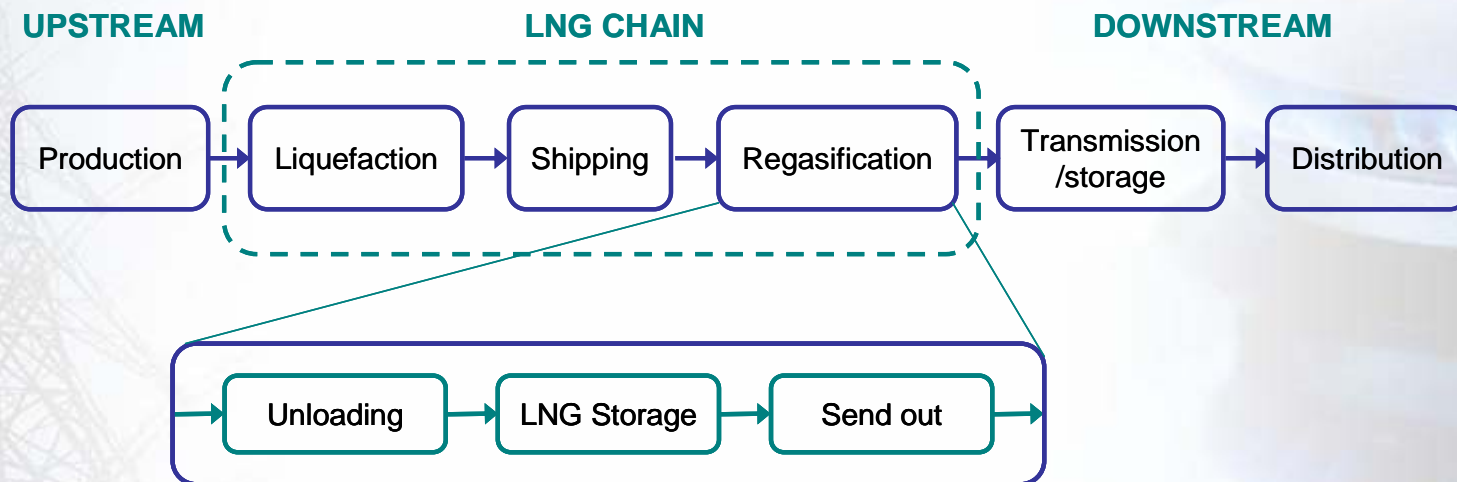


Content

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Diversity of access rules explained by technical issues

- Regulating LNG terminal access requires understanding the role and specificities of the LNG: **constraints and opportunities** for shippers.



- Terminal capacity management relates to:
 - Technical design** of terminals
 - Downstream market** characteristics (liquidity, need for flexibility)
 - Legal status of terminals (exempted vs. regulated)

Congestion in LNG terminals

- Potential **bottlenecks** on regasification
 - **Unloading:** size and number of vessels per unit of time; lead time between information about slot availability and delivery
 - **Storage:** capacity of the tanks; storage plays a key buffer role
 - **Send-out:** maximum hourly or daily regasification capacity
 - Terminal service definition jointly with downstream market access
- **Underuse of regasification** capacity can be due to several factors:
 - “Voluntary” underuse (causing or not capacity hoarding vs. other users)
 - Lack of attractiveness of the downstream market
 - Late re-scheduling of deliveries causing the impossibility to nominate additional vessels in the lead time
- Developing clear evidence of congestion remains difficult

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Country analysis

Country	Terminals	Active shippers	Available primary capacity	Regas. use ratio (% 2008)	Applied CAM	Applied CMP
Belgium	Zeebrugge	3	No	32%	Open Season	Secondary Market
France	Montoir	5	No	74%	FCFS	Ex-post UIOLI
	Fos Tonkin	2	No	71%		
Greece	Revithoussa	1	Yes	20%	FCFS	UIOLI and capacity transfers
Italy	Panigaglia	5 (2+3 spot)	Yes	40%	OSP	UIOLI. Offered in OSP as primary capacity
	Rovigo	2	Yes	Started 2009		
Portugal	Sines	1	Yes	34	OSP	Monthly UIOLI
Spain	Barcelona	Average 8 shippers / terminal	Yes	43%	FCFS	Ex-post UIOLI mechanisms. Capacity transfers
	Cartagena		Yes	42%		
	Huelva		Yes	35%		
	Bilbao		Yes	67%		
	Sagunto		Yes	80%		
	Mugardos		Yes	47%		
United Kingdom	Isle of Grain	5	No	28%	Open Season	Secondary market.
	Dragon LNG	3	No	Started 2009		Auctions held by Primary Capacity Holders
	South Hook	1	No	Started 2009		Secondary market. Auctions held by Terminal Operator

Country analysis

Country	% LNG	TPA	Slots Nomination Schedule	Detection Mechanism of slots underuse	Underuse penalty
Belgium	12%	Regulated	20th of month M-3 indicative. 20th of month M-2 binding	LSO markets non nominated slots on behalf of shippers 2 months before the berthing day. Primary capacity holders can also sell slots	No
France	29%	Regulated	On the 20th of Month M-1, binding	On 25 th M-1, LSO sets monthly slots program	Yes
Greece	22%	Regulated	Slot requests 12 weeks before beginning next year . Nomination 45 days before M, binding	Detected by LSO, publish available slots 15 days before M.	No
Italy	1,8%	Regulated /Exempted (80% Rovigo)	Each month, binding schedule for the next month, volumes definition for the second and indicative for the third.	If LNG volumes scheduled for the second month are lower than shipper capacity rights, LSO offers the non-nominated capacity to the market	Yes
Portugal	22%	Regulated	Day 12th of M-4 indicative purposes. At 12 th M-1 binding.	LSO facilitate access to other shippers, interested unused slots. Not available web platform with slots (minus three rule)	No
Spain	73%	Regulated	Year n-1, annual tentative program. 20th of each month indicative for next 3 months. After validation, binding for the next month and a half	Available regasification capacity in every terminal. In case congested unloading schedule in a terminal, ISO advises on available slots in other terminals.	Yes
United Kingdom	9% in 2009	Exempted	Varies by terminal. Primary capacity holders notify the market of any available slots between 14 and 10 days in advance of the berthing slot date	In every terminal, primary holders have the right to offer their unused capacities. Slots are sold in auctions which are held between 7 and 12 days in advance of the berthing slot (varies by terminal).	No

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Many different situations explained by national specificities

- **The role of local market conditions**
 - Share of LNG and competition with other supply means
 - Specific use of LNG for flexibility/balancing (*Spain*)
 - Degree of liberalization and downstream market liquidity have an impact on market “absorption” capacity of spot LNG
 - Price references (*UK, Belgium, PEG North France*)
- **Technical constraints** in LNG terminals
 - Bottlenecks: storage capacity in Greece, unloading capacity in Panigaglia (IT)
 - Limited availability of primary capacity: *UK, Be, Fr*
- No homogeneous **understanding of underutilization and questions about effectiveness of CMPs**
- **CMP** and anti-hoarding measures in Europe
 - In many cases, they are very flexible
 - Ex-post UIOLI is the most common one
 - Secondary markets are beginning to develop
- **Congestion management** is equally important for regulated and exempt terminals.
- **Is transparency** sufficient?

Lessons about spot cargo unloading in Europe

- **LNG is a growing market**
 - New LNG-import terminals in Europe are coming into play
 - Therefore addressing equal access to capacity for **ALL** players is crucial now and in the coming years
- **Licenses: various requirements**
 - From no license to agreements with LSO
- **Access issues**
 - Fulfill vetting and technical parameters/procedures
 - Primary versus secondary capacity
 - Capacity use
 - Slot and regasification conditions (flat, limited storage and/or regas. capacity use, etc.)
 - Additional flexibilities (i.e. LNG storage, possibility to trade with other shippers, etc.)
 - Downstream market functioning
- **Need for transparency**
 - Availability of slots
 - Secondary markets: who sells it? LSO / users, when?
 - Price

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ERGEG approach to CMPs in LNG terminals

- **Each national system** must be **analysed individually** to detect ways of improvement, taking into consideration the valuable experience of each country.
- **Anti-hoarding and CMP** application must be based on a **clear and simple** mechanisms and transparency.
- **Secondary capacity markets** need to be actively **promoted**, specifically increasing the transparency.
- Progress needed in the **homogenization of technical procedures**
- **Scheduling procedure** should be **carefully addressed** to define unused capacity in advance, to allow other agents to use it.
- **LSOs** and transmission system operators (**TSOs**) should **co-operate** to ensure inter-operability between both systems.
- **Storage rights must be carefully distributed** among shippers, to balance the terminal operation, security policies needs and shipper logistics.

Potential improvements

- **Licensing process:** facilitate the access in case of spot cargos, always taking into account the safety and security of supply.
 - ➔ *Should the requisites for a shipper to unload be the same as those who operate in the market?*
- **LSOs** to collaborate to reach a higher understanding of how **technical parameters** and procedures of terminals and **vetting** should be publicise to improve **market understanding**, in order to facilitate trade in Europe.
 - ➔ *Not only can a LSO publish the ships already compatible with it terminal or the vetting procedure acceptable, but announce that ships already approved by other terminals could be valid*
- **Regulators, CEER**, to develop further understanding on LNG arrangements related to **CMP** so **they become more effective**.
 - ➔ *Binding slot schedules or mandatory secondary markets do not have any meaning if there is no penalty on the primary capacity holder for late cancelation, i.e. 3 days before arrival*
- **Downstream market liberalisation**, regional integration and hubs will allow LNG to play an efficient role in terms of competitiveness and SoS



ERG



Way forward

- **CEER to meet with GLE** prior to the release of CEER study, to confirm assumptions
- Followed by **CEER study** on CMPs in Europe **to be published**
- **Public consultation and workshop** in 2Q
- **CEER to draft CMP and anti-hoarding guidelines**



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Thank you for your attention!

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