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## CEER Eastern Europe Workshop on Gas Storage Vision

Thursday, 26 February 2015

MEKH premises, Budapest

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### Key points of the meeting

#### Background

In October 2014, Council of European Energy Regulators (CEER) launched a Public Consultation on a draft Vision for the Regulatory Arrangements for the Gas Storage Market<sup>1</sup>. The draft Vision provided a set of regulatory and policy options to ensure that storage can compete in a flexibility market, where present. It also proposed that where a functioning wholesale gas market is not present, measures can be put in place to safeguard supplies whilst a market is developed.

The purpose of the consultation was to solicit feedback from stakeholders on the regulators' approach. The call for consultation responses closed on 12 December 2014 and CEER received 38 responses (two being confidential). The majority of respondents were stakeholders from Western Europe. In order to ensure that CEER's Vision reflected the views of all stakeholders in Europe, CEER organised a Workshop in Budapest targeted at Eastern European stakeholders.

This document summarises the discussion on the main points raised at the CEER Eastern Europe Workshop on our draft gas storage Vision, held in Budapest on Thursday, 26 February 2015.

#### Part I: Storage in the market

##### Storage in the flexibility market

CEER gave a presentation updating on recent market developments and outlining the main points of the draft Vision. With regards to market functioning, CEER proposed that storage competes in a wider flexibility market and regulatory arrangements should facilitate competition on a level playing field between different sources.

Gas Storage Europe (GSE) then gave a presentation on the storage market. This presentation noted that the storage market has changed significantly since the implementation of the 3<sup>rd</sup> Package. Whereas storage used to dominate the flexibility market, it is now in competition with other flexibility services. GSE noted that storage operators have had to react to these changing market dynamics and compete with other flexibility sources. This highlights that storage is not simply a security buffer; it also provides valuable services to its users.

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<sup>1</sup> [CEER Public Consultation on the draft CEER Vision on Regulatory Arrangements for the Gas Storage Market](#)



### Drive for innovation

GSE observed a trend of users demanding more individualised products which are not offered to the wider market. They commented that this can conflict with the requirements of the 3<sup>rd</sup> Package for non-discriminatory and transparent terms of access. Also regarding competition in the flexibility market, hubs often offer these individualised products. Therefore, users may choose hub based products over storage if operators cannot offer individualised services. Some participants commented that hubs are not regulated and therefore storage cannot be seen to compete with them on a level playing field.

GSE also highlighted Storage System Operator (SSOs) innovation to meet changing market needs, including: unbundled products, hub-indexed products; products allowing reverse flow between seasons; joint storage/transmission products for delivery at Virtual Trading Points (VTPs).

The key message was that like SSOs, regulation too must adapt to new market conditions. GSE welcomed the recognition in CEER's draft Vision that storage operators are willing to innovate to meet the needs of the market and agreed with CEER's recommendation that the regulatory framework should support this, where appropriate (e.g. respecting transparency and non-discrimination).

### Market development

During the workshop it was agreed that the situation is different across Europe and that a nuanced analysis of storage flexibility markets is necessary. One participant noted that in more monopolistic markets there is no effective competition, tariffs are regulated and innovation limited. The root of this situation often lies in the history of regional gas market development. For example, Croatia was reliant on a single import pipeline until 2011. In these cases, a more regulated approach is a protection to ensure a minimum standard of service; it serves a positive function and should not be regarded as simply a negative barrier to competition. Another respondent argued that although market structures may necessitate more stringent regulation, open access to storage and market liberalisation is a prerequisite to facilitating competition and wholesale market development. This debate highlighted the complexity of developing functioning wholesale markets in monopolistic markets dependent on limited sources of supply.

### Regulation and innovation

A number of participants noted that under more regulated regimes there is still considerable innovation in the storage market. One participant stated that there is demand from traders for rapid changes to product offerings – markets are moving fast. They argued that a key issue both for regulators and SSOs is pricing of innovative products. In particular, price mechanisms must be transparent. Another participant noted that even in a regulated market SSOs must be creative to survive. In Hungary, for example, approximately 20 different products are offered by the commercial SSO.

One SSO commented that the need for SSOs to be creative in different markets with



different regulatory frameworks adds complexity to their operations. This highlighted a need for better information about market structures and regulatory frameworks across Europe, in particular in South Eastern Europe.

## **Part II: Storage and security of supply**

### A balanced approach

GSE agreed in principal with CEER's "no one size fits all" approach to security of supply. They argued that an EU-wide approach is unlikely to provide an effective solution. Considering the factors that influence the chosen approach for a given market, GSE noted that although there is no prescriptive formula, some parameters can be considered, including: import dependency; summer-winter demand variation; ability to cover peak demand; structure of gas demand (household, industry, power generation etc.); characteristics of existing gas storage facilities; and compliance with Regulation 994/2010<sup>2</sup>. GSE therefore argued for a balanced mix of measures (i.e. market mechanisms/interventions) to ensure security of supply, depending on specific market circumstances in different areas.

### Is storage valued by the market?

There was agreement that all three values of storage (arbitrage, system and insurance) need to be considered to reflect the full value of storage. Participants at the Workshop presented different opinions, however, on whether the system and insurance values of storage are reflected in the market price. Consequently, they had different views on and whether markets can be trusted to deliver security of supply. This reflects responses to the consultation which were divided on whether they agreed with CEER's recommendations for delivering security of supply through market mechanisms.

SSOs in particular thought that the market does not value the insurance value of storage and that the system value should be better reflected in transmission tariffs.

There was a long debate on the insurance value of storage. The Workshop presented a variety of different views but there was agreement that it is a difficult concept to quantify. One participant argued that it is impossible to have a perfect level of security and therefore all interventions will inevitably be flawed.

### The cost of security

One participant noted that the debate on security of supply is often impassioned, but security of supply is not free – it comes at a price. There is a cost associated with providing different levels of security. Decisions need to be made about how the cost of interventions is

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<sup>2</sup> [Regulation \(EU\) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.](#)



allocated. For example, one participant questioned whether security of supply should be treated as a public good. The Workshop highlighted that decisions need to be made on the cost/benefit of investing to protect supply against high impact, low probability events.

### Different obligations

Participants highlighted the different security of supply interventions in place across Europe. A number of participants, from countries including the Czech Republic, Slovakia and Hungary, informed the Workshop about the obligations in place in their respective markets. The Workshop agreed that there is a general deficiency of understanding regarding obligations and regulatory frameworks in parts of Europe, in particular South Eastern Europe. Participants also commented that having many different regimes adds a level of complexity for market participants. For example, different countries have different definitions of “protected customers”.

A number of participants stated that interventions distort market functioning and hinder competition. An example given was Poland, in which high priced regulated products was said to prevent market entry and the optimal use of storage.

One participant commented that even in well-functioning markets such as Great Britain and the Netherlands, security of supply focused interventions are in place. However, another participant countered this point stating that in Great Britain, operating margins are established but these are focused on safety (the safe isolation of parts of the network in an emergency). The aim is not to ensure continuity of supply but the safe operation of the system and distortion to the market is minimised.

### Cross-border impacts of interventions

Some participants noted that it is important to consider the impact of interventions across borders. For example, one participant stated that Italian interventions have a significant impact on the Austrian system. They argued that the impact of interventions should be minimised on a regional level as well as within specific national markets. Another added that there may be a risk of over-securitising on aggregate if interventions are considered at a national level.

### Closures

A number of SSOs argued that without regulatory support, storage facilities across Europe might be forced to close. One noted that we are already seeing some closures in France, Germany and Belgium. They argued that given current trends in summer-winter spreads, SSOs will be unable to cover their Long Run Marginal Costs (LRMC), maybe not even their Short Run Marginal Costs (SRMC). They argued that it is important to ensure a fair return for capital intensive industries like gas storage. Others, however, argued that closure of facilities represents a normal market correction for the current oversupply of storage capacity. They acknowledged, however, that this highlights the tension between storage being considered as both a competitive industry and critical to security of supply in some regions.