Gas storage and security of supply in Europe

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An enhanced focus on security of supply and the role of storage

• The political situation in Ukraine has put European security of supply firmly in the spotlight, in particular the role of storage

• Gas storage is seen as a critical means of ensuring continuity of gas supply in the event of a major supply disruption

• Some stakeholders have raised concerns about the need for interventions in the market to ensure that sufficient gas is in store when it is needed
Incentives to book storage: seasonal arbitrage opportunities

- Long-term trend of declining summer-winter spreads
- Participants told us that they looked to multiple sources for flexibility, including LNG, interconnection and hub products, indicating a flexibility market
- However, spreads have increased in recent months
- Booking levels at most facilities for the year ahead have been strong, indicating that market players are responding to market signals

Source: Heren data
Resulting in high storage fill levels

- Strong stock levels at the end of a mild winter (2013/14), widening summer-winter spreads and concern about the situation in Ukraine are among the factors behind the current high stock levels.

2014: Highest stock levels ever recorded

⇒ Without strategic storage in most countries

Source: http://transparency.gie.eu/
The situation across Europe is different

No obligations
Supplier obligation
Strategic storage
No data received

Source: CEER Interim report (data incomplete)
Current storage fill levels in Europe

Storage stock levels in Europe
30 September 2014

Source: http://transparency.gie.eu/
Are the conditions in place for the value of storage to be realised?

- The current situation supports a positive outlook for security of supply for the winter ahead

- However, significant inter-year variation
  - Only last year we had low stock levels
  - Need to ensure that our approach is robust across multiple years

- CEER has produced a vision which aims to address these important questions for Europe in the long-term:
  - Are storage markets in Europe functioning sustainably?
  - Can storage play an adequate role in providing security of supply in the current regulatory framework? What impact do interventions have on the storage market?

Developing the Vision:
- We consulted on an interim report in November 2013
- We introduced our early thinking at the 25th Madrid Forum in May 2014
- We held a joint workshop with GSE in June 2014
Storage is a cornerstone of competitive wholesale gas markets

• Storage competes in the wider flexibility market
  ▶ Well functioning markets are best placed to value and deliver security of supply
  ▶ Effective competition between different sources of flexibility should deliver the most economic and efficient solution
  ▶ Regulatory arrangements should facilitate this competition, where appropriate

• Ongoing developments will have a positive impact and need to be prioritised
  ▶ Efficient wholesale markets with robust reference prices are important for all sources of flexibility, particularly storage
  ▶ The requirements of the 3rd Package ensure transparency, open access to transmission and storage assets and the foundations for competitive wholesale markets
    • Balancing Network Code will deliver price signals in markets across Europe and reflect the value of storage in market prices
    • Capacity Allocation Mechanism Network Code will increase the opportunities to trade between markets

• Where additional measures are needed, one size does not fit all
  ▶ Security of supply should be considered in a cross-border context
  ▶ European markets are at different stages of development
  ▶ Any regulatory levers or policy interventions should be targeted to situations where there is clear evidence that markets are failing to deliver
Ensuring fair competition between flexibility sources

- **Access to storage**: all storage capacity should be fully contestable and offered to the market on a non-discriminatory basis.

- **Product development**: regulatory arrangements should facilitate innovation where appropriate, not stifle it.

- **Transportation tariffs**: transportation charges should be cost reflective and National Regulatory Authorities may consider the benefits that storage facilities provide to the overall system.

- **Information provision**: good progress made to date. Encourage SSOs to continue to provide enhanced information to the market.

- **Regional approach**: users should be able to access storage capacity in adjacent markets without restriction on its use.
Storage helping deliver Europe’s Security of Supply

• In developed markets, security of supply is delivered through wholesale market price signals and security of supply interventions are not necessary.

• Non-discriminatory access in emergency situations enhances the value of storage, creating appropriate incentives on market participants to deliver security of supply.

• Where liquid wholesale markets do not yet exist, there may be a need for intervention to ensure security of supply. One size does not fit all.

• Interventions distort the efficient functioning of the market and should only be considered where there is clear evidence of market failure.

  ▶ For example, storage obligations can hinder market participants’ ability to respond to market signals.

• The impact on the market should be understood and minimised and an exit strategy should be prepared. Existing interventions should also be reviewed.

• Where strategic storage is introduced, clear rules, responsibilities and boundaries are essential.
Next steps

- CEER Consultation Paper to be published shortly
- CEER invites participants at Madrid to comment over the coming weeks
- A final report, incorporating comments, will be published in the new year

Any questions please contact ryan.mclaughlin@ofgem.gov.uk
Thank you for your attention!