

CEER workshop on barriers for gas storage product development, Brussels, 17 February 2017

# New products and storage

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**EFET**

European Federation  
of Energy Traders  
SO YOU CAN RELY ON THE MARKET

# The role of storage in developing markets

# Storage timeline against markets 1

## Supply flexibility

- Seasonal swing
- Daily demand changes (weekday/weekend)
- ST variations / linepack extension

## Supply flexibility

- Seasonal swing through storage, pipeline, LNG
- Reliance on trading
- Virtual storage & other forms of price risk management

## Monopoly

## Advanced market



## System security

- Fast response
- Backup / Insurance
- Orderly rundown of system

## Increased interconnection

Pricing signals and demand side responsiveness

## Locational support

Transportation substitute

Surplus capacity / increased interconnection / VTPs can obscure locational benefits

Provides DSM

Competes with Swing/TorP

Accelerated production monetisation

## Storage timeline against markets 2

Access to storage enables suppliers to meet balancing obligations

Substitute for liquidity

Continued need for storage to contribute to supply flexibility

- E.g. “smoothing” of LNG cargoes

Development of virtual services:

- Physical time swap (give me gas at VTP in July and I will give it back in January)
- Paper (options)
- Derivatives

### Nascent markets

### Maturing hubs



Emergence of cheaper balancing, flexibility and peak gas techniques

Basic price risk management

Short term cycling, price risk arbitrage

Availability of injection to manage major demand outages

Storage increasingly competes with other forms of flexibility

Price spreads disconnect from cost of storage / are determined by other factors

Regionalisation of storage reach (and increased regional competition)

# Implications for storage

## Products

Basic products for all storages as standard

- Space, injection, withdrawal
- Individually tradable and can be combined into different profiles
- Gas in storage to be tradable
- Interruptible products
- Allocate as firm
- Long and Shorter term contracts
- Parking & Loan
- Avoid unnecessary restrictions
- Internationally recognised

## Information services

Trade disclosure

Emergency services (produce cushion gas for SofS)

## Prices / Costs

Where competitive, storage should not rely on artificial restrictions / obligations to prop up the price / create demand.

SSOs incentivised to maximise product availability / usability - and price realistically through auctions.

SSOs in competitive markets face competitive pressures and should also be incentivized to manage costs efficiently

- External financing of cushion gas
- Minimised downtime for maintenance

Avoid undue complexity

# Country examples

# Poland

EFET has long argued that the current storage obligation in Poland is inefficient and counterproductive. Storage obligations are expensive and operationally complex and are a key barrier to the development of a secure, liquid and competitive market. In particular, the obligation:

Moreover, the obligation remains difficult to be fulfilled by keeping gas in storage in other EU countries due to a number of regulatory obstacles.

- Discourages even small additional imports from new entrants as the current exemption threshold is set at a very low level;
- Imposes extremely high costs to importers as storage in Poland is several times above the cost of storage in other EU countries;
- Limits the ability to utilize storage flexibly to respond to price variations or to react to a shortage in gas supplies;
- Distorts the market by discriminating against shippers who are importing for trading/reselling purposes compared to those importing for end user consumption;
- Reduces activity on the exchange and limits the potential for increased liquidity on the Polish gas market;
- Excludes any chance for LNG importers to contribute to security of supply via the new PLNG as it makes the new terminal commercially unattractive.

## France

EFET reiterates that the **reserve price** should be set at a **sufficiently low level** to guarantee a high level of storage bookings and make any safety net or mandatory bookings redundant.

EFET is not in a position to recommend a specific number of products to be commercialised by the storage operators. We see merits to storage system operators (SSOs) developing **various storage products** to ensure that storage in their facilities is attractive enough. We would however warn the regulator and the SSOs regarding the number and size of the products auctioned, i.e. not to propose too vast a portfolio of products or too large products, which could damage liquidity on the market for each product or their attractiveness for market participants. SSOs should strive to strike an appropriate balance in their product offering after consulting with market participants on which types of products seem most attractive to them.



# Italy

It is...necessary to ensure that all storage capacity is made available to the market and storage operators provide the services that market participants need. This becomes even more crucial in light of the implementation of the EU Balancing Network Code, according to which shippers will be responsible to balance their own positions primarily through intraday markets.

However, the use of storage capacity in Italy is still heavily constrained by rigid injection-withdrawal profiles, which artificially restrict the use market participant can make of their gas stored in Italian storage sites. Italy also maintains a sizeable amount of “strategic stocks” held by Stogit and paid by shippers through a levy at entry points.

Gas storage must be an attractive commercial proposition for market players who may therefore ensure that storage capacity is appropriately booked and filled. Storage capacity offered with products that do not respond to market participants’ needs is less valued by the market and will lead to a greater requirement for cross-subsidisation through transportation costs borne by end customers (e.g. through the levy of the CRVos variable charge).

## Storage sites with no artificial constraints on intraday injection and withdrawal

**OMV Storage (Austria):** no monthly limitation on injection/withdrawal, no limitation to intraday renomination (see Chapter 4 of GT&C).

[https://www.omv.com/SecurityServlet/secure?cid=1255760429901&lang=en&swa\\_id=76150859760.6581&swa\\_site](https://www.omv.com/SecurityServlet/secure?cid=1255760429901&lang=en&swa_id=76150859760.6581&swa_site)  
[https://www.omv.com/SecurityServlet/secure?cid=1255766756307&lang=en&swa\\_id=76150859760.6581&swa\\_site](https://www.omv.com/SecurityServlet/secure?cid=1255766756307&lang=en&swa_id=76150859760.6581&swa_site)

**Taqa (the Netherlands):** the only limitation relates to injection/withdrawal curves and nil inventory at the end of the contractual period (see Chapter 3 of SSSA).

[http://www.gasstoragebergermeer.com/wp-content/uploads/2014/01/SSSA\\_execution\\_version.pdf](http://www.gasstoragebergermeer.com/wp-content/uploads/2014/01/SSSA_execution_version.pdf)

**Uniper Gas Storage (cavity and porous rock storage facility - Germany):** the only limitation relates to injection/withdrawal curves (see link below) and nil inventory at the end of the contractual period (see Articles 10 and 11 of GT&C).

<https://www.eon-gas-storage.de/cps/rde/xchg/egs/hs.xsl/3051.htm?rdeLocaleAttr=en>  
[https://www.eon-gas-storage.de/cps/rde/xbcr/egs/150331\\_GTCS.pdf](https://www.eon-gas-storage.de/cps/rde/xbcr/egs/150331_GTCS.pdf)

**Centrica (UK):** standard storage service with Within-Day and Day-Ahead option with injection and withdrawal profiles.

<http://www.centrica-sl.com/index.asp?pageid=49>

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