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EC Proposed measures to safeguard the security of gas supply

A Eurelectric response paper

May 2022

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We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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Markets & Investments Committee
WG Power & Gas interactions

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KEY MESSAGES

- Setting a minimum filling level in EU gas storages would strengthen security of supply, ahead of winter 22/23 and help to cope with any potential disruption of Russian gas supply across Europe.
- Such an approach, if not set on a temporary basis, if not coordinated at EU level and if accompanied by inappropriate non-market based rules, could however lead to a situation of overcapacity in the long-run and its impact on the market should therefore be carefully assessed (e.g. risk of distortions of the flexibility market if implemented through storage obligation in Europe).
    - It is necessary to closely monitor the situation and assess whether a general storage target continues to be proportionate to the objective pursued in the long-term. The Regulation should therefore define the objectives of SoS (the supply gas standard).
    - Joint purchasing of LNG by member states will fundamentally distort the single gas market and will be far less efficient than relying on market participants to do this as it has been in force for 20 years as part of the EU competing energy markets.
    - To define the long-term strategy for gas storage, we encourage the EC to assess different approaches and consider the experience of Member States which had a high filling rate at the beginning of the winter. (e.g. For example, in France, storage levels are filled at 94% with a market-based approach, auctions and proper incentives for example)
    - To improve the security of supply, other measures could be envisaged such as the implementation of demand response scheme to be encouraged through financial incentives.
- The filling target should be determined by means of a robust cost-benefit analysis (CBA) and in a transparent manner as soon as possible. In the amendments proposed to Regulation 2017/1938, it is key to incorporate to Art 6a provisions regarding the principles to be complied with by the Delegated Act, including the development of a robust and transparent CBA methodology.
- The principle of a storage filling trajectory per country, seems complex at first sight and should be limited to what is needed to avoid negative impact on EU gas market & flexibility management for market parties.
- Setting 1st November as the reference filling target date looks relevant, as it corresponds to the entry of the heating season for most of Member-States (1st December would be too

late and a far more stringent constraint). Storage intervention at this scale may be necessary due to the systemic crisis circumstances.

- **The proposed burden sharing principle looks appropriate but would deserve being described more in details** by the EC to understand better potential constraints linked with its implementation.

Definitions (amended Art. 1). *[New definitions proposed for 'Filling trajectory', Filling target', 'Strategic storage' and 'Strategic stock']*

- **While "emergency" is a concept clearly defined in the SoS Regulation released in October 2017, "supply scarcity" and "supply disruption" are concepts that are not defined** and, hence, subject to discretion / unharmonized interpretation from Member States.
- **Moreover, definitions are somewhat confusing between "strategic storages" vs. "strategic stocks".** TSO core mission / traditional task is to maintain the gas system under normal operation. Allowing TSOs to operate strategic storage or strategic stock would mean going beyond their core mission, using them in situations other than in emergency and should therefore be carefully assessed.
    - The concept of "strategic stocks" (i.e. storage filling goal assigned to TSOs, with a regular withdrawal of the stored gas over the winter period) should be renamed in another way (e.g. "TSO-filled" or "TSO-cycled" storage).
    - With regards to "strategic storage", an oversized deployment could lead to a major risk of market distortion as it crowds out storage capacity from the market, worsens the risk of price surge in summer period (cf. injection needs for a regulated SSO or TSO), without allowing any release of that injected gas in the winter period except in exceptional circumstances (being a strategic storage).

Mandatory filling target and filling trajectory (new Art 6a) *[Every MS shall reach the filling target by 1 Nov each year, if this is not possible Dec 1. The filling target for 2022 is set at 80% of the capacity of all storage facilities and rise to 90% after 2022]*

- **The 80% filling target as set for 1st November 2022 looks adequate for the EU gas system**[1], in particular given the current energy and geopolitical crisis.
- As above mentioned, **such an approach, if not set on a temporary basis and if accompanied by inappropriate non-market-based rules, could however lead to a situation of overcapacity in the long-run and its impact on the market should therefore be carefully assessed.** In particular, we want to warn public authorities about the potential high costs for (gas & power) consumers and the contagion to other market of this measure.
- **The filling target for subsequent years should therefore be determined by means of a robust cost-benefit analysis (CBA) and in a transparent manner** to assess whether such a requirement is proportionate to the objective pursued. Art 6a should incorporate provisions regarding the principles to be complied with by the Delegated Act, including the development of a robust and transparent CBA methodology.
- **At first sight, following a CBA, the proposed 90% filling target for subsequent storage years could be lowered:**

[1] However, given the different situations, supply resources availability, interconnection capacity in each MS, setting a unique EU filling target as of 1 Nov might be unjustified and inefficient (e.g. substitutability between LNG and storage; contribution to SoS by neighbours limited by interconnection capacity; etc.)

    - **Especially if the tolerance for filling date gates is not shifted at 5 %** and given the fact that 1) national gas storage capacities compared to domestic demand vary greatly in the EU and 2) some Member States do not rely on gas storage capacities to modulate winter-summer demand but for instance on LNG.
    - **The 2% tolerance allowed to deviate to respective interim or filling target looks too tight. A 5% deviation would be more relevant** in case of disruptive event or very severe cold snap between 2 milestones.
- **The principle of a storages filling trajectory per country**, with interim targets set within both the injection (summer) and withdrawal (winter) periods, **seems complex at first sight and should be limited to what is needed to avoid negative impact on EU gas market & flexibility management for market parties.** In this context, 3 interim summer milestones look excessive: one or 2 summer "date gates" would be enough (for instance: 1st May and 1st August). In case national trajectories are set at EU-level, the following alternative approaches should be considered:
    - **The interim targets trajectory set in summer periods could be managed in a dynamic manner** along the filling period (e.g., frontload / backload the filling to optimise the cost), depending on the physical hazards (e.g. cold snaps or heat waves, maintenance on a storage asset or outage on an adjacent infrastructure) and live market conditions.
    - **The Commission and Gas Coordination Group could just monitor Member States' progress between April and October towards meeting the EU fill targets** and issue warnings if a given Member States filling progress is significantly slower than the 5-year average (cf. date-to-date).
- **The scope of the provision should be clarified** (e.g. each MS shall ensure the filling target for the aggregated capacity of all storage facilities in their territory by Nov 1):
    - Is the proposal scope also covering storages used in short cycle operation or, not, considering their relatively low share in the EU storages fleet?
    - Clarifications on the exact meaning of the wording "in their territory" would be welcome. For example, what does that mean for storages that are in for example German territory, but are connected to the Dutch gas grid? Do they "count" for the Dutch or for the German percentage?

<u>Implementation of the filling target (new Art 6b).</u> *[MS shall take necessary measures including financial incentives or compensation to market participants to ensure mandatory filling targets by imposing obligations]*

- **A good market design with right signals is more efficient than obligation to fulfill the storage.** For example, in France, the storage obligation in force until SY 2017/2018 led to average filling rates lower than the one actually observed since SY 2018/2019, i.e., once the market-based reform was implemented.

- Therefore, **filling targets or obligations should be accompanied with proper incentives to market participants**, such as:
    - **Removal of price floors in storage auctions ;**
    - **Guarantees, set by NRAs, for costs incurred** due to complying with the obligation which cannot be covered by revenues / passed to customers

(e.g. potential losses due to the difference between the price of gas injected to fulfil the obligation and price of gas when released from the storage; contract for difference);
    - **Loan guarantees for the market participants having freely subscribed storage capacities through auctions procedures**, and for which filling requirements should not lead to liquidity constraints (cf. initial margins) and higher cycling costs in periods of high prices.

- Besides, a **coordinated approach should be ensured at European level** to preserve a level playing field among market participants in the internal market and therefore avoid distortions among countries and inefficient outcomes potentially hindering the intention of ensuring security of supply.

- **Joint purchasing of LNG by member states will fundamentally distort the single gas market** and will be far less efficient than relying on market participants to do this as it has been in force for 20 years as part of the EU competing energy markets. If so, member states would need to agree on numerous parameters, including contract duration, slot schedules, indexation, delivery point, gas allocation and freight scheduling: as member states have no experience of purchasing LNG, the result may be less efficient if market participants are not onboarded and thus counter-productive compared to the current framework. Furthermore, imposition of means assigned to shippers should be avoided as they have numerous drawbacks and may be even counterproductive.

Burden-sharing (new Art 6c). *[MS without storage facilities shall ensure that domestic market participants have arrangements with storage operators from MS with storage facilities]*

Filling target *[storage volumes in those MS by 1 Nov corresponding to at least 15% of the annual gas consumption of the MS without storage facilities*]

- **The burden sharing principle looks appropriate but would deserve being described more in details** by the EC to better understand the potential constraints for its implementation.

- **In particular, the burden sharing principle could potentially constitute a risk of double counting and rise questions**; MS are obliged to fill their storages at 80%; MS ***without*** storage are obliged to store 15% of their annual demand in another MS;
    - How is it incorporated in the proposed 80%/90% target that MS with storage capacity can keep "enough safety margins for themselves"?
    - What if a MS has storage capacity, but less than 15% of annual demand? Will they have to make arrangements as described in 6c(2)?

- **All infrastructures contribute to security of supply: Interconnections, LNG terminals and storages.** A country without storage facilities but lot of LNG terminals will contribute to security of supply of Europe as much as a country with lots of

storages but without LNG terminal. However, the “burden-sharing” focus only the storage not on terminal LNG

- **It shall be probably clarified that market parties cannot bear the burden of this by their own**, the cost of ensuring security of supply shall be socialized across consumers which benefit from the security delivered. Details should be left upon national level.

- Special case of Austria: With a total storage capacity of 95,5 TWh, Austria has the fifth-largest capacity in Europe, but one the storage facilities – Haidach, second-largest storage facility in Central Europe – is located in Austria but can only be filled in via Germany. The storage working volume of 2,64 bcm of that storage asset corresponds to a quarter of Austria's annual consumption. Since the burden-sharing mechanism only applies to countries without own storage capacity, Austria could face massive costs which could amount to 3-5% of GDP at current prices.

Other measures:

To improve the security of supply, other measures could be envisaged such as the implementation of demand response scheme to be encouraged through financial incentives. For example, in France, large gas consumers can benefit from a tariff rebate or an exemption on their contribution to storage costs when they participate in demand response schemes. Such a mechanism could be replicated in other Member States, where appropriate/needed.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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