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# Eurogas views on the Commission's Communication on European energy security

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**Eurogas** is the association representing the European gas wholesale, retail and distribution sectors. Founded in 1990, its members are 44 companies and associations from 24 countries.

Eurogas represents the sectors towards the EU institutions and, as such, participates in the Madrid Gas Regulatory Forum, the Gas Coordination Group, the Citizens Energy Forum and other stakeholder groups.

Its members work together, analysing the impact of EU political and legislative initiatives on their business and communicating their findings and suggestions to the EU stakeholders.

The association also provides statistics and forecasts on gas consumption, as well as information on energy taxation in Europe. For this, the association can draw on national data supplied by its member companies and associations.

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## Eurogas views on the Commission's Communication on European energy security

Eurogas recognises that the events in Ukraine and their aftermath, which have led to concerns being expressed about eventual implications for security of Europe's energy supply, justify analysis and new debate on how the market and associated current policy framework function to provide security of gas supply. In any case, the Regulation No 994/2010 was required to be reviewed by December 2014. This is now all the more pertinent.

Eurogas reaffirms the main elements of its position on gas supply security.

- Eurogas considers that the further development of a well-functioning internal market, with unimpeded trade across borders, underpinned by the necessary infrastructure, in particular interconnection capacity, remains the most efficient and cost-effective way to deliver secure gas supplies to Europe's gas customers. Today over 118 million customers are served, meaning that 250 million Europeans rely on gas.
- A well-functioning market, in which gas will be seen to have a continuing important role in the energy mix, will attract suppliers to Europe in a competitive global market and give confidence to investors.
- Especially in the short-term, there could be a tendency to doubt that markets offer the best response to security of supply concerns. Such a tendency should be resisted in line with the current Regulation 994/2010 that recognises the importance of relying on market mechanisms for as long as possible in the event of a disruption. The review of the Regulation should reaffirm this principle, ensuring that market-based instruments should continue to be given priority even if an emergency were to arise and “any measures taken to safeguard the security of gas supply do not unduly distort competition and the effective functioning of the internal market” (Recital 12).
- Lessons were learned from the January 2009 crisis, and progress has been made in a number of ways. Investments, for example in reverse flow possibilities, have improved the situation, and markets have become more liquid. Formal risk assessments, Preventative Action Plans and Emergency Plans now exist in most Member States. These are important improvements to be taken into account as the situation is analysed further.
- It is, however, a matter of regret that market developments have not delivered more interconnections, ending the isolation of Member States in the Baltic area, improving links in south-eastern Europe, and enhancing flow possibilities from the Iberian Peninsula into the rest of Europe. Where necessary, interconnections should be built to increase market integration and supply security. Therefore Eurogas supports the present infrastructure package, giving more weight to market instruments to deliver progress in balance with non-commercial societal interests notably security of supply. Benefits of projects that the market is not asking for should be weighed against the costs and the viability of market-sponsored projects, taking into consideration Europe's needs.

- Eurogas considers that the best way to realise the principle of solidarity is to develop liquid markets at national and/or regional level, with well-functioning hubs and commerce driven cross-border flows of gas, and that this objective should be achieved through market mechanisms. Subsidiarity has to be maintained at an appropriate level, and each Member State should meet its own supply security standards in line with the requirements of Regulation 994/2010. With market possibilities in place to support a coherent approach to security of supply, then solidarity will be possible on a cost-effective basis. Non-commercial mechanisms that distort the market could be inefficient and very costly.
- Domestic supplies of gas come from fourteen different European countries and account for about 50 percent of Europe’s gas supply, while regular external suppliers from across the globe number 23\* and six or seven other countries are occasional suppliers. Russia is expected to remain a part of this diversified picture. Diversification possibilities have to be realised for all Member States.
- Furthermore in recent years, the gas business in Europe has evolved constantly. Not only are there more gas market players but the gas business is largely integrated in companies with broad business interests and global reach, operating in contexts that involve significantly more and varied trading opportunities than in the past. Security of gas supply in the interests of their customers remains a core aspect of companies’ commercial planning and they seek in their portfolios to secure diversification of supplies and routes. Therefore, they hold large, and, while seeking to maintain a long-term strategic emphasis, increasingly flexible portfolios.
- An energy partnership with the US as part of the Transatlantic Trade and Investment Partnership currently in negotiation may be an interesting future option, although eventual uptake would depend on a number of commercial considerations.
- The strengths of the whole European market are conducive to:
  - countering the negotiating power of external producers through companies’ commercial strategies, and market activities ;
  - increasing supply diversification. Energy independence should not be a goal in itself but companies should be able to source supplies on a cost-efficient basis. Reducing import dependency, ignoring the potential benefits of the global market, will not necessarily bring lower energy prices or increased security of supply. Moreover, an objective of reducing import dependency would ignore the economic advantages of international trade in general and global competitive advantages in particular.

As a better functioning and more resilient market is pursued, these strengths will increase.

Gas in storage, a flexibility instrument, also plays an important role in supply security. Volumes are currently high, and LNG terminals have capacity to receive significantly more volumes of gas from the global market. Companies should be free to determine their portfolios from

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\* COM 2012(663) notes that the number of suppliers increased from 14 to 23 in the decade to 2010.

complementary sources, pipeline, LNG, traded wholesale market and long-term arrangements, on a cost-efficient basis.

- The EU should speak with one voice on external energy policy. Eurogas has long advocated the development and maintenance of political dialogue with supply and transit countries and a good neighbourhood policy. In this context companies can find scope for their entrepreneurial activities. Cooperation should be reinforced with the Energy Community countries.
- Gas is still being discovered in Europe, and Eurogas considers that the natural gas reserves, conventional and unconventional, should be further expanded, through technological progress. There is currently in many Member States a debate about the exploration and exploitation of unconventional gas, but provided that development of such resources can be done in a safe and responsible way it should enhance security of supply.
- The addition of biomethane and also small amounts of hydrogen to the gas grids can further enhance the contribution of indigenous supply sources. For example, a process of electrolysis using the excess electricity from variable renewables can split hydrogen from water, that is then put into the grid. Alternatively the hydrogen can be turned into synthetic methane in a process of “power to gas”. The potential for increased energy efficiency from gas-fired technologies, particularly in space heating and cooling, can contribute to the EU’s energy efficiency targets, helping to achieve EU energy and climate policy.
- Eurogas supports the role of the Gas Coordination Group, which presents a useful forum for the exchange of information and discussions on implementation of Regulation 994/2010. Eurogas is ready to engage in wider talks relevant to the review of the Regulation. This should, as mentioned above, confirm the functioning internal market as the primary instrument to safeguard security and ensure clarity of roles and responsibilities at national and EU level. Within this framework, there may be scope for revisiting issues in the light of market progress.

In consideration of the overall positions, Eurogas has addressed the main issues arising in the Commission’s Communication on European Energy Security Strategy.

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### **WELCOME EMPHASES**

1. The Communication offers a good basis for discussion and further work on the issue, and Eurogas can agree with many of the suggested actions. In the short-term, it is important to build on the cooperation within the Gas Coordination Group and improve monitoring and risk assessments. Eurogas also supports the launch of further energy security stress tests, to which our members are pleased to contribute their perceptions and appropriate material.

2. Eurogas also welcomes the emphasis on all the actions designed to make the internal market for gas (and electricity) work more competitively and efficiently. Eurogas recalls its principal messages on areas where improvements are still needed to improve wholesale markets across Europe.

- **Policy support for gas in the energy mix**

EU policy should acknowledge the long-term value of gas in the energy mix, giving confidence for the necessary future investments, boosting the internal market, and reinforcing Europe as an attractive market for gas.

- **Improved implementation of the Third Package**

Despite the significant progress in market development, implementation of the rules that are essential to the achievement of a more competitive and liquid market is uneven across the EU. The Commission and other institutional bodies should continue their activities to ensure robust implementation of the Third Energy Package to benefit market players and customers in all Member States. Initiatives undertaken by European associations to make proposals for improvement should be encouraged.

- **Continued progress on Codes**

Timely progress should be achieved on the determined codes and rules. The established good consultation procedures organised by ENTSOG should be continued, and ACER and the Commission should be equally open to dialogue with stakeholders. The Codes should underpin closer co-operation among Transmission System Operators (TSOs) and National Regulatory Authorities (NRAs), reflected in harmonising operational procedures and technical interoperability that will facilitate new and existing business. ACER has an important role to take in delivering the goal of improved cooperation.

- **Market Integration**

Market integration, underpinned by sufficient cross-border connections and flows, should build on the foundations of a robust implementation of the Third Package and the associated codes and rules, which will boost market dynamics. Market integration should be commercially driven, and promote the development of hubs where these are not in place. Where market integration is not happening or happening too slowly, an analysis of the problems is needed, with a view to developing tailor made solutions, subject to cost benefit analyses.

- **Favourable investment climate**

Implementation of the infrastructure package is necessary to speed up development across European networks, and the outcome of the Ten-Year Network Development Plan (TYNDP) should be consistent and coherent with the implementation of the

package. It is important to take into consideration investment needs when deciding other regulatory mechanisms, such as the “Code on Harmonised Transmission Tariff Structures” and more directly the amendments to CAM on investment related issues.

– **Continued actions to encourage a progressive phase-out of regulated gas prices**

Eurogas shares the Commission’s concern about the prevalence of regulated prices, which can hinder market entrance and distort competition particularly when they are set below market price or are below cost. When there are justified arguments for maintaining some form of regulated prices, this should be a temporary measure as part of the transition to a fully competitive market.

– **Capacity remuneration mechanisms**

Eurogas favours a well-functioning energy market, but capacity remuneration mechanisms can be an effective measure to address security of electricity supply where the energy-only market does not do so. As there is a risk that capacity remuneration mechanisms could distort the market they should be carefully designed and coordinated. Any impact on the internal energy market and its further implementation should be minimised and attention should be paid to the potential impacts of capacity remuneration mechanisms on the gas market.

3. Eurogas considers that acting in these areas while ensuring that EU competition law is observed, will improve the market and security of supply. More details and specific issues like storages and hubs are addressed below.

## **EUROGAS CONCERNS**

### **Undervaluing the role of gas in the energy mix**

4. Eurogas, however, also has concerns, primarily about how the thinking reflected in this Communication could impact on the outlook for gas, by downplaying the role of gas in the energy mix.
5. The Communication emphasises the importance of using energy more efficiently. Eurogas endorses this objective, which should also improve the affordability of energy, but we do not agree with an objective of reducing natural gas use in a number of sectors, in favour of renewable energy and heating. There is reference to the possibility of cutting natural gas use by up to three quarters with a particular emphasis on reducing the use of gas in the heating and cooling market.
6. An emphasis on moving away from gas,
  - fails to value the contribution that gas makes to security of supply and economic growth in Europe;

- ignores the enormous potential contribution that upgraded gas-fired space heating/cooling can bring to a more sustainable energy market as shown in the ongoing Eurogas heating campaign. On a larger scale, fuel efficiency may be significantly increased through the use of combined heat and power portfolios;
  - ignores the important role gas can play as a transport fuel;
  - overlooks the growing interest in combining gas with renewable forms of energy including biogas, offering flexible solutions with gas and electricity in partnership;
  - discounts the operational and economic challenges that would arise in simply trying to replace the heating load met by gas by switching to electricity. The gas grid can transfer efficiently more energy than the electricity grid and is designed to accommodate the peak energy requirements that the heating/cooling market requires. A drive for faster and more widespread electrification would need to consider the cost and environmental impact of necessary extension and reinforcement of the electricity infrastructure. This would have significant consequences on the economics of the current grid;
  - will not present Europe as an attractive market to external suppliers.
7. Policy makers are linking the energy security issues with the 2030 framework, and the plans for a new energy efficiency target are therefore relevant. Eurogas recalls it does not favour a new binding energy efficiency target for 2030. Eurogas favours a single target and has supported a greenhouse gas reduction target of at least 40 percent for 2030. Coupled with a speedy reform of the ETS this will, in addition to contributing to reduced emissions, encourage energy efficiency, supporting security objectives. Eurogas, however, considers that introducing other targets alongside, risks leading to complex and possibly contradictory policies and measures.
8. Furthermore, there is an implied policy contradiction in discussing ways to boost indigenous gas resources, and incentivising new major infrastructure, while a sharp reduction in the role of gas is envisaged. The gas sector is already facing significant business challenges and future uncertainties. Such policy statements will reduce the appetite for investment even further.
9. Policy needs to place greater emphasis on an holistic approach to securing energy security, seeking cost-efficient ways to optimise affordable and secure supplies. A wider aim should be to integrate the gas and electricity markets in a way which delivers a sustainable energy system along the value chain to consumers, with gas in a significant role. In this context, the development of associated innovative technologies and the implications of their entry into use coupled with strategic thinking on new business models to enhance value in the energy chain are also relevant.

#### **Suggestions for new mechanisms at EU level**



10. Eurogas notes that market transparency is steadily increasing and welcomes this improvement. There would also be value in Member States' exchanging more information on their energy interests and policies, which would then allow them to take their national decisions in a wider context. Regulation 994/2010 provides for an information exchange, involving Member States, the Competent Authorities, and the Commission, on supplies and contracts. Decision No. 994/2012 established an information exchange with regard to intergovernmental agreements with third countries (see further below). Subject to the outcome of the review of the Regulation, Eurogas does not consider that a new mechanism is needed to increase transparency. Within the current framework there may be scope for exploring a way of allowing appropriate information to be available on an aggregated basis to counteract any perceived knowledge asymmetry with external suppliers. Any attempt, however, to set-up a common data base should not lead to a quasi-control mechanism reducing the possibility for companies to negotiate their contracts. Confidential information should remain protected in accordance with Article 4 of Decision 994/2012.
11. Eurogas supported the Communication on external energy policy of September 2011 and agrees that as far as possible there should be a coherent approach in energy diplomatic-level relations with Third countries. As mentioned above Eurogas does not think that the EU's role should go beyond paving the way for commercial deals. A clear distinction has to be maintained in the roles and responsibilities of policy makers and companies.
12. Under the current provisions of Regulation 994/2012, the Commission may act as an observer during negotiations of intergovernmental agreements, and advise the Member State on how to avoid incompatibility with EU law, but this does not apply to agreements between commercial entities. With regard to the suggestion to extend the application of the Decision (994/2012), Eurogas could envisage an approach giving commercial undertakings the right to seek the Commission's advice, but in no way should it be an obligation. An option could be welcome to some companies, especially smaller companies, faced with a dominant supplier. Intergovernmental Agreements, however, should not restrict private contracts on energy deliveries between producers and companies. Companies should be responsible for negotiating their contracts. EU coordination should neither delay the conclusion of inter-governmental agreements nor create a risk of commercially sensitive information being disclosed.
13. Eurogas is very concerned about the notion of a "collective purchasing mechanism" along the lines of that of the Euratom Supply Agency, according to which the Agency co-signs contracts and if it considers that a contract would jeopardize security of supply has the right to object. Eurogas would consider this a restraint on commercial freedoms, ultimately inhibiting the development of the competitive market and with a potential adverse impact on prices. Eurogas would not support the idea of a new body with powers to intervene in business decisions that are in line with EU law. Issues relevant to competition law will also need to be considered.
14. Eurogas is concerned at the notion of "aggregating demand on a voluntary basis" and not understanding what rules and conditions could attach to this, seeks reassurance that its realisation, albeit on a voluntary basis, would be compatible with a competitive liquid market. The well-functioning internal market will best ensure that European energy

companies are able to bargain for supplies to meet their customers' needs at affordable prices. It is essential to promote market opening and integration of markets across Europe so that all companies and their customers can benefit. This will strengthen the negotiating position of those companies still highly dependent on single source imports.

### **Implied new regulatory framework for gas storages**

15. The Communication addresses the question of a regulatory framework for gas storages, but Eurogas would urge the Commission to continue to promote a market based approach to storage. The flexibility market is complex. How markets balance demand and supply, should be a commercial decision and the relevant market in storage as for other flexibility instruments should not be constrained by borders.
16. Eurogas recognises that because of different national and regional characteristics, a regime applied in one Member State might not work well in another. Also different regimes might suit different types of storage. Therefore Eurogas favours maintaining the choice in the Third Package of Negotiated Third Party Access (NTPA) or Regulated Third Party Access (RTPA).
17. Whichever regime is chosen, Eurogas considers that it has to be underpinned by transparency, including on formation of storage tariffs, and an ability of storage operators to develop a range of products to suit market needs, short as well as long term. Some storage operators are currently facing difficult business conditions. Therefore Eurogas is in favour of making sure that there are no impediments to storage use in a competitive market, and the developments of innovative products is the best way forward. Products with virtual storage services (physical storage linked with trades) available at hubs, will in an interconnected regional/European market contribute to increased supply security.
18. So great is the range of factors to be taken into account in determining a framework for storage, that Eurogas has never supported strategic storage at an EU policy level as this could be cost inefficient and cause problems for the commercial storage market. Eurogas recognises that some Member States may wish to consider measures such as "monitoring" level (a level is set below which stocks should not fall) strategic back-up stocks, or Public Service Obligations (PSO) obligations. Any such solutions should be transparent, proportionate, seek to avoid market distortions, and be responsive to market structure and developments. Proper stakeholder consultation on such measures will help to ensure this.
19. To think, however, in terms of organising any such approach at EU level in the form of a virtual common capacity reserve raises a series of very complex issues. It is not clear what the features of such a reserve would be, how it would function or be governed or paid for. It is not clear how a suggestion to pool a minimal part of existing capacity stocks, perhaps under the IEA would work or if it could be compatible with the aim to have a functioning EU market. A better functioning market will contribute to the availability of physical reserves in market areas, and hub products offering virtual reserves backed up with possibilities of physical deliveries on an integrated basis could be considered, but there would need to be confidence in eventual physical availability of the gas, and a prerequisite of this would be its availability across borders.

20. Eurogas would support CEER's proposal to prepare a report on the Guidelines of Good Practice for Storage System Operators (GGPSO). The first GGPSO dated 2004/5, were updated in 2011 with regard to Capacity Allocation Mechanism (CAM) and Congestion Management Procedures (CMP), but the market context has since evolved, and so a report would be useful.
21. Therefore, there is no reason specifically to address the storage regulatory framework. The aim, instead, should be to ensure that the regulatory framework for TSO operations is conducive to the development of national and regional wholesale storage markets. In addition to the general actions to achieve this mentioned earlier, Eurogas would also call for the need to ensure that the Balancing, CAM, and CMP codes and rules are implemented in full. Implementation of the codes should be coherent and consistent at cross-border interconnections, and undue use of short-term Use-It-Or-Lose-It (UIOLI) should not result in constraints on supplies to cross-border storages.
22. Eurogas considers that there is more than adequate storage capacity at EU level but internal market functioning needs to be improved to ensure that this capacity serves as security for all European consumers.

## **CONCLUSIONS**

- Eurogas is ready to engage with the institutions and energy stakeholders in discussions on improving energy supply security.
- The full and correct implementation of internal market legislation, of the current Regulation on Gas Security (994/2014), and other relevant legislation necessary for a well-functioning market, including EU competition law, should be enforced.
- Approaches should be avoided that risk undermining market confidence, and the current contract-based energy system. The risk in introducing even temporary non-market based instruments is that this would delay proper development of the market; intervention often spawns more intervention, with approaches consequently moving further away from the market.
- There is scope at regional level for bringing markets closer together, and this objective should be pursued, in a way consistent with the objectives of the European internal market. Competition should foster solidarity within the framework of EU integration. The EU has an important role in maintaining relations with supply and transit countries, that are conducive to stable supplies.
- Further infrastructure development, especially cross-border interconnections, is a prerequisite.
- To promote the necessary sought for investment in gas infrastructure, and to maintain Europe as an attractive market for suppliers in a competitive global market, policy should

be more upbeat about the future role of gas, a stance in line with the objectives of a cost-efficient sustainable energy market.

- Overall, Eurogas considers that an adequate regulatory framework is already in place, and this has to be consistently applied in the face of security issues. Eurogas, however, sees value in re-evaluating the provisions of the current Regulation on Security of Gas Supply (994/2010), to take into account market developments.