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Eurogas Views on the Energy Union and Enhancing Supply Security

Eurogas is the association representing the European gas wholesale, retail and distribution sectors. Founded in 1990, its members are 41 companies and associations from 22 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. For this, the association can draw on national data supplied by its member companies and associations.

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BUILDING AN ENERGY UNION

1. Eurogas welcomes the opportunity to contribute to defining actions to realise the concept of an energy union. Mostly Member States enjoy the benefits of improving markets, strengthening supply security and diversified energy options, but there is scope for enhancing these developments across Europe. Eurogas supports the objective of European solidarity to reinforce progress, delivering greater affordability and security of supply in the interests of all energy consumers. An energy union can make an important contribution to overall EU integration.
2. An energy union, appropriately elaborated and managed, has potential to help steer a coherent and consistent implementation of energy policy at national, regional and European level. It should not in the first place be about new instruments or legislation, but should be an overarching approach that steers and nourishes a spirit of greater communication and cooperation among Member States, builds on the internal energy market and delivers a sound governance arrangement for the ambitious energy and climate 2030 framework. Therefore the energy union should also be a concept that drives European economic growth, triggering investment and employment.
3. Eurogas considers that the following principles should underpin the concept of energy union.

3.1 Design a cost-efficient market-based energy transition with gas playing an important role

Core policies connected with energy across the Commission services should be coordinated to focus on customer needs for affordable and secure energy, essential for the competitiveness of Europe and the well-being of millions of citizens. The market should determine energy sources and technologies. Competitive approaches should be supported by coherent policies that take into account specific regional characteristics. To meet the ambitious CO₂ reduction targets, a strengthened Emissions Trading Scheme, market-driven energy efficiency, demand-side response, and innovation in technology and new business models are all essential. Efficient cross-border and regional solutions should be prioritised, involving also Energy Community countries, in the drive to an integrated market.

Gas has an important role to play in the energy mix, today and in the energy transition.

3.2 Trust in the market to deliver security

In recent years, there has been significant progress in developing an internal gas market, but this has to be completed, by removing remaining distortions and obstacles, with the objective of making Europe attractive to global gas suppliers and investment. In principle all investments should be market-based. A predictable and stable coordinated regulatory framework giving confidence to investors in the energy chain is essential, as this will contribute to delivering the necessary infrastructure Europe needs to bring more market

benefits to its consumers, especially cross-border interconnections, facilitating greater diversity of supplies for all Member States.

The existing EU level legislation has yet to deliver all expected results. The focus of energy union actions should remain on a legally correct implementation of the Third Package. Completion of currently planned network codes and their harmonised implementation will help to foster a fully integrated EU wholesale market. Practical problems arising during implementation should be addressed in an even-handed review and decision-making process as needed.

3.3 Speak with one diplomatic voice

The EU and Member States have important roles to play in establishing and maintaining good diplomatic relations with gas supply countries across the world, and also transit countries as significant volumes of gas are imported through pipelines. This will make it easier for companies to engage in a global energy market in order to deliver a competitive diversified gas supply to Europe's consumers. Security of supply should not be equated with self-sufficiency, and cost-efficient use of market allocated resources adds essential value in a global market.

3.4 Aim for an holistic approach to the energy market

A main objective of an energy union should be to optimise development of all indigenous energy resources, including unconventional gases. Taking a holistic view to the electricity and gas sectors is essential, in particular through the development of smart energy systems. Clear realistic policy messages about a continuing vital role for gas in the energy mix will give confidence to investors and make Europe a more attractive market for global suppliers.

Innovative, cost-efficient energy solutions should be pursued, show-casing Europe's technological prowess. As is recognised, other policy interests will overlap with energy issues, such as the need to address social problems, but then the approaches have to remain coherent with the development of a dynamic, cost-efficient energy market.

ENHANCING SUPPLY SECURITY

4. Gas supply security is a focal point of the energy union concept. Eurogas is ready to engage with the Commission to discuss how to improve security of supply. Improved market implementation, supported by the necessary cross-border infrastructure and coupled with a regional, cooperative approach offers the most efficient ways forward to enhance supply security. Eurogas considers that the best way to realise the principle of commercially based solidarity is to develop liquid markets at national and/or regional level, with well-functioning hubs and commerce-driven cross-border flows of gas. Eurogas sets out in Annex 1 specific suggestions to improve markets. Solidarity can be achieved, and as far as possible should be achieved, through market mechanisms, provided that market-driven cross-border infrastructure and the supportive cooperation strengthened by a shared commercial understanding are in place. Therefore further development of needed interconnectors that make possible bi-directional flow of gas is crucial. Implementation of the infrastructure package is necessary to speed up needed developments across European networks, with appropriate EU support.

5. The review of implementation of the Regulation on Gas Supply Security (994/2010) shows deficiencies in its implementation. This point also has to be addressed. Each Member State should fulfil the requirements of the Regulation. Even in an emergency market-based measures should be given priority to mitigate the effects of supply disruption. Only if these are not enough, non-market measures might be pursued.
6. Eurogas looks forward to contributing to the review of the Regulation. Our principal starting-point is that a number of practical improvements to the implementation of the Regulation, with some provisions clarified or developed to deliver more concrete regional cooperation would improve further supply security. Set out in Annex 2 are initial thoughts, touching on the supply standard, preventative action plans, emergency plans, and greater transparency.
7. Although market transparency is steadily increasing, there would 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. Within the current framework there is arguably sufficient 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.
8. With a reinforced Supply Security Regulation and market possibilities in place to underpin a coherent approach to security, the infrastructure to support supply diversification and more liquid trade, there would be no need to introduce non-commercial mechanisms. Where and when such conditions are not yet met, tenders launched by TSOs can be envisaged to implement required flow or minimum inventory commitments. Non-commercial mechanisms, notably collective purchasing, a new EU framework for gas storages, or interventions in LNG trade would distort the market, could be inefficient and very costly. Such ideas should not be pursued.
9. The idea of a "collective purchasing mechanism" was mentioned in connection with a new body 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 jeopardise 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.
10. Another mentioned idea concerns "aggregating demand on a voluntary basis". Not understanding what rules and conditions could attach to this, Eurogas would like to see the intent clarified, seeking reassurance that doing this, albeit on a voluntary basis, would be compatible with a competitive liquid market. More diversified supplies will strengthen the negotiating position of those companies still highly dependent on single source imports.

11. Talk about a new regulatory framework for gas storages raises concerns. Storage is part of the flexibility market and is a tool of improving supply security. The use of the flexibility instruments is for commercial decision. Therefore Eurogas is in favour of removing any remaining impediments to storage use in a competitive market. Storage operations should be transparent, and operators should develop innovative short-term and long-term products to meet users' needs. In any case, storages must be allowed to compete with alternative flexibility sources on a level playing field. This might allow, at least in certain Member States, the possibility of particular market oriented rules, whereby the security value provided by storage is appropriately recognised in a way that does not distort the flexibility market.
12. 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.
13. 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.
14. Eurogas is also concerned about suggested actions that would distort LNG trading decisions.

BENEFITING FROM A GLOBAL MARKET

15. In recent years, the gas business across the globe and in Europe has evolved constantly. There are more gas suppliers worldwide. In Europe, not only are there more gas market players but the business is largely integrated in companies with broad commercial 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 the customers of gas suppliers remains a core aspect of companies' commercial planning and they seek in the 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.
16. 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.

Conclusions

The most cost-efficient way to improve energy security is through a better-functioning market, regional cooperation and diversified supplies.

Therefore in addition to reviewing aspects of Regulation 994/2010, targeted improvements should build on regional cooperation and solidarity, delivered through commercial agreements, made easier by more cross-border energy trade and liquid markets. New tools should be developed only if justified after a cost-benefit analysis and must not undermine a market based approach.

Correct implementation of the Third Package should be reinforced. Remaining obstacles to market integration have to be addressed. Work on network codes has to be completed, and practical problems addressed in a review process as needed.

Coherent policies to reach a low-carbon mix of fuels should be pursued, with an improved ETS an essential tool, and enhanced research and innovation across all energy fields.

The EU has an important role in maintaining relations with supply and transit countries. There should be a coherent approach in energy diplomacy with third countries, but the EU's role should not 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.

ANNEX 1

Some specific suggestions to improve market functioning

1. Removal of barriers to entry to enable the development of competitive markets and increase resilience to security of supply challenges.

Examples:

- failure to transpose the EU Gas Directive requirements in national legislation;
- language restrictions to participation in the wholesale market;
- high tariffs for storage services and lack of clarity of access rules, that often fail to address users' needs, increasing entry costs to new market players and preventing full utilisation of storage sites;
- balancing market not aligned with EU rules and balancing costs that do not reflect market value;
- licensing restrictions (such as the requirement to set up a local office to obtain a licence);

Significant progress could be achieved by focussing on the implementation of the existing EU legislation (Third package and EU Codes); enforcement should therefore be a priority for the Commission and ACER.

2. Effective third party access to network

Examples:

- limitations to access capacity at key interconnection points (for example only monthly products offered by some TSOs and congestion in some areas, because of possible hoarding);
- inconsistent regulatory approaches on the two sides of the same interconnection point;
- capacity is still completely taken out of the market in the case of transit pipelines which are still dedicated to long term agreements.

Most East European TSOs have no clear plans on how to solve these issues also by adopting EU rules (CAM rules) which would enable coordinated auctions of bundled products at interconnection points (Polish, Bulgarian, Greek and Romanian TSOs have to address this): enforcement of CAM and resolving the issues related to the transit pipelines blocked by intergovernmental agreements should be a priority for the Commission and ACER;

3. Improving connectivity across the region

Examples:

- physical reverse flow capability still limited at some interconnection points in the region (Italy export; RO-BL and BL-GR);

Identification of the key investment needs across the region and prioritisation of projects should be a priority for the Commission and ACER: streamlining the EU Projects of Common Interest Process and getting TSOs commitment to investment plans

4. Effective access to LNG terminals, also on short term basis

ANNEX 2

Initial thoughts on Regulation 994/2010

Eurogas considers that there is scope for reviewing some issues in Regulation 994/2010. The framework approach, however, does not require changing. The non-exhaustive list of market-based security of gas supply measures is still sufficient, and also the list of non-market based measures. Member States should implement the Regulation in a transparent and clear way.

The supply standard and protected customers

The review has identified a number of issues arising with regard to the implementation of the supply standard. The lack of implementation needs to be addressed, enforced, and monitored. Eurogas considers that households should stay in the protected category (and of course it is not realistic to envisage too many distinctions in handling of customers fed by the DSO grid) and beyond that a limited scope of flexible interpretations could be maintained, because Member States use gas differently. It would, however, be useful to discuss the national interpretations, how and why these may differ, and if there is scope for further harmonisation. Also, the N-1 formula could be reviewed. It seems some Member States would benefit from further guidance, to reach a better understanding of how the supply standard will be set in a growing liquid market. Hedging strategies, to protect customers if there is national disruption, are easier to put in place in a well-functioning, cross-border market.

Eurogas advises that any concerns about divergent approaches to the definition of protected customers can be addressed in forward looking shared emergency plans among Member States (see below).

Preventative Action Plans (PAPs) and Emergency Plans (Eps)

The implementation of PAPs and Eps also needs to be enforced. Further guidance on their preparation may help but a main objective of their improvements should be to improve practical solidarity in their preparation. Coordination could be improved through better cross-border communication, and simple steps like requirements to use English in the plans, making it easier to have a common understanding across some borders. Relevant good practices between Member States could be considered, to see if lessons can be learned for elsewhere. More work, whether through existing structures or new coordination mechanisms, whichever is more efficient, should be considered.

Generally Eurogas favours reducing the reporting burden on contracts as suggested by the review, especially as REMIT implementation is stepped up.

A co-ordinated approach to electricity and gas supply security

Eurogas would support that the review exercise of 994/2010 be undertaken in parallel with a review of the legislative framework for security of supply in the electricity sector, which is in line with our call for a holistic approach to ensure cross-sector integration.