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## **CEER, Council of European Energy Regulators**

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12 December 2014

Via online questionnaire

## **EFET Response to CEER Public Consultation on the draft CEER Vision on Regulatory Arrangements for the Gas Storage Market**

### **PART I - Storage market fundamentals**

#### **Question1**

**Do market participants value all three values of storage identified by CEER (arbitrage, system and insurance) in the market price? Please refer to Section 2.1 in the public consultation paper.**

Response 1:

We agree with the statements in the CEER consultation paper that storage forms part of a wider flexibility market in which storage facilities are in competition with other forms of flexibility including flexible gas production, pipeline and LNG-imports, interconnections and interruptible contracts. In a functioning market, that is accessible to storage users and other parties which can supply flexibility, competition between alternatives delivers the most economic and efficient solution.

Virtual trading hubs provide transparency on the value of flexibility that can be derived from the relative pricing of standard gas commodity products (e.g. daily, weekly, monthly, quarterly, seasonal products). We believe that in a functioning market all three values of storage identified by CEER should be valued in the market price. However, this is a dynamic process as gas prices and spreads (e.g. summer/winter price differential) change continuously. Where there is not a functioning market, or where storage facilities are excluded from the market, the value of storage may not be reflected in its price. Furthermore, obligations on suppliers or traders that force certain booking behaviours or restrict certain types of access or usage of storage tend to reduce the value of storage and distort market behaviour to the detriment of supply security and market efficiency. With regards to the insurance value of storage, market needs to understand what risks it is being asked to cover for any insurance value to be meaningful.

EFET recommends that Member States review their choice between Regulated and Negotiated TPA and check whether or not the current approach is still justified. We support the CEER recommendation to monitor the effectiveness of each TPA regime as the market develops. Changes in market conditions may justify a change in regulatory regime, but a lighter regulatory regime may also allow storage facilities to compete with other forms of flexibility and facilitate functioning markets. We believe that the goal should be a fully functioning market in which storage facilities are subject only to normal competition rules and a light-touch oversight by energy regulators. Competitive storage facilities should be allowed as much freedom as is warranted by the market conditions and regulation on TPA should not represent a disincentive to investment.

Confidential: No

## **Question 2**

**If the value of storage is not reflected in the market price, please elaborate on your understanding of the reasons hindering this and potential solutions. Please refer to Section 2.1 in the public consultation paper.**

Response 2:

In cases where storage products are excluded from the market, the value of such a product may not be reflected in the price of that product and in the market price for storage. As an example, where gas suppliers get access to storage capacity along with the obligation to hold a certain % of the gas supplied to customers in storage, the insurance value of storage will not be reflected in the market price. As a result of this, storage may not react to market developments, such as increases in demand or decreases in available supply of gas.

In addition, such storage obligations could act as a barrier to market entry, hinder competition and artificially reduce the amount of storage available to the market.

As potential solutions, we support the recommendations in the CEER consultation paper to review existing storage obligations in the light of changing market dynamics. In several instances historical storage obligations or restrictions are likely to be no longer justifiable.

Storage obligations should be restricted to situations where there is proven market failure and interventions should be designed to minimise the impact on the market.

The overall goal should be to encourage the development of traded gas markets throughout Europe, with flexibility in all its forms included in the market value of gas. Storage obligations on suppliers, restrictions on access to storage or on the use of storage, lack of information about the availability or use of storage facilities and potential economic and regulatory barriers to the full and efficient inclusion of gas storage into the market should be phased out as soon as practicable.

Confidential: No

### Question 3

**Respondents to the previous CEER questionnaire (launched in 2013) identified that users are currently less likely to enter into long term commitments than previously. In your view is this temporary (e.g. price related) or structural (e.g. long term commitments are no longer desired)? Please refer to Section 2.3 in the public consultation paper.**

Response 3:

EFET recognises a structural change from long term commitments towards portfolios with a mix of long, mid and short term products that ensure a more efficient use of capacity, commodity and flexibility. In our view, increasing market liquidity allows parties to contract short-term services because there is trust that the market will always be able to provide what is needed. This trend from long-term commitments has been observed in the gas commodity market and in gas transportation services. We believe this trend is structural and will also apply to gas storages and flexibility services. This does not exclude long-term commitments to underpin new infrastructure investments, but there is more choice than previously for products other than long term commitments.

Overall, there remains a significant proportion of storage that is booked under long-term commitments and there continues to be interest from some companies in taking long-term strategic positions when these are offered by storage developers or operators. Annual standard bundled products have become a useful 'medium term' basis for booking storage across most of Europe, but there is a good variety of longer and shorter term products available too. Storage/flexibility portfolios have naturally become balanced and more efficient, and it would be unwise to intervene either to promote longer-term or shorter-term booking behaviour.

Finally, whilst long-term commitments can usefully facilitate storage investments, we are not aware of any recent evidence that the absence of a long-term contract has been the reason for any storage project in Europe to be cancelled nor for funding for an economically sound storage project to be withheld because of the lack of long-term bookings.

Confidential: No

### Question 4

**Do you agree with CEER's observation that storage competes within a wider flexibility market (e.g. with LNG, interconnection and virtual products)? Please refer to Section 3 in the public consultation paper.**

Response 4:

We agree with CEER's observation that storage forms part of a wider flexibility market and competes with a range of measures that can be used to match gas supply to gas demand. There is a distinction between storage in salt caverns which have the ability of fast multi-cycle operation and compete with seasonal storage in gas reservoirs or aquifers. Storage facilities also compete with flexible gas production, pipeline and LNG-imports, LNG storage, interconnections and interruptible contracts.

Storage obligations that may be imposed by governments and regulators should take this factor into account and allow market participants to contribute to the flexibility needs of the system with whatever flexibility source is most readily available to them.

The ability of storage to compete in the flexibility market, however, depends on, firstly, the existence of a traded gas market (which provides transparent price discovery) and on the elimination of market distortions regarding access to and use of storage. Potential market distortions include information asymmetries, undue TSO charges relating to storage, obligations or restrictions on the use of storage etc.

Confidential: No

#### **Question 5**

**In your view, are there further barriers to competition that have not been considered by CEER in this public consultation document? Please refer to Section 3 in the public consultation paper.**

Response 5:

In relation to tariff setting for storage, undue transmission charges to exit and enter the grid at storage facilities certainly do contribute to the unfavourable economics of using some storage facilities and at the margin distort the market. EFET believes the TAR NC should be more ambitious in its approach to harmonising tariff setting for storage facilities.

All gas which is injected into and withdrawn from storage will ultimately pay an entry and exit capacity charge so it is unfair, in principle, for stored gas to be required to make an additional contribution towards transmission charges. EFET is of the view therefore that transmission entry and exit capacity to and from storage facilities should, as a default, not be chargeable under the TAR NC. This approach avoids double payment of capacity charges and recognises the benefits storage has typically made towards reduced transmission system investment.

However, NRAs should be allowed to overrule this default provision, following public consultation involving market participants, if NRAs can demonstrate that a particular storage facility does provide a net cost to a transmission system, for example in the case of new storage facilities.

EFET reiterates that the level of information transparency for all storage facilities will need to continuously improve in line with customers' needs and market integrity requirements. One element of uncertainty surrounding storage resources is the assessment of daily gas supply potential, and processes which the Competent Authorities and TSOs set up in each Member State to coordinate the assessment of gas supply potential for the following day. This is essential in an emergency situation, but if done well with published information on an on-going basis can also prevent emergencies from developing.

Access and use of storage should be as de-restricted as possible so that the most efficient solutions can be found. In particular the 'administrative' allocation of storage, where it still exists, should be phased out as soon as possible so that any bona fide company is allowed to book storage on a fair and non-discriminatory basis.

In addition, any recommendation about the role of the storage should respect the unbundling requirements set in the Gas Directive 2009/73/EC. Whilst supporting the SSOs' thrive to innovate and develop products which could be used as a tool (among many others) to provide flexibility to users, it cannot contravene the policy framework established in the third energy package. Benefits obtained from the innovation and development of new products should not undermine the benefits gained from implementing the unbundling requirements.

Confidential: No

## **PART II - Security of Supply**

### **Question 6**

**Do you agree with the CEER recommendations for delivering security of supply through market mechanisms? Please refer to Section 4 in the public consultation paper.**

Response 6:

We agree with the CEER recommendations for delivering security of supply through market mechanisms; undistorted markets are the most effective approach to delivering efficient levels of security of supply.

Confidential: No

### **Question 7**

**Where interventions are necessary, do you agree that the characteristics of interventions identified by CEER (e.g. transparency, clear roles and responsibilities, exit strategy) can help to minimise any potential adverse impact on the market? Please refer to Section 4 in the public consultation paper.**

Response 7:

We agree with CEER that interventions distort the efficient functioning of markets and should only be considered where and when there is clear evidence of market failure. We are not aware of any significant evidence of market failure relating to storage in Europe. GSE data does suggest, however, that there does seem to some evidence of failure to allow the market to operate in some countries where storage has not been filled as much as in countries where more competitive markets exist. In short, the existence of some form of storage obligation seems to lead to a situation of market failure.

Any intervention, therefore, should be implemented only after all market-based measures have been exhausted and NRAs and policy makers should review and understand the causes of market failures which necessitate interventions. In most cases the optimal solution will be to reduce, not increase, the current level of intervention.

Administrative measures demonstrated to be rigid and incompatible with free markets: regulatory interventions might be necessary to manage short term issues. This increases regulatory risks, decreases the appetite of market participants to acquire capacity and undermines SoS. For instance the obligation to acquire storage capacity on market participants with no price regulation is ill-suited because it creates inefficiency and stranded costs and no incentive for storage operators to innovate and offer more competitive products. As argued in Q2, we support CEER's recommendation to review existing storage obligations and administrative measures with a view to restrict them to situations where there is a proven market failure.

In those rare cases where some strategic stock level might be deemed necessary, it is essential that the size is limited to what would not otherwise be delivered by the market. Priority storage allocation to suppliers currently servicing particular customers is discriminatory, inefficient and perpetuates barriers to market development. The price mechanism by storage operators would need consultation with market participants and implementation overseen by the NRA in circumstances with regulated storage prices where there are monopoly or duopoly situations.

Government intervention, if it happens, should first be to ensure that the market is able to function, for example making sure their national rules and regulations are not preventing the free-flow of gas. Where interventions are necessary, the impact on the market by the design and usage of such an intervention should be understood and potential distortions minimised.

We agree with CEER that any intervention and crisis measures must be transparent, non-discriminatory and publicly known to allow the market first to provide solutions that might prevent an emergency situation arising and also to minimise market distortions. There should be clear roles and responsibilities and foremost there should be a defined exit strategy.

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**Please provide your general comments here:**

Response:

The CEER consultation paper mentions that there are 'interventions in place in several Member States that predate the shift towards market-based balancing and prices which reflect the full value of storage'. Market dynamics have changed and we support CEER's recommendation that Member States review existing interventions. Many of these obligations were put in place for good reasons, but in the light of changing market dynamics may currently distort the efficient functioning of the market and may have a negative impact on security of supply.



Storage must be allowed to contribute to security of supply by being fully integrated into the single EU market. It would be a perverse restriction on trade if storage were only allowed to contribute flexibility in individual countries. Easy access to and from storage as well as the ability to nominate and re-nominate the use of storage and pipeline interconnection capacity between markets will be crucial for successful balancing markets and the more efficient maintenance of supply security across Europe.

We strongly support CEER's recommendation to review existing storage regimes and obligations. To this purpose, we recommend that CEER defines a timetable for the review of the existing national storage interventions in the context of the upcoming European Commission's review of the Security of Supply Regulation 994/2010 and implementation of the Balancing Network Code.

Confidential: No