



30 March 2009

Ref: 09GIE090

GIE Response to SEER 2 and the Green Paper towards a secure, sustainable and competitive European Energy Network

GIE welcomes the SEER 2 package and in particular the Green Paper and thanks the Commission for the opportunity to respond. Whilst we note that the SEER 2 package and Green Paper was written in late 2008, many of its themes have now gained new impetus since the gas crisis in January 2009. In particular the importance of supply security has been brought into even sharper focus.

Against this backdrop GIE believes that the time is right to re-examine and redefine where necessary priorities and objectives for the development of European gas infrastructures. Also it is right to review the effectiveness to date and the objectives going forward of TEN-E programme to ensure that the EU resources (both human and financial) are employed to the greatest effect.

Europe requires a sound investment climate with effective incentives for infrastructure providers to invest to ensure an appropriate level of infrastructure to meet the demands of Europe's citizens. Compatible and stable regulatory and commercial regimes across member state borders and throughout the EU will be essential to deliver this aspiration.

If a revision of the Directive of Security on Gas Supply¹ will be tabled mid 2009 with the aim of its adoption in 2010, GIE would welcome the opportunity to provide input during the drafting of this revision.

The present paper presents specific comments from each of the GIE columns in a first part and in a second part provide answers to the specific questions asked in the Green Paper.

1. Comments specific to each column

GTE Specific Comment

Although it is not included in the detailed questions to respondents, the green paper also mentions the idea of having a European Transmission System Operator for the gas networks in Europe. In our view such a proposal is some way in the future and indeed we doubt if it is ever achievable. We believe a productive approach would be to focus on increased TSO co-operation within ENTSO-G as many if not all of the tasks foreseen for ENTSO-G deliver the potential benefits the SEER 2 is seeking.

¹ Council Directive 2004/67

GSE Specific Response

GSE welcomes the Commission's statement that there is insufficient evidence at this stage to impose obligatory EU strategic gas stocks and is pleased the Commission recognises that the promotion of the effective operation and development of commercial storage facilities is a more effective instrument for ensuring security of supply. In an analysis published previously, GSE has drawn the same conclusion².

GSE shares this view and remains an advocate for the development of additional commercial storage capacity within the EU gas network to increase storage duration and help dampen supply disruption. We believe that existing and new commercial storage is critical to guaranteeing security of energy supply within Member States. We continue to stress that obligatory strategic stocks do not provide the optimum solution to mitigating supply disruption. Strategic storage is expensive in absolute and relative terms, and undermines the incentive to invest in existing and new commercial storage facilities. In effect, more strategic storage will lead to less investment in commercial storage, leading to a need for more strategic storage thus creating a vicious circle.

Furthermore, we would like to take this opportunity to highlight the critical role commercial storage played in the response to the recent gas crisis in Europe. The extraordinary situation which Europe witnessed as a result of the Russia-Ukraine gas dispute, aggravated by cold winter weather, saw Europe's storage operators deliver significant volumes of commercial gas stocks as the main mitigation measure. Importantly, all gas consumers have so far been supplied from commercial gas stocks and no gas has been withdrawn from strategic storage stocks. Where strategic storage provisions have been authorised for use, these stocks have remained in store with more commercially stored gas being withdrawn to supply the market.

Finally, in any event, GSE would like to emphasise that a stable regulatory framework which provides proper economic incentives to the storage business is crucial to encourage any new developments as well as the optimal use of existing infrastructure.

GLE Specific Response

GLE welcomes the Second Strategic European Energy Review and the recognition that Liquefied Natural Gas has been given in the SEER 2 package as a means to achieving enhanced market liquidity and greater security of supply. GLE shares this view and recalls its views in this respect as included, amongst others, in the recent GLE comment paper on the European Commission' Staff Working Document on LNG³.

GLE supports the Commission's proposal for considering a diverse and adequate LNG supply for Europe to be one of the six priorities identified, as a first step, as essential for EU's energy security. In this respect, GLE welcomes the proposals made and actions envisaged in the Second Strategic European Energy Review as a vehicle for facilitating LNG investment in Europe on the one hand and enhancing the accessibility of regasification capacity for Member States, on the other. Moreover, GLE is pleased that the Commission considers that LNG terminals and ship-based regasification in the EU should be available to all Member States, either directly or through other Member States.

GLE would like to take this opportunity to highlight the very significant role that LNG terminals played during the recent January gas crisis in Europe. The extraordinary situation which Europe witnessed as a result of the Russia-Ukraine gas dispute, aggravated by cold winter weather, saw

² GSE Discussion Paper: Will Strategic Stocks Increase Security of Supply? (4 March 2008)
http://www.gie.eu.com/publications/indexframe_GSE.html

³ cf. GLE comments on European Commission Actions points (28th January 2009)

Europe's LNG terminals receiving as much cargos as possible and sending out this gas on the network, thus contributing to mitigate the situation.

Furthermore, GLE would like to emphasize yet again that a well functioning internal gas market is an important aspect in the context of the enhanced security of supply for Europe and that LNG plays an important role in the diversification of gas supplies to Europe⁴.

Finally, GLE would like to emphasise the importance of the regulatory regime with respect to investment, in particular due to the coexistence of regulated and exempted terminals in the European Union.

2. GIE Answers to specified questions

Answers to the questions on Network Policy

1. *What do you consider to be the main barriers to the development of a European grid and gas network? How far can they be addressed at national/regional level, and when should the EU act?*

A European gas network already exists and overall gas is successfully transported from source to consumer as required in accordance with the various objectives set for it (generally at member state level). However, sources of gas are changing and the consumer market is evolving meaning that greater capacity and improved flexibility is required from the network. Currently the regulatory framework in some member states and across the EU is not adequate to provide this flexibility – a pan-European approach is necessary.

In order to successfully develop any network the objectives for the development need to be clearly defined. GIE believe that these objectives should have three main themes, these are to provide infrastructure to:

- a. Attract imported gas from non EU sources;
- b. Provide sufficient optionality and flexibility to enable freedom of choice for market players and consumers, and;
- c. Enable security of supply to be assured.

The key question that needs to be answered when setting the objectives for the European network is; to what extent should each of the three themes be applied? For example, how much importation capacity should be built and where, how much competition and market liquidity is required or what levels of security of supply are required.

Currently the objectives for TSO networks are set almost exclusively at member state level. For the most part these will include some requirements to meet the commercial requirements of the "market" and some local capability requirements (most often based on a cold weather scenario). Few TSOs have broader objectives aligned to creating a functional European gas market or multinational security of supply. If any new European objectives are adopted these need to be carefully thought out and well defined. The recent Russia / Ukraine crisis has demonstrated that Europe's energy supplies are

⁴ See conclusions of the GLE workshop jointly organized with the European Commission, Bilbao 13 march 2009

vulnerable to external political or technical events. This crisis has served to help refocus attention upon security of gas supplies from the East and has provided a “real scenario” which planners can use as a benchmark for future network developments. The development of disruption scenarios might also be necessary to inform the assessment of the robustness of the European grid to satisfy Europe’s anticipated demand.

GIE intends to play a leading role in assisting the Commission in the development of the revised Security of Supply Directive and hope that this will help to bring some clarity to this objective.

The EU should have a major role in defining the objectives that a European gas infrastructure (and by extension regional or national networks) should be seeking to achieve. This top down approach should be supplemented by national objectives which would address specific member state issues but complement the overall European objectives.

In a parallel process to developing European objectives the EU need to lead a debate about how the costs borne for networks built to meet European objectives will be recovered. It should also be noted throughout that developing the network to meet new security of supply priorities may be more difficult to finance than a traditional commercial venture and that some form of special incentive, financing support or underwriting may be required. Given that the individual national frameworks might not deliver this, the EU may have a role in providing or facilitating this support.

It should be noted that GIE believes that investment in gas infrastructure, brought about by having clear objectives and effective incentives for Infrastructure Operators, is critical to achieve success. Many commentators have pointed out that the projected increase in electricity generation from renewable sources arising from the 20-20-20 initiative (predominantly wind) coupled with the impacts of the large combustion plant directive, will require a major expansion of gas fired generation capacity and hence gas transmission capacity. GIE also support the development of biogas as a complementary fuel to natural gas. Whilst the contribution may be relatively small, this adds to the diversity of energy supply and is therefore very welcome.

One of the key barriers to new investments in the gas networks is the regulatory uncertainty that currently exists. GIE have previously stated that, “a stable, predictable and compatible regulatory regime across member states is essential in order to facilitate a positive investment climate into the future⁵” and this remains the case into the future.

2. *What circumstances justify an EU intervention in local planning disputes related to energy infrastructure? In those circumstances, what should the EU do?*

GIE support the idea that European priority infrastructure projects should be included within national strategic plans. Local planning should then concentrate on defining the most suitable location or route without the “need case” to be constantly justified. The EU should be involved in deciding which are the priority projects and also ensure that these are recognised by member states.

Where there are local planning disputes that threaten to block or delay investment in energy infrastructure the EU could intervene with the relevant authorities and stress the importance of solidarity between member states.

⁵ GTE Investment Principles – March 2007

3. *Is a more focussed and structured approach to research and demonstration relating to European networks needed? How should it look?*

Under the proposed terms contained within the 3rd package ENTSO-G will have a research role and looks forward to taking on this role for benefit of the European gas market.

4. *What do you think is the most important activity for the EU in network development?*

There are a number of important activities where the EU could usefully add value however probably the most important are helping to ensure a sound investment climate and clearly stating the objectives required for a European gas network. If the objectives are clear and agreed, and the investment climate is sound then the market will deliver the most efficient solutions.

Clearly, as stated previously the issue of who ultimately pays for achieving the objectives needs to be settled in parallel to determining what the objective should be however the presumption should always be to first seek commercial solutions supported by a competitive market before embarking on any intervention.

5. *Should the EU be more involved in facilitating infrastructure projects in third countries? If so, in what way?*

Where the objectives, referred to above, are best met through projects in 3rd countries then GIE would have support for EU involvement. The EU should ensure however that a level playing field is maintained between any projects that it “facilitates” and normal commercial projects.

Answers to the questions on TEN-E

6. *What sort of support should the EU provide to developers of new energy networks to have the greatest impact, considering that resources are limited? Is the approach of TEN-E still relevant? How can the EU help improve the conditions for investment?*

The EU can provide support to developers in 4 key areas;

- a. Creating a sound investment climate that provides sufficient incentives for investment to meet the objectives discussed in answer to question 1
- b. Permitting of priority projects
- c. Creating compatible and effective regulatory regimes
- d. Developing and maintaining energy diplomacy with non EU states

7. *In view of the proposed revision to the TEN-E guidelines, how can the EU improve the focus, effectiveness and impact of the TEN-E policy within its existing budget?*

The greatest impact that the EU can provide to developers is to ensure that a sound investment climate is achieved throughout **all** member states. This can be achieved by creating clear guidelines for ACER or NRAs (both may have important roles) and then ensuring that the guidelines are implemented. Where the EU has identified priority projects additional commercial incentives may be appropriate for developers. Where projects are developed for non-commercial reasons (e.g. to meet a security of supply objective) then the majority of the returns for the investment may need to come from, or be underwritten by, non-commercial sources (e.g. EU or member states).

With regard to the relevance of TEN-E, GIE believes that this could be improved by redefining or refocusing the objectives. TEN-E could be a very useful vehicle for deciding the priority projects of European significance which could then be transposed into the national strategic plans of member states (as described above).

8. *Should TEN-E be extended to oil infrastructure? Should it also be extended to new networks for CO₂, biogas or other networks?*

If the objectives and scope of TEN-E are to be expanded then additional resources need to be made available to facilitate this. It is important that any expansion of TEN-E does not dilute focus or resources from its traditional scope. As stated earlier GIE supports the development of renewable and cleaner energy including biogas and carbon capture and would support the extension of the TEN-E scope where such projects are of European significance.

9. *Do you have views on, or suggestions for new priority projects which the EU should give backing to?*

GIE is not currently able to suggest that any projects have a higher priority than any other. However if the objectives, for European gas infrastructure (i.e. network and connected facilities), are clearly defined then the projects that best facilitate those objectives should become more apparent.

10. *Would it help TEN-E/EU to gain more impact and visibility if it was turned into an operational security of supply and solidarity instrument?*

It is important that the TEN-E programme is entirely compatible with the proposed revision of the security of supply Directive and with the work of the Gas Coordination Group.

11. *What additional EU measures beyond those mentioned in this Green Paper would help secure a sustainable infrastructure for the EU?*

GIE would like to reiterate the vital role that natural gas, and hence gas infrastructure operators, will have as a transitional and/or back up fuel as Europe moves towards a renewable generation agenda.