



## **Presentation of Jean-Marc Leroy, GSE President, delivered at the Gas Coordination Group 13 December 2012**

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## **GSE presentation to Gas Coordination Group**

**Jean-Marc Leroy, GSE President**

**13 December 2012**

Good morning and thanks to the Commission for the invitation to share with you the state of play with regards to storage and security of supply.

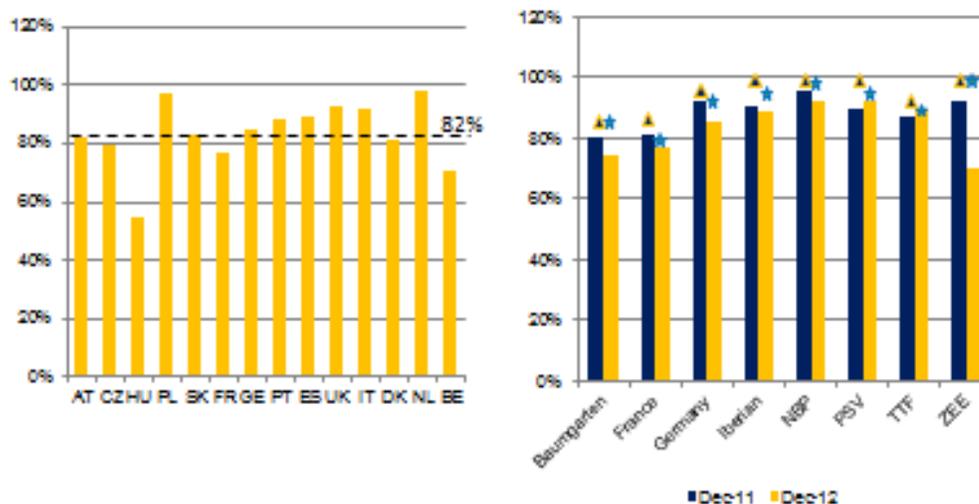
Today, I would like to give you some information on the storage winter preparedness and the upcoming GSE transparency improvements. And, I would also like to share with you some security of supply considerations.



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## Storage winter preparedness: Stock level

Gas in stock as percentage of max. working gas (reference 10 Dec.)



Data taken from AGSI, the Aggregated Gas Stock Inventory which delivers online daily data representing approximately 76 BCM, i.e. 85 % of EU technical storage capacity. It shows per country and for 8 defined hub areas the volume in stock as well as the daily injection and withdrawal.

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This slide gives an overview of the current level of gas in stock across Europe based on the AGSI figures:

- On the left hand side, you see site fullness levels per country.
- On the right hand side, you see a year-on-year comparison of the fill level per hub.

As you can see, in the majority of Member States storage levels are just above 80% and the average for Europe is 82%. Currently there is around 62 BCM in stock, which means around 3 BCM or 3,5 % less than last year.

In fact, what we observe is that the globally lower fill level of storage as compared to previous years is coupled by the changing shippers' behavior which is increasingly focusing on portfolio-optimization. For instance, the fact that people have hedged their gas could be a reason for storage withdrawals during the past weeks even in above-average weather conditions.

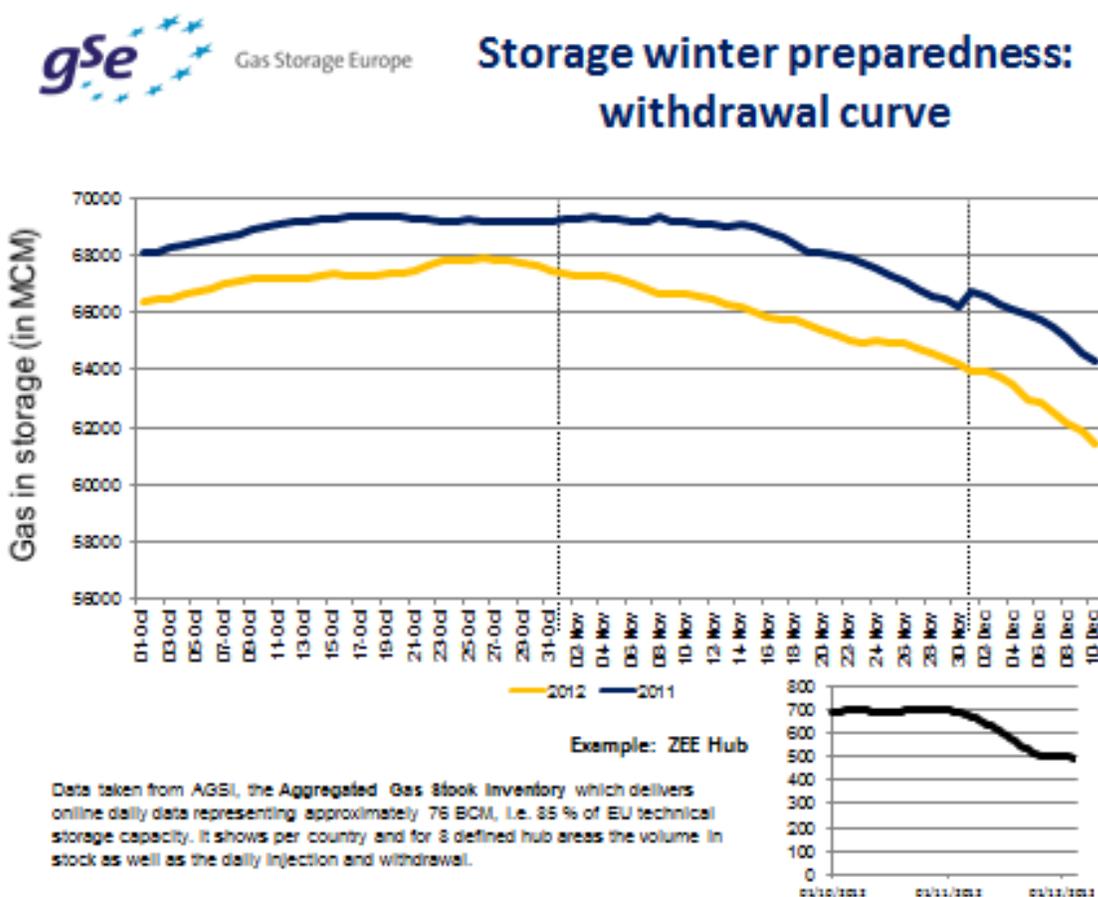
It may be true that the current market conditions (summer-winter spread) eliminate the financial motive to keep gas in store but the security aspect should not be overlooked. In particular given that – as we have seen earlier in February – the physical molecule may not always arrive when needed : what we see today is that LNG cargos tend to go to better paying Asian markets rather than Europe.



Moreover, we should not forget that security of supply is not only about increased volumes but also about increased peak demand. Storage can surely contribute significantly to covering peaks but provided that they are sufficiently filled at that particular moment.

Looking at the graphs presented, you may also wonder about the particular case of Hungary which shows visibly lower figures than other markets. As GSE, we do not have a fully clear picture of the reasons but we note that during the injection period market participants have not stored as much gas as in previous years. I guess we can assume that :

- users do not store gas due to low summer-winter spread,
- they consider that strategic storage will do that for them,
- regulation about strategic storage probably also limits the willingness to store gas in commercial storage.





As you can see on this graph, besides of the lower starting point, net withdrawals starting November this year were around 1 bcm higher compared to last year. This presumably reflects not only weather conditions but also the way storage is used for portfolio optimization.

In Germany, for instance, almost 2 BCM were withdrawn since November – i.e. twice as much as in same period of the year before with rather similar weather conditions.

By the way, it is interesting to observe how the Belgian storage was used in November : at the beginning of November the storage Loenhout in Belgium was full with around 700 MCM working gas, within 3 weeks shippers withdrew around 200 MCM ahead of the winter season. We can only assume that this may be due to the price differentials between hubs and the resulting portfolio optimization through storage.



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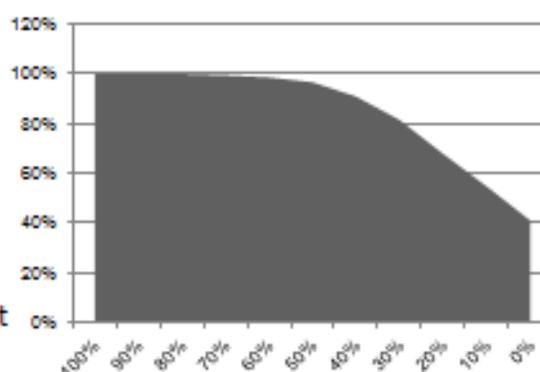
## GSE Transparency Developments

### New Contributors for Storage Inventory

- Bulgartransgaz for storage facility Chiren in Northwest Bulgaria (working gas volume 450 MCM), new Hub South East Europe
- RWE DEA for storage facility Inzenham West in Southern Germany (working gas volume 500 MCM) will join in January 2013

### Storage Curve online

- Storage Curve based on data delivered by GSE members
- Represents the ability to withdraw gas depending on storage level
- Should be understood as support for SoS-discussions, but not as commercial tool



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As you can see the AGSI platform offers a powerful tool to monitor the current situation with regards to storage utilization, which is particularly important in the winter season. As you know GSE is continuously committed to enhancing the platform by providing new tools to support the market.



So I take the opportunity of today's presentation to inform you that as of today, a new hub will be included in our GSE AGSI data publication – this will be the South-East Europe Hub which will include data for Bulgartransgaz facility Chiren. As regards this new hub, we do hope to get new reporting members on board for this part of Europe.

Also, as of today we are publishing an indicative withdrawal curve as a European average. This curve will provide additional information to the market and will help to have a greater overview of the storage withdrawal capacity depending on the fill level. It aims at increasing transparency and of course does not represent any commercial tool.



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## Security of Supply remarks (I)

### **The current political targets change the energy supply system with direct impact on security of supply and costs for final customers.**

- the physical insurance provided by storage is considered a public good that no-one feels responsible for ensuring
- the shift towards short-term market increases the vulnerability and potentially higher cost exposure of final customers in case of supply stress situations

### **↳ Today, security of supply is becoming undervalued**

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Now, to complete my presentation, I would like to share with you some remarks on security of supply as we can see it today.

It is quite evident today that energy supply system is changing, owing – in great part – to the current political targets and national decisions. It is clear that the energy transition will come at an elevated cost. But another question is whether it will secure energy supplies when needed ? Today, we see - and



we are not the only ones : please take a look at newspapers - that some countries are out of balance with regards to peak generation.

As storage system operators, today we observe that the physical insurance provided by storage is becoming treated increasingly as a sort of a public good that is shared among players. Its non-exclusivity reduces the willingness to bear the cost of this insurance and dilutes the responsibility “felt” by market players. And, the current economic crisis does not – of course – help at all to reverse this trend.

The current shift to short-term markets which present an important discount vis-à-vis long-term contracts may indeed help to optimize shipper portfolios but we should not forget that this may induce a risk of reduced preparedness for stress situations where the physical availability of the molecule is essential. So storage has to play an important role to secure the supply to final customers. No market – be it fruit or corn market – produces its goods. As there is no gas field below a hub, the physical issues are paramount.



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## Security of Supply remarks (II)

### **The contribution of storage to security of supply is undermined by network cost shifts to storage points**

- tariff hikes at transmission-storage points discourage shippers from contracting storage: e.g. 64% tariff increase at a German storage point
- some national choices are in contradiction with the European approach : cf. ACER’s recommendation of a “discount” to account for storage’s contribution to network cost reduction, security of supply and avoidance of cross-subsidy (Draft FG on Transmission Tariffs)

### **Network development should support the service rendered by storage for the benefit of security of supply and market liquidity**

- network investment should not neglect the need for firm transmission service at storage interface
- interruptible or temperature-dependent transmission capacity at storage points affects the short-term flexibility of storage with consequences for security of supply and market liquidity



This requires firstly a supporting environment for the use of storage. From the perspective of SSOs, there are some major issues.

First of all, we should not forget that the cost of storage seen by a supplier is not only the storage fee but also the tariff that is charged at the transmission network to access storage. The higher the transmission cost of accessing storage, the less incentive there is for a shipper to make use of storage. While it is as simple as that, it seems that it is not necessarily recognized by some regulators which tend to dramatically increase transmission tariffs at storage points – I hope they are aware of the consequences. A case in point is the recent 64% transmission tariff hike at a German storage which has dented the interest for storage capacity from the market. But Germany is not the only example, we see similar ideas are in France. Furthermore, such decisions seem contradictory with the approach recommended by ACER in their draft Framework Guidelines on transmission tariffs, where economic but also security of supply reasons are mentioned to support the principle of lower transmission tariffs for storage access.

Of course, apart from the issue of cost that storage use may represent to a shipper, that is also the question of the physical “usability” of storage. Whereas we all agree that sufficient investment in network is needed to reduce bottlenecks and support the free circulation of gas, these investments should be guided by the principle of efficiency from the system perspective. As you know storage provides a valuable support to the network in that it offers the necessary pressure to push gas in the network – it thus reduces the need to oversize pipelines to cope with peak flows. This, in turn, benefits security of supply and market liquidity while keeping costs down. Restrictions on transmission grid with regards to access to storage – be it through offering more and more interruptible rather than firm capacity or temperature dependent capacity - limit significantly the possibility for shippers to make use of storage when and where they need it.

This not only goes against system efficiency but also security of supply. In fact, I have serious doubts whether in these circumstances we can expect shippers to have enough incentive to rely on storage. On the contrary, I think that the rising costs of accessing storage from the network and the uncertainty concerning the possibility to use storage reinforce the “public-good attitude” for security of supply that I have mentioned before.

This clearly is a choice but from my personal point of view a dangerous one.

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## Security of Supply remarks (III)

### Recent “cold snap” experience is indicative of security of supply risks that we may run in the near future

- Security of supply has become an energy-system reliability issue
  - network capability to meet combined gas and power peak is becoming crucial to ensure the physical delivery of energy
  - level of network robustness affects commodity prices in stress situations
- Adequate solutions are needed to prevent adverse consequences
  - reserve capacity provided by RES will remain marginal: conventional back-up capacity will be critical for security of energy supply but current market conditions are not conducive
  - adequate solutions become indispensable to ensure security of supply: storage operators could provide the necessary services to respond to peak demand needs

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The need to be able to cover peak demand is getting increasingly important. And I think it ever more clear that security of supply is becoming an energy-reliability issue.

In that respect, last winter’s cold snap is indicative of the risks we may run in the near future. We have seen quite clearly during that period that network capability to meet combined gas and power peak is becoming crucial to ensuring the physical delivery of energy.

The recent experience has shown that the ability to cope with peak energy demand will become paramount in the near future in particular if we consider the decreasing accountability for security of supply by the market.

How to ensure then that there is sufficient means to cope with peak demand in particular in stress situations? This discussion has already been launched in the electricity sector and we all see that it is by no means an easy one. We see that the Commission is worried about the potential negative consequences for the market and price formation. That is why I believe that any solutions should be as close to the market as possible and should be based on the real economic signals that give value to security of supply.



Today the main driver followed by the market for storage value is the winter-summer spread. Do not forget that this spread is only a market tool without any real physical meaning. Not only does it forecast very poorly the average summer-winter price situation, but it does not represent nor forecast any peak value.

We, storage system operators, are dealing with industrial reality. It is then obvious that without any other price signal for storage than the depressed and inefficient winter-summer spread, we will have to shut down a large number of facilities. Due to geological constraints it will be a no return decision. And I am not sure that it will be a no regret one. Besides, this will also give more influence to producers during cold peaks in Europe.

So, as for the electricity market, we definitely need to put in place a framework allowing to highlight the peak value, especially in winter.