



ITRE Workshop

*EU Energy Independence, Security of Supply and
Diversification of Sources*



**The regulator's view on Europe's energy dependence
and
the role of LNG to improve security of supply**

Tomislav Jureković

Vice-President, CEER

President of the Board of Commissioners, HERA

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Europe's energy dependence



- **Dependence on external sources in fossil components of EU energy mix - a well-recognized trend**
- **Ultimate choice of energy-mix (as well as ultimate responsibility for security of energy supply lying with MSs)**
- **Major impacting measures:**
 - **DIVERSIFICATION/DIVERSITY**
 - **Fully operational INTERNAL ENERGY MARKET**
- **EU energy strategy goals ultimately leading towards mitigating the effects of the dependence trend**



Major lines of current EU thinking



- **Energy Union strategic frame** (Mar-15)
- **EC Communication „European Energy Security Strategy”** (May-2014)
- **EC proposal for a new Regulation concerning measures to safeguard the security of gas supply** (Feb-16) – **repealing Reg (EU) No. 994/2010**
- **EC Communication on an EU strategy for LNG and gas storage** (Feb-16)
- **EP Resolution on EU strategy for LNG and gas storage** (Oct-16)



Recent contributions of the EU regulatory community



Security of gas supply

- **CEER Concept Paper on Security of Gas Supply** (CEER concept paper by GWG SoS TF – Sep-16)
- **CEER Priorities for the Revision of Regulation 994/2010** (CEER paper by GWG SoS TF – May-16)

LNG

- **CEER Analysis on the role of LNG to improve security of supply** (CEER Report by LNG TF – Feb-16)
- **CEER response to the EC's strategy for LNG and gas storage** (May-16)



Value of LNG in the SoS context



- **LNG has been a key driver of gas supply diversification for EU for 15+ yrs** (and the principal instrument of gas market globalisation)
- **In the context of SoS, EU has considered LNG as a key source of flexibility** (and the main alternative to historic gas suppliers)
- **Total SoS-value of the LNG supply chain has to be viewed through both its infrastructural components (assets) and its *per se* business i.e market model**
- **In pure market terms, LNG is (similar to gas storage) a prime provider (tool) of market flexibility**
- **The role and value of LNG in the SoS context has to be considered in light of the characteristics of the LNG chain (upstream rigidity vs. downstream/terminal flexibility)**



Regulatory assessment of the future role of LNG in EU gas supply



Objectives:

- **Can LNG be mobilised to reinforce security of supply (SoS) from the short term to the long term ?**
(bearing in mind the expected transition to more dynamic and flexible LNG markets)
- **How can LNG be included in regional concepts of SoS ?**
- **What are the potential (regulatory) risks ?**

Basic assumptions:

- **Regulation should ensure effective response** of the internal energy market to both endogenous and external supply risks
- **Basic regulatory concepts/priorities for the new SoS frame apply**



Conclusions of regulator's analysis



- **LNG is** a key source of gas supply diversification – taking account of the LNG chain structural characteristics
- More **information and transparency** are the key to market liquidity and consequently to enhanced SoS
- Explore the idea of a **common European LNG exchange platform** (possibly accompanied by standardized agreements by LNGSOs, master pre-agreements by suppliers and users, ...)
- More **flexible** LNG technologies and business concepts hold promise
- Reinforce the **role of LNG markets in Emergency Plans** – in particular on **regional level** (along the market-based principles for ensuring SoS)
- **Increase cooperation** between competent authorities, LNGSOs and TSOs at EU level



New LNG infrastructure in EU



- „EC Strategy for LNG and gas storage” → drive towards completing the „missing” LNG-related infrastructure in EU
- SoS-related concerns have complemented (or supplanted?) pure market-based reasoning
- The drive is happening in the context of a general decline in gas demand
 - EU gas demand has bottomed-out in 2015
 - however, not clear if this is a permanent rebound or will the challenge remain: „**how to manage an energy source in decline?**”
- EU regulators advocate market-based measures and mechanisms in SoS-related concepts, but
- Could the on-going considerations on new market model and security of supply move the other way on gas infrastructure?



Infrastructure development: One size does (not) fit all



or: Not all LNG terminals are created equal.

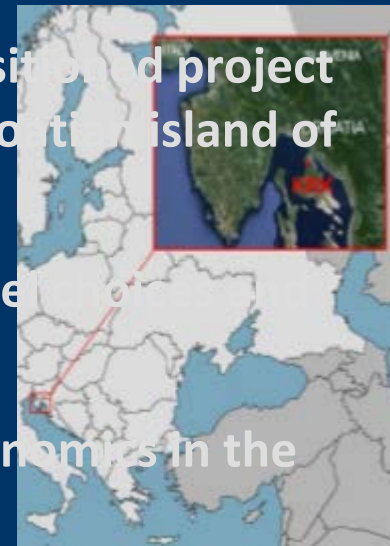
- EU LNG terminals have been (and are being) developed in different infrastructural/supply contexts – with different business models
- Case-by-case approach more promising
- Full 3rd package implementation (with implemented NCs) could/should lead to market mechanisms as clearer demand identifiers

Current thinking seems to be evolving towards the size of the „control volume of benefits” as the main driver for LNG investments.



A case in point: a brief on the Croatian LNG terminal project

- Third life of the (geographically) exceptionally well positioned project for development of a LNG receiving terminal on the Croatian island of Krk (project promotor „LNG Croatia Ltd.”)
- **Demand security** a challenge for final technology/model – ultimately FID
- Strong general (political) support – yet challenging economics in the environment of stagnating gas demand
- Project has received PCI and CESEC status – distinct **regional context of security of supply**
- National TSO with a robust asset base and high transmission tariff – cost/demand on the verge of a positive feedback loop
- Regulators invited/expected to provide regulatory support





Challenges abound



- **New geopolitical realities**
(might influence expected developments on the global LNG market)
- **Uncertainties in the future role of gas**
(might lead to further decrease of demand > leading to stranded infrastructural assets > endangering competitiveness of gas)
- **Challenge of completing the LNG-related infrastructure on sound economic basis**
(regional cooperation vital for cost-sharing and/or demand security)
- **Blending the LNG role into the commonly agreed (new) SoS frame**
- **Assuming a market-based SoS frame, providing solution(s) for the potential problem of affordability in a crisis situation**



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**THANK YOU
FOR YOUR ATTENTION !**

tjurekovic@hera.hr