

Statement

on the consultation on an EU strategy for liquefied natural gas and gas storage

Berlin, 29th September 2015

Contents

1	Introduction	3
2	LNG in the EU today	4
3	Potential entry barriers for LNG	7
4	International LNG markets	8
5	LNG technology issues including LNG use in transport.....	9
6	LNG sustainability issues	10
7	Storage	10

General Remarks

The German Association of Energy and Water Industries (BDEW) represents 1,800 members of the electricity, gas and water industry. In the energy sector, we represent companies active in generation, trading, transmission, distribution and retail.

1 Introduction

BDEW agrees that gas has a key role to play in the EU energy system, and will continue to do so in the future, because of its scalability, reliability and efficiency, as well as cleaner combustion properties and competitive costs. In all expert policy scenarios, even those that seek to limit air and greenhouse gas emissions, natural gas will continue to play an important role in power generation to 2050 and beyond.

We believe both LNG and gas storage will have important roles to play in facilitating security of gas and energy supplies in Europe. Europe will be supplied best by different sources of flexibility interacting in a non-discriminating level-playing field following market mechanisms.

We support the Commission's conclusion in 2015's stress test communication that, among the existence of a reliable infrastructural system in the form of pipelines and storages as well as diversified import sources, energy security can be best supported by a large, interconnected, well-functioning, competitive market and a stable legislative framework. Over the past few years, the EU's gas supply security has been enhanced in a cost effective manner by market responses which have facilitated:

- Gas supply diversity through both incremental pipeline and LNG import capacity
- Continued gas infrastructure development and market interconnection

However, we recognise some Member States may feel that security of gas supply may be challenged in localised areas in the short term. In addressing these challenges,

- cost effective implementation of the existing Third Energy Package and the Regulation on Security of Gas Supply should be pursued, where not already fully implemented, and
- actions should be primarily aimed at increasing operational coordination and interconnectivity and removing barriers to cross-border trade without distorting market mechanisms.

The implementation of the Third Energy Package, as well as the continuing development and implementation of the Framework Guidelines and binding Network Codes remain key priorities for a liquid and secure European Gas Market. LNG may, in addition to the expansion of reverse flow capacity at cross border points, contribute to increasing security of supply in the countries of Eastern and Southeastern Europe. However, reverse flow projects should be submitted to a costs-benefits-analysis and be compared to alternative solutions. Market economy principles and considerations should therefore be the starting point for (re-) designing the framework for/in those regions to improve the security of supply.

Only a level playing field for both LNG and pipeline gas among the contribution of storages to security of supply enables a sustainable, diversified and cost-effective gas supply to the EU

Member States and the European Energy Community. Joint purchasing activities, establishing minimum quotas for LNG and favouring certain suppliers (low risk countries) involve the risk of economic turmoil and increased macroeconomic costs of gas supply.

Regulatory intervention with respect to individual sources of natural gas (as in this case LNG) should be rejected on the European level. A strong cooperation of the member states regarding the security of supply is required.

However, from BDEW's point of view it is to be emphasized that in all intentions to foster the welcome continual development of a border-crossing European gas market both LNG and gas storage capacities are to be considered as elements of the named market mechanisms only. Neither LNG, nor storage capacities should be considered as a separate instrument being implemented in parallel to existing market mechanisms, but represent parts of the internal gas market in its entirety following corresponding market mechanisms. From BDEW's point of view, these aspects should be considered when contemplating regulatory measures regarding a strategy for LNG and gas storage.

2 LNG in the EU today

Question 1: *Do you agree with the assessment for the above regions in terms of infrastructure development challenges and needs to allow potential access for all Member States, in particular the most vulnerable ones, to LNG supplies either directly or through neighbouring countries? Do you have any analysis or view on what an optimal level/share of LNG in a region or Member State would be from a diversification / security of supply perspective? Please answer by Member state / region.*

The optimum share of LNG in gas supply of a specific region could, if favoured, hardly be determined. Yet, from BDEW's point of view, to strengthen security of gas supply in Europe first of all the diversification of sources, the efficient use of existing infrastructure and the development of present markets should be focused on. The usage of LNG should neither be determined to a specific share, nor be limited to countries which are dependent on a small number of suppliers, but should be understood as an additional source of flexibility and diversification of supply driven by market forces. All discussed sources of flexibility for increasing the level of security of gas supply (be it the implementation of cross border reverse flow capacities or the construction of a terminal for LNG regasification) should be investigated in a cost efficient manner.

Question 2: *Do you have any analysis (cost/benefit) that helps identify the most cost-efficient options for demand reduction or infrastructure development and use, either through better interconnections to existing LNG terminals and/or new LNG infrastructure for the most vulnerable Member States? What, in your view, are reasons, circumstances to (dis)favour new LNG investments in new locations as opposed to pipeline investments to connect existing LNG terminals to those new markets?*

From BDEW's point of view, the efficient use of existing infrastructure generally should be prioritised against investments into new infrastructures. Hence, also the consideration of investments in the network or the infrastructure of LNG should be done following a cost-efficient

manner including the particular circumstances (e.g. plant structure and site geography), as the cost efficiency of investments in LNG infrastructure can vary due to these parameters. Also, the expected degree of capacity utilization is decisive for investment decisions. Nonetheless, in general a stable regulatory framework promotes investments.

Question 3: *Do you think, in addition to the already existing TEN-E Regulation, any further EU action is needed in this regard? Do you think the use of LNG gas and existing LNG infrastructure could be improved e.g. by better storage possibilities, better network cooperation of TSOs or other measures? Please give examples.*

LNG System Operators (LSO) could offer innovative products so that the flexibility of the LNG assets could be valorised better. As e.g. storages, using tanks also LNG infrastructure can provide modulation up to a certain extent. From BDEW's point of view, no further action is needed.

Question 4: *What in your view explains the low use rates in some regions? Given uncertainties over future gas demand, how would you assess the risk of stranded assets and lock-in effects (and the risk of diverting investments from low carbon technologies such as renewables and delaying a true change in energy systems) and weigh those against risks to gas security and resilience? What options exist in your view to reduce and/or address the risk of stranded assets?*

Worldwide, present regasification capacities are double the amount of capacities for liquefaction; hence, a low degree of capacity utilization is currently to be expected per se. However, the current degree of capacity utilization does not prove any market failure or entry barriers but demonstrates the high flexibility of LNG prices following currently high price levels in international markets: Strong growth of demand in the Asian region in the past caused an increase of the spread between European and Asian price level, which acts as the driving force for destination flexible LNG volumes to flow into named markets rather than Europe.

In the context of an insecure development of future demand in addition to the exceeding supply, the market currently does not send the appropriate price signals for security of supply. What can be observed presently is the possibility for market participants to undergo risks in the form of a short physical covering of quantities booked in storage capacities or LNG. Generally, also in a well-functioning and highly developed market environment sufficient incentives for market participants to cover required quantities in a fully reliable manner can exist (in dependence on a well functioning balancing system). Yet, the phenomenon of "moral hazard" can lead other stakeholders to be involved having to cope carrying emerging risks jointly. An insufficient booking of capacities of storages or LNG-gasification terminals can lead to the lock-in effect which endangers security of supply. If there are insufficient incentives for the usage of infrastructure of LNG (and storages), the risk of a decline in existing infrastructural capacities appears. Also the under-subscription in LNG gasification terminals may lead to lock-in effects and reduce the security of supply in Europe: In case an LNG terminal is being shut down due to under-subscription, a re-commissioning of the LNG infrastructure and the carrying out of the total chain of LNG processing (vessel fleets as well as supply contracts) can not be performed quickly in case of a sudden need in the manner of security of supply.

Question 5: *The Energy Union commits the EU to meeting ambitious targets on greenhouse gas emissions, renewable energy and energy efficiency, and also to reducing its dependency on imported fossil fuels and hence exposure to price spikes. Moderating energy demand and fuel-switching to low carbon sources such as renewables, particularly in the heating and cooling sector, can be highly cost-effective solutions to such challenges, and ones that Member States will wish to consider carefully alongside decisions on LNG infrastructure. In this context, do you have any evidence on the most cost-efficient balance between these different options in different areas, including over the long term (i.e. up to 2050)?*

Natural gas will be one of the most versatile fuels of the future because of its scalability, reliability and efficiency as well as cleaner burning properties and competitive costs. All energy sources will be needed to meet future energy demand. In line with this development and in order to continuously reduce the risk of stranded assets as well as to improve the environment for investments in the natural gas sector, natural gas should furthermore be considered as a reliable partner of an increasingly intermittent generation portfolio. Moreover in case of market-based investments this risk would be on market parties and not cause unnecessary public costs.

LNG simply is to be understood as a method of transportation of natural gas. Like pipeline gas, LNG delivers cleaner-burning natural gas from remote production areas to distant markets where additional imported supplies are needed. LNG's logistical flexibility helps improve the security of supplies worldwide. The LNG industry is becoming increasingly global and is starting to link regional markets in Asia, Europe and North America with multiple supply options. Both suppliers and customers benefit from these developments, which are providing a wide choice of sales/supply options ranging from traditional long-term contracts to shorter term and spot arrangements to meet evolving customer and supplier needs.

In industry forecasts (e.g. the Energy Outlook by ExxonMobil), global LNG trade is expected to more than triple, growing from about 225 million tons annually to around 700 MTA by 2040. By 2040, it is expected that about 20 percent of the world's natural gas demand will be met by LNG shipments. To meet this growing demand a significant number of new projects will be needed, increasingly diversifying the number of supply sources.

Market-mechanisms are best placed to determine whether and where LNG terminals are being built. For this to function properly, the EU should help to remove barriers to free trade (e.g. US LNG export permitting) and investment obstacles. Regasification facilities form an essential component of the LNG supply chain. Investors in a production project utilizing LNG as its method of transportation will require certainty of access to regasification in order to ensure product sale. In many cases, developers have concluded that they need to invest in such facilities to assure that outlet. Recent LNG terminal projects have been built under a TPA exemption, indicating the importance of long-term terminal access contracts to underpin the huge investments in the LNG supply chain that cover gas production, liquefaction, shipping and regasification. However, market-based investment signals could be distorted by EU and Member State financial support or other public funding for LNG terminals.

LNG will flow into markets on the basis of economic signals, but LNG-terminals that have been built or sponsored by market parties are more likely to be utilised because those parties

have access to supply sources and shipping facilities forming part of a supply chain that incorporates terminal. Lack of market interest for investments in LNG terminals in certain regions in the EU could be caused by barriers to access the market (e.g. regulated wholesale prices), the small size of the market, regulatory uncertainty or an assessment by the market that LNG will not be a competitive source of gas for that region (e.g. supply of LNG to markets upstream of Russian pipeline gas to Central Europe). There is no optimal level/share of LNG for a market or region. The key is supply diversity and this could come from LNG, storage facilities, pipeline imports and indigenous production.

3 Potential entry barriers for LNG

Question 6: *What in your view are the most critical regulatory barriers by Member State to the optimal use of and access to LNG, and what policy options do you see to overcome those barriers? Have you encountered or are you aware of any problems in accessing existing LNG terminal infrastructure, either because of regulatory provisions or as a result of company behavior? Please describe in detail.*

There still are barriers existing for LNG and for pipeline gas to reach certain regions in Europe. The focus should be on removing such barriers through improving interconnectivity and implementation of the Third Energy Package, the associated Network Codes and the Regulation on Security of Gas Supply. Existing EU legislation should be adequate to tackle the outstanding issues.

Question 7: *What do you think are the most critical commercial, including territorial restrictions and financial barriers at national and regional level to the optimal use and access to LNG?*

Like for Storages, the transport network tariffs at the exit of the LNG Terminal / entry of the Network have a significant effect for the usage of LNG. TSO Entry costs in addition to the costs for the terminal use have effects on the competitiveness of the LNG chain of supply, whereas LNG Terminals could also have a system value and (like storages) can substitute investments into network expansion by providing flexibility.

In addition, significant LNG-supplies need liquid trading hubs (no cross-border trade restrictions due to gas quality differences or downstream restrictions) in order to guarantee the unloading of large volumes over a limited period of time. This can only be accomplished via the consequent implementation of the European regulation, in particular the Network Codes, in all EU member states.

Regarding the usage of LNG for mobility sector, taxation as well as the comparability of prices of other fuel options are crucial for future development.

Question 8: *More specifically, do you consider that ongoing EU policy initiatives and/or existing legislation can adequately tackle the outstanding issues, or there is more the EU should do?*

Completion of the Internal Energy Market is crucial for the efficient use of LNG terminals in Europe. We do not believe LNG terminal access conditions represent a problem as there is ample terminal capacity available. Market parties that would like to bring LNG into Europe have a choice of terminals with available capacity.

However, there still exist barriers for LNG and for pipeline gas to reach certain regions in Europe. The focus should be on removing such barriers through improving interconnectivity and implementation of the Third Energy Package, the associated Network Codes and the Regulation on Security of Gas Supply. Existing EU legislation should be adequate to tackle the outstanding issues.

In regions where a functioning gas market has developed which also can be supplied by several LNG terminals, those LNG facilities become competing facilities. Specific LNG terminal access regulations - that were put in place for essential facilities - should be reviewed in a manner to reducing the obligations on LNG terminal operators. Anti-hoarding measures should be sufficient to ensure that terminal access is granted when not required by the primary capacity holder.

What is more, in general attractive and stable regulatory conditions should help the industry to build the infrastructures responding to a real market demand.

4 International LNG markets

Question 9: *How do you see worldwide LNG markets evolving over the next decade and what effects do you expect this to have on EU gas markets? Do you expect a shift away from oil-indexed LNG contracts, and if so under what conditions?*

LNG is increasingly developing into a global market. Prices will be set on the basis of supply and demand fundamentals and buyers and sellers should be free to negotiate on pricing mechanisms. European consumers are competing with other demand regions (e.g. Asia) for access to global LNG gas supply which is being reflected to switching LNG from one region to another in response to price movements. Hence, LNG will flow to the most attractive markets based on price signals, although there may be some response time due to e.g. shipping times. At times of stress LNG cannot provide an immediate response but requires some lead time. LNG suppliers will look at all the cost elements to supply a specific market, not only the wholesale price of the destination market: Shipping costs, LNG terminal costs, transmission entry charges and any other costs to suppliers play a decisive role.

The EU should develop and maintain good relationships with international partners in order to enable market parties establish commercial relationships. In addition, the EU should continue its efforts to remove barriers to free trade such as the permitting of US LNG exports.

On a market base, even without the intervention of the EU a rise in LNG imports over the next years is to be expected, as US are expected to develop from representing production only to being an exporting party too and production capacities in Australia are expected to increase considerably.

Demand aggregation via regulatory/governmental interventions would strengthen market concentration and work against market liberalization. Where consortia of buyers and sellers existed in the past, they have been banned to increase the completion of the Internal Energy Market. Isolated and potentially vulnerable countries have to be integrated to the bigger market via the completion of the Internal Energy Market and removing restrictions to trade to achieve similar benefits.

Question 10: *What problems if any do you see with the functioning of the international LNG market, particularly at times of stress? Are there specific actions the EU should take, in dialogue with our international partners, including in trade negotiations, to improve its functioning and/or to make the EU market more attractive as a destination for LNG? Could voluntary demand aggregation be helpful in some way?*

In general, the LNG market is functioning properly, as LNG is preferably being delivered to markets showing high demand and therefore high price levels. In this manner, Europe would have to offer a higher price level than occurring in comparison e.g. the Asian region to attract the desired volumes in the very situation. At times of stress in form of supply tightness in Europe, market prices rising to levels which would represent such attractiveness can be expected. Yet, such a short-term perspective is not sufficient to secure long-term LNG supply to Europe.

The biggest challenge in developing a remarkable LNG supply to Europe – without distorting the markets by direct regulatory interventions – is to successfully conclude long-term supply deals with producers at a competitive price level. As export projects are based in only few countries, EU's support on a political level only, e.g. in the form of agreements with governments of such countries, would be a good basis for industrial partnerships and be a chance to enhance the attractiveness of the European market and to promote investments. However, the implementation of new economic relations by itself as well as contract negotiations must remain in the responsibility of the economic sector. Regulatory interventions can cause market distortions and therefore should be targeted to be kept on a minimum level. Also the implementation of a buying syndicate could lead to increase complexity of international markets and cause negative impacts to competition inside the markets.

Furthermore, supply to Europe is being attracted best by managing to offer a reliable demand development to LNG exporters. By defining the role of gas as an environment-friendly transition fuel, both in power generation and for industrial as well as domestic use and by outlining ways to grow into new technologies e.g. the transport sector, a promising perspective and business environment for LNG exporters can be promoted.

5 LNG technology issues including LNG use in transport

Question 11: *What technological developments do you anticipate over the medium term in the field of LNG and how do you see the market for LNG in transport developing? Is there a need for additional EU action in this area to reduce barriers to uptake, for example on technology or standards, including for quality and safety?*

The potential of LNG in replacing other, less environment-friendly fuels in transport is significant: LNG represents a cost-efficient technology which can support heavy duty vehicles reaching emission limitations Euro IV. What is more, LNG also is a good fuel alternative for ships to meet the requirements for decreasing sulfur in marine fuels. Hence, while technological developments generally are hard to predict, we expect the usage of LNG in transport sector to grow significantly but predominantly in marine transportation and heavy duty vehicles.

6 LNG sustainability issues

Question 12: *Do you think there are any sustainability issues specific to LNG that should be explored as part of this strategy? What would be the environmental costs and benefits of alternative solutions to LNG? Please provide evidence in support your views.*

The growing interest of the shipping and transport sector in natural gas as well as LNG in particular dedicates potential to increase the usage of natural gas in this segment and to reduce the dependence on oil in parallel; what is more, improving the air quality is a further positive effect going along this development.

7 Storage

Internal market constraints and challenges for storage

Question 13: *What opportunities or challenges do the supply projections for different sources, in particular LNG and pipeline gas and low carbon indigenous sources, present for the use of gas storage / for gas storage operators?*

We expect stable or slightly growing gas demand for Europe in the future. Thereby the share of domestic production in the EU is likely to decline and be replaced by increasing pipeline and LNG imports from sources outside the EU. We expect the share of LNG in the EU supply mix to increase in the future development.

These overall demand and supply developments suggest a continuing need for supply modulation to match demand requiring multiple sources of flexibility including storage services and LNG imports to meet peak demand. LNG can be expected to be imported when market signals attract such supplies.

We expect low carbon indigenous sources predominantly to be power generated with renewable energy. The corresponding developments in the power market are complex and will significantly differ from one member state to another. What can be observed is an increasing share of gas fired power generation in the EU, mainly replacing nuclear and coal fired generation. Gas fired power generation can be expected to increasingly occur when the wind does not blow and the sun does not shine. In general, gas demand requires flexible supplies including gas storages.

A key challenge to the energy industry is to adjust and keep available sufficient storage capacities to supply seasonal gas demand and to back up shortfall scenarios in an increasingly

competitive market environment that, on one hand, enforces competition of flexibility sources in normal demand situation but, on the other hand, is on long term designed to meet extraordinary peak load scenarios and to enable diversification of supply. The regulatory framework and competition of flexibility sources currently lead to economically difficult situations, as the reduction of price peaks in markets reduces the intrinsic value of storage capacities, while the insurance value of storages in form of their contribution as one element in providing security of supply towards unexpected events is not being represented by the current price signals for storage capacities.

Question 14: *Are, in your view, current market and regulatory conditions adequate to ensure that storages can fully play their role in addressing supply disruptions or other unforeseen events (e.g. extreme cold spells)?*

The EU gas market opening and corresponding reforms of the EU market and regulatory framework over the past decade have positively contributed and better enabled the market to respond to supply disruptions or other unforeseen events: improved physical and commercial interconnectivity within countries and across national borders, the creation of large storage volumes, the creation of large entry/exit transportation systems with trading hubs, shorter term trading of gas supply and transportation capacity products, increases in market liquidity and other results of reforms have significantly increased market response capability (e.g. European-wide consistent price signals).

Through these developments storage service providers increasingly have gained access to a wider market which on the one hand side enables them to offer services to a larger market and to address supply disruptions or other unforeseen events, but on the other hand side makes them compete with more sources of flexibility than years ago. What is more, also the current market conditions, partly as a result of the on-going development of other sources of flexibility, lead to declining incentives for gas suppliers to use storages in their portfolio to cover the demand of their sales portfolios. While the economical value represented by summer-winter spreads is characterizing for the price levels of storage capacities, the insurance value of storages representing its contribution to security of supply currently is not being reflected. However, a significant reduction of storage capacities would lead to a reduction of the actual level of security of supply. To achieve an appropriate level of security of supply, we are convinced that primarily a functioning EU internal gas market including a level-playing field for flexibility sources including gas storage in a non-discriminating manner as described below is required.

However, we observe different levels of the implementation of the EU Third Energy Package and different levels of market opening and competitiveness in EU member states. Hence, we strongly recommend the full implementation of the EU Third Energy Package including the corresponding Network Codes in all EU member states.

One of the main tasks is to create a level-playing field for storages as flexibility provider by applying reasonable transport fees to storages and to avoid that storage flexibility is discriminated against other flexibility products – like import capacity or interruptible delivery contracts – as well as amongst themselves. Transport fees in particular can be a tool to represent the

contribution to the system stability given by storages. A non-discriminating environment should improve the ability of gas storages in the EU (and of other flexibility sources) to fully utilize their potential in addressing supply disruptions or other unforeseen events. We suggest that the harmonization of national regulations on EU-uniform standards strengthens the competitiveness of gas storage in a level playing field for flexibility.

Question 15: *As an alternative to mandatory reserves, how could market based instruments ensure adequate minimum reserves?*

In our view markets are generally best placed to determine the most economic mix of flexible supply sources and the corresponding storage filling levels. However, the current market environment bears the risk that storages cannot be operated economically as the continuing development and proceeding diversification of import capacities may lead to a structural oversupply of flexible supplies.

Storage Infrastructure

Question 16: *Do you have any analysis or view on what an optimal level/share of storage in a Member State or region would be? What kind of initiatives, if any, do you consider necessary in terms of infrastructure development in relation to storage?*

The supply chain of the NW-European gas market is characterized by a well developed transport grid, stabilizing and flow equalizing storage capacities as well as regional well developed markets with a high diversity of supply sources. Accordingly, the extent of storage levels depends on the particular development of national infrastructure, market size and access to reliable sources compared to the import ratio. The installed storage capacities are the result of historical demand and supply developments, the cost of alternative flexible supplies and individual assessments of market participants. The storage capacities existing today ensure to make an efficient use of import infrastructure including the storage of volumes imported before demand exceeds supply and support the system in meeting its peak demand.

Generally, gas infrastructure in the EU, with exception of few regions, seems well developed with significant spare capacity compared to peak demand. Within the EUs internal gas market, incremental imports compete with storage withdrawal capacities, production flexibility and demand side measures. Storages are of major importance to meet peak demand on short notice and in case of supply failures. Thus, a significant closure of gas storage facilities would threaten security of supply especially in times of peak demand.

Stress tests as already performed in the context of the Security of Supply Regulation can be an appropriate indicator to determine minimum storage levels. As mentioned in question 13, the challenge to the energy industry is to develop a competitive market environment, where different supply possibilities compete in normal demand situations, but sufficient capacities remain to meet peak demand.

Question 17: *Do you think, in addition to the existing TEN-E Regulation, any further EU action is needed in this regard?*

Generally, infrastructure investments should be underpinned by commercial arrangements or clearly identified demand which ensures the economic viability of infrastructure investments. There is a risk that EU funding of infrastructure projects causes private investors to withdraw from the market and that EU funded projects compete with those financed with private funds and thereby distort a level playing field.

However, we believe that the EU has a role in facilitating complex cross border, storage or LNG projects which often involve multiple governments, regulators, transmission system operators and financial players under different legislative frameworks. ACER's Gas Regional Initiatives e.g. provide a good platform to remove obstacles to the activities of the multiple stakeholders involved in such projects.

Question 18: *Given uncertainties over future gas demand, how would you assess the risk of stranded assets (and hence unnecessary costs), lock-in effects, the risk of diverting investments from low carbon technologies such as renewables, delaying a transition in energy systems and how would you weigh those against risks to gas security and resilience? What options exist in your view to reduce the risk of stranded assets?*

The EU gas market takes advantage of a generally well developed gas infrastructure with significant supply capacities exceeding peak demand and being largely able to compensate supply interruptions.

Reforms of the market and regulatory framework over the past decade and also into the future have and can be expected to further increase competition between different sources of flexible supplies. Thereby lower than expected gas demand may contribute to challenging economics for storage or LNG terminal operators. In addition to risks resulting from a decreasing gas demand in a market with regulated precaution, in an open market sufficient consideration of security of supply reduces the risk of stranded costs for existing storage and LNG facilities. Markets without any incentives for storing gas to hedge exceptional incidents run the risk to fail in case of disruption of supply or unpredictable weather events, when there is no other supply infrastructure diversification.

Economics of investment projects depend on various external factors. A stable legislative framework supports the significant investments needed in the energy sector. As highlighted in question 10 regarding the future gas demand in Europe, also to emphasize the key role of gas in the transformation of European energy system could promote an investment friendly business environment for suppliers and reduce risks as described above.

Generally markets are best placed to trigger the investments needed to securely supply consumers and at lowest cost. Exceptions are for geopolitical risks that cannot be covered by the market.

Regulatory framework and potential barriers for storage

Question 19: *What do you think are the most critical regulatory barriers to the optimal use of storage in a regional setting?*

The full implementation of the Network Codes under the Third Energy Package should further increase the markets' ability to trade gas across borders throughout the EU. The Network Code on Tariffs shall specify that, in setting or approving tariffs for entry and exit points from and to gas storage facilities, National Regulatory Authorities (NRA) shall consider the benefits which storage facilities may provide to the transmission system as well as the provision of security of supply.

Question 20: *Do you think ongoing initiatives and existing legislation can tackle the remaining outstanding issues or is there more the EU could do? Do initiatives need to include additional issues further to the ones described here?*

EU initiatives should in our view focus on the full implementation of the EU Third Energy Package and corresponding Network Codes taking into account the suggestions mentioned in question 19 and support the development of a well-coordinated ten years grid development plan for gas and the establishment of effective emergency response procedures under the existing EU Security of Supply Regulation.

Question 21: *Do you consider EU-level rules necessary to define specific tariff regimes for storage only or should such assessment be made rather on a national level in view of available measures able to meet the objective of secure gas supply?*

Flexible supplies from gas storages compete in most countries with flexible supplies from other sources. Tariffs for storage services in competitive markets should not be regulated at EU or at national level.

Entry and exit tariffs from the transmission system into and from storages significantly impact the economics of the use of these storages compared to alternative flexible supplies (e.g. through imports). Such entry and exit tariffs should generally be established based on the principles of non-discrimination and creating a level playing field for flexible supply sources.