

## EUROGAS STATEMENT ON STRATEGIC STORAGE

Eurogas has a number of concerns in relation to the discussion of “strategic storage”.

Firstly it is very unclear what the Commission has in mind by strategic storage. To underpin and ensure the coherence of future discussions on this issue, Eurogas believes it is essential to have a common understanding what is intended by the term, to specify the kind of situations where it is envisaged such storage would be used, to agree on the level of additional security or other benefits such storage would be designed to provide and to consider the feasibility of such benefits being realised in practice.

Secondly, if by strategic storage it is meant storage to be built and kept only for supply security, it must be recognised that this would fundamentally undermine the economics of the commercial market, resulting in disincentives for commercial storage because of uncertainties for investors on the value of their storage. A main goal for policy makers should be to encourage the development of commercial storage.

Also, obligations to build strategic storage as distinct from commercial storage and the construction of related infrastructure to support injection and withdrawal capacities would be very expensive. In their 4<sup>th</sup> of March 2008 document, GSE suggests that the cost of building such dedicated storage facilities would be between €100Billion and €130 billion. The scale of such investment would have to be considered alongside other options, such as measures to encourage greater supply diversity and improved interconnections.

In addition it is unclear who would have to bear the additional costs resulting from any such storage obligations. Care would need to be taken that increased costs would not lead to competitive disadvantages for natural gas.

Eurogas is concerned by the level of such costs and their impact on the market, particularly if commercial and strategic storage have to work in parallel. All impacts must be carefully assessed in relation to the risks, benefits and alternative options available.

Much storage development is already underway throughout Europe\*, although there remains an urgent need for new seasonal storage. Long term visibility, attractive return on investment as well as reliable economic signals are essential in order to encourage undertakings to make timely investment decisions. Eurogas believes that rather than pursuing a European strategic storage objective at this stage, the need for additional storage should be carefully considered, both at a national and regional level. Storage needs should be assessed in relation to expected needs of users (taking into account risk scenarios) and after consideration of other flexibility tools, including interruptible customers, contractual flexibility, interconnection and supply diversification, all of which are less costly options.

No general rules can be applied for all member states, as national situations across Europe vary significantly. Differences in national markets justify different approaches. Geology, import dependency, LNG availability, level of interconnection, interruptible customers, diversity of supply, storage capacity and oil stocks (in relation to dual fuel possibilities) are all factors which should be taken into account in determining a Member State’s approach. Moreover, provided certain conditions (such as sufficient and cost efficient level of interconnection between Member States) are in place, a regional approach might usefully be considered.

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\* GSE has assessed on the basis of publicly available information that an additional 30bcm will be constructed by 2015, an increase of around 40 percent on present capacity.

In conclusion, Eurogas believes an EU blanket approach would be likely to introduce too much rigidity and be unduly costly, as well as undermining the development of market mechanisms. Therefore Eurogas does not support strategic storage as a priority in EU policy. While "Monitor" level approaches adopted by some countries should be promoted and be transparent, they need not be identical, neither should national requirements on storage relating to possible crisis management. Solutions should be flexible in order to respond to market structures and developments.

Nonetheless, we recognize that some Member States are dependent on single source supply and especially these Member States are concerned and they may wish to develop further solutions within their national borders. Such a model already operates in Hungary.

In general, Eurogas considers that Member States have to be allowed to develop proportionate responses to supply strategies and concerns and they should retain the freedom to employ different measures, on which information can be shared at EU level. National standards in security of supply are prepared in relation to national market characteristics, taking into account climatic and geographic conditions, historic energy mix etc. Therefore they are not going to be identical. Each Member State should retain responsibility for setting its national security of supply standards compatible with the development of an internal gas market. Eurogas supports this flexible, tailor made approach that nonetheless recognizes the need to meet common principles.