

SMI : GAS STORAGE
London, 30th June 2008

***Regulation of Gas Storage –
The Users' Perspective***

By Margot Loudon
Deputy Secretary General

euro  **gas**
THE EUROPEAN UNION OF THE NATURAL GAS INDUSTRY

Section I – Explanations about Eurogas

Eurogas

- representing the interests of wholesale and retail gas suppliers
- composed of 44 members from 24 countries amongst which 31 natural gas companies, and one international organization

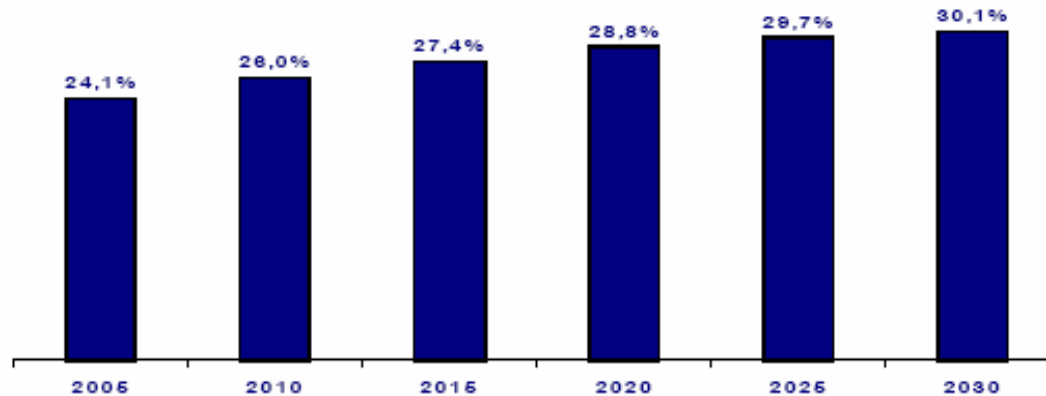


Section II – Demand/Supply Trends and Storage Needs

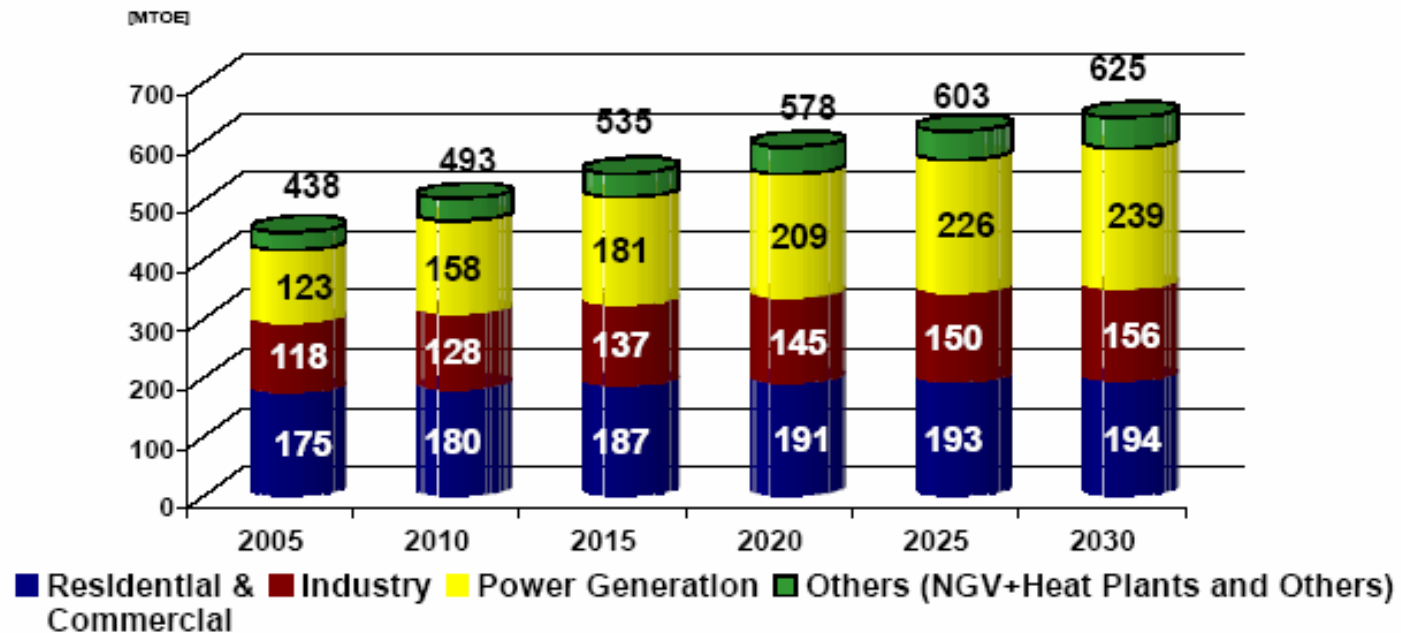
Eurogas Long Term Outlook to 2030

EU27: Increase in Gas Consumption

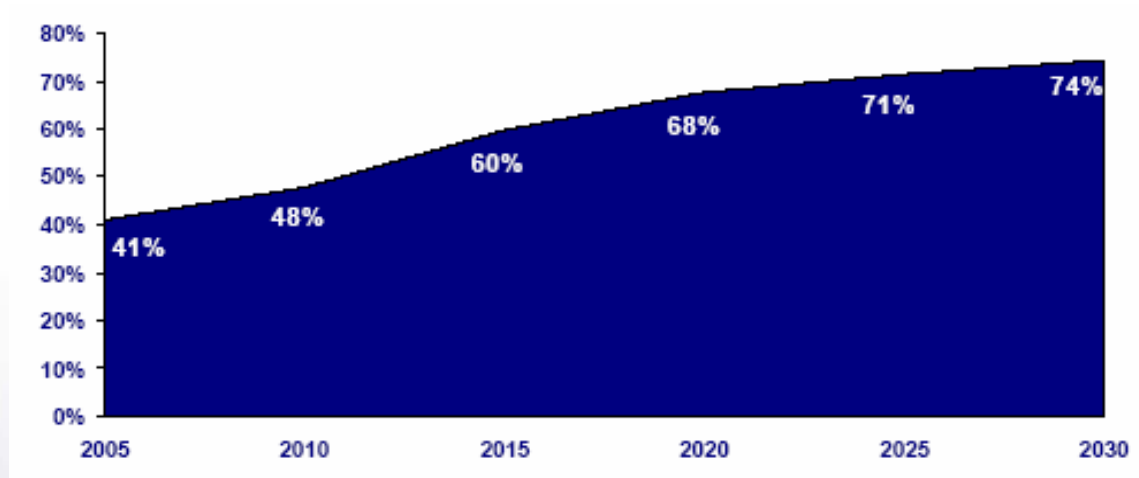
Natural gas consumption is expected to increase from 438 mtoe in 2005 to 625 mtoe in 2030 which is an increase of 43%.



EU27: Natural Gas Demand outlook by sector



EU27: Import Dependency from outside Europe



Supply

- Indigenous supply falling
 - Three quarters of EU25 indigenous production is concentrated in 2 countries: 43% in UK and 33% in the Netherlands
- Replacement of new supplies
- Reliability of new supplies
 - Diverse supplies but fewer supply routes means impact of failure high
- Growing competition for supplies at global level

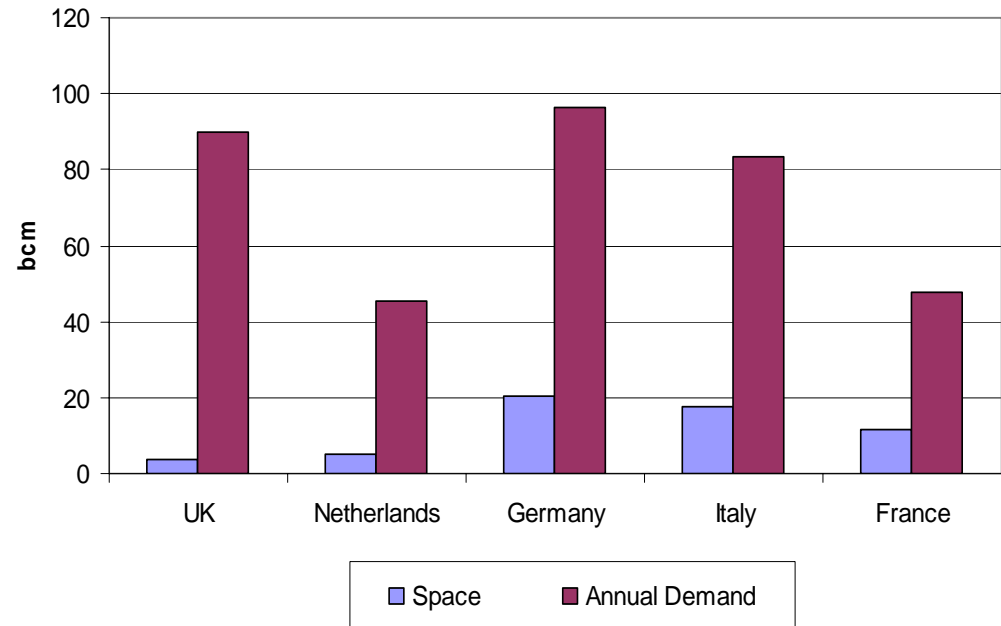
Demand

- Annual demand drivers
 - Gas fired power plants – main contributor to growth
 - Residential/commercial continued growth
- Variable demand drivers
 - Approximately 40% of EU gas sales to the residential & commercial sector. This demand is highly weather sensitive
 - Flexible supplies both intraday and seasonal is required to system balance
 - Access to flexibility is required for market development

European Space vs. Annual Demand Comparison

- Each European country's current storage position has been influenced by its indigenous gas production.
- The UK has been self-sufficient in gas due to reserves in the North Sea. Therefore, less gas storage has been required in the past.
- Germany, France and Italy have little or no domestic gas reserves and rely heavily on imports and storage. Historically, NW European countries have c. 20% of annual gas demand in storage space and are looking to build more.
- With its falling reserves and increasing reliance on imports, the UK will find itself in a similar position to France and Germany.

Space vs Annual Demand in Europe 2005



Source: *Underground Gas Storage in the World – June 2006*

Storage has dual function

- flexibility tool, therefore crucial for the development of competition
- contribution to security of supply

Suppliers have alternatives to storage (spot markets, interruptibles, swaps, supply contract flexibility) but very often in the relevant markets storage access is the optimal solution.

How can users be confident in the access regime?

- non-discriminatory services underpinned by the necessary transparency
- optimal use of available capacity

Users also want to be confident in future storage investment, as imported gas increases.

Will the market drive investment or are other measures needed?

Section III – Access Regime

- the current Gas Directive allows Member States to choose between regulated or negotiated access
- the Third Package proposal maintains the choice
- although users have seen improvements in implementation of the GGPSSO, there are still issues on transparency, and CAM and CMP

Legal and functional unbundling and the greater clarity for the regime proposed in the Third Package should bring improvements.

Also, making the GGPSSO principles binding should improve their implementation.

We would expect as users to have opportunities to discuss any changes to the GGPSSO

Section IV – Investment

Issues surrounding investment in storage

- Regulation has to be conducive to investment in commercial storage.
- Exemption under the current Article 22 has been granted for some storage projects. Article 22 can facilitate the needed investment but has to be applied on a case by case basis.
- In regulated systems, tariffs should allow a fair return to operators.

Strategic Storage?

It is unclear what the term “strategic storage” means. If it means storage to be built and kept only for supply security at EU level, then this would undermine the economics of the commercial market – especially if the conditions under which it would be accessed are unclear.

Obligations to build strategic storage as distinct from commercial storage, plus all the related infrastructure to support injection and withdrawal capacities

- (1) would be very expensive
- (2) would in all probability cause uncertainties for investors on the value of their storage

“Monitor” level approaches should be promoted and be transparent but need not be identical.

Member States should be allowed to develop proportionate responses to storage concerns and strategies, and share the information at EU level.

Member States with single source supply may wish to introduce some form of strategic storage at least until they are assured of diversified supply.

To achieve a better functioning market we need regulation
– a key driver for market integration.

There also has to be trust in the market dynamics – over-detailed regulation could stifle these.