

Policy-makers face gas storage dilemma

What's in store?

Concern over Europe's gas supply security has highlighted the importance of storage as import dependency grows and production flexibility declines. The challenge for policy-makers will be to balance two conflicting goals: providing incentives for storage investment while ensuring that storage can be accessed by those who need it.

| by Alex Forbes

When and if political agreement is reached on Europe's third energy market liberalisation package in June, one of the groups watching the outcome keenly will be existing and potential investors in natural gas storage facilities.

As Europe becomes more and more dependent on gas imports, storage will play an ever-more-important role in providing short-term supply security and flexibility to meet demand variations.

The UK is a good example. Until 2004 it was a net gas exporter and had relatively little storage because flexibility was provided by other mechanisms, such as swing in production facilities. However, production from the UK Continental Shelf has declined much more quickly than anyone expected and the mechanisms that previously provided flexibility have become less effective. One result is that there has been a wave of new investment in storage facilities.

The situation in the UK is analogous to what is happening in Europe as a whole. The EU therefore sees a need to put in place policies that will encourage investment in new storage facilities and ensure that companies who need to use them are able

to access them. This means ensuring that pipeline transportation is available and accessible.

It has become clear from recent conferences that several key issues are a matter of debate – indicating that there are varying degrees of uncertainty about how the future will pan out. A central question is how much more storage Europe will need to go forward. Opinions are surprisingly polarised, with some arguing that Europe has more than enough storage for the foreseeable future while others argue that more storage investment is critical.

Should there be European obligations for minimum levels of strategic storage as a matter of policy? Again people differ. Some point to the recurrent spats between Russia and Ukraine as evidence that strategic storage has become necessary. Hungary, more heavily dependent on Russian supply than most, is already going ahead with such a facility. But not everyone concurs.

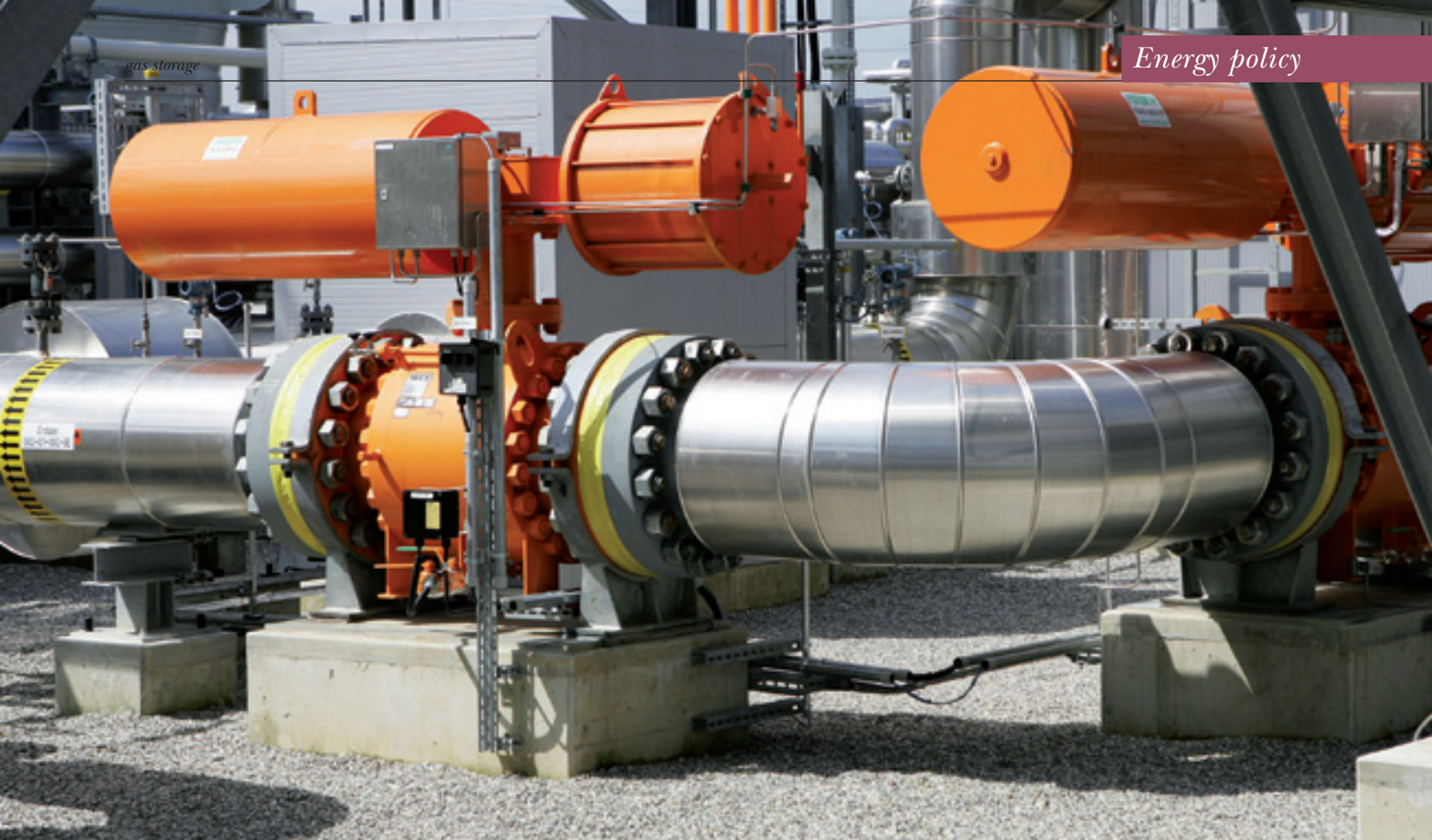
One issue that does seem to be a matter of consensus is that the regulation of storage needs to be more predictable, with more harmonisation across Europe – which is one reason why storage owners and operators are monitoring the progress

that Europe is making towards its third energy liberalisation package. What is certain is that the outcome will mean tighter regulation of gas storage.

Access to third parties |

Over the past decade of market liberalisation, owners and operators of storage facilities have had a much easier time than owners of other energy midstream infrastructure, such as pipelines. The second gas directive provides that where storage is an essential need for a company to be able to supply its customers, storage system operators (SSOs) are obliged to give access to third parties.

But the directive sets out only principles, leaving member states considerable freedom to define their regulatory frameworks. For example, they can choose whether to opt for regulated third-party access, in which regulators define conditions, or for a system of negotiated TPA, which involves storage customers having to negotiate directly with SSOs. Moreover, the directive's principles were, through the Madrid Forum process, implemented as a set of voluntary Guidelines for Good Third Party Access Practice for Storage System Operators (GGPSSO). While the guidelines were



After just two years for planning and construction, in May 2007 the second-largest natural gas facility in Central Europe, situated in Haidach in Austria, officially went on stream. The Haidach storage facility is a joint project of WINGAS GmbH, Rohöl-Aufsuchungs AG (RAG) and OOO GAZPROM EXPORT. Photo: Wintershall

agreed by all relevant stakeholders, they have not worked out as well in practice as was hoped, primarily because they are voluntary.

According to the European Regulators Group for Electricity and Gas (ERGEG) – an independent advisory group established by the Commission in 2003 – overall implementation of the GGPSSO has been poor. In the gas and electricity sector inquiry launched by the Competition Directorate in June 2005, it was found that ‘new entrants often lack effective access to gas storage’ and that ‘data on the operation of gas storage needs to be more widely available’. In its final report on the sector inquiry, published in January 2007, the Commission concluded that: ‘To provide sufficient guarantees for effective access, third-party access for gas storage should be reviewed so as to strike the right balance between the need for effective access and maintaining incentives for new storage developments.’

Therein lies the rub. Striking that balance has proved tricky in the past – to the extent that some new storage facilities, notably in the UK, have successfully applied for exemption from TPA obligations under

Article 22 of the second gas directive. These exemptions do come with conditions – such as ‘use-it-or-lose-it’ provisions – but to a large extent they remove projects from the TPA requirements. There are some who feel that exemptions have been granted too readily. Others argue that without these exemptions many storage investments would simply not go ahead.

Comitology |

So what can we expect when the third package is finally agreed? In its proposal for a third gas directive (September 2007), the Commission put forward four recommendations to ensure effective application of the GGPSSO. The first was to make the principles in the guidelines legally binding and to ‘allow for detailed implementation of them through comitology [a reference to the committee system which oversees the acts implemented by the Commission]’.

To make the guidelines legally binding, the Commission proposes extending an existing regulation to define: how SSOs should offer TPA services; how they should allocate capacity; and how they should manage congestion. The Commission also wants the extended regulation to define

transparency requirements and to propose measures to enable the development of a secondary market in storage capacity.

The second recommendation is to ‘establish legal and functional unbundling of storage system operators who are part of supply undertakings ... By requiring legal and functional unbundling of storage system operators, effective access to storage will be greatly enhanced. The fact that currently, when suppliers need storage, they have to contact their competitors... is a serious barrier for new entrants.’

The third recommendation is ‘to enhance the powers of national regulatory authorities to oversee access to storage’. The fourth is to ‘require clarity on the regulatory regime that is applied to storage facilities’.

Given the determined mood of the Commission when it comes to gas and electricity market liberalisation it looks likely that much of what it has proposed will find its way into the final directive. The Commission has urged the European Council of Energy Ministers to ‘reach political agreement by June 2008’. It seems that when it comes to finding out what’s in store, Europe’s gas storage industry does not have long to wait. ■