GLE Workshop on Regulation and Access to LNG Terminal

Regulation on LNG Infrastructures

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1- LNG role in European gas markets

Demand vs Production

- World natural gas demand expected to increase more than any other primary energy source
- Proven reserves to meet demand (60 years)
- European gas demand to continue rising up to 32% share of primary energy, in 2030.
- European gas production expected to decline. Imports to rise from 50% to 80% in 2030, with the current main suppliers Russia, Algeria and Norway, as the most relevant ones.
- LNG shipping could allows more trade off between destinations, and offers more potential for global competition in gas supply.

1- LNG role in European gas markets

Characteristics of LNG

- Available new sources of gas supplies
- 80% proven reserves could be supplied to Europe (= feasible)
- Diversification of risk associated with producers
- Strengthen security of supply through potential diversification
- Foster competition between different flows
- Increase supply flexibility
- Volatility: Gas volumes and prices influenced by global markets
- Cost: Long distance supplies are more expensive than indigenous gas

1- LNG role in European gas markets

SUPPLY SIDE

Investors & Operators - Rates of return/Incomes ➡ *Max. benefits*

LNG

European Liquid Gas Market

NG

Feasible infrastructures

Regulation

Non discriminatory, quality

Clients & Shippers - Services ➡ *Min. prices*

DEMAND SIDE

Council of European Energy Regulators

2- Development of LNG facilities

Regulatory framework

- Must be reliable to assure markets work properly and for gas to circulate freely
- Must create the right environment for investors
- Must be stable for investments under construction
- Should enable producers and buyers to assess and manage the risks properly

Institutional support

- Strengthen relations with producing countries: Promote development of gas production infrastructures outside EU.

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2- Development of LNG facilities

Different approaches are possible depending on the regulatory framework and financial reward structure for network expansion.

1. Regulated tariffs with regulated construction/reinforcement
2. Regulated tariffs with non-regulated construction/reinforcement
3. Non-regulated tariffs with non-regulated construction/reinforcement. Granting exemptions.

3. Access to LNG terminals

For all kinds of LNG terminals, some conditions must be granted in order to assure transparent, objective, non-discriminatory and efficient services:

- Non-discriminatory access to capacity for third parties (allocation mechanisms: open seasons, first come first served, etc.)
- Transparency relating available capacities, congestion management procedures, services offered, operation rules, tariffs applied, cargoes scheduling, quality issues...
- Antihoarding mechanisms: UIOLI, bails…
- Secondary markets of capacity
- Services unbundling
- Etc.

3. Access to LNG terminals

To foster competition at European level and create a single gas market, it’s important to avoid distortions:

- Shippers should in principle be able to operate in any facility throughout the EU.
- Prices for the utilization of regasification terminals should reflect incurred cost, unless exempted
- Market signals should be used to identify capacity needs if possible

4. The way forward

The facts

- From a regulatory point of view gas transmission is well known, and a lot of work has been done by the Industry, the Users, the Commission and the Regulators on this subject.
- LNG business is going to be an important part of the gas business in the future, but more complex than transmission itself. Only a limited amount of work has been done, and new operational problems such as discontinuous unloading of cargoes, for instance, could introduce the need of new regulatory solutions.
- It is not possible to transfer transmission rules, regulation or procedures directly into the LNG activity.

The challenge

- Create the right framework for LNG services for both users and operators alike.

4. The way forward

- Some work needs to be accomplished taking into consideration
  - Already existing transmission and storage regulatory approach
  - Already existing EU regimes for LNG facilities
  - International examples
- Particularly, CEER is going to begin working in a *ad hoc* scoping paper in 2006, on LNG. After that, CEER will decide what needs to be done
- It is extremely important for all parties interested to cooperate and learn from each other.

4. Conclusions

- European gas demand increase is calling for new LNG supplies.
- Regulators, in their respective countries, and at EU level, should create conditions to foster initiatives for the development of LNG supply chains. Besides, efficient use of them should be promoted.
- It is necessary to assure a transparent and non-discriminatory access to new infrastructures capacity, allowing competition among agents and avoiding market distortion with a insight into a single European gas market.
- Industry, Users and Regulators need to cooperate for a better understanding of the LNG business On the bais of that undrstanding regulators have to create the rules that guarantee the optimal operation of the activity, as done with gas transmission or storage.